MANAGEMENT'S REPORT

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that management make estimates and assumptions and use judgment. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP were appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The Board of Directors is responsible for overseeing that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Finance & Audit Committee. The Finance & Audit Committee recommends appointment of the external auditors to the Board, evaluates their independence and approves their fees. The Finance & Audit Committee meets regularly with management and the external auditors to oversee that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Finance & Audit Committee to discuss their audit and their findings.

"signed"
Imad Mohsen
President and Chief Executive Officer

"signed"
Kenneth G. Pinsky
Chief Financial Officer

March 1, 2022

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Independent auditor's report

To the Shareholders of Parex Resources Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Parex Resources Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of oil and natural gas reserves on net property, plant and equipment (PP&E) *Refer to note 2 – Basis of preparation, significant accounting estimates and judgments, note 3 – Summary of significant accounting policies and note 8 – Property, plant and equipment to the consolidated financial statements.* The Company has $1,009 million of net PP&E as at December 31, 2021. Depletion, depreciation and amortization (DD&A) expense was $121 million for the year then ended. PP&E within each cash generating unit (CGU) is depleted using the unit-of-production method based on proved plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use. The proved plus probable reserves are prepared by the Company's independent qualified reserve evaluators (management's experts). Estimates and assumptions developed by management and used to determine the DD&A expense of the CGUs require significant judgment and include the proved plus probable reserves, the estimated future development costs and future commodity prices. We determined that this is a key audit matter due to (i) the significant judgment made by management, including the use of management's experts, when	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the DD&A expense, which included the following: – Evaluated the appropriateness of the method used by management in making these estimates; – Tested the data used in determining these estimates; – Evaluated the reasonableness of the assumptions used in developing the underlying estimates: ○ Future development costs by considering the past performance of each CGU, and whether these assumptions were consistent with evidence obtained in other areas of the audit. ○ Future commodity prices by comparing those forecasts with other reputable third party industry forecasts. – Recalculated the unit-of-production rates used to calculate DD&A expense for each of the Company's CGUs. • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved plus probable reserves used to determine DD&A expense. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the

Key audit matter	How our audit addressed the key audit matter
developing the proved plus probable reserves, the estimated future development costs and the future commodity prices; and (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions.	work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is John Williamson.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 1, 2022

CONSOLIDATED FINANCIAL STATEMENTS
Consolidated Balance Sheets

As at (thousands of United States dollars)	NOTE	**December 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**$ 378,338**	$ 330,564
Accounts receivable	**5**	**182,149**	80,166
Prepaids and other current assets		**12,166**	13,457
Current income tax receivable	**17**	**—**	16,534
Crude oil inventory	**6**	**1,385**	1,915
		$ 574,038	$ 442,636
Deferred tax asset	**17**	**6,859**	42,729
Goodwill	**10**	**73,452**	73,452
Exploration and evaluation	**7**	**120,501**	79,365
Property, plant and equipment	**8**	**1,009,371**	902,899
		$ 1,784,221	$ 1,541,081
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 201,285**	$ 115,427
Derivative financial instruments	**22**	**471**	—
Current income tax payable	**17**	**39,812**	—
Current portion of decommissioning and environmental liabilities	**14**	**6,690**	7,054
		248,258	122,481
Lease obligation	**9**	**4,512**	1,820
Cash settled share-based compensation liabilities	**13**	**14,322**	11,843
Decommissioning and environmental liabilities	**14**	**48,264**	44,057
Deferred tax liability	**17**	**75,174**	20,402
		390,530	200,603
Shareholders' equity			
Share capital	**15**	**731,713**	763,372
Contributed surplus		**24,530**	43,228
Retained earnings		**637,448**	533,878
		1,393,691	1,340,478
		$ 1,784,221	$ 1,541,081

Commitments and Contingencies (note 24)

See accompanying Notes to the Consolidated Financial Statements
Approved by the Board:

"signed" "signed"

Paul Wright Bob MacDougall

Director Director

Consolidated Statements of Comprehensive Income

For the year ended December 31, (thousands of United States dollars, except per share amounts)	NOTE		2021		2020
Oil and natural gas sales	11	$	1,057,184	$	587,520
Royalties			(156,985)		(55,655)
Revenue			900,199		531,865
Commodity risk management contracts (loss)	22		—		(3,940)
Revenue			900,199		527,925
Expenses					
Production			108,282		87,272
Transportation			52,469		59,147
Purchased oil			10,880		28,241
General and administrative			42,428		36,058
Impairment of exploration and evaluation assets	7		27,000		6,166
Impairment of property, plant and equipment assets	8		—		7,000
Equity settled share-based compensation expense	15		1,721		4,235
Cash settled share-based compensation expense	16		25,961		5,275
Depletion, depreciation and amortization	8		121,396		113,758
Foreign exchange (gain) loss	22		(1,822)		409
			388,315		347,561
Finance (income)	12		(1,608)		(2,129)
Finance expense	12		9,677		9,142
Net finance expense			8,069		7,013
Income before income taxes			503,815		173,351
Income tax expense					
Current tax expense	17		110,068		20,674
Deferred tax expense	17		90,642		53,355
			200,710		74,029
Net income and comprehensive income for the year		$	303,105	$	99,322
Basic net income per common share	18	$	2.42	$	0.72
Diluted net income per common share	18	$	2.41	$	0.71

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Changes in Equity

For the year ended December 31, (thousands of United States dollars)		2021		2020
Share Capital				
Balance, beginning of year	**$**	**763,372**	$	812,684
Issuance of common shares under share-based compensation plans		**34,928**		15,570
Repurchase of shares		**(66,587)**		(64,882)
Balance, end of year	**$**	**731,713**	$	763,372
Contributed Surplus				
Balance, beginning of year	**$**	**43,228**	$	48,573
Share-based compensation		**1,721**		4,235
Options, RSUs and PSUs exercised		**(20,419)**		(9,580)
Balance, end of year	**$**	**24,530**	$	43,228
Retained earnings				
Balance, beginning of year	**$**	**533,878**	$	541,188
Net income for the year		**303,105**		99,322
Repurchase of shares		**(151,904)**		(106,632)
Dividends		**(47,631)**		—
Balance, end of year		**637,448**		533,878
	$	**1,393,691**	$	1,340,478

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the year ended December 31, (thousands of United States dollars)	NOTE	2021	2020
Operating activities			
Net income		**$ 303,105**	$ 99,322
Add non-cash items			
Depletion, depreciation and amortization	**8**	**121,396**	113,758
Non-cash finance expense	**12**	**5,369**	5,655
Equity settled share-based compensation expense	**15**	**1,721**	4,235
Cash settled share-based compensation expense	**16**	**25,961**	5,275
Deferred tax expense	**17**	**90,642**	53,355
Impairment of exploration and evaluation assets	**7**	**27,000**	6,166
Impairment of property, plant and equipment assets	**8**	**—**	7,000
Unrealized foreign exchange loss	**22**	**1,215**	1,472
Loss on settlement of decommissioning liabilities	**14**	**1,136**	803
Net change in non-cash working capital	**19**	**(43,244)**	(7,023)
Cash provided by operating activities		**534,301**	290,018
Investing activities			
Property, plant and equipment expenditures	**8**	**(212,153)**	(116,915)
Exploration and evaluation expenditures	**7**	**(65,082)**	(24,349)
Net change in non-cash working capital	**19**	**48,192**	(38,534)
Cash (used in) investing activities		**(229,043)**	(179,798)
Financing activities			
Issuance of common shares under share-based compensation plans	**15**	**14,509**	5,990
Common shares repurchased	**15**	**(218,491)**	(171,514)
Dividends	**15**	**(47,631)**	—
Payments on lease obligation	**9**	**(741)**	(872)
Net change in non-cash working capital	**19**	**—**	(2,046)
Cash (used in) financing activities		**(252,354)**	(168,442)
Increase (decrease) in cash for the year		**52,904**	(58,222)
Impact of foreign exchange on foreign currency-denominated cash balances		**(5,130)**	(8,053)
Cash, beginning of year		**330,564**	396,839
Cash, end of year		**$ 378,338**	$ 330,564

Supplemental Disclosure of Cash Flow Information (note 19)
See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021
(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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 1, 2022.

2. Basis of Preparation, Significant Accounting Estimates and Judgements

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Boards ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 1, 2022, the date the Board of Directors approved the consolidated financial statements.

b) Basis of measurement

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

c) Use of management estimates, judgments and measurement uncertainty

The timely preparation of the consolidated financial statements requires that management make estimates and use judgment (including those affected by and related to the future effects of the COVID-19 pandemic) regarding the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results could differ from estimated amounts as future confirming events occur.

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.

In addition, the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels could change assumptions used to determine the recoverable amount of the Company's PP&E and E&E assets. This could affect the carrying value of those assets, may affect future development or viability of exploration prospects, may curtail the expected useful lives of oil and gas assets thereby accelerating depreciation charges and may accelerate decommissioning obligations increasing the present value of the associated provisions. The timing in which global energy markets transition from carbon-based sources to alternative energy is highly uncertain. Environmental considerations are built into our estimates through the use of key assumptions used to estimate fair value including forward commodity prices and discount rates. The energy transition could impact the future prices of commodities. Pricing assumptions used in the determination of recoverable amounts incorporate market expectations and the evolving worldwide demand for energy.

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. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(i) Depletion, depreciation and reserves

Depletion is based on the proved plus probable reserves as evaluated in accordance with National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and incorporating the estimated future cost of developing and extracting those. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, commodity prices and future development costs. As circumstances change and additional data becomes available, reserve estimates may also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions of reserve estimates are often required due to changes in well performance, prices, economic conditions and governmental regulations.

Although every reasonable effort is made to determine that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 8 - Property, Plant and Equipment).

(ii) Determination of cash-generating units ("CGUs")

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

(iii) Exploration and evaluation ("E&E")

The decision to transfer assets from E&E to property, plant and equipment ("PP&E") is primarily based on the estimated proved plus probable reserves used in the determination of an area's technical feasibility and commercial viability (see note 7 – Exploration and Evaluation Assets).

(iv) Decommissioning and environmental liabilities

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves, laws and regulations or their interpretation, the timing and likelihood of the settlement of the obligation, discount rates, and future interest rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The Company uses a risk-free discount rate based on forecasted Colombia interest rates.

Liabilities for environmental costs are recognized in the period in which they are incurred, normally when the asset is developed and the associated costs can be estimated. These liabilities are in addition to the decommissioning liabilities due to government regulations that require the Company to perform additional mitigation against the environmental issues attributed to water usage and deforestation from oil and gas activities performed. In addition, the timing of expected settlement of the environmental liabilities differs from the timing of expected settlement of the decommissioning liabilities. Refer to note 14 – Decommissioning and Environmental Liabilities.

(v) Impairment indicators and discount rate

The recoverable amounts of CGUs and individual assets have been determined as the greater of either an asset's or CGU's value in use or fair value less costs of disposal. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, quantity of reserves and discount rates as well as future development and operating costs. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the oil and natural gas reserves and the recoverable economical reserves and may require a material adjustment to the carrying value of oil and natural gas assets. The Company monitors internal and external indicators of impairment relating to its property, plant and equipment, and exploration and evaluation assets. Refer to note 7 – Exploration and Evaluation Assets, note 8 – Property, Plant and Equipment and note 10 – Goodwill.

(vi) Share-based compensation

Compensation costs accrued for under the Company's Stock Option plan and Share Appreciation Right ("SAR") plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of Parex shares and expected term of the issued stock option or SAR. Compensation costs accrued for under the Company's Restricted Share Unit ("RSU") plan pursuant to which RSUs and Performance Share Units ("PSUs") may be issued, Deferred Share Unit ("DSU") plan, Cash Settled Restricted Share Units ("CRSU") plan and Cash or share settled Restricted Share Units ("CosRSU") and Performance Share Units ("CosPSU") plan pursuant to which CosRSUs and CosPSUs may be issued are measured at fair value based on the market price of Parex shares on the date of issuance. Refer to note 15 - Share Capital and note 16 - Cash Settled Incentive Plans.

(vii) Derivative financial asset/liability

The estimated fair value of derivative instruments and resulting derivative assets and liabilities depends on estimated forward prices and volatility in those prices and by their nature are subject to measurement uncertainty.

(viii) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. The Company follows the liability method for calculating deferred taxes. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

(ix) Business combinations, corporate and property acquisitions

Business combinations, corporate and property acquisitions are accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The determination of fair value often requires management to make assumptions and estimates about future events. The fair value of property, plant and equipment recognized in a business combination, corporate or property acquisition is based on market values. The market value of property, plant and equipment is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The market value of E&E assets are estimated with reference to the market values of current arm's length transactions in comparable locations. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment or goodwill impairment.

x) Impact of climate change and environmental initiative regulations

In Colombia there is currently no specific regulation that obliges companies to specifically monitor and report GHG emissions. Although at the present time there is no specific regulations related to climate change or GHG emissions in Colombia, the Company has a plan in place to monitor and disclose key metrics surrounding the environmental impacts of the Company's operations. Climate change regulation in Colombia has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Colombia. Such regulations impose certain costs and risks on the industry, and there remains some uncertainty with regard to the impact of climate change and environmental laws and regulations on the Company, as the Company is unable to predict additional legislation or amendments that the Colombian government may enact in the future. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Company's operations and cash flow. As at December 31, 2021, climate change has no significant impact on the Company's operations and cashflows.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2021. The principal operating subsidiaries and their activities are:

Entity	Country of incorporation	Country of principle business activity	Ownership %	Principle business activity
Parex Resources (Colombia) Ltd.	Barbados	Colombia	100	Oil and natural gas exploration and development
Verano Energy Limited	Bermuda	Colombia	100	Oil and natural gas exploration and development

The above listing does not include the wholly-owned holding company subsidiaries or inactive operating company subsidiaries of Parex. All companies in the Parex group are wholly-owned subsidiaries.

Inter-company balances and transactions are eliminated on consolidation. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. A significant portion of the Company's operating cash flows is derived through joint operations which are involved in the development and production of crude oil in Colombia. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

b) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in United States dollars, which is the functional currency of Parex.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of comprehensive income.

c) Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Classification and Measurement of Financial Assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or

- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. On initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. However, dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis.

At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings.

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Impairment of Financial Assets
The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.
As at December 31, 2021, all of the Company's receivables were outstanding for less than 90 days. The average expected credit loss on the Company's trade accounts receivable was 0.7% at December 31, 2021.

Classification and Measurement of Financial Liabilities
A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

Derivative Financial Instruments
Derivative financial instruments are used to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. Policies and procedures are in place with respect to required documentation and approvals for the use of derivative financial instruments. Where specific financial instruments are executed, the Company assesses, both at the time of purchase and on an ongoing basis, whether the financial instrument used in the particular transaction is effective in offsetting changes in fair values or cash flows of the transaction.

Risk management assets and liabilities are derivative financial instruments classified as measured at FVTPL. Derivatives financial instruments are recorded using mark-to-market accounting whereby instruments are recorded in the consolidated balance sheets as either an asset or liability with changes in fair value recognized in net earnings as a gain or loss on risk management. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

d) Capital assets

(i) Exploration and evaluation

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to comprehensive income as E&E expenses.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to PP&E, where they are depleted. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income as impairment of exploration and evaluation assets. Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible assets.

(ii) Property, plant and equipment

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include proved property acquisitions, development drilling, completion of wells, gathering facilities and infrastructure, decommissioning and restoration costs and transfers of E&E assets.

Costs accumulated within each CGU are depleted using the unit-of-production method based on proved plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated forecast costs to be incurred in developing proved plus probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

Costs associated with office furniture, fixtures and leasehold improvements are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from 1 to 5 years.

e) Impairment of long-term assets

The carrying amounts of the Company's long-term assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. E&E assets are also assessed for impairment when they are reclassified to PP&E, and, if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. E&E assets are allocated to related CGUs where they are assessed for impairment upon their eventual reclassification to PP&E. E&E assets not reclassified to PP&E are assessed for impairment on a block by block basis. If an indication of impairment exists, management estimates the asset's recoverable amount.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD").

The value in use is determined by estimating the present value of the pre-tax future net cash flows expected to be derived from the continued use of the asset or CGU. The FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future after tax net cash flows of proved plus probable reserves using forecast prices and costs prepared by the Company's independent qualified reserve evaluators.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in comprehensive income.

The recoverable amount of goodwill is determined as the fair value less costs of disposal using a discounted cash flow method. Goodwill is evaluated at the Colombia segment level as business combinations giving rise to goodwill do not have specifically identifiable benefits to any one CGU.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

f) Crude oil inventory and overlift oil volumes

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. The liability for overlift oil volumes is valued based on the Brent oil price at the balance sheet date. Sales revenue is subsequently recorded at the Brent oil price once the overlifted pipeline volumes are returned. A gain/loss on overlifted oil volumes is recorded on the difference between the original liability and the revenue recorded on the returned barrels.

g) Purchased oil

Purchased oil includes costs to buy third party oil and accruals for overlifted oil volumes. The costs for third party oil are initially recorded in inventory until the crude oil title is transferred. The costs for overlifted oil volumes are originally recorded as an accrued liability until the volumes are returned.

h) Goodwill

Goodwill is recorded on a business acquisition when the purchase price is in excess of the fair values assigned to assets acquired and liabilities assumed. Goodwill is not amortized and an impairment test is performed annually or as events occur that could indicate impairment. To test for impairment, goodwill is allocated to each of the Company's CGUs, groups of CGUs, or an operating segment expected to benefit from the acquisition. Goodwill is tested by combining the carrying amounts of property, plant and equipment and exploration and evaluation assets and goodwill and comparing this to the recoverable amount. Fair value less costs of disposal, is derived by estimating the discounted after-tax future net cash flows as described in the property, plant and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Impairment charges, which are not tax affected, are recognized in comprehensive income and are not reversed. Goodwill is reported at cost less any impairment.

i) Revenue recognition

Parex principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from Parex to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- Parex has transferred title and physical possession of the commodity to the buyer;
- Parex has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Parex has the present right to payment.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company sells its production of crude oil and natural gas pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, Parex does not adjust its revenue transactions for the time value of money.

Parex enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. The Company also applies a practical expedient of IFRS 15 that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company's revenue transactions do not contain significant financing components.

j) *Equity settled share-based compensation*

The Company has an incentive stock option plan and a restricted unit plan pursuant to which the Company may issue Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") for certain employees, officers and directors as described in note 15 - Share Capital. The Company records share-based compensation expense using the fair value method. The fair value of an option granted is calculated at the grant date using the Black-Scholes pricing model, and expensed over the vesting period of the option. The fair value of each RSU and PSU granted is calculated using the market price of Parex shares on the date of issuance, and expensed over the vesting period of the RSU and PSU. The Company determines an appropriate forfeiture rate by examining the history of its forfeitures. The Company records the cumulative share-based compensation as contributed surplus. When options, RSUs or PSUs are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share-based compensation for the exercised security. Any consideration received on the exercise of stock options, RSUs or PSUs is credited to share capital.

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. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor. If the actual final adjustment factor is higher than estimated at grant, additional expense is recognized on vesting for the incremental fair value. Upon the exercise of the options, RSUs and PSUs consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

k) *Cash settled share-based compensation*

The Company has a share appreciation rights plan for certain employees of Parex Colombia as described in note 16 - Cash Settled Incentive Plans. Obligations for payments of cash under the foreign subsidiaries' 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. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

The Company has a Cash Settled Restricted Share Unit ("CRSUs") plan which allows the Company to issue CRSUs to certain employees of Parex Colombia as described in note 16 - Cash Settled Incentive Plans. Obligations for payments of cash under the foreign subsidiaries' CRSUs plan are accrued as compensation expense over the vesting period based on the fair value of CRSUs. The fair value of CRSUs is equal to the market price of the Company's common shares at the valuation date. In accordance with the fair value method, increases or decreases in the fair value of the CRSUs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture. The CRSUs liability cannot be settled by the issuance of common shares.

The Company has a Deferred Share Unit ("DSU") plan which allows the Company to issue DSUs to all non-employee directors of Parex Resources Inc, as described in note 16 - Cash Settled Incentive Plans. As DSUs vest immediately on issuance, obligations for payments of cash under the DSUs plan are accrued as compensation expense immediately on issuance based on the fair value of the DSUs. The fair value of DSUs at each reporting period is equal to the market price of the Company's common shares at the valuation date. In accordance with the fair value method, increases or decreases in the fair value of the DSUs result in a corresponding change in the recorded liability. The accrued compensation for a unit that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

During 2019 the Company put in place a Cash or Share Settled Restricted Share Unit/Performance Share Unit ("CosRSU/CosPSU") incentive plan to issue CosRSUs and CosPSUs to certain employees of Parex Canada as described in note 16 - Cash Settled Incentive Plans. This new plan will replace the equity settled RSU/PSU plan. Obligations for payments of cash or settlement of shares under the CosRSUs and CosPSUs plan are accrued as compensation expense over the vesting period based on the fair value of the CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equal the market price of the Company's common shares at the valuation date. In accordance with the fair value method, increases or decreases in the fair value of the CosRSUs and CosPSUs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture. The CosRSUs and CosPSUs liability can be settled in cash or by the issuance of common shares at the election of the employee.

l) *Provisions*

A provision is recognized if, as a result of a past event, the Company has a current legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

m) Decommissioning and environmental liabilities

The Company's activities give rise to dismantling, decommissioning, environmental, abandonment and site disturbance remediation activities. Provisions are made for the estimated cost of the future site restoration and capitalized in the relevant asset category.

Decommissioning and environmental liabilities are measured at the present value of management's best estimate of the cost and future timing of the expenditure required to settle the present obligation at the balance sheet date using a risk-free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense whereas increases (decreases) due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning and environmental liabilities are charged against the provision to the extent the provision was established.

n) Operating Segments

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by the Company's chief operating decision makers. The operating segments are Canada and Colombia. The Company evaluates the financial performance of its operating segments primarily based on operating cash flow.

o) Finance income and expense

Finance expense comprises standby fees related to the undrawn credit facility, bank taxes, accretion on provisions, loss (gain) on settlement of provisions, loss on disposition of tangible assets and expected credit loss provision (recovery). Finance income comprises interest earned on cash and other income and gains on property acquisitions.

p) Cash

Cash is comprised of cash and other short-term highly liquid investments with maturities less than 3 months held in chartered banks in Canada and recognized financial institutions in Colombia and the Caribbean with BBB+ credit ratings or higher.

q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in comprehensive income.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates, currency exchange rates and laws enacted or substantively enacted by the balance sheet date and expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax is not provided on temporary differences arising on investments in subsidiaries except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets and liabilities are presented as non-current.

r) Per share information

Basic net income per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees, except when the effect would be anti-dilutive.

s) Leases

Right-of-use asset ("ROU asset") and a corresponding lease obligation are recognized on the balance sheets on the date that a lease asset becomes available for use. Interest associated with the lease obligation is recognized over the lease period with a corresponding increase in the underlying lease obligation. ROU assets are depreciated on a straight-line basis over the lease term. Depreciation on ROU assets is recognized in DD&A.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments and payments to exercise an extension or termination option if applicable, if the Company is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

ROU assets and lease obligations are remeasured when there is a change in the future lease payments arising from a change in an index or rate or term, or if there is a change in the assessment on whether the Company will exercise an extension or termination option.

Short-term leases and leases of low-value assets are not recognized on the balance sheets and lease payments are instead recognized in the financial statements as incurred.

t) Dividends

Dividends on common shares are recognized in the Company's financial statements in the period in which the dividends are declared by the Board of Directors.

u) New Accounting Policies

i) IBOR Reform and the Effects on Financial Reporting Phase 2

On January 1, 2021, the Company adopted Interest Rate Benchmark Reform - Phase 2 issued by the IASB which required amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, and IFRS 16 Leases. There was not a material impact to the Company's financial statements.

ii) Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)

In March 2021, the IFRS Interpretations Committee published its decision with regards to the recognition of configuration costs as they relate to cloud computing. This decision had no material impact to the Company's financial statements.

v) Future Accounting Pronouncements

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2022. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the financial statements.

i) Amendments to IAS 16 Property, Plant and Equipment

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. Effective January 1, 2022, the amendments prohibit a company from deducting from the cost of PP&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

ii) Amendments to IAS 37 Provisions Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which made amendments to IAS37 Provisions Contingent Liabilities and Contingent Assets. Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

iii) Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statements of financial position. This will be effective on January 1, 2023.

4. Determination of Fair Values

A number of the Company’s accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) PP&E and intangible exploration assets

The fair value of PP&E and intangible exploration assets are determined if there are indicators of impairment. The fair value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on the reserve reports prepared by the Company's independent qualified reserve evaluators. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

b) Cash, accounts receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2021 and 2020 the fair value of these balances approximated their carrying value due to their short-term to maturity.

c) Stock options

The fair value of stock options is measured using the Black-Scholes pricing model. Measurement inputs include the share price on measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 15 - Share Capital.

d) Share appreciation rights

The fair value of SARs is measured using the Black-Scholes pricing model. Measurement inputs include the share price on each balance sheet date, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general SAR-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 16 - Cash Settled Incentive Plans.

e) Restricted share units, performance share units, cash settled restricted share units, cash or share settled restricted share units and performance share units and deferred share units

The fair value of stock RSUs, PSUs, CRSUs, DSUs, CosRSU and CosPSU are measured based on the market price of Parex shares on each balance sheet date. Refer to note 15 - Share Capital and note 16 - Cash Settled Incentive Plans.

f) Derivative financial asset /liability

Risk management contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. The fair value of the risk management contract on initial recognition is normally the transaction price. Subsequent to initial recognition, the fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated based on market prices at the reporting date for similar assets or liabilities with similar terms and conditions.

5. Accounts Receivable

	December 31, 2021	December 31, 2020
Trade receivables	**$ 179,799**	$ 80,166
Value added taxes (VAT)	**2,350**	—
	$ 182,149	$ 80,166

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. VAT receivable is $2.4 million as at December 31, 2021 (December 31, 2020 - $nil). All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Inventory

	December 31, 2021	December 31, 2020
Crude oil inventory	**$ 1,385**	$ 1,915

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. During 2021 $1.9 million (year ended December 31, 2020 - $0.7 million) of produced crude oil inventory cost was expensed to the consolidated statements of comprehensive income. Purchased crude oil is sold immediately. The cost associated with purchased oil is shown in the consolidated statements of comprehensive income as purchased oil expense.

7. Exploration and Evaluation Assets

Cost		
Balance at December 31, 2019	**$**	**142,916**
Additions		24,349
Transfers to PP&E		(82,110)
Changes in decommissioning liability		376
Exploration and evaluation impairment		(6,166)
Balance at December 31, 2020	**$**	**79,365**
Additions		65,082
Changes in decommissioning liability		3,054
Exploration and evaluation impairment		(27,000)
Balance at December 31, 2021	**$**	**120,501**

Additions and Transfers

E&E assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. During the year ended December 31, 2021 additions of $65.1 million (year ended December 31, 2020 - $24.3 million) represent the Company's share of costs incurred on E&E assets during the period. During the year ended December 31, 2020 - $82.1 million of E&E assets were transferred to PP&E related to the VIM-1 and Fortuna Blocks.

2021 Impairments

During 2021, the Company completed impairment reviews of its E&E assets. It was determined that the carrying amount of certain E&E assets, primarily associated with the De Mares, Merecure and Midas blocks wouldn't be recovered as the Company has plans to relinquish the blocks. The impairment review compared the carrying value of the assets to the recoverable amount which was determined to be $nil for these assets. It was determined that the impairment was $27.0 million which is recorded in the consolidated statements of comprehensive income for the year ended December 31, 2021.

2020 Impairments

During 2020, the Company completed impairment reviews of its E&E assets. It was determined that the carrying amount of certain E&E assets, primarily associated with the costs in blocks which were in the process of being relinquished, wouldn't be recovered. The impairment review compared the carrying value of the assets to the recoverable amount which was determined to be $nil for these assets. It was determined that the impairment was $6.2 million which is recorded in the consolidated statements of comprehensive income for the year ended December 31, 2020.

At December 31, 2021 and December 31, 2020 the Company did not have any E&E assets in Canada.

8. Property, Plant and Equipment

	Canada	Colombia	Total
Cost			
Balance at December 31, 2019	**$ 6,215**	**$ 2,235,791**	**$ 2,242,006**
Additions	145	116,770	116,915
Right-of-use asset addition (non-cash)	1,805	—	1,805
Transfers from E&E assets	—	82,110	82,110
Changes in decommissioning and environmental liability	—	229	229
Balance at December 31, 2020	**8,165**	**2,434,900**	**2,443,065**
Additions	471	211,682	212,153
Right-of-use asset addition (non-cash)	3,250	—	3,250
Changes in decommissioning and environmental liability	—	12,132	12,132
Balance at December 31, 2021	**$ 11,886**	**$ 2,658,714**	**$ 2,670,600**
Accumulated Depreciation, Depletion and Amortization			
Balance at December 31, 2019	**$ 4,581**	**$ 1,414,342**	**$ 1,418,923**
Depletion and depreciation for the year	110	112,889	112,999
Depreciation - Right-of-use asset	759	—	759
DD&A included in crude oil inventory costing	—	485	485
Property, plant and equipment impairment	—	7,000	7,000
Balance at December 31, 2020	**5,450**	**1,534,716**	**1,540,166**
Depletion and depreciation for the year	189	120,549	120,738
Depreciation - Right-of-use asset	658	—	658
DD&A included in crude oil inventory costing	—	(333)	(333)
Balance at December 31, 2021	**$ 6,297**	**$ 1,654,932**	**$ 1,661,229**
Net book value:			
As at December 31, 2019	$ 1,634	$ 821,449	$ 823,083
As at December 31, 2020	$ 2,715	$ 900,184	$ 902,899
As at December 31, 2021	**$ 5,589**	**$ 1,003,782**	**$ 1,009,371**

Additions and Transfers

During 2021, property, plant and equipment ("PPE") additions of $212.2 million mainly relate to drilling costs in Colombia at Blocks LLA-34, LLA-32, Cabrestero, VIM-1 and Boranda and facility costs at Block LLA-34. During the year ended December 31, 2020, additions of $116.9 million mainly related to drilling costs in Colombia at Blocks LLA-34, Cabrestero and Aguas Blancas and facility costs at Blocks LLA-34 and Capachos. For the year ended December 31, 2020 - $82.1 million E&E assets were transferred to PP&E related to the VIM-1 and Fortuna Blocks).

For the year ended December 31, 2021 future development costs of $470.3 million (year ended December 31, 2020 - $422.7 million) were included in the depletion calculation for development and production assets. For the year ended December 31, 2021 $8.8 million of general and administrative costs (year ended December 31, 2020 - $7.2 million) have been capitalized in respect of development and production activities during the current period.

Impairments

The carrying amounts of the Company's PP&E assets are reviewed at each reporting date to determine whether there is any indication of impairment.

2021

At December 31, 2021 there were no indicators of impairment noted, or indicators requiring a reversal of previously recorded impairments.

2020

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 income 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 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.

9. Lease Obligation

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

	December 31, 2021	December 31, 2020
Balance beginning of year	**$ 2,570**	$ 1,637
Interest expense	**7**	54
Lease payments	**(748)**	(926)
Modifications	**3,250**	1,805
Balance end of year	**5,079**	2,570
Current portion of lease obligations	**(567)**	(750)
Non-current portion of lease obligations	**$ 4,512**	$ 1,820

During the year ended December 31, 2021, the Company has included a modification for an the office lease where the Company has signed a new agreement to extend the term of the existing lease. During the year ended December 31, 2020, the Company has included the extension for the office lease where the Company has the right to extend the lease at its discretion and is reasonably certain to exercise the extension period.

The consolidated statements of comprehensive income for the year ended December 31, 2021 includes expenses related to leases as follows: $7 thousand (year ended December 31, 2020 - $0.1 million) of interest expense related to the lease obligation, $0.7 million (year ended December 31, 2020 - $0.8 million) of depreciation for right-of-use assets, $0.6 million (year ended December 31, 2020 - $0.6 million) of non-lease components associated with the office lease obligation and $1.5 million (year ended December 31, 2020 - $1.7 million) related to short-term and low value leases.

Total cash outflows related to the office lease obligation were $2.0 million for the year ended December 31, 2021 (year ended December 31, 2020 - $2.2 million).

10. Goodwill

	December 31, 2021	December 31, 2020
Goodwill	**$ 73,452**	$ 73,452

Impairment test of goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3 - Summary of Significant Accounting Policies. The Company has allocated goodwill to the Colombia operating segment.

The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded.

Valuation Techniques

The recoverable amount of the group of CGUs to which the goodwill was assigned is based on fair value less costs of disposal. The technique used in determining the recoverable amount is based on the net present value of the after-tax cash flows from oil and gas reserves of the group of CGU's based on reserves estimated by Parex' independent reserve evaluator and the fair value of undeveloped land based on estimates with consideration given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant group of CGU's. The discounting process uses a rate of return that is commensurate with the risk associated with the assets and the time value of money. This approach requires assumptions about revenue, future oil prices, tax rates and discount rates, all of which are level 3 inputs.

Significant Assumptions

Oil Reserves

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Future Oil Prices

Oil forward price estimates are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors. The future oil prices used in the model are based on a forecast of crude oil prices by Parex' independent reserve evaluator.

Prices used at December 31, 2021 are as follows:

	2022	2023	2024	2025	2026	Thereafter
Brent ($US/bbl)	76.00	72.51	71.24	72.66	74.12	2% increase per year

Prices used at December 31, 2020 are as follows:

	2021	2022	2023	2024	2025	Thereafter
Brent ($US/bbl)	50.75	55.00	58.50	61.79	62.95	2% increase per year

Discount Rate

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in similar industries, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Its determination requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the group of Colombia based CGUs whose revenues are denominated in USD. The after tax discount rate used in performing the impairment test was 12% (year ended December 31, 2020 - 12%).

The fair value of the group of Colombian CGUs was in excess of its carrying value. Based on sensitivity analysis, no reasonably possible change in discount rate assumptions would cause the carrying amount of the group of Colombia CGUs to exceed its recoverable amount.

11. Revenue

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

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

For the year ended December 31,		**2021**		2020
Crude oil	**$**	**1,034,188**	$	570,187
Natural gas		**22,996**		17,333
Oil and natural gas sales	**$**	**1,057,184**	$	587,520

At December 31, 2021, receivables from contracts with customers, which are included in accounts receivable, were $179.8 million (December 31, 2020 - $80.2 million).

12. Net Finance Expense

For the year ended December 31,		**2021**		2020
Bank charges and credit facility fees	**$**	**2,716**	$	2,630
Accretion on decommissioning and environmental liabilities		**3,624**		4,125
Interest and other income		**(1,608)**		(2,129)
Right of use asset interest		**7**		54
Loss on settlement of decommissioning liabilities		**1,136**		803
Loss on disposition of tangible assets		**138**		1,345
Expected credit loss provision		**323**		1,006
Other		**1,733**		(821)
Net finance expense	**$**	**8,069**	$	7,013

For the year ended December 31,		**2021**		2020
Non-cash finance expense	**$**	**6,505**	$	6,458
Cash finance expense		**1,564**		555
Net finance expense	**$**	**8,069**	$	7,013

13. Cash Settled Share-Based Compensation Liabilities

Cash settled share-based compensation liabilities are comprised of the following:

		December 31, 2021		December 31, 2020
Long-term DSUs payable	**$**	**4,356**	$	2,988
Long-term CRSUs payable		**2,610**		2,570
Long-term CosRSUs and CosPSUs payable		**7,356**		6,285
Total cash settled-share based compensation payable	**$**	**14,322**	$	11,843

14. Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2019	$ 37,244	$ 14,691	$ 51,935
Additions	2,554	480	3,034
Settlements of obligations during the year	(3,560)	(1,070)	(4,630)
Loss on settlement of obligations	803	—	803
Accretion expense	2,286	1,839	4,125
Change in estimate - inflation and discount rates	360	(2,062)	(1,702)
Change in estimate - costs	(441)	(286)	(727)
Foreign exchange (gain)	(1,036)	(691)	(1,727)
Balance, December 31, 2020	$ 38,210	$ 12,901	$ 51,111
Additions	3,353	3,776	7,129
Settlements of obligations during the year	(8,311)	(1,183)	(9,494)
Loss on settlement of obligations	1,136	—	1,136
Accretion expense	2,279	1,345	3,624
Change in estimate - inflation and discount rates	(1,345)	2,754	1,409
Change in estimate - costs	6,068	580	6,648
Foreign exchange (gain)	(4,660)	(1,949)	(6,609)
Balance, December 31, 2021	**36,730**	**18,224**	**54,954**
Current obligation	(5,738)	(952)	(6,690)
Long-term obligation	**$ 30,992**	**$ 17,272**	**$ 48,264**

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 December 31, 2021, 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 $88.0 million as at December 31, 2021 (December 31, 2020 – $60.4 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 9.3% and an inflation rate of 5.0% were used in the valuation of the liabilities (December 31, 2020 – 5.25% risk-free discount rate and a 2.0% inflation rate). The risk-free discount rate and the inflation rate used in 2021 are based on forecast Colombia rates.

Included in the decommissioning liability is $5.7 million (December 31, 2020 – $3.6 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately $25.9 million as at December 31, 2021 (December 31, 2020 – $20.5 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 9.3% and an inflation rate of 5.0% were used in the valuation of the liabilities (December 31, 2020 – 5.25% risk-free discount rate and a 2.0% inflation rate). The risk-free discount rate and the inflation rate used in 2021 are based on forecast Colombia rates.

Included in the environmental liability is $1.0 million (December 31, 2020 – $3.4 million) that is classified as a current obligation.

15. Share Capital

a) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2019	143,295,054	$	812,684
Issued for cash – exercise of options, RSUs and PSUs	1,429,616		5,990
Allocation of contributed surplus – exercise of options, RSUs and PSUs	—		9,580
Repurchase of shares	(13,851,994)	$	(64,882)
Balance, December 31, 2020	130,872,676		763,372
Issued for cash – exercise of options, RSUs and PSUs	2,261,550		14,509
Allocation of contributed surplus – exercise of options, RSUs and PSUs	—		20,419
Repurchase of shares	(12,868,562)		(66,587)
Balance, December 31, 2021	**120,265,664**	**$**	**731,713**

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

In 2021, a total of 2,261,550 options, RSUs and PSUs were exercised for proceeds of $14.5 million (year ended December 31, 2020 - 1,429,616 options, RSUs and PSUs were exercised for $6.0 million).

In 2021, the Company repurchased 12,868,562 common shares pursuant to its Normal Course Issuer Bid for $218.5 million at an average cost per share of Cdn$21.25 (year ended December 31, 2020 - 13,851,994 common shares repurchased for $171.5 million at an average cost per share of Cdn$16.62). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

On July 7th, 2021 the Company announced the Board of Directors approved the initiation of a dividend program with respect to its common shares pursuant to which the Company expects to pay a regular quarterly cash dividend. The quarterly dividend is expected to be paid in each of March, June, September and December of each year. Dividends paid in 2021 were $47.6 million (Cdn$0.50 per share) to shareholders on record for each dividend payment.

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 5% 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 options	Weighted average exercise price Cdn$/option
Balance, December 31, 2019	2,465,743	15.42
Granted	265,788	21.83
Exercised	(624,270)	12.62
Forfeited	(44,800)	11.75
Balance, December 31, 2020	2,062,461	17.17
Granted	197,470	21.68
Exercised	(1,153,117)	15.87
Forfeited	(111,682)	19.11
Balance, December 31, 2021	**995,132**	**19.36**

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2021 are as follows:

	Options outstanding			Options vested		
Exercise price Cdn$	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
$14.75 - $17.13	239,650	0.20	15.94	239,650	0.20	15.94
$17.14 - $18.64	158,822	1.20	18.51	155,230	1.14	18.52
$18.65 - $21.00	208,636	2.14	19.16	137,178	2.14	19.16
$21.01 - $21.92	183,245	4.08	21.64	—	—	—
$21.93 - $22.64	204,779	3.14	22.19	65,295	3.11	22.18
	995,132	**2.09**	**19.36**	**597,353**	**1.21**	**18.03**

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 year ended December 31,	**2021**	2020
Risk-free interest rate (%)	**0.38**	1.31
Expected life (years)	**4**	4
Expected volatility (%)	**46**	37
Forfeiture rate (%)	**3**	3
Expected dividends	**2.31**	—

The weighted average fair value at the grant date for the year ended December 31, 2021 was Cdn$7.85 per option (year ended December 31, 2020 – Cdn$6.67 per option). The weighted average share price on the exercise date for options exercised in 2021 was Cdn$22.26 (year ended December 31, 2020 – Cdn$19.23).

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") which will replace this equity settled RSU/PSU plan.

	Number of RSU's	Weighted average exercise price Cdn$/RSU
Balance, December 31, 2019	1,663,318	0.01
Exercised	(600,416)	0.01
Forfeited	(37,543)	0.01
Balance, December 31, 2020	1,025,359	0.01
Exercised	(680,943)	0.01
Forfeited	(5,500)	0.01
Balance, December 31, 2021	**338,916**	**0.01**

RSUs outstanding and the weighted average remaining life of the RSUs at December 31, 2021 are as follows:

	RSUs outstanding		RSUs vested	
Exercise price Cdn$	Number of RSUs	Weighted average remaining life (years)	Number of RSUs	Weighted average remaining life (years)
0.01	338,916	0.78	338,916	0.78

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. For the year ended December 31, 2021 and 2020 a weighted average forfeiture rate of 3% was applied.

Pursuant to the restricted share unit plan, the Company may grant performance share units to certain employees. The performance share units vest three years after the grant date and expire one month after the performance multiplier has been determined. 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 2021 the board of directors approved a multiplier of 1.97X be applied to the 2018 PSU grant resulting in 210,490 PSU's issued (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, 2019	320,500	0.01
Granted	101,430	0.01
Exercised	(204,930)	0.01
Balance, December 31, 2020	217,000	0.01
Granted by performance factor	210,490	0.01
Exercised	(427,490)	0.01
Balance, December 31, 2021	**—**	**0.01**

The fair value of each PSU granted is based on the share price at which the common shares of the Company traded for on the grant date. The weighted average fair value at the grant date for the year ended December 31, 2021 was Cdn$22.41 per PSU (year ended December 31, 2020 – Cdn$16.01 per PSU).

d) Equity settled share-based compensation

For the year ended December 31,		**2021**		2020
Option expense	**$**	**1,141**	$	1,219
Restricted and performance share units expense		**580**		3,016
Total equity settled share-based compensation expense	**$**	**1,721**	$	4,235

16. Cash Settled Incentive Plans

a) Share appreciation rights ("SARs")

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

	Number of SARs	Weighted average exercise price Cdn$/SAR
Balance, December 31, 2019	568,772	14.80
Exercised	(224,711)	13.33
Forfeited	(5,771)	11.22
Balance, December 31, 2020	338,290	15.84
Exercised	(318,529)	15.79
Forfeited	(14,025)	16.69
Balance, December 31, 2021	**5,736**	**16.43**

SARs outstanding and the weighted average remaining life of the SARs at December 31, 2021 are as follows:

	SARs outstanding				SARs vested			
Exercise price Cdn$	Number of SARs	Weighted average remaining life (years)		Weighted average exercise price Cdn$/SAR	Number of SARs	Weighted average remaining life (years)		Weighted average exercise price Cdn$/SAR
$16.02 - $16.60	3,668	0.19	$	16.02	3,668	0.19	$	16.02
$16.61 - $17.17	2,068	0.39	$	17.17	2,068	0.39	$	17.17
	5,736	**0.26**	**$**	**16.43**	**5,736**	**0.26**	**$**	**16.43**

As at December 31, 2021 5,736 SARs were vested (December 31, 2020 – 338,290 SARs were vested).

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 year ended December 31,	**2021**	2020
Risk-free interest rate (%)	**0.95**	0.20
Expected life (years)	**0.26**	1
Expected volatility (%)	**31**	55
Forfeiture rate (%)	**3**	3
Share price ($/Cdn)	**21.61**	17.52
Expected dividends	**2.31**	—

As at December 31, 2021, the total SARs liability accrued is $24 thousand (December 31, 2020 - $1.2 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 retirement from the Board of Directors of the Company in accordance with the terms of the DSU Plan. The DSUs liability cannot be settled by the issuance of common shares.

	Number of DSU's	Weighted average exercise price Cdn$/DSU
Balance, December 31, 2019	245,785	—
Granted	35,320	—
Exercised on board retirement	(63,960)	—
Balance, December 31, 2020	217,145	—
Granted[1]	38,383	—
Balance, December 31, 2021	**255,528**	—

(1) Grants for 2021 include units related to dividend equivalents granted on awards outstanding.

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 year ended December 31, 2021 was Cdn$23.07 per DSU (year ended December 31, 2020 - Cdn$15.41 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 December 31, 2021 the total DSUs liability accrued is $4.4 million (December 31, 2020 - $3.0 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	Weighted average exercise price Cdn$/CRSU
Balance, December 31, 2019	991,670	—
Granted	381,278	—
Exercised	(476,705)	—
Forfeited	(20,542)	—
Balance, December 31, 2020	875,701	—
Granted[1]	430,227	—
Exercised	(449,594)	—
Forfeited	(37,405)	—
Balance, December 31, 2021	**818,929**	**—**

(1) Grants for 2021 include units related to dividend equivalents granted on awards outstanding.

The weighted average fair value at the grant date for the year ended December 31, 2021 was Cdn$20.54 per CRSU (year ended December 31, 2020 - Cdn$21.03 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 December 31, 2021, the total CRSUs liability accrued is $8.9 million (December 31, 2020 - $8.2 million) of which $2.6 million (December 31, 2020 - $2.6 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 Cash or share settled RSU/PSU incentive plan. This new plan will replace the equity settled RSU/PSU plan. This plan provides for the issuance of RSUs and PSUs to certain employees of Parex Canada. The plan entitles the holders to receive a cash payment equal to the market price of the Company's common shares at the time of exercise or the employee can elect to receive the award in Parex common shares. CosRSUs and CosPSUs vest over a three-year period and are exercised at the vest date.

CosRSU:

	Number of CosRSUs
Balance, December 31, 2019	649,185
Granted	618,649
Exercised	(221,813)
Balance, December 31, 2020	1,046,021
Granted[1]	646,882
Exercised	(425,588)
Forfeited	(70,983)
Balance, December 31, 2021	**1,196,332**

(1) Grants for 2021 include units related to dividend equivalents granted on awards outstanding.

CosPSU:

	Number of CosPSUs
Balance, December 31, 2019	222,100
Granted	211,600
Balance, December 31, 2020	433,700
Granted[1]	292,800
Exercised	(2,794)
Forfeited	(22,705)
Balance, December 31, 2021	**701,001**

(1) Grants for 2021 include units related to dividend equivalents granted on awards outstanding.

As at December 31, 2021, no CosRSUs and CosPSUs were vested.

The weighted average fair value at the grant date for the year ended December 31, 2021 was Cdn$20.56 per CosRSU and CosPSU (year ended December 31, 2020 - Cdn $21.31 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 CosRSUs and CosPSUs. 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 December 31, 2021, the total CosRSUs and CosPSUs liability accrued is $22.7 million (December 31, 2020 - $11.3 million) of which $7.4 million (December 31, 2020 - $6.3 million) is classified as long-term in accordance with the three-year vesting period.

e) Cash settled share-based compensation

For the year ended December 31,		**2021**		2020
SARs (recovery)	**$**	**(40)**	$	(2,149)
CRSUs expense		**5,844**		813
DSUs expense (recovery)		**1,368**		(811)
CosRSUs and CosPSUs expense		**18,789**		7,422
Total cash settled-share based compensation expense	**$**	**25,961**	$	5,275
Cash payments made upon exercise	**$**	**16,143**	$	12,119

17. Income Tax

The components of tax expense for 2021 and 2020 were as follows:

For the year ended December 31,		**2021**		2020
Current tax expense	**$**	**108,715**	$	20,703
Adjustments in respect of prior period		**1,353**		(29)
Total current tax expense	**$**	**110,068**	$	20,674
Deferred tax expense		**90,642**		53,355
Total tax expense	**$**	**200,710**	$	74,029

Factors affecting tax expense for the year

The standard Colombian corporate income tax rate for 2021 was 31% (year ended December 31, 2020 – 32%). The following is a reconciliation of income taxes calculated at the Colombian corporate tax rate to the tax expense for 2021 and 2020:

For the year ended December 31,		**2021**		2020
Income before tax	**$**	**503,815**	$	173,351
Income before tax multiplied by the standard rate of Colombian corporate tax of 31% (2020 – 32%)		**156,183**		55,472
Effects of:				
Income taxes recorded at rates different from the Colombian tax rate		**(29,590)**		(16,161)
Impact of Colombian tax rate changes		**7,324**		(257)
Impact of deferred tax rate changes		**(1,875)**		3,526
Non-deductible expense and other permanent differences		**37,813**		25,140
Share-based compensation		**284**		1,016
Adjustment in respect of prior period		**(564)**		(7,016)
Foreign exchange impact on tax pools denominated in foreign currency		**31,018**		15,130
Change in unrecognized deferred tax assets		**117**		(2,821)
Total tax expense	**$**	**200,710**	$	74,029

Colombian current tax rates are as follows: 31% for 2021; and 30% thereafter.

The analysis of deferred income tax assets as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets to be settled within 12 months	**$ 479**	$ 1,068
Deferred tax assets to be settled after more than 12 months	**6,380**	41,661
Deferred income tax assets	**$ 6,859**	$ 42,729

The analysis of deferred income tax liabilities as follows:

	December 31, 2021	December 31, 2020
Deferred tax liabilities (asset) to be settled within 12 months	**$ 1,256**	$ (8,182)
Deferred tax liabilities to be settled after more than 12 months	**73,918**	28,584
Deferred income tax liability	**$ 75,174**	$ 20,402
Net deferred tax liability (asset)	**$ 68,315**	$ (22,327)

The deferred income tax liabilities and assets to be settled (recovered) within 12 months represents management's estimate of the timing of the reversal of temporary differences and does not correlate to the current income tax expense of the subsequent year.

The movement during the year in the deferred income tax (liabilities) assets and the net components is as follows:

Deferred Tax (Liability)	**December 31, 2021**	Charged (credited) to the statement of comprehensive income /(loss)	December 31, 2020	Charged (credited) to the statement of comprehensive income /(loss)
PP&E	**$ (98,787)**	$ (62,330)	$ (36,457)	$ (4,707)
Decommissioning liability	**19,234**	9,273	9,961	(188)
Cash-settled equity based compensation	**3,123**	301	2,822	(2,086)
Other	**1,256**	(2,016)	3,272	152
Balance, end of period	**$ (75,174)**	$ (54,772)	$ (20,402)	$ (6,829)

The movement during the year in the deferred income tax assets and the net components is as follows:

Deferred Tax Asset	**December 31, 2021**	Charged (credited) to the statement of comprehensive income /(loss)	December 31, 2020	Charged (credited) to the statement of comprehensive income /(loss)
PP&E	**$ (1,186)**	$ (34,596)	$ 33,410	$ (43,840)
Loss carry forwards	**466**	(3,230)	3,696	(2,143)
Decommissioning liability	**—**	(5,513)	5,513	(170)
Other	**7,579**	7,469	110	(372)
Balance, end of period	**$ 6,859**	$ (35,870)	$ 42,729	$ (46,525)

The Company has losses as well as other cumulative tax deductions in excess of book value in Canada available to reduce future taxable income in future years. At December 31, 2021 the deferred tax asset amount recorded in Canada is $7.0 million. The Company did not recognize deferred income tax assets on capital losses and other items in Canada of $35.0 million. Non-capital losses in Canada expire in 20 years and capital losses carry-forward indefinitely. The Company does not have losses available in Colombia. Amounts denominated in foreign currency have been translated at the December 31, 2021 exchange rate. At December 31, 2021 the Company had the following losses carry-forward:

	Canada
Year of expiry	
2035	$ 1,217
2036	808
Indefinitely	167,961
	$ 169,986

Earnings retained by subsidiaries amounted to $629.7 million at December 31, 2021 (December 31, 2020 - $706.7 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

18. Net income per Share

a) Basic net income per share

For the year ended December 31,		**2021**		2020
Net income				
Net income for the purpose of basic net income per share	**$**	**303,105**	$	99,322
Weighted average number of shares for the purposes of basic net income per share (000's)		**125,210**		138,356
Basic net income per share	**$**	**2.42**	$	0.72

b) Diluted net income per share

For the year ended December 31,		**2021**		2020
Net income				
Net income used to calculate diluted net income per share	**$**	**303,105**	$	99,322
Weighted average number of shares for the purposes of basic net income per share (000's)		**125,210**		138,356
Dilutive effect of share options and RSUs on potential common shares		**389**		1,263
Weighted average number of shares for the purposes of diluted net income per share		**125,599**		139,619
Diluted net income per share	**$**	**2.41**	$	0.71

For the year ended December 31, 2021, 404,700 stock options (December 31, 2020 - 678,322) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

19. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the year ended December 31,		**2021**		2020
Accounts receivable	**$**	**(101,983)**	$	69,344
Prepaids and other current assets		**1,291**		(5,094)
Crude oil inventory		**530**		(1,262)
Accounts payable and accrued liabilities		**114,937**		(106,446)
Depletion related to crude oil inventory		**(333)**		485
Decommissioning and environmental liabilities		**(9,494)**		(4,630)
Net change in non-cash working capital	**$**	**4,948**	$	(47,603)
Operating	**$**	**(43,244)**	$	(7,023)
Investing		**48,192**		(38,534)
Financing		**—**		(2,046)
Net change in non-cash working capital	**$**	**4,948**	$	(47,603)

b) Interest and taxes paid

For the year ended December 31,		**2021**		2020
Cash interest paid	**$**	**—**	$	—
Cash income taxes paid	**$**	**—**	$	45,008

20. Employee Salaries and Benefit Expenses

For the year ended December 31,		2021		2020
Salaries, bonuses and other short-term benefits	**$**	**34,721**	$	29,709
Equity settled share-based compensation		**1,721**		4,235
Cash settled share-based compensation		**25,961**		5,275
	$	**62,403**	$	39,219

Employee salaries, bonuses and short-term benefits are included in general and administrative expenses in the consolidated statements of comprehensive income. Stock option, SARs, RSUs, PSUs, CosRSUs, CosPSUs and DSUs expense are included in share-based compensation expense in the consolidated statements of comprehensive income.

21. 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 at December 31, 2021 had a borrowing base in the amount of $200.0 million (December 31, 2020 - $200.0 million). The credit facility is intended to serve as means to increase liquidity and fund cash or letter of credit needs as they arise. As at December 31, 2021, $nil (December 31, 2020 - $nil) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") and Empresa Colombiana de Petróleos S.A.,("Ecopetrol") joint venture blocks related to the exploration work commitments on its Colombian concessions (see note 24 - Commitments). This performance guarantee facility has a limit of $150.0 million (December 31, 2020 - limit of $150.0 million) of which $11.6 million (December 31, 2020 - $21.9 million) is utilized at December 31, 2021. At December 31, 2021, there is an additional $36.3 million (December 31, 2020 - $24.5 million) of letters of credit that are provided by select Latin American banks on an unsecured basis.

As at December 31, 2021 the Company's net working capital surplus was $325.8 million (December 31, 2020 - $320.2 million), of which $378.3 million is cash.

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure and share buy-back and dividend programs to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity, the credit facility and its working capital. As at December 31, 2021 shareholders' equity was $1,393.7 million (December 31, 2020 - $1,340.5 million).

22. 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.

Long-term financial instruments of the Company carried on the consolidated balance sheet are carried at amortized cost. Financial derivative instruments, specifically fixed price contracts, are carried at fair value. There are no significant differences between the carrying amount of derivative financial instruments and their estimated fair values as at December 31, 2021.

The fair value of the Company's financial derivative instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

Level 1 – quoted prices in active markets for identical financial instruments.
Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial derivative instruments have been classified as level 2 based on the fair value hierarchy described above. The Company used the following techniques to determine the fair value measurements: Crude oil and foreign currency contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price for the same commodity and foreign currency, using quoted market prices or the period end forward price for the same commodity and foreign currency, extrapolated to the end of the contract term.

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 year ended December 31, 2021 had the majority of its oil sales to 10 counterparties. Accounts receivable balance as at December 31, 2021 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 December 31, 2021 there are no accounts receivable past due (December 31, 2020 - $nil).

As at December 31, 2021 and 2020 the Company's accounts receivable are aged as follows:

For the year ended December 31,	**2021**	2020
Current (less than 90 days)	**$ 182,149**	$ 80,166
Past due (more than 90 days)	**—**	—
Total	**$ 182,149**	$ 80,166

None of the Company's receivables are impaired at December 31, 2021. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

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 December 31, 2021 was $nil.

The following are the contractual maturities of financial liabilities at December 31, 2021:

	Less than 1 year	**2-3 Years**	**4-5 Years**	**Thereafter**	**Total**
Accounts payable and accrued liabilities[1]	$ 179,502	—	—	—	$ 179,502
Current income tax payable	39,812	—	—	—	39,812
Lease obligation	567	4,512	—	—	5,079
Cash settled equity plans payable	21,687	14,322	—	—	36,009
Total	**$ 241,568**	**18,834**	**—**	**—**	**$ 260,402**

(1) Includes the liability for derivative financial instruments.

The following are the contractual maturities of financial liabilities at December 31, 2020:

	Less than 1 year	**2-3 Years**	**4-5 Years**	**Thereafter**	**Total**
Accounts payable and accrued liabilities	$ 102,815	—	—	—	$ 102,815
Lease obligation	750	1,820	—	—	2,570
Cash settled equity plans payable	11,862	11,843	—	—	23,705
Total	$ 115,427	13,663	—	—	$ 129,090

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 December 31, 2021 the Company had no outstanding commodity price risk management contracts.

The table below summarizes the loss on the commodity risk management contracts that were in place during the year ended December 31, 2021 and 2020:

For the year ended December 31,		**2021**		2020
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.

The following is a summary of the foreign currency risk management contracts in place as at December 31, 2021:

Period Hedged	**Reference**	**Currency Option Type**	**Amount USD**	**Strike Price COP**
November 19, 2021 to April 19, 2022	COP	Costless Collar	$15,000,000	3,600-4,325
November 19, 2021 to June 21, 2022	COP	Costless Collar	$15,000,000	3,600-4,375

The table below summarizes the loss on the foreign currency risk management contracts that were in place during the year ended December 31, 2021 and 2020:

For the year ended December 31,		**2021**		2020
Unrealized loss on foreign currency risk management contracts	**$**	**471**	$	—
Realized loss on foreign currency risk management contracts		**—**		511
Total	**$**	**471**	$	511

As at December 31, 2021, with other variables unchanged, the impact on the Company's financial instruments of a 10% strengthening (weakening) of the Canadian dollar and COP against the US dollar would have decreased (increased) net income by approximately $2.2 million.

23. Segmented Information

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

For the year ended December 31, 2021	Canada	Colombia	Total
Oil and natural gas sales	$ —	$ 1,057,184	$ 1,057,184
Royalties	—	(156,985)	(156,985)
Revenue	—	900,199	900,199
Expenses			
Production	—	108,282	108,282
Transportation	—	52,469	52,469
Purchased oil	—	10,880	10,880
General and administrative	27,937	14,491	42,428
Impairment of exploration and evaluation assets	—	27,000	27,000
Equity settled share-based compensation expense	1,721	—	1,721
Cash settled share-based compensation expense	20,157	5,804	25,961
Depletion, depreciation and amortization	847	120,549	121,396
Foreign exchange (gain) loss	427	(2,249)	(1,822)
	51,089	337,226	388,315
Finance (income)	(218)	(1,390)	(1,608)
Finance expense	1,502	8,175	9,677
Net finance expense	1,284	6,785	8,069
Income (loss) before taxes	(52,373)	556,188	503,815
Current tax expense	—	110,068	110,068
Deferred tax expense	171	90,471	90,642
Net income (loss)	**$ (52,544)**	**$ 355,649**	**$ 303,105**
Capital assets (end of year)	$ 5,589	$ 1,124,283	$ 1,129,872
Capital expenditures	$ 471	$ 276,764	$ 277,235
Total assets (end of year)	$ 233,056	$ 1,551,165	$ 1,784,221

For the year ended December 31, 2020		Canada		Colombia		Total
Oil and natural gas sales	$	—	$	587,520	$	587,520
Royalties		—		(55,655)		(55,655)
Revenue		—		531,865		531,865
Commodity risk management contracts (loss)		—		(3,940)		(3,940)
Revenue		—		527,925		527,925
Expenses						
Production		—		87,272		87,272
Transportation		—		59,147		59,147
Purchased oil		—		28,241		28,241
General and administrative		17,496		18,562		36,058
Impairment of exploration and evaluation assets		—		6,166		6,166
Impairment of property, plant and equipment assets		—		7,000		7,000
Equity settled share-based compensation expense		4,235		—		4,235
Cash settled share-based compensation expense (recovery)		6,611		(1,336)		5,275
Depletion, depreciation and amortization		869		112,889		113,758
Foreign exchange loss (gain)		957		(548)		409
		30,168		317,393		347,561
Finance (income)		(544)		(1,585)		(2,129)
Finance expense		1,499		7,643		9,142
Net finance expense		955		6,058		7,013
Income (loss) before taxes		(31,123)		204,474		173,351
Current tax expense		2		20,672		20,674
Deferred tax expense (recovery)		(552)		53,907		53,355
Net income (loss)	**$**	**(30,573)**	**$**	**129,895**	**$**	**99,322**
Capital assets (end of year)	$	2,715	$	979,549	$	982,264
Capital expenditures	$	145	$	141,119	$	141,264
Total assets (end of year)	$	167,415	$	1,373,666	$	1,541,081

In Colombia in the year 2021 the majority of oil sales were with ten counterparties (year ended December 31, 2020 – ten counterparties) in the oil and gas industry and are subject to normal industry credit risks.

24. Commitments and Contingencies

a) Colombia

At December 31, 2021 performance guarantees are in place with the ANH for certain blocks. The guarantees are in the form of issued letters of credit totaling $47.9 million (December 31, 2020 - $46.4 million) to support the exploration work commitments in respect of the 44 blocks in Colombia.

At December 31, 2021 EDC has provided the Company's bank with performance security guarantees to support approximately $11.6 million (December 31, 2020 - $21.9 million) of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH are reduced from time to time to reflect completed work on an ongoing basis. At December 31, 2021, there are an additional $36.3 million (December 31, 2020 - $24.5 million) letters of credit that are provided by a Latin American bank on an unsecured basis.

The value of the Company's exploration commitments as at December 31, 2021 in respect of the Colombia work commitments under E&P contracts, and joint venture farm-in arrangements are estimated to be as follows:

(000s)		
2022	$	36,326
2023		213,625
2024		4,550
Thereafter		145,758
	$	400,259

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 December 31, 2021 are as follows:

(000s)	Total	2022	2023	2024	2025	Thereafter
Office and accommodations	$ 8,216	1,991	965	916	778	3,566

25. Related Party Disclosures

a) Significant Subsidiaries

The consolidated financial statements include the financial statements of Parex Resources Inc. at December 31, 2021 and 2020. Transactions between subsidiaries are eliminated upon consolidation.

b) Compensation of Key Management Personnel

Key management personnel compensation, including directors, is as follows:

For the year ended December 31,	**2021**	2020
Salaries, directors' fees and other benefits	**$ 6,365**	$ 4,515
Equity settled share-based compensation	**1,075**	1,613
Cash settled share-based compensation	**2,424**	1,451
	$ 9,864	$ 7,579

At December 31, 2021 key management personnel are comprised of the Company's directors and eight executives. As at December 31, 2021, there is a Cdn$9.1 million commitment relating to change of control or termination of employment of the eight executives (December 31, 2020 - Cdn$9.1 million for the eight executives).

c) Other transactions

The Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2021 and 2020.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or the "Company") for the three months and year ended December 31, 2021 and 2020 is dated March 1, 2022 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2021 and 2020. The audited consolidated 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 are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 1, 2022 (the "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 the largest independent oil and gas company in Colombia, focusing on sustainable, conventional production. Parex's corporate headquarters are in Calgary, Canada, and the Company has an operating office in Bogotá, Colombia. Parex is a member of the S&P/TSX Composite ESG Index and its common shares trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

Abbreviations

Refer to the final page of the MD&A for commonly used abbreviations in the document. Refer to the Advisory on Forward-Looking Statements and Non-GAAP and Other Financial Measures Advisory.

References to crude oil or natural gas production 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* ("NI 51-101").

2021 Highlights

- Annual oil and natural gas production in 2021 averaged 46,998 barrels of oil equivalent per day ("boe/d") (96% crude oil and 4% natural gas) compared to 2020 average production of 46,518 boe/d. Beginning the year at an approximately 45,000 boe/d production rate (in January 2021) and exiting the year at a roughly 51,700 boe/d production rate (in December 2021). Refer to "Consolidated Results of Operations" for annual production split by product type;
- Recognized net income of $303.1 million for the year ended December 31, 2021 compared to net income of $99.3 million in 2020;
- Generated record annual funds flow provided by operations ("FFO")* of $577.5 million ($4.61 per share basic**) compared to $297.0 million ($2.15 per share basic) in 2020;
- Returned CAD$334 million to shareholders through dividends and share repurchases; implemented a regular quarterly dividend, paid a CAD$0.25 per common share special dividend and repurchased 10% of the Company's public float (12.9 million common shares); and
- Acquired 18 new blocks in the 2021 Colombia Bid Round as well as expanded the strategic partnership with Ecopetrol S.A. for a 50% interest in the Arauca and LLA-38 blocks. Including these additions, Parex is now the largest independent acreage holder in Colombia.

* "Capital Management Measure" (as defined in National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure* ("NI 52-112")), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure, an explanation of how such measure provides useful information to a reader and the additional purposes for which management uses such measure, and a reconciliation of such financial measure to the most directly comparable IFRS measure disclosed in the Company's financial statements.

** "Non-GAAP ratio" (as defined in NI 52-112), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure and an explanation of how such measure provides useful information to a reader and the additional purposes for which management uses such measure.

Three Months Ended December 31, 2021 (“fourth quarter" or "Q4”) Highlights

- Quarterly oil and natural gas production averaged 49,779 boe/d (96% crude oil and 4% natural gas), an increase of 7% over the fourth quarter of 2020. Refer to "Consolidated Results of Operations" for production split by product type;
- Generated record quarterly FFO* of $168.3 million ($1.39 per share basic**) compared to $81.6 million ($0.61 per share basic) in 2020;
- Paid a CAD$0.25 per common share special dividend in addition to the regular quarterly dividend, as well as repurchased 1.5 million common shares.
- Generated an operating netback** of $46.79/boe (2020 - $24.76/boe) and an FFO netback** of $36.41/boe (2020 - $19.06/boe) from an average Brent price of $79.66/bbl (2020 - $45.26/bbl); and
- Participated in drilling 15 gross (11.40 net) wells in Colombia resulting in 10 oil wells, 3 injector wells and 2 wells under test, for a success rate of 100% in Q4 2021 compared to 34 gross (22.20 net) wells in the preceding nine months of 2021 and 8 gross (4.85 net) wells in the fourth quarter of 2020.

* Capital Management Measure. See “Non-GAAP and Other Financial Measures Advisory”.

** Non-GAAP ratio. See “Non-GAAP and Other Financial Measures Advisory”.

Financial Summary

	For the three months ended December 31,		For the year ended December 31,		
(Financial figures in $000s except per share amounts)	**2021**	2020	**2021**	2020	2019
Light Crude and Medium Crude Oil (bbl/d)	**6,376**	6,637	**6,831**	6,021	7,214
Heavy Crude Oil (bbl/d)	**41,534**	38,332	**38,449**	39,197	44,494
Average daily oil production (bbl/d)(1)	**47,910**	44,969	**45,280**	45,218	51,708
Average daily conventional natural gas production (mcf/d)(1)	**11,214**	10,038	**10,308**	7,800	5,874
Average oil and natural gas production (boe/d)	**49,779**	46,642	**46,998**	46,518	52,687
Production split (% crude oil)	**96**	96	**96**	97	98
Realized sales price ($/boe)(7)	**67.81**	36.95	**60.97**	32.55	54.70
Operating netback ($/boe)(2)	**46.79**	24.76	**42.53**	20.84	37.51
Oil and natural gas sales	**315,327**	167,264	**1,057,184**	587,520	1,113,622
Funds flow provided by operations(8)	**168,261**	81,567	**577,545**	297,041	570,480
Per share – basic(2)(4)	**1.39**	0.61	**4.61**	2.15	3.90
Per share – diluted(2)(4)	**1.39**	0.60	**4.60**	2.13	3.83
Net income	**96,041**	56,192	**303,105**	99,322	327,994
Per share – basic(4)	**0.80**	0.42	**2.42**	0.72	2.24
Per share – diluted(4)	**0.79**	0.42	**2.41**	0.71	2.20
Dividends paid	**35,610**	—	**47,631**	—	
Per share – Cdn$(4)(7)	**0.375**	—	**0.50**	—	—
Shares repurchased (000s)	**1,510**	6,607	**12,869**	13,852	14,679
Capital expenditures(3)	**118,507**	46,932	**277,235**	141,264	208,196
Free funds flow (3)	**49,754**	34,635	**300,310**	155,777	362,284
Total assets (end of period)	**1,784,221**	1,541,081	**1,784,221**	1,541,081	1,684,581
Working capital surplus (end of period)(5)(8)	**325,780**	320,155	**325,780**	320,155	344,031
Bank debt (end of period)(6)	**—**	—	**—**	—	—
Weighted average shares outstanding (000s)					
Basic	**120,716**	133,812	**125,210**	138,356	146,380
Diluted	**121,136**	135,184	**125,599**	139,619	149,025
Outstanding shares (end of period) (000s)	**120,266**	130,873	**120,266**	130,873	143,295

(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 NI 51-101.
(2) Non-GAAP ratio. See “Non-GAAP and Other Financial Measures Advisory”.
(3) Non-GAAP financial measure (as defined in NI 52-112), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See “Non-GAAP and Other Financial Measures Advisory” for the composition of such measure, an explanation of how such measure provides useful information to a reader and the additional purposes for which management uses such measure, and a reconciliation of such financial measure to the most directly comparable IFRS measure disclosed in the Company's financial statements.
(4) Per share amounts (with the exception of dividends) are based on weighted average common shares. Dividends paid per share are based on the number of common shares outstanding at each dividend record date.

(5) Working capital calculation does not take into consideration the undrawn amount available under the syndicated bank credit facility.
(6) Syndicated bank credit facility borrowing base of $200.0 million as at December 31, 2021, $200.0 million at December 31, 2020.
(7) Supplementary Financial Measure (as defined in NI 52-112). See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.
(8) Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory".

2021 Guidance vs Actuals

The table below is a summary of Parex' original annual guidance for 2021 and a review of 2021 actual results:

	2021 Guidance (as released November 2020)	**2021 Actuals**	**% variance from 2021 Guidance**
Brent crude average ($/bbl)	45	**71**	58
Production (average for period) (boe/d)	47,000-49,000	**46,998**	—
Total Capital Expenditures ($ millions)(1)	165-185	**277**	58
Funds flow provided by operations (FFO)(3) ($ millions)	320-340	**578**	75
Free funds flow (FFO less total capex mid-points)(1) ($ millions)	155	**300**	94
Share buy-back program ($ millions)	150	**218**	45
Outstanding shares (end of period) (millions)	118-120	**120**	—
Production per share growth %(4)	14%	**12%**	(14)
Estimated working capital (3)(end of period) ($ millions)	335	**326**	(3)
Bank debt outstanding (end of period) ($ millions)	—	**—**	—
Operating netback ($/boe)(2)	23	**43**	87
Funds Flow provided by Operations (FFO) netback(2) ($/boe)	19	**34**	79
Current tax effective rate on FFO (%)(4)	8%	**16%**	100

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".
(3) Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory".
(4) Supplementary Financial Measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

In 2021 Brent crude prices were substantially higher than forecasted guidance. As Parex is unhedged, this had a considerable impact on funds flow provided by operations, free funds flow, operating netback, funds flow provided by operations netback, and the current effective tax rate on FFO. Because of these strong Brent crude prices, Parex increased its Capex program to $270-$290M. This increase in Capex was directed to offsetting production and Parex crude marketing restrictions as a result of the transportation blockades the Company experienced in May 2022, and advancing early stage exploration projects.

Parex looks to provide a significant return of capital through dividends and share repurchases, while investing in the Company's assets to provide an appealing total shareholder return. In 2021 Parex bought back 10% of its outstanding shares under the Company's normal course issuer bid program (NCIB), as it intended, however due to Parex' share price being higher than forecasted under a $45/bbl crude scenario, the cost of the program was higher than anticipated. To further increase shareholder returns in 2021 the Company initiated a dividend program which in 2021 delivered $47.6 million to shareholders.

Outlook

- This year, Parex expects to be able to execute an ambitious capital investment plan that is balanced across development, exploitation, and exploration programs to build long-term Company sustainability.
- Production volume and and total capital expenditure guidance for 2022 remain unchanged[1]. At the mid-point of guidance, Parex forecasts to grow production by 13% year-over-year.
- In addition to the capital investment plan, Parex anticipates that it will repurchase 10% of the Company's float (11.8 million shares) through its NCIB, while also having upside base dividend growth potential. Combined with the Company's planned share repurchases, Parex is forecasting production per share growth of 23% year-over-year.

	2022 Outlook
Production (average for period) (boe/d)	52,000-54,000
Total Capital Expenditures ($ Millions)[2]	$400-450

(1) Please see the Company's November 3, 2021 news release for additional details on 2022 corporate guidance and netback sensitivity estimates.
(2) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".

- All Parex guidance does not include any potential volume from Magdalena basin exploitation as well as the overall exploration program.
- Year-to-date February 2022 average production is estimated to be approximately 51,600 boe/d.
- By year-end 2022, Parex is aiming to grow its net operated production by 50%, with its current operational focus being on traditional near-field exploration in the Llanos basin and advancing conventional oil in place exploitation projects in the Magdalena basin.

Return of Capital Update

- From 2017 to February 28, 2022, Parex has returned over CAD$1 billion to shareholders through share repurchases pursuant to its NCIBs as well as dividends.
- As previously disclosed, on February 2, 2022, Parex's Board of Directors declared a first quarter 2022 regular dividend of CAD$0.14 per share to be paid on March 30, 2022 to shareholders of record on March 15, 2022, representing a 12% dividend increase from the prior quarter dividend.
- Building on the Company's track record of returning capital to shareholders, Parex targets to return at least one third of FFO to shareholders through share repurchases and dividends. The remaining FFO will be invested to grow the company over the long term and replenish development inventory to support future return of capital activity.
- Being fully debt free and 100% unhedged to commodity pricing is unique to Parex. At current strip prices, the Company expects to return approximately 40% of 2022 annual FFO to shareholders.

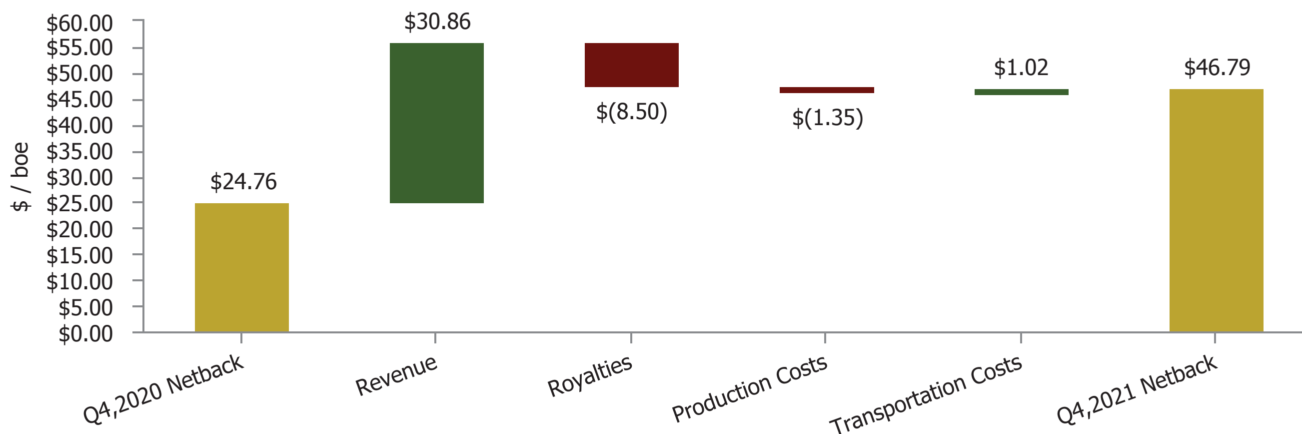
Financial and Operational Results

Consolidated Results of Operations

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

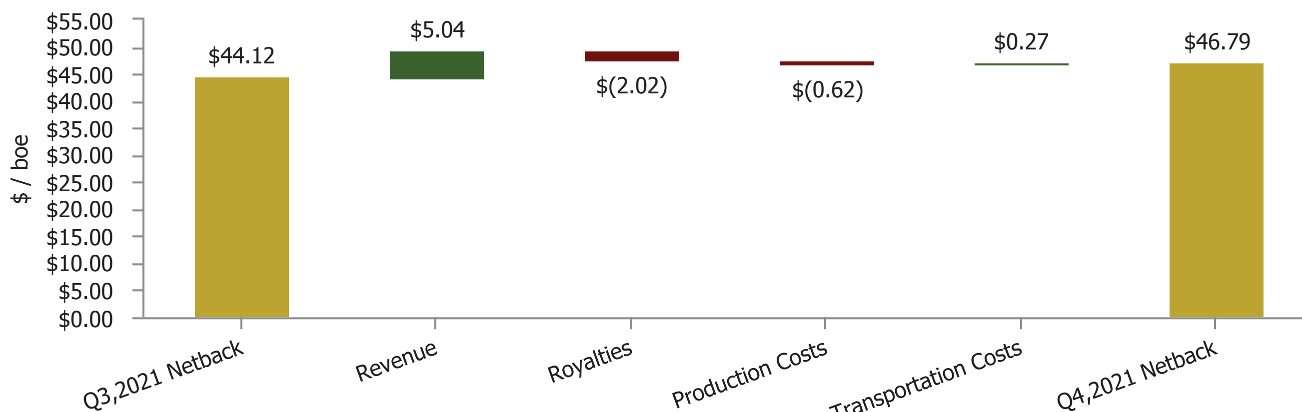
	For the three months ended December 31,		For the year ended December 31,	
	2021	2020	**2021**	2020
Average daily production				
Light Crude and Medium Crude Oil (bbl/d)	**6,376**	6,637	**6,831**	6,021
Heavy Crude Oil (bbl/d)	**41,534**	38,332	**38,449**	39,197
Crude oil (bbl/d)	**47,910**	44,969	**45,280**	45,218
Conventional Natural Gas (mcf/d)	**11,214**	10,038	**10,308**	7,800
Total (boe/d)	**49,779**	46,642	**46,998**	46,518
Production split (% crude oil production)	**96**	96	**96**	97
Average daily sales of oil and natural gas				
Produced crude oil (bbl/d)	**48,365**	44,845	**45,425**	45,022
Purchased crude oil (bbl/d)	**311**	2,688	**366**	3,000
Produced natural gas (mcf/d)	**11,214**	10,038	**10,308**	7,800
Total (boe/d)	**50,545**	49,206	**47,509**	49,322
Operating netback (000s)[1]				
Oil and natural gas sales	**$ 315,327**	$ 167,264	**$ 1,057,184**	$ 587,520
Royalties	**(54,037)**	(13,642)	**(156,985)**	(55,655)
Net revenue	**261,290**	153,622	**900,199**	531,865
Production expense	**(30,541)**	(22,499)	**(108,282)**	(87,272)
Transportation expense	**(12,651)**	(16,938)	**(52,469)**	(59,147)
Purchased oil expense	**(2,500)**	(7,536)	**(10,880)**	(28,241)
Operating netback	**$ 215,598**	$ 106,649	**$ 728,568**	$ 357,205
Operating netback (per boe) [3]				
Oil and natural gas sales[2]	**$ 67.81**	$ 36.95	**$ 60.97**	$ 32.55
Royalties[2]	**(11.69)**	(3.19)	**(9.12)**	(3.28)
Net revenue	**56.12**	33.76	**51.85**	29.27
Production expense[2]	**(6.61)**	(5.26)	**(6.29)**	(5.15)
Transportation expense[2]	**(2.72)**	(3.74)	**(3.03)**	(3.28)
Operating netback[3]	**$ 46.79**	$ 24.76	**$ 42.53**	$ 20.84

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measures.
(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".



Overall, the Company's benchmark Brent price increased by $34.40/bbl, while revenue increased by $30.86/boe in the fourth quarter of 2021 as compared to the fourth quarter of 2020. The decrease in revenue relative to the Brent crude benchmark increase is mainly a result of weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in the quarter as compared to the comparative period. Royalties increased by $8.50/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by $1.35/boe mainly as a result of increased well workovers in the current quarter on Block LLA-34. Transportation costs decreased by $1.02/boe as a result of increased wellhead sales in the quarter.

Overall, the operating netback increased by $22.03/boe vs a Brent benchmark crude price increase of $34.40/bbl.



In the fourth quarter of 2021, the Company's benchmark Brent oil price increased by $6.43/bbl, while revenue increased by $5.04/boe as compared to the third quarter of 2021. The decrease in revenue relative to the Brent crude oil benchmark increase is mainly a result of weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in the quarter as compared to the comparative period. Royalties increased by $2.02/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by $0.62/boe as a result of increased well workovers in the current quarter on Block LLA-34. Transportation costs decreased by $0.27/boe as a result of increased wellhead sales in the quarter.

Overall, the operating netback increased by $2.67/boe vs a Brent benchmark crude price increase of $6.43/bbl.

Oil and Natural Gas Sales

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

	For the three months ended December 31,		For the year ended December 31,	
	2021	2020	**2021**	2020
Block LLA-34 (Tigana, Jacana and Tua fields)	**32,049**	31,483	**30,784**	33,917
Block Cabrestero (Bacano and Akira fields)	**8,848**	6,158	**6,946**	4,902
Capachos block (Capachos and Andina fields)	**4,068**	3,654	**4,085**	3,274
Block LLA-26 (Rumba field)	**969**	1,258	**1,045**	1,132
Block LLA-32 (Kananaskis, Calona, Carmentea and Azogue fields)	**804**	1,097	**1,022**	1,142
Other blocks	**1,172**	1,319	**1,398**	851
Total Crude Oil Production	**47,910**	44,969	**45,280**	45,218
Natural gas production	**1,869**	1,673	**1,718**	1,300
Total crude oil and natural gas production	**49,779**	46,642	**46,998**	46,518
Crude oil inventory draw (build)	**455**	(124)	**145**	(196)
Average daily sales of produced oil and natural gas	**50,234**	46,518	**47,143**	46,322
Purchased oil	**311**	2,688	**366**	3,000
Sales Volumes	**50,545**	49,206	**47,509**	49,322

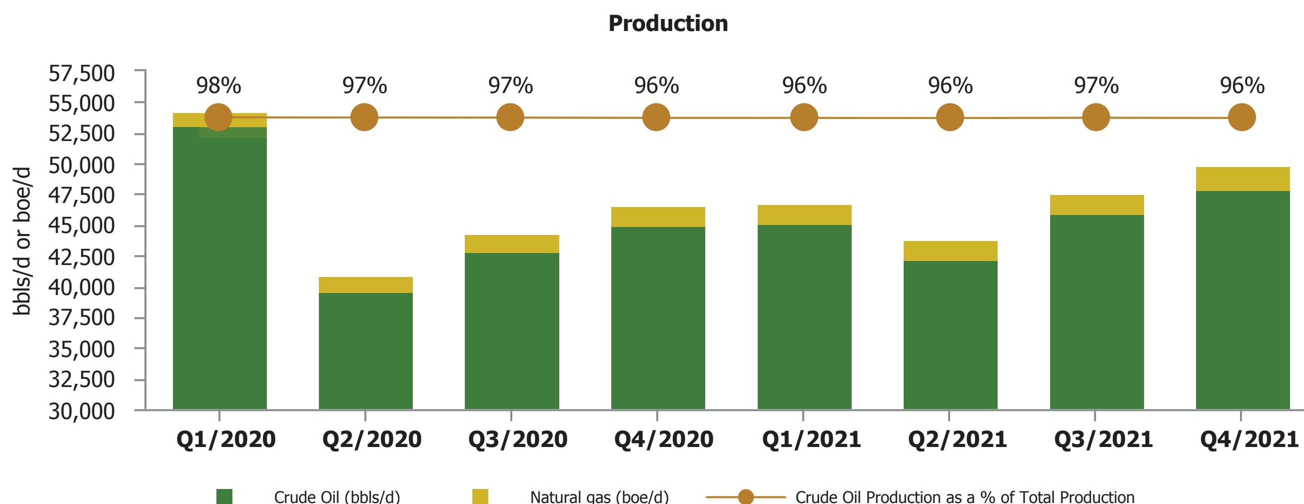
Oil and natural gas production for the fourth quarter of 2021 averaged 49,779 boe/d, an increase of approximately 7% from the fourth quarter of 2020 and an increase of approximately 5% from the third quarter of 2021. Oil and natural gas production for the year to date February 2022 was 51,600 boepd.

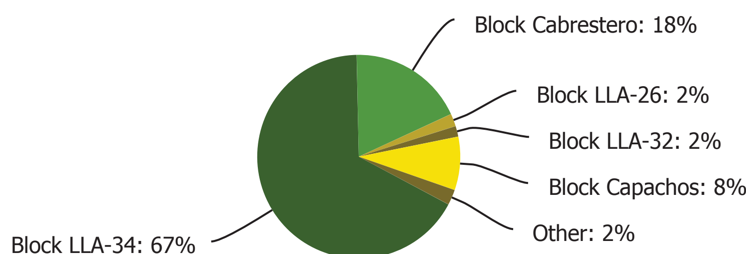
The increase in oil and natural gas production in the fourth quarter of 2021 compared to the fourth quarter of 2020 is mainly the result of the Company bringing back additional production from previously shut-in or curtailed fields beginning in the third quarter of 2020 as production in the second quarter of 2020 was voluntarily curtailed in response to the significant decline in world oil prices and ongoing uncertainty in market conditions resulting from the COVID-19 pandemic.

The increase in oil and natural gas production in the fourth quarter of 2021 compared to the third quarter of 2021 is mainly the result of production from additional wells drilled during the quarter on the Cabrestero block.

Block LLA-34 oil production in 2021 was approximately 9% less than the prior year comparative period. This decrease is mainly due to well service and drilling activity being impeded as a result of protests and transportation blockades in the second quarter of 2021 and also intermittent electrical power field transmission issues. Parex has been able to offset the LLA-34 production disruption in Q2 2021 by the successful drilling campaign on the Cabrestero block.

Oil and natural gas sales in the fourth quarter of 2021 were 50,545 boe/d compared to 49,206 boe/d for the fourth quarter of 2020. The increase in oil sales volumes was a result of the increase in oil production, partially offset by decreased purchased oil purchases/sales over the comparative period.





b) Crude Oil Reference and Realized Prices

	For the three months ended December 31,		For the year ended December 31,	
	2021	2020	**2021**	2020
Reference Prices				
Brent ($/bbl)	**79.66**	45.26	**70.95**	43.30
Vasconia ($/bbl)	**75.05**	42.69	**67.27**	38.90
WTI ($/bbl)	**77.31**	42.63	**68.09**	39.44
Average Realized Prices				
Realized sales price ($/boe)(1)	**67.81**	36.95	**60.97**	32.55
Realized price (differential) to Brent crude ($/boe)(1)	**(11.85)**	(8.31)	**(9.98)**	(10.75)

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

During Q4 2021, the differential between Brent reference pricing and the Company's realized sale price was $11.85/boe. The differential to Brent crude during Q4 2021 increased by $1.39/boe compared to the third quarter of 2021 where the differential was $10.46/boe. This was primarily the result of the Brent/Vasconia differential increasing to $4.61/bbl from $4.02/bbl. Parex' Colombian oil production is fully exposed to swings in the Vasconia differential to Brent (see below).

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

Average price for the period	**Q4 2021**	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Brent ($/bbl)	**79.66**	73.23	69.08	61.32	45.26
Vasconia ($/bbl)	**75.05**	69.21	66.12	58.71	42.69
Brent/Vasconia crude (differential) ($/bbl)	**(4.61)**	(4.02)	(2.96)	(2.61)	(2.57)
Parex quality differential ($/bbl)	**(0.04)**	(0.04)	(0.07)	(0.20)	(0.15)
Parex wellhead sales discount ($/bbl)	**(7.20)**	(6.40)	(6.37)	(5.71)	(5.59)
Parex realized sales price ($/boe)(2)	**67.81**	62.77	59.68	52.80	36.95
Parex realized price (differential) to Brent crude ($/boe)	**(11.85)**	(10.46)	(9.40)	(8.52)	(8.31)
Parex transportation expense ($/boe)(1)(2)	**(2.72)**	(2.99)	(3.00)	(3.43)	(3.74)
Parex price differential and transportation expense ($/boe)	**(14.57)**	(13.45)	(12.40)	(11.95)	(12.05)

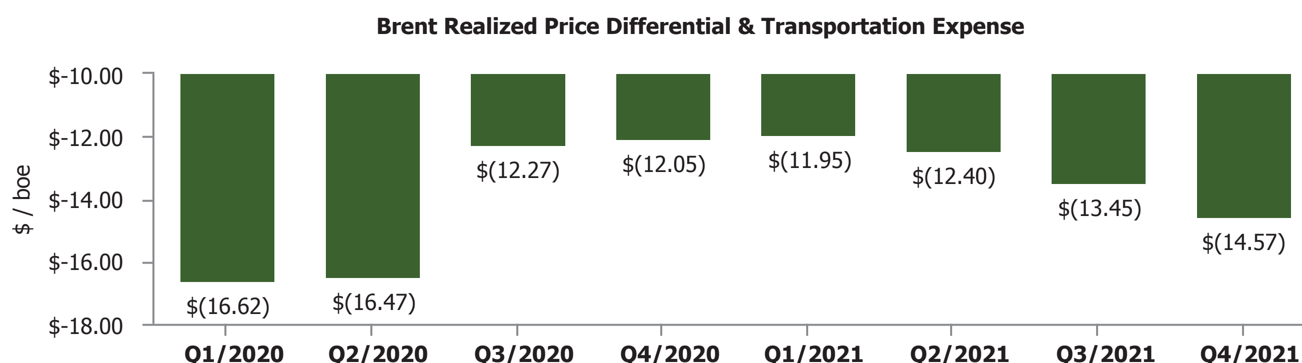
(1) See Transportation section below. Applies only to direct export cargo sales where Parex incurs the pipeline fees directly.
(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Differences between Parex' realized price and Vasconia crude price is mainly related to quality adjustments, wellhead sale marketing contracts, and the 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.

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 contracts.

The increase in Parex combined realized price differential and transportation expense through 2021 is a result of an increase in the Brent/ Vasconia differential along with an increase in oil volumes sold at the wellhead. This is partially offset by a slight decrease in transportation expense which is incurred on transporting crude volumes through crude oil pipelines.

As result of the Company completing a pipeline tie-in at Block LLA-34 in 2021, and future plans to extend this tie-in to the Cabrestero block in Q1 2022 the Company expects crude oil sold at the wellhead to decrease in the future.



c) Natural Gas Revenue and Realized Prices

	For the three months ended December 31,		For the year ended December 31,	
	2021	2020	**2021**	2020
Natural gas revenue ($000s)(1)	**$ 6,368**	5,392	**$22,996**	17,333
Realized sales price ($/Mcf)(1)	**6.17**	5.84	**6.11**	6.07

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Parex natural gas revenues were $6.4 million and $23.0 million for the three months and year ended December 31, 2021 compared to $5.4 million and $17.3 million in the same periods of 2020. 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. At the Capachos block, Parex completed a gas processing facility and a related natural gas in-field flowline during 2020.

d) Oil and Natural Gas Revenue

2021 oil and natural gas revenue increased by $469.7 million or 80% as reconciled in the table below to 2020:

($000s)		
Oil and natural gas revenue, year ended December 31, 2020	$	**587,520**
Sales volume of produced oil, an increase of 1% (403 bbl/d)		**4,186**
Sales volume of purchased oil, a decrease of 88% (2,634 bbl/d)		**(31,333)**
Sales price increase of 90%		**491,148**
Sales volume and price change of produced natural gas		**5,663**
Oil and natural gas revenue, year ended December 31, 2021	**$**	**1,057,184**

Oil and natural gas revenue increased year over year mainly due to the increase in world oil prices.

e) Crude Oil Inventory in Transit

($000s) For the years ended December 31,		2021		2020
Crude oil in transit	**$**	**1,385**	$	1,915

As at December 31, 2021, the Company had 46.6 mbbls (December 31, 2020 - 99.5 mbbls) of crude oil inventory in transit, which was injected into Colombian pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, transportation costs, depletion expense and royalty expense) at approximately $30/bbl ($19/bbl - 2020) 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)	**Dec. 31, 2021**	Sep. 30, 2021	Jun. 30, 2021	Mar. 31, 2021
Crude oil inventory in transit - beginning of the period	**88.4**	25.7	140.9	99.5
Oil production	**4,387.1**	4,206.4	3,826.7	4,037.4
Oil sales	**(4,457.5)**	(4,177.6)	(3,976.1)	(4,032.9)
Purchased oil	**28.6**	33.9	34.2	36.9
Crude oil inventory in transit - end of the period	**46.6**	88.4	25.7	140.9
% of period production	**1.1**	2.1	0.7	3.5

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 December 31, 2021 was 1.1%. Parex expects crude oil inventory in future periods to be in line with normal historic levels of below 5% of period production.

f) Purchased Oil

	For the three months ended December 31,			For the year ended December 31,		
		2021	2020		**2021**	2020
Purchased oil expense ($000s)	**$**	**2,500**	$ 7,536	**$**	**10,880**	$ 28,241

Purchased oil expense for the three months and year ended December 31, 2021 was $2.5 million and $10.9 million compared to $7.5 million and $28.2 million for the 2020 comparative periods and $3.3 million in the third quarter of 2021. Purchased oil expense has decreased compared to the same periods of 2020 as a result of a decrease in oil blending operations and a decrease in purchases of partner crude from the Capachos block. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Royalties

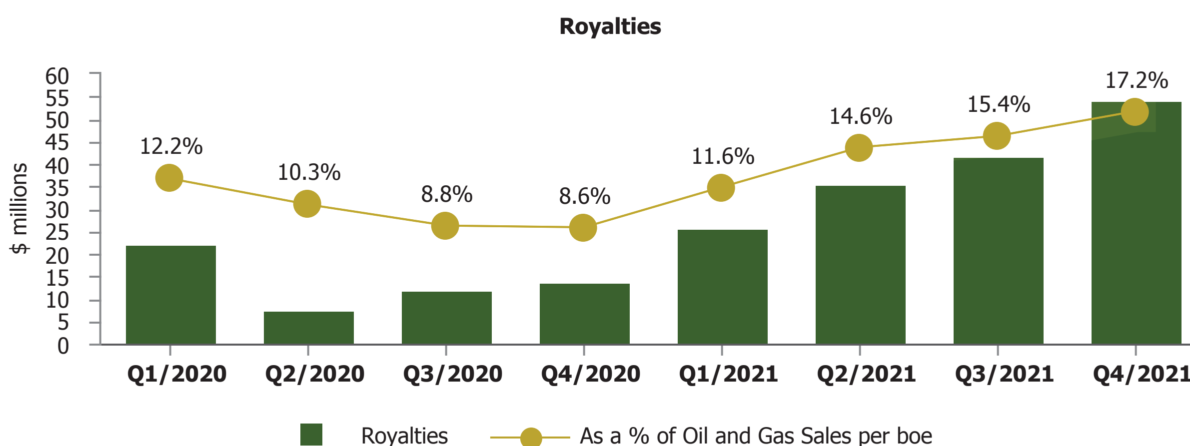
		For the three months ended December 31,		For the year ended December 31,	
		2021	2020	**2021**	2020
Royalties ($000s)	**$**	**54,037**	$ 13,642	**$ 156,985**	$ 55,655
Per unit ($/boe)(1)		**11.69**	3.19	**9.12**	3.28
Percentage of sales(1)		**17.2**	8.6	**15.0**	10.1

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

For the three months and year ended December 31, 2021 royalties as a percentage of sales were 17.2% and 15.0%, an increase from 8.6% and 10.1% in the three months and year ended December 31, 2020. The third quarter of 2021 royalty as a percentage of sales was 15.4%. The increase in royalties as a percentage of oil sales compared to the prior year and the third quarter of 2021 is a result of higher benchmark WTI prices which are used in the high price share royalty ("HPR") calculation. Benchmark WTI prices for the three months and year ended December 31, 2021 were $77.31 and $68.09 compared to $42.63 and $39.44 for the 2020 comparative periods and $70.54 in the third quarter of 2021.

The increase in royalty expense to $54.0 million and $157.0 million in the three months and year ended December 31, 2021, respectively, compared to $13.6 million and $55.7 million for the 2020 comparative prior year periods is a result of higher benchmark WTI prices used in the calculation of royalties and increased oil and natural gas production and sales over the prior period. As realized oil prices increase, royalties as percentage of oil sales will also increase.

The HPR comes into effect when accumulated production of any production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices exceed pricing determined in the contract. The calculation is described as a "High Price Share" in the Company's AIF, which may be accessed through the SEDAR website at www.sedar.com.



Production Expense

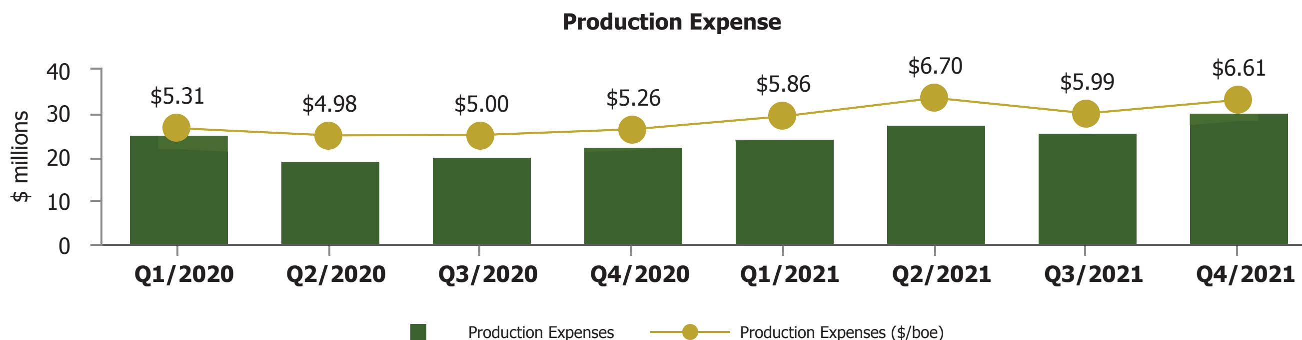
		For the three months ended December 31,		For the year ended December 31,	
		2021	2020	**2021**	2020
Production expense ($000s)	**$**	**30,541**	$ 22,499	**$ 108,282**	$ 87,272
Per unit ($/boe)(1)		**6.61**	5.26	**6.29**	5.15

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Production expense includes the cost of activities in the field to operate wells and facilities, lift to surface, gather, process, treat and store production.

Production expense for the three months and year ended December 31, 2021 was $6.61/boe and $6.29/boe compared to $5.26/boe and $5.15/boe for the three months and year ended December 31, 2020. Production expense for the third quarter of 2021 was $5.99/boe.

The increase in production expense for the year ended December 31, 2021 over the 2020 comparative period is mainly the result of increased well workovers on Block LLA-34 compared to the prior period and some smaller, more mature and higher cost oil fields brought back on stream in mid Q1 2021 that were voluntary shut-in during the second quarter of 2020 in response to the significant decline in world oil prices and ongoing uncertainty in market conditions resulting from the COVID-19 pandemic.



Transportation Expense

	For the three months ended December 31,				For the year ended December 31,			
		2021		2020		**2021**		2020
Transportation expense ($000s)	**$**	**12,651**	$	16,938	**$**	**52,469**	$	59,147
Per unit ($/boe)[(1)]		**2.72**		3.74		**3.03**		3.28

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

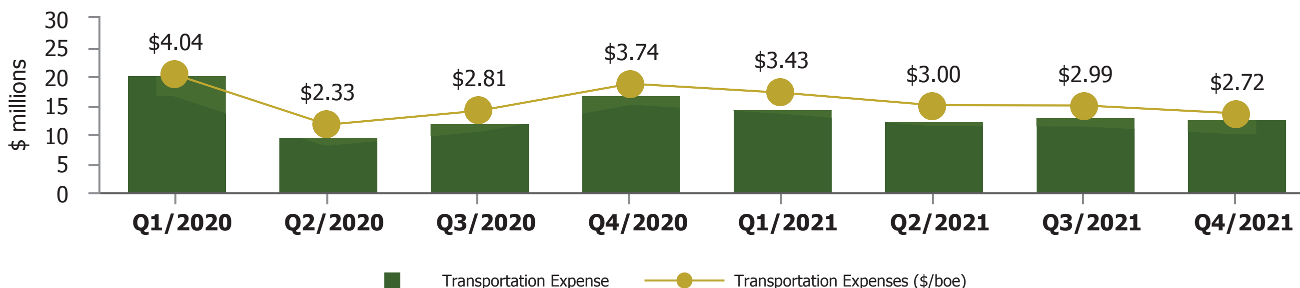
Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and in some instances an oil transportation tariff from delivery point to the buyer's facility and pipeline tariffs.

For the three months ended December 31, 2021, the cost of transportation of $2.72/boe has decreased compared to the third quarter of 2021 cost of $2.99/boe and $3.74/boe in the comparative period in 2020. Transportation expense will fluctuate period over period due the mix of sales contracts types in force during the period.

On a year to date basis transportation expense has decreased to $3.03/boe from $3.28/boe in the comparative period in 2020.

The decrease from the third quarter of 2021 and comparative periods of 2020 is mainly as a result of decreased crude cargo exports where Parex records the full cost of transport to the export point and a higher percentage of in-basin wellhead sales where Parex only records the price received at the field. However the Company has also completed the pipeline tie-in at LLA-34 block in 2021 and will be extending the infrastructure to the Cabrestero block in Q1 2022.

The combined transportation expense and price differential from Brent, on a per boe basis, has increased from the fourth quarter of 2020 and third quarter of 2021. See "Crude Oil Reference and Realized Prices".



General and Administrative Expense ("G&A")

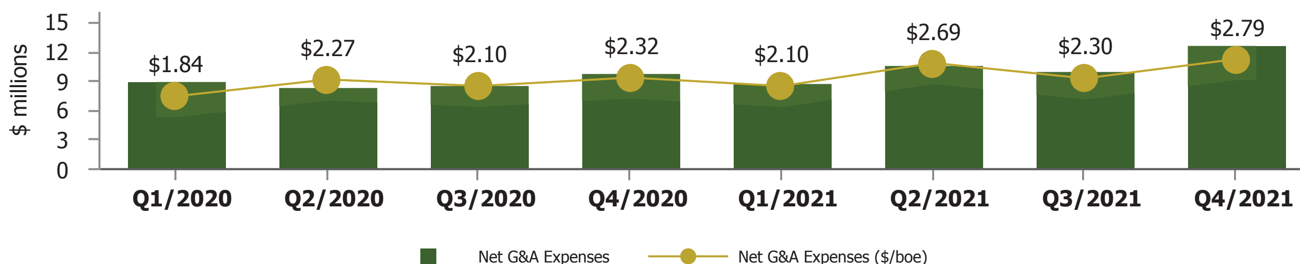
($000s)		For the three months ended December 31, 2021		2020		For the year ended December 31, 2021		2020
Gross G&A	**$**	**15,791**	$	12,643	**$**	**53,402**	$	44,343
G&A recoveries		**(453)**		(544)		**(2,154)**		(1,129)
Capitalized G&A		**(2,555)**		(2,151)		**(8,820)**		(7,156)
Net G&A expense	**$**	**12,783**	$	9,948	**$**	**42,428**	$	36,058
Per unit ($/boe) (1)		**2.79**		2.32		**2.47**		2.12

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Net G&A was $12.8 million and $42.4 million for the three months and year ended December 31, 2021 compared to $9.9 million and $36.1 million for the same periods in 2020. Gross G&A was $15.8 million and $53.4 million for the three months and year ended December 31, 2021 (three months and year ended December 31, 2020 - $12.6 million and $44.3 million). Gross and net G&A has increased mainly as a result of an increase in head count in the current year and costs of one-time projects.

On a per boe basis net G&A for the year has increased 17% from the comparative year mainly as result of increased costs as noted above. The increase in both gross and net G&A is a result of our robust capital expenditure plans that require additional technical employees in both Colombia and Canada.

The Company's G&A expense is mainly 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" for further information.



Share-Based Compensation

($000s)	For the three months ended December 31,				For the year ended December 31,			
		2021		2020		**2021**		2020
Equity settled share-based compensation expense	**$**	**287**	$	1,608	**$**	**1,721**	$	4,235
Cash settled share-based compensation expense		**6,468**		8,687		**25,961**		5,275
Total net expense	**$**	**6,755**	$	10,295	**$**	**27,682**	$	9,510

Share-based compensation expense was $27.7 million for the year ended December 31, 2021 compared to $9.5 million for the same period in 2020. The increase is primarily due to the increase in the Company's share price and its impact on cash settled share-based compensation expense as explained below.

Equity settled share-based compensation expense was $0.3 million and $1.7 million for the three months and year ended December 31, 2021 compared to $1.6 million and $4.2 million for the same periods in 2020. 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 is replacing 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 year ended December 31, 2021 there was an expense of $26.0 million related to cash settled incentive plans compared to $5.3 million for the same period in 2020. This increase in expense is mainly attributable to the increase in awards issued under the CosRSU and CosPSU incentive plans and the increase in Parex share price. Parex share price increased to Cdn$21.61 at December 31, 2021 from Cdn$17.52 at December 31, 2020 compared to a decrease in share price from Cdn$24.15 at December 31, 2019. 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 16 - Cash Settled Incentive Plans of the consolidated financial statements for the year ended December 31, 2021. As at December 31, 2021, the total cash settled incentive plans liability accrued was $36.0 million (December 31, 2020 - $23.7 million).

Cash payments to settle cash settled share-based compensation in the three months and year ended December 31, 2021 were $1.0 million and $16.1 million, respectively (three months and year ended December 31, 2020 - $0.5 million and $12.1 million).

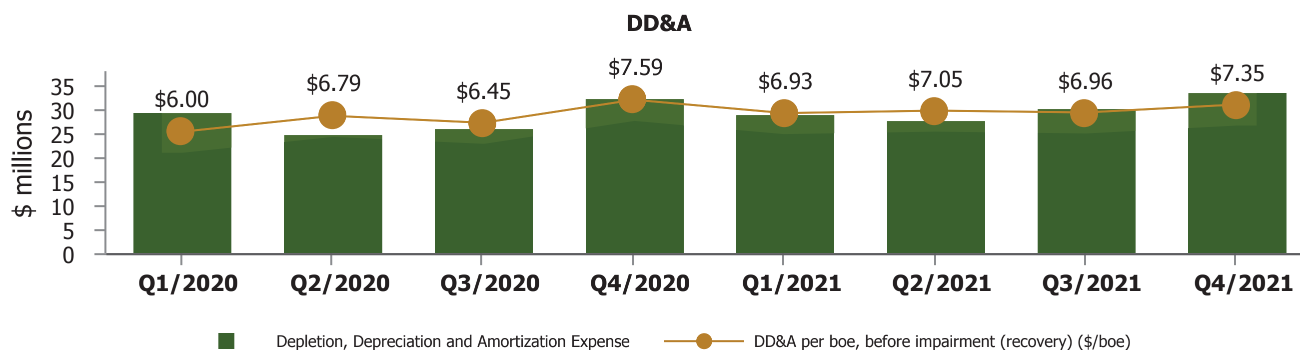
Depletion, Depreciation and Amortization Expense ("DD&A")

	For the three months ended December 31,				For the year ended December 31,			
		2021		2020		**2021**		2020
DD&A ($000s) total	**$**	**33,667**	$	32,554	**$**	**121,396**	$	113,758
Per unit ($/boe)(1)		**7.35**		7.59		**7.08**		6.68

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Fourth quarter 2021 DD&A was $33.7 million ($7.35/boe) compared to $32.6 million ($7.59/boe) for the same period in 2020. For the year ended December 31, 2021 DD&A was $121.4 million ($7.08/boe) as compared to $113.8 million ($6.68/boe) for the prior year.

For the fourth quarter of 2021, future development costs of $470.3 million (three months ended December 31, 2020 - $422.7 million) were included in the depletion calculation. Fourth quarter 2021 DD&A of $7.35/boe decreased from the comparative period of $7.59/boe due to an increase in oil and gas production from the prior comparative period and adding to our depletable base in Q4 2020 based on transfers from exploration and evaluation assets to developed and producing assets.



Foreign Exchange

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2021**	2020	**2021**	2020
Foreign exchange (gain) loss	**$ 3,719**	$ 10,222	**$ (2,293)**	$ (102)
Foreign currency risk management contracts loss	**471**	—	**471**	511
Total foreign exchange (gain) loss	**$ 4,190**	$ 10,222	**$ (1,822)**	$ 409
Average foreign exchange rates				
USD$/CAD$	**1.26**	1.30	**1.25**	1.34
USD$/Colombian peso	**3,880**	3,662	**3,743**	3,693

The Company's main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos ("COP"), 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 and year ended December 31, 2021, a total foreign exchange loss of $4.2 million and gain of $1.8 million was recorded compared to a loss of $10.2 million and $0.4 million in the respective prior year periods. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statement of comprehensive income.

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

		$/boe Impact of change in local currency/ $USD exchange rate	
Cost component	**Estimated percent of cost denominated in local currency**	**10% appreciation of local currency**	**10% depreciation of local currency**
Production expense	80 %	$ 0.53	$ (0.53)
Transportation expense	80 %	$ 0.22	$ (0.22)
G&A expense	100 %	$ 0.28	$ (0.28)

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 Q4 2021 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 December 31,		For the year ended December 31,	
	2021	2020	**2021**	2020
Bank charges and credit facility fees	**$ 569**	$ 514	**$ 2,716**	$ 2,630
Accretion on decommissioning and environmental liabilities	**427**	925	**3,624**	4,125
Interest and other income	**(560)**	(250)	**(1,608)**	(2,129)
Right of use asset interest	**2**	4	**7**	54
Loss on settlement of decommissioning liabilities	**903**	442	**1,136**	803
Loss on disposition of tangible assets	**138**	1	**138**	1,345
Expected credit loss provision (recovery)	**(434)**	(428)	**323**	1,006
Other	**449**	(174)	**1,733**	(821)
Net finance expense	**$ 1,494**	$ 1,034	**$ 8,069**	$ 7,013

	For the three months ended December 31,		For the year ended December 31,	
	2021	2020	**2021**	2020
Non-cash finance expense	**$ 1,034**	$ 766	**$ 6,505**	$ 6,458
Cash finance expense	**460**	268	**1,564**	555
Net finance expense	**$ 1,494**	$ 1,034	**$ 8,069**	$ 7,013

Bank taxes and credit facility fees relate to bank taxes paid in Colombia and the standby fees related to the Company's 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, loss on disposition of tangible assets, other and the expected credit loss provision (recovery) which has decreased in the fourth quarter of 2021 and 2020 due to the improvement in 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 December 31, 2021 the Company had no crude oil risk management contracts in place and still has no crude oil risk management obligations at the time of writing this MD&A. Parex has no outstanding draw on its credit facility or significant commitments due in the next 12 months and as such it is considered appropriate not to have any commodity derivative contracts in place at this time and thereby avoid the costs associated with these types of contracts.

The table below summarizes the loss on the commodity risk management contracts that were in place during the three months and years ended December 31, 2021 and 2020:

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2021**	2020	**2021**	2020
Realized loss on commodity risk management contracts	**$ —**	$ —	$ —	3,940
Total	**$ —**	$ —	**$ —**	$ 3,940

The Company has no commodity risk management contracts in place for 2022 and so is fully exposed to fluctuations in oil prices.

b) Risk Management Contracts – Foreign Exchange

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

The following is a summary of the foreign currency risk management contracts in place as at December 31, 2021:

Period Hedged	Reference	Currency Option Type	Amount USD	Strike Price COP
November 19, 2021 to April 19, 2022	COP	Costless Collar	$15,000,000	3,600-4,325
November 19, 2021 to June 21, 2022	COP	Costless Collar	$15,000,000	3,600-4,375

The table below summarizes the loss on the foreign currency risk management contracts that were in place during the three months and years ended December 31, 2021 and 2020:

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2021**	2020	**2021**	2020
Unrealized loss on foreign currency risk management contracts	**471**	—	**471**	—
Realized loss on foreign currency risk management contracts	**—**	—	**—**	511
Total	**$ 471**	$ —	**$ 471**	$ 511

As at December 31, 2021, with other variables unchanged, the impact on the Company's financial instruments of a 10% strengthening (weakening) of the Canadian dollar and COP against the US dollar would have decreased (increased) net income by approximately $2.2 million.

Income Tax

The components of tax expense (recovery) for the three months and year ended December 31, 2021 and 2020 were as follows:

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2021**	2020	**2021**	2020
Current tax expense	**$ 35,046**	$ 10,885	**$ 110,068**	$ 20,674
Deferred tax expense (recovery)	**18,222**	(30,647)	**90,642**	53,355
Total tax expense (recovery)	**$ 53,268**	$ (19,762)	**$ 200,710**	$ 74,029

Current tax expense in the fourth quarter of 2021 was $35.0 million as compared to $10.9 million in the comparative three month period. In the current quarter tax expense as a percentage of consolidated cash flows before tax was 17.2%. For the full year 2021 the Company recorded $110.1 million of current tax expense as compared to $20.7 million in 2020. This increase is mainly a result of an increase in cash flows from the prior period primarily as a result of the increase in Brent crude oil prices in 2021.

Deferred tax in the fourth quarter of 2021 was a expense of $18.2 million and an expense of $90.6 million for the year ended December 31, 2021 ($30.6 million recovery and $53.4 million expense for the three months and year ended December 31, 2020). The deferred tax expense in the current quarter is a result of the depreciation of the Colombian peso at the period end date and the unwinding of deferred tax assets.

Capital Expenditures and Acquisitions

($000s)	Colombia		Canada		Total	
For the year ended December 31,	**2021**	2020	**2021**	2020	**2021**	2020
Acquisition of unproved properties	**$ 1,356**	$ 1,474	**$ —**	$ —	**$ 1,356**	$ 1,474
Geological and geophysical	**11,465**	1,466	**—**	—	**11,465**	1,466
Drilling and completion	**221,597**	125,096	**—**	—	**221,597**	125,096
Well equipment and facilities	**42,025**	12,616	**—**	—	**42,025**	12,616
Other	**321**	467	**471**	145	**792**	612
Total capital expenditures and acquisitions(1)	**$ 276,764**	$ 141,119	**$ 471**	$ 145	**$ 277,235**	$ 141,264

($000s)	Colombia		Canada		Total	
For the three months ended December 31,	**2021**	2020	**2021**	2020	**2021**	2020
Acquisition of unproved properties	**$ 419**	$ 986	**$ —**	$ —	**$ 419**	$ 986
Geological and geophysical	**9,173**	542	**—**	—	**9,173**	542
Drilling and completion	**88,476**	41,075	**—**	—	**88,476**	41,075
Well equipment and facilities	**20,068**	3,991	**—**	—	**20,068**	3,991
Other	**45**	337	**326**	1	**371**	338
Total capital expenditures and acquisitions(1)	**$ 118,181**	$ 46,931	**$ 326**	$ 1	**$ 118,507**	$ 46,932

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".

Capital Expenditures Summary

During the year ended December 31, 2021 the Company incurred $277.2 million of capital expenditures compared to $141.3 million in the same period of 2020. During 2021 the Company drilled 49 gross (33.60 net) wells, compared to 30 gross (19.45 net) wells in 2020 upon the re-activation of the development and exploration program.

During the year ended December 31, 2021 capital expenditures of $277.2 million were self-funded from funds flow from operations of $577.5 million. The Company has maintained its ability to fund growth from cash flow since 2012, excluding the cost of a corporate acquisition completed in 2014.

In the fourth quarter of 2021 the Company drilled 15 gross (11.40 net) wells in Colombia compared to 8 gross (4.85 net) wells in the comparative period. Drilling and completion costs during the fourth quarter of 2021 totaled $88.5 million mainly related to drilling and completion costs in Colombia at Blocks LLA-34, Cabrestero, VIM-1 and Fortuna.

Non-cash Impairment Charges

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2021**	2020	**2021**	2020
Impairment of E&E assets	**$ 7,400**	$ 6,166	**$ 27,000**	$ 6,166
Impairment of PP&E related to Boranda CGU	**—**	—	**—**	7,000
Total non-cash impairment charges before deferred income tax recoveries	**$ 7,400**	$ 6,166	**$ 27,000**	$ 13,166

2021 Impairments

The Company recorded impairments of E&E assets during the three months and year ended December 31, 2021 of $7.4 million and $27.0 million, respectively. It was determined that the carrying amount of certain E&E assets, primarily associated with the De Mares, Merecure and Midas blocks would not be recovered as the Company intends to relinquish the blocks. The net book value of costs on these block has been impaired to $nil.

At December 31, 2021 Parex tested its CGU's for PP&E impairment where it was determined that the recoverable amount of the CGU's exceeded their carrying amounts, and therefore the Company's CGU's were not impaired. The recoverable amount was determined using estimated fair value less costs of disposal. Future cash flows were discounted using an after tax discount rate of 12% with the following prices being used by Parex' independent reserve evaluator at December 31, 2021:

	2022	**2023**	**2024**	**2025**	**2026**	**Thereafter**
Brent ($US/bbl)	76.00	72.51	71.24	72.66	74.12	2% increase per year

At December 31, 2021 and 2020 there were no indicators of impairment noted for PP&E, or indicators requiring a reversal of previously recorded impairments.

2020 Impairments

The impairment of E&E assets during the three months and year ended December 31, 2020 of $6.2 million was primarily associated with the with the costs in blocks that were in the process to relinquish that would not be recovered. The net book value of costs on these block were impaired to $nil.

At March 31, 2020, 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 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 charge of $7 million was recorded in the consolidated statements of comprehensive income (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 were 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 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

At December 31, 2020 Parex tested its CGU's for PP&E impairment where it was determined that the recoverable amount of the CGU's exceeded their carrying amounts, and therefore the Company's CGU's were not impaired. The recoverable amount was determined using estimated fair value less costs of disposal. Future cash flows were discounted using an after tax rate of 12% with the following prices being used by Parex’ independent reserve evaluator at December 31, 2020:

	2021	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Brent ($US/bbl)	50.75	55.00	58.50	61.79	62.95	2% increase per year

For further information regarding the impairment charges for the years ended December 31, 2021 and 2020, refer to note 7 - Exploration and Evaluation Assets and note 8 - Property, Plant and Equipment in the audited consolidated financial statements.

Impairment Test of Goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3 - Summary of Significant Accounting Policies of the audited consolidated financial statements for the years ended December 31, 2021 and 2020. The Company has allocated goodwill to the Colombia operating segment. The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded. For additional information refer to note 10 - Goodwill in the audited consolidated financial statements.

Summary of Quarterly Results (unaudited)

Three months ended ($000s) (except per share amounts)	**Dec. 31, 2021**	Sep. 30, 2021	Jun. 30, 2021	Mar. 31, 2021
Average daily oil and natural gas production (boe/d)	**49,779**	47,496	43,900	46,779
Realized sales price ($/boe)(6)	**67.81**	62.77	59.68	52.80
Financial				
Oil and natural gas sales	**$ 315,327**	$ 272,481	$ 247,318	$ 222,058
Funds flow provided by operations(5)	**$ 168,261**	$ 152,713	$ 131,602	$ 124,969
Per share – basic(2)	**1.39**	1.24	1.03	0.96
Per share – diluted(2)	**1.39**	1.23	1.03	0.96
Net income	**$ 96,041**	$ 67,942	$ 91,662	$ 47,460
Per share – basic	**0.80**	0.55	0.72	0.37
Per share – diluted	**0.79**	0.55	0.72	0.36
Dividends	**35,610**	12,021	—	—
Per share – Cdn$(4)(6)	**0.375**	0.125	—	—
Capital Expenditures, excluding corporate acquisitions(1)	**$ 118,507**	$ 74,289	$ 44,847	$ 39,592
Total assets (end of period)	**$ 1,784,221**	$ 1,669,243	$ 1,598,310	$ 1,550,441
Working capital surplus (end of period)(3)(5)	**$ 325,780**	$ 349,694	$ 352,188	$ 341,686

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".
(3) Working capital does not include the undrawn amount available on the credit facility.
(4) Dividends paid per share are based on the number of common shares outstanding at each dividend record date.
(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".
(6) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".

Three months ended ($000s) (except per share amounts)	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020
Average daily oil and natural gas production (boe/d)	46,642	44,305	40,858	54,295
Realized sales price ($/boe)(6)	36.95	33.88	19.25	38.47
Financial				
Oil and natural gas sales	$ 167,264	$ 146,231	$ 80,407	$ 193,618
Funds flow provided by operations(5)	$ 81,567	$ 79,384	$ 38,777	$ 97,313
Per share – basic(2)	0.61	0.57	0.28	0.69
Per share – diluted(2)	0.60	0.57	0.27	0.68
Net income (loss)	$ 56,192	$ 27,619	$ 19,290	$ (3,779)
Per share – basic	0.42	0.20	0.14	(0.03)
Per share – diluted	0.42	0.20	0.14	(0.03)
Dividends	—	—	—	—
Per share – Cdn$(4)(6)	—	—	—	—
Capital Expenditures, excluding corporate acquisitions(1)	$ 46,932	$ 17,756	$ 5,310	$ 71,266
Total assets (end of period)	$ 1,541,081	$ 1,548,484	$ 1,533,377	$ 1,610,341
Working capital surplus (end of period)(3)(5)	$ 320,155	$ 370,722	$ 339,310	$ 330,356

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".
(3) Working capital does not include the undrawn amount available on the credit facility.
(4) Dividends paid per share are based on the number of common shares outstanding at each dividend record date.
(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".
(6) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".

Factors that Caused Variations Quarter Over Quarter

During the fourth quarter of 2021, production of 49,779 boe/d (consisting of 6,376 bbls/d light crude oil and medium crude oil, 41,534 bbls/d of heavy crude oil and 11,214 mcf/d of conventional natural gas) was in excess of production in the previous quarter ended September 30, 2021. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices and volumes sold. Working capital decreased to $325.8 million from $349.7 million at September 30, 2021. Dividends paid on common shares for the quarter were $35.6 million (Cdn$0.375 per common share).

During the third quarter of 2021, production of 47,496 boe/d (consisting of 6,955 bbls/d light crude oil and medium crude oil, 38,949 bbls/d of heavy crude oil and 9,552 mcf/d of conventional natural gas) was in excess of production for the previous quarter ended June 30, 2021. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices and volumes sold. Working capital decreased to $349.7 million from $352.2 million at June 30, 2021. Dividends paid on common shares for the quarter were $12.0 million (Cdn$0.125 per common share).

During the second quarter of 2021, production of 43,900 boe/d (consisting of 5,881 bbls/d light crude oil and medium crude oil, 36,308 bbls/d of heavy crude oil and 10,266 mcf/d of conventional natural gas) was lower than production for the previous quarter ended March 31, 2021. Revenue and funds flow provided by operations were higher than the previous quarter mainly due to an increase in realized prices, partially offset by a decrease in volumes sold. Working capital increased to $352.2 million from $341.7 million at March 31, 2021.

During the first quarter of 2021, production of 46,779 boe/d (consisting of 8,131 bbls/d light crude oil and medium crude oil, 36,948 bbls/d of heavy crude oil and 10,200 mcf/d of conventional natural gas) was comparable to production for the previous quarter ended December 31, 2020. Revenue and funds flow provided by operations were higher than the previous quarter mainly due to an increase in realized prices. Working capital increased to $341.7 million from $320.2 million at December 31, 2020.

During the fourth quarter of 2020, production of 46,642 boe/d (consisting of 6,637 bbls/d light crude oil and medium crude oil, 38,332 bbls/d of heavy crude oil and 10,038 mcf/d of conventional natural gas) was in excess of production from the previous quarter ended September 30, 2020. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices and volumes sold. Working capital decreased to $320.2 million from $370.7 million at September 30, 2020.

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.

Fourth Quarter Results

Consolidated Statements of Comprehensive Income for the three months ended December 31, 2021 and 2020:

($000s) For the three month period ended December 31,	2021	2020
Oil and natural gas sales	$ 315,327	$ 167,264
Royalties	(54,037)	(13,642)
Revenue	261,290	153,622
Expenses		
Production	30,541	22,499
Transportation	12,651	16,938
Purchased oil	2,500	7,536
General and administrative	12,783	9,948
Impairment of exploration and evaluation assets	7,400	6,166
Equity settled share-based compensation expense	287	1,608
Cash settled share-based compensation expense	6,468	8,687
Depletion, depreciation and amortization	33,667	32,554
Foreign exchange loss	4,190	10,222
	110,487	116,158
Finance (income)	(560)	(250)
Finance expense	2,054	1,284
Net finance expense	1,494	1,034
Income before income taxes	149,309	36,430
Income tax expense (recovery)		
Current tax expense	35,046	10,885
Deferred tax (recovery)	18,222	(30,647)
	53,268	(19,762)
Net income and comprehensive income for the period	$ 96,041	$ 56,192

Liquidity and Capital Resources

As at December 31, 2021 the Company had a working capital surplus of $325.8 million, excluding amounts available under the Company's credit facility, as compared to working capital surplus of $320.2 million at December 31, 2020. Bank debt was $nil at December 31, 2021 and December 31, 2020. The credit facility has a current borrowing base of $200.0 million and is subject to a borrowing base redetermination to be completed by the end of May 2022. At December 31, 2021 Parex held $378.3 million of cash, compared to $361.4 million at September 30, 2021 and $330.6 million at December 31, 2020. The Company's cash balances reside primarily in current accounts with chartered financial institutions, the majority of which are held on account in Canada, Barbados, Bermuda, and Colombia in USD.

Parex' senior secured credit facility ("credit facility") with a syndicate of banks has a current borrowing base of $200.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is $nil balance drawn on the facility as at December 31, 2021, the Company is in compliance with all covenants. The next annual review is scheduled to occur in May 2022. As the Company currently has $nil bank debt and no plans in 2022 to utilize the credit facility, the next re-determination is not expected to impact the Company's current or future operations or reduce the 2022 outlook.

Refer to note 24 - Commitments and Contingencies of the audited financial statements for the year ended December 31, 2021 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 December 31, 2021 the Company had 120,265,664 common shares outstanding compared to 130,872,676 at December 31, 2020, a decrease of 8%. At March 1, 2022 the common shares outstanding has been reduced to 118,028,284 due to the active NCIB.

The Company has a stock option plan and RSU plan. The plans provide for the issuance of stock options and RSUs 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 only the grants under the Company's stock option plan and the exercise of previously issued RSUs will result in common shares issued from treasury.

As at March 1, 2022 Parex has the following securities outstanding:

	Number	%
Common shares	118,028,284	99
Stock options	858,321	1
Restricted share units	178,832	—
	119,065,437	100

As of the date of this MD&A, total stock options and RSUs outstanding represent approximately 1% 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 December 31, 2021 were $47.9 million (December 31, 2020 - $46.4 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, 2020 - $150.0 million) performance guarantee facility to support approximately $11.6 million (December 31, 2020 - $21.9 million) of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks. At December 31, 2021, there were an additional $36.3 million (December 31, 2020 - $24.5 million) letters of credit that are provided by select Latin American banks on an unsecured basis.

Exploration commitments were approximately $88 million higher compared to September 30, 2021 due to the inclusion of 18 newly awarded exploration blocks in the Colombia bid round in December 2021.

The following table summarizes the Company's estimated undiscounted commitments as at December 31, 2021:

($000s)	**Total**	**<1 year**	**1 – 3 years**	**3 – 5 years**	**>5 years**
Exploration	$ 400,259	$ 36,326	$ 218,175	$ 145,758	$ —
Office and accommodations[1]	8,216	1,991	1,881	1,556	2,788
Decommissioning and Environmental Obligations	113,926	6,690	—	—	107,236
Total	**$ 522,401**	**$ 45,007**	**$ 220,056**	**$ 147,314**	**$ 110,024**

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

Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2019	$ 37,244	$ 14,691	$ 51,935
Additions	2,554	480	3,034
Settlements of obligations during the year	(3,560)	(1,070)	(4,630)
Loss on settlement of obligations	803	—	803
Accretion expense	2,286	1,839	4,125
Change in estimate - inflation and discount rates	360	(2,062)	(1,702)
Change in estimate - costs	(441)	(286)	(727)
Foreign exchange (gain)	(1,036)	(691)	(1,727)
Balance, December 31, 2020	$ 38,210	$ 12,901	$ 51,111
Additions	3,353	3,776	7,129
Settlements of obligations during the year	(8,311)	(1,183)	(9,494)
Loss on settlement of obligations	1,136	—	1,136
Accretion expense	2,279	1,345	3,624
Change in estimate - inflation and discount rates	(1,345)	2,754	1,409
Change in estimate - costs	6,068	580	6,648
Foreign exchange (gain)	(4,660)	(1,949)	(6,609)
Balance, December 31, 2021	**36,730**	**18,224**	**54,954**
Current obligation	(5,738)	(952)	(6,690)
Long-term obligation	**$ 30,992**	**$ 17,272**	**$ 48,264**

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 December 31, 2021, 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 $88.0 million as at December 31, 2021 (December 31, 2020 - $60.4 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 9.3% and an inflation rate of 5.0% were used in the valuation of the liabilities (December 31, 2020 - 5.25% risk-free discount rate and a 2.0% inflation rate). The risk-free discount rate and the inflation rate used in 2021 are based on forecast Colombia rates.

Included in the decommissioning liability is $5.7 million (December 31, 2020 - $3.6 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately $25.9 million as at December 31, 2021 (December 31, 2020 - $20.5 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 9.3% and an inflation rate of 5.0% were used in the valuation of the liabilities (December 31, 2020 - 5.25% risk-free discount rate and a 2.0% inflation rate). The risk-free discount rate and the inflation rate used in 2021 are based on forecast Colombia rates.

Included in the environmental liability is $1.0 million (December 31, 2020 - $3.4 million) that is classified as a current obligation.

Decommissioning and environmental liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning and environmental 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 and environmental liabilities to change are:

- Changes in laws, legislation and regulations;
- Construction of new facilities;
- Change in commodity price;
- Change in the estimate of oil reserves and the resulting amendment to the life of reserves;
- Changes in technology; and
- Execution of decommissioning and environmental 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;
- Parex' expectation to provide a significant return of capital through dividends, including its regular quarterly dividend, and share repurchases, while investing in the Company's assets to provide an appealing total shareholder return;
- Parex' expectations that it will purchase 10% of the Company's public float 2022 pursuant to an NCIB, that it will continue to pay a regular quarterly dividend and that it will have upside base dividend growth potential;
- Parex's plans to return certain percentages of FFO to shareholders in 2022, including through dividends and share repurchases, and the anticipated percentages thereof, and Parex' plans for the remaining FFO in 2022;
- Parex' expectations as to debt levels and hedging activities;
- Parex' 2021 NCIB and the sources of funding;
- expected year-to-date February 2022 production;
- anticipated growth in production and production per share;
- anticipated 2022 total capital expenditures;
- anticipated operated production;
- Parex' ability to advance conventional oil in place exploitation projects in the Magdalena basin and traditional near-field exploration in the Llanos basin;
- Parex' plans to extend a pipeline tie-in at Block LLA-34 to the Cabrestero block and the anticipated timing thereof and benefits to be derived therefrom;
- Parex' expectation that crude oil inventory in future periods to be in line with normal historic levels;
- Parex' plans to relinquish certain blocks;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- the Company's expectation that the next redetermination of its credit facility will not impact its current or future operations or reduce the 2022 outlook;
- that the Company has no plans to utilize the credit facility in 2022;
- the Company's expectation that only the grants under the Company's stock option plan and exercise of previously issued RSUs and PSUs will result in common shares issued from treasury;
- estimated amounts, timing and the anticipated sources of funding for the Company's exploration, office and accommodations, environmental, decommissioning and restoration obligations;
- the anticipated timing of payment of total decommissioning and environmental liability cost and the internal resources available at the time of settlement;
- Parex' anticipated environmental liability in Colombia and the anticipated timing thereof;
- Parex' plans to reduce operational Scope 1 and 2 GHG and the anticipated timing thereof;
- Parex' target board representation of women and the anticipated timing thereof;
- fluctuation in Brent/Vasconia crude differential;
- 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 costs 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 fluctuation of earnings based on strip prices;
- terms of certain contractual obligations; and
- the statements set forth under "Accounting Policies and Estimates" in this MD&A.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; impact of the COVID-19 pandemic and the ability of the Company carry on its operations as currently contemplated in light of the COVID-19 pandemic; determination by OPEC and other country as to production levels; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility in market prices for oil; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; risk of failure to achieve perceived benefits from voluntary tax restructuring; failure of counterparties to perform under the terms of their contracts; changes to pipeline capacity; risk that Parex' evaluation of its existing portfolio of development and exploration opportunities is not consistent with its expectations; failure to meet expected production targets; risk that Parex will not have sufficient financial resources in the future to pay a divided; risk that the Board does not declare dividends in the future, there is no base dividend growth or that Parex' dividend policy changes; that Parex will not repurchase 10% of the Company's float; that the amount of FFO to be returned to shareholders is less than anticipated; year-to-date February 2022 production will be less than anticipated; anticipated capital expenditures, growth in production and production per share will be less than anticipated; net operated production growth will be less than anticipated; the risks discussed under "Risk Factors" 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 the demand for crude oil and natural gas, Parex' supply chain and Parex' ability to produce, transport and sell Parex crude oil and 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; that Parex will have sufficient financial resources in the future to pay a dividend; that the Board will declare dividends in the future; that Parex will have sufficient financial resources to repurchase shares under its NCIB; that strip prices will remain unchanged; 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 information that may be considered a financial outlook under applicable securities laws about the Company's potential financial position, including, but not limited to: the Company's expectations that it will repurchase 10% of the Company’s float; anticipated total capital expenditures; the percentages of FFO to be returned to shareholders in 2022; anticipated debt in 2022; and estimated amounts and the anticipated sources of funding for the Company's exploration, office and accommodations, environmental, decommissioning and restoration obligations; all of which are subject to numerous assumptions, risk factors, limitations and qualifications, including those set forth in the above paragraphs. The actual results of operations of the Company and the resulting financial results will vary from the amounts set forth in this MD&A and such variations may be material. This information has been provided for illustration only and with respect to future periods are based on budgets and forecasts that are speculative and are subject to a variety of contingencies and may not be appropriate for other purposes. Accordingly, these estimates are not to be relied upon as indicative of future results. Except as required by applicable securities laws, the Company undertakes no obligation to update such financial outlook. The financial outlook contained in this MD&A was made as of the date of this MD&A and was provided for the purpose of providing further information about the Company's potential future business operations. Readers are cautioned that the financial outlook contained in this MD&A is not conclusive and is subject to change.

Dividend Advisory

Future dividend payments, if any, and the level thereof is uncertain. The Company's dividend policy and any decision to pay further dividends on the common shares, including any special dividends, will be subject to the discretion of the Board and may depend on a variety of factors, including, without limitation the Company's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on the Company under applicable corporate law. The actual amount, the declaration date, the record date and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future.

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. The term "Boe" means a barrel of oil equivalent on the basis of 6 thousand cubic feet ("Mcf") of natural gas to 1 bbl. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 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. Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1Bbl, utilizing a conversion ratio at 6 Mcf:1 Bbl may be misleading as an indication of value.

Non-GAAP and Other Financial Measures Advisory

This MD&A uses various “non-GAAP financial measures”, “non-GAAP ratios”, “supplementary financial measures” and “capital management measures” (as such terms are defined in NI 52-112), which are described in further detail below. Such measures are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of Parex' performance.

These measures facilitate management's comparisons to the Company's historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and natural gas industry to evaluate the Company's performance. Further, management believes that such financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Company's principal business activities.

Set forth below is a description of the non-GAAP financial measures, non-GAAP ratio, supplementary financial measures and capital management measures used in this MD&A.

Non-GAAP Financial Measures

Capital Expenditures, *is a non-GAAP financial measure which the Company uses to describe it's capital costs associated with Oil and Gas expenditures. The measure considers both Property, plant and equipment expenditures and Exploration and evaluation asset expenditures which are items in the Company's statement of cash flows for the period.*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2021**	2020	**2021**	2020	2019
Property, plant and equipment expenditures	**$ 76,454**	$ 34,893	**$ 212,153**	$ 116,915	$ 148,519
Exploration and evaluation expenditures	**42,053**	12,039	**65,082**	24,349	59,677
Total Capital expenditures	**118,507**	46,932	**277,235**	141,264	208,196

Free funds flow, *is a non-GAAP measure that is determined by funds flow provided by operations less capital expenditures. The Company considers free funds flow or free cash flow to be a key measure as it demonstrates Parex' ability to fund return of capital, such as the NCIB, without accessing outside funds and is calculated as follows:*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2021**	2020	**2021**	2020	2019
Cash provided by operating activities	**$ 176,003**	$ 86,988	**$ 534,301**	$ 290,018	$ 365,067
Net change in non-cash working capital	**(7,742)**	(5,421)	**43,244**	7,023	205,413
Funds flow provided by operations	**168,261**	81,567	**577,545**	297,041	570,480
Capital expenditures, excluding corporate acquisitions	**118,507**	46,932	**277,235**	141,264	208,196
Free funds flow	**$ 49,754**	$ 34,635	**$ 300,310**	$ 155,777	$ 362,284

Operating netback
The Company considers operating netbacks to be a key measure as they demonstrate Parex' profitability relative to current commodity prices. Parex calculates operating netback as oil and natural gas sales from production less royalties, operating, and transportation expense.

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.*

Non -GAAP Financial Ratios

Operating netback per boe
The Company considers operating netback per boe to be a key measure as they demonstrate Parex' profitability relative to current commodity prices. Parex calculates operating netback per boe as operating netback divided by the total equivalent sales volume including purchased oil volumes for oil and natural gas sales price per boe and by the total equivalent sales volume and excludes purchased oil volumes for royalties, operating, and transportation expense per boe.

Funds flow provided by operations per boe or funds flow netback per boe*, is a non-GAAP ratio 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 after all cash costs relative to current commodity prices.*

Basic and diluted funds flow provided by operations per share *is calculated by dividing funds flow provided by operations by the weighted average number of basic and diluted shares outstanding. Parex presents basic and 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.*

Capital Management Measures

Funds flow provided by operations, *is a non-GAAP capital management measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. A reconciliation from cash provided by operating activities to funds flow provided by operations is as follows:*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2021**	2020	**2021**	2020	2019
Cash provided by operating activities	**$ 176,003**	$ 86,988	**$ 534,301**	$ 290,018	$ 365,067
Net change in non-cash working capital	**(7,742)**	(5,421)	**43,244**	7,023	205,413
Funds flow provided by operations	**168,261**	81,567	**577,545**	297,041	570,480

Working Capital Surplus, *is a non-GAAP capital management measure which the Company uses to describe its liquidity position and ability to meet its short term liabilities. Working Capital Surplus is defined as current assets less current liabilities:*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2021**	2020	**2021**	2020	2019
Current Assets	**$ 574,038**	$ 442,636	**$ 574,038**	$ 442,636	$ 555,876
Current Liabilities	**248,258**	122,481	**248,258**	122,481	211,845
Working Capital Surplus	**325,780**	320,155	**325,780**	320,155	344,031

Supplementary Financial Measures

"Average realized sales price per boe" is comprised of total commodity sales from oil and natural gas production, as determined in accordance with IFRS, divided by the Company's total oil and natural gas sales volumes.

"Average realized natural gas price per Mcf" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas sales volumes.

"Oil and natural gas sales per boe" *is determined by sales revenue excluding risk management contracts,* as determined in accordance with IFRS, *divided by total equivalent sales volume including purchased oil volumes.*

"Royalties per boe" *is* comprised of royalties, as determined in accordance with IFRS, *divided by the total equivalent sales volume and excludes purchased oil volumes.*

"Royalties as a percentage of sales" is comprised of royalties, as determined in accordance with IFRS, divided by the total equivalent sales from production, excluding purchased oil volumes, as determined in accordance with IFRS.

"Production expense per boe" *is comprised of production expense,* as determined in accordance with IFRS, *divided by the total equivalent sales volume and excludes purchased oil volumes.*

"Transportation expense per boe" *is comprised of transportation expense,* as determined in accordance with IFRS, *divided by the total equivalent sales volumes including purchased oil volumes.*

"Current tax effective rate as a per cent of funds flow provided by operations" is comprised of current income tax expense, as determined in accordance with IFRS, divided by funds flow provided by operations.

"DD&A expense per boe" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"Dividends paid per share" is comprised of dividends declared, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

"G&A expense per boe" is comprised of net G&A expense after recoveries and capitalization, as determined in accordance with IFRS, divided by the Company's total production.

"Production per share growth" is comprised of the Company's total oil and natural gas production volumes divided by the weighted average number of basic shares outstanding, whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share. Growth is determined in comparison to the comparative year.

Environmental Initiatives Impacting Parex

In Colombia there is currently a nascent regulation that obliges companies to specifically monitor and report GHG emissions. Regulatory decrees should be issued in 2022 in order for the recent law to take force. Although at the present time there is no enforceable regulation related to climate change or GHG emissions in Colombia, Parex has a plan in place to monitor and disclose key metrics surrounding the environmental impacts of Parex' operations. Climate change regulation has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Colombia. Such regulations impose certain costs and risks on the industry, and there remains some uncertainty with regard to the impact of climate change and environmental laws and regulations on Parex, as Parex is unable to predict additional legislation or amendments that the Colombian government may enact in the future. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Company's operations and cash flow.

Business Environment and Risks

Parex is exposed to a number of risks through the pursuit of its strategic objectives. Some of these risks impact the oil and gas industry as a whole and others are unique to the Company's operations. The impact of any risk or a combination of risks may adversely affect, among other things, Parex' business, reputation, financial condition, results of operations and cash flows, which may reduce or restrict its ability to pursue its strategic priorities, respond to changes in the operating environment, and fulfill commitments and obligations, and may materially affect the market price of the Company's securities.

The Enterprise Risk Management **("ERM")** program drives the identification, measurement, prioritization, and management of risk across Parex. In addition, Parex continuously monitors its risk profile.

Risk Governance

The Company's ERM program, approved by the Board of Directors, outlines the Company's risk management principles and expectations, as well as the roles and responsibilities of all staff. The ERM program includes a Risk Management Framework and Risk Assessment Tools, including a Risk Matrix. The Risk Management Framework contains the key attributes recommended by the International Standards Organization **("ISO")** in its ISO 31000 – Risk Management Guidelines (2017). The results of the ERM program are documented in a semi annual summary presented to the Board of Directors as well as through regular updates.

Risk Factors

Colombia

Parex' indirect Colombian entities have various working interests in numerous exploration blocks in the Llanos basin, as well as the Upper Magdalena, Middle Magdalena and Lower Magdalena basins. Further, all of Parex' oil and gas reserves and production is in Colombia. The contracts have exploration commitments and in some cases a portion of the commitments are guaranteed by issued letters of credit. Therefore Parex will be subject to additional risks associated with international operations in Colombia.

Guerrilla Activity in Colombia

A 50-year armed conflict between government forces and anti-government insurgent groups and illegal paramilitary groups, both thought to be funded by the drug trade, continues in Colombia. Insurgents continue to attack civilians and violent guerrilla activity continues in certain parts of the country. Regions that border Venezuela and Ecuador have historically been areas of high security risk and there continues to be guerrilla activity. At present, the Company has not experienced any significant anti-government insurgency conflict since the Company began operations in Colombia in 2009.

On September 26, 2016, the Colombian government and the Revolutionary Armed Forces of Colombia **("FARC")** signed a peace agreement (the **"Peace Agreement"**) and, on November 30, 2016, the Peace Agreement was ratified by Colombia's government. Pursuant to the Peace Agreement, the FARC agreed to demobilize its troops and urban militia members and hand over its weapons to a United Nations mission within 180 days. The FARC then became a legal political party. Under the Peace Agreement, the FARC was guaranteed at least five seats in the Senate and another five seats in the House of Representatives in 2018 congressional elections. The Colombian government has also begun peace negotiations with the Ejército de Liberación Nacional (**"ELN"**) but at this time no agreement has been reached with the ELN.

The peace negotiations are intended to bring further institutional strengthening and development, particularly to rural regions. The government's biggest challenge is perceived to be ensuring that the negotiations lead to a long-lasting peace and that demobilized members of the FARC and ELN rejoin civilian life, rather than regrouping in criminal bands.

Continuing attempts to reduce or prevent guerrilla activity may not be successful and guerrilla activity may disrupt Parex Resources (Colombia) Ltd.'s **("Parex Colombia")** operations in the future. The Company may not be able to establish or maintain the safety of its operations and personnel in Colombia and this violence may affect its operations in the future. Continued or heightened security concerns in Colombia could also result in a significant loss to Parex and/or costs exceeding current expectations.

For example, since 2017 Parex has been performing work on the Capachos Block located approximately 75 kms from the Venezuela border, in the department of Arauca. In 2018, work on the Capachos Block was temporarily suspended for 20 days, due to security concerns for Parex contractors and equipment. During the current year Parex commenced additional operations on the Arauca block which is in close proximity to Capachos. Historically the ELN has had a presence in the greater area. As at the date of this MD&A, work and production is ongoing on these blocks. In recent years, the ELN have stepped up their activities against the Colombian government in other areas where they have a presence. To date this escalation has not had a material impact on the Company's operations. As part of the activities against the Colombian government there are occasional pipeline bombings and disruption of the Cano Limon pipeline. The Company has no oil production that is transported via this pipeline.

2022 Colombia National Election

In spring 2022 there will be national elections in Colombia to elect a new President and a new Congress. A new President and national government may take positions on oil and gas policy issues that are contrary to the Company's interests. Any changes in the ruling government need to be agreed with Congress and are subject to Constitutional control which require a certain degree of consensus between the Executive, Legislative and Judiciary branches of power. Changes regarding oil and gas or investment regulations and policies or a shift in political attitudes in Colombia in which the Company operates are beyond its control and may significantly reduce its ability to expand its operations or operate a profitable business.

Climate Change

There is growing international concern regarding climate change and there has been a significant increase in focus on the timing and pace of the transition to a lower-carbon economy. Governments, financial institutions, insurance companies, environmental and governance organizations, institutional investors, social and environmental activists, and individuals, are increasingly seeking to implement, among other things, regulatory and policy changes, changes in investment patterns, and modifications in energy consumption habits and trends which, individually and collectively are intended to or have the effect of accelerating the reduction in the global consumption of carbon based energy, the conversion of energy usage to less carbon-intensive forms and the general migration of energy usage away from carbon-based forms of energy.

Climate change and its associated impacts may increase the Company's exposure to, and magnitude of, each of the risks identified in the Risk Factors section of this MD&A. Overall, Parex is not able to estimate at this time the degree to which climate change related regulatory, climatic conditions, and climate-related transition risks could impact the Company's financial and operating results. The Company's business, financial condition, results of operations, cash flows, reputation, access to capital, access to insurance, cost of borrowing, access to liquidity, ability to fund business plans may, in particular, without limitation, be adversely impacted as a result of climate change and its associated impacts.

Climate Change Transition Risks

Climate Change Related Regulation and Policies

Governments around the world have become increasingly focused on regulating greenhouse gas (**"GHG"**) emissions and addressing the impacts of climate change in some manner. GHG emissions legislation is emerging and is subject to change. For example, on an international level, in December 2015, almost 200 nations agreed to an international climate change agreement in Paris, France (the **"Paris Agreement"**), that calls for countries to set their own GHG emission targets and be transparent about the measures each country will use to achieve its GHG emission targets. Colombia has signed the Paris Agreement. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact the Company's business, any such future laws and regulations that limit emissions of GHGs could adversely affect demand for the oil and natural gas that the Company produces. Current GHG emissions legislation has not resulted in material compliance costs; however, it is not possible at this time to predict whether proposed legislation or regulations will be adopted, and any such future laws and regulations could result in additional compliance costs or additional operating restrictions. If the Company is unable to recover a significant amount of its costs related to complying with climate change regulatory requirements imposed on Parex, it could have a material adverse impact on the business, financial condition and results of operations. In addition, significant restrictions on GHG emissions could result in decreased demand for the oil that the Company produces, with a resulting decrease in the value of the Company's reserves. Further, to the extent financial markets view climate change and GHG emissions as a financial risk, this could negatively impact the Company's cost of or access to capital.

Climate Change Related Litigation

In recent years there has been an increase in climate change related litigation in various jurisdictions including Canada, the U.S., and internationally. Various claims have been asserted, including that energy producers contribute to climate change, are not reasonably managing business risks associated with climate change, and have not adequately disclosed business risks of climate change. While many of the climate change related actions are in preliminary stages of litigation, and in some cases assert novel or unproven causes of action, there can be no assurance that legal, societal, scientific and political developments will not increase the likelihood of successful climate change related litigation against energy producers, including Parex. The outcome of any such litigation is uncertain and may materially impact Parex' business, financial condition or results of operations. Parex may also be subject to adverse publicity associated with such matters, which may negatively affect public perception and reputation, regardless of whether the Company is ultimately found responsible. Parex may be required to incur significant expenses or devote significant resources in defense against any such litigation.

Technology

Parex' business depends on, among other things, the availability and scalability of existing and emerging technologies to meet its goals, including ESG targets and goals. Limitations related to the development, adoption and success of these technologies could have a negative impact on long-term business resilience.

Demand and Commodity Prices

Full conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and renewable energy generation devices could reduce the demand for oil and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. In addition, advancements in energy efficient products have a similar affect on the demand for oil and gas products. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Company's business, financial condition, results of operations and funds flow from operations by decreasing the Company's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

Access to Capital and Insurance

Capital markets are adjusting to the risks that climate change poses and as a result, Parex' ability to access capital and secure necessary or prudent insurance coverage may also be adversely affected in the event that institutional investors, credit rating agencies, lenders and/or insurers adopt more restrictive decarbonization policies. Certain insurance companies have taken actions or announced policies to limit available coverage for companies which derive some or all of their revenue from the oil and gas sector. As a result of these policies, premiums and deductibles for some or all of the Company's insurance policies could increase substantially. In some instances, coverage may be reduced or become unavailable. As a result, Parex may not be able to renew existing policies, or procure other desirable insurance coverage, either on commercially reasonable terms, or at all. The future development of the business may be dependent upon the Company's ability to obtain additional capital, including debt and equity financing.

Changing Investor Sentiment

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, the impact of oil and gas operations on the environment, environmental damage relating to spills of petroleum products during transportation and indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, management and employees of the Company. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Company or not investing in the Company at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, the Company, may result in limiting the Company's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of the Company's assets which may result in an impairment charge.

Shareholder Activism

Shareholder activism has been increasing generally and in the energy industry. Investors may from time to time attempt to effect changes to Parex' business or governance, with respect to climate change or otherwise, by means such as shareholder proposals, public campaigns, proxy solicitations or otherwise. Such actions could adversely impact the Company by distracting the Board and employees from core business operations, increasing advisory fees and related costs, interfering with the Company's ability to successfully execute on strategic transactions and plans and provoking perceived uncertainty about the future direction of the business.

Climate Change – Physical Risks

Extreme climatic conditions may also have material adverse effects on Parex' financial condition and results of operations. Weather and climate affect demand, and therefore, the predictability of the demand for energy is affected to a large degree by the predictability of weather and climate. In addition, Parex' exploration, production and construction operations, and the operations of major customers and suppliers, can be affected by floods, forest fires, earthquakes, hurricanes, and other extreme weather events. This may result in cessation or diminishment of production, delay of exploration and development activities or delay of plant construction.

Climate change may increase the frequency of severe weather conditions in these locations including winds, flooding and variable temperatures.

Other crude oil and natural gas production activities are also subject to chronic physical risks such as a shorter timeframe for the Company's dry season drilling program, changes in the water table and reduced access to water due to drought conditions. A systemic change in temperature or precipitation patterns could result in more challenging conditions for the construction and reclamation activities and could reduce the availability of water due to the increasing likelihood of drought conditions.

Environmental Regulation and Risks

The Company is subject to environmental laws and regulations that affect aspects of the Company's past, present and future operations. All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to extensive national, provincial and local environmental laws and regulations in Colombia that will and do affect nearly all of the operations of Parex. These laws and regulations set various standards regulating certain aspects of health and environmental quality, including air emissions, water quality, wastewater discharges and the generation, transport and disposal of waste and hazardous substances; provide for penalties and other liabilities for the violation of such standards; and establish, in certain circumstances, obligations to remediate current and former facilities and locations where oil and gas operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation and unconventional blocks.

There is uncertainty around the impact of environmental laws and regulations, including those currently in force and proposed laws and regulations, and Parex cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered, interpreted from time to time, or enforced. It is not possible to predict the outcome and nature of these requirements on the Company and its business at the current time; however, failure to comply with current and proposed regulations can have a material adverse impact on the Company's business and results of operations by substantially increasing its capital expenditures and compliance costs and its ability to meet its financial obligations, including debt payments. It may also lead to the modification or cancellation of operating licenses and permits, penalties and other corrective actions which may have an impact on production operations. Further, compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by Parex for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on Parex.

Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The Company's activities have the potential to impair natural habitat, damage plant and wildlife, or cause contamination to land or water that may require remediation under applicable laws and regulations. These laws and regulations require the Company to obtain and comply with a variety of environmental registrations, licenses, permits and other approvals. In Colombia, licensing and permitting processes relating to the exploring and drilling for and development of oil and natural gas takes significant time and it is outside the control of the Company, specifically, the Exploitation License that may cause operational delays and higher development costs. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. Both public officials and private individuals may seek to enforce environmental laws and regulations against the Company.

Significant liability could be imposed on Parex for costs resulting from potential unknown and unforeseeable environmental impacts arising from the Company's operations, including damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by Parex or non-compliance with environmental laws or regulations. While these costs have not been material to the Company in the past, there is no guarantee that this will continue to be the case in the future.

Given the nature of the Company's business, there are inherent risks of oil spills occurring at the Company's drilling and operations sites. Large spills of oil and oil products can result in significant clean-up costs. Oil spills can occur from operational issues, such as operational failure, accidents and deterioration and malfunctioning of equipment. In Colombia where the Company operates, oil spills can also occur as a result of sabotage and damage to the pipelines. Further, the Company sells oil at various delivery stations and the oil can be truck transported. There is an inherent risk of oil spills caused by road accidents which the Company may still be deemed to be responsible for as the owner of the crude oil. All of these may lead to significant potential environmental liabilities, such as clean-up and litigation costs, which may materially adversely affect the Company's financial condition, funds flow from operations and results of operations. Depending on the cause and severity of the oil spill, the Company's reputation may also be adversely affected, which could limit the Company's ability to obtain permits and affect its future operations.

To prevent and/or mitigate potential environmental liabilities from occurring, the Company has policies and procedures designed to prevent and contain oil spills. The Company works to minimize spills through a program of well designed facilities that are safely operated, effective operations integrity management, continuous employee training, regular upgrades to facilities and equipment, and implementation of a comprehensive inspection and surveillance system. Also, the Company's facilities and operations are subject to routine inspection by various Federal and Provincial authorities in Colombia to evaluate the Company's compliance with the various laws and regulations.

Abandonment and Reclamation Cost Risk

Parex is subject to oil and gas asset abandonment, remediation and reclamation liabilities for its operations including those imposed by regulation under federal, territorial, state, regional and municipal legislation in the jurisdictions in which the Company conduct operations. Parex maintains estimates of abandonment, remediation and reclamation liabilities; however, it is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes, acceleration of decommissioning timelines, and inflation, among other variables. The present value cost for decommissioning and abandonment of wells and facilities is estimated based on known regulations, procedures, and costs today for undertaking the decommissioning, the majority of which is projected to be incurred in the 2030s.

Parex ESG Targets and Ambitions

Parex has set ambitious, achievable targets for ESG including eliminating flaring, reducing operational emissions, and increasing the number of women in board positions. To achieve these goals and to respond to changing market demand, the Company may incur additional costs and invest in new technologies and innovation. It is possible that the return on these investments may be less than expected, which may have an adverse effect on the Company’s business, financial condition and reputation.

ESG targets and ambitions depend significantly on the Company’s ability to execute on current business strategy, which can be impacted by the numerous risks and uncertainties associated with the business and the industry in which Parex operates, as outlined in this section of this MD&A. Parex recognizes that the ability to adapt to and succeed in a lower-carbon economy will be compared against its peers. Investors and stakeholders increasingly compare companies based on ESG-related performance, including climate-related performance. Failure to achieve ESG targets and ambitions, or a perception among key stakeholders that the ESG targets and ambitions are insufficient or unattainable, could adversely affect the Company’s reputation and ability to attract capital and insurance coverage.

There is also a risk that some or all of the expected benefits and opportunities of achieving the various ESG targets and ambitions may fail to materialize, may cost more to achieve or may not occur within the anticipated time periods. In addition, there are risks that the actions taken in implementing targets and ambitions relating to ESG may have a negative impact on the Company’s existing business and increase capital expenditures, which could have a negative impact on the future operating and financial results.

Climate and GHG Emissions Targets and Ambitions

Parex has set a target to reduce operational Scope 1 and 2 GHG emissions by 50 percent by year-end 2030 from a 2019 baseline. Parex also has a long-term ambition to achieve net zero Scope 1 and 2 GHG emissions from operations by 2050. The ability to meet the 2030 GHG reduction target and 2050 net zero ambition are subject to numerous risks and uncertainties and actions taken in implementing such target and ambition may also expose the Company to certain additional and/or heightened financial and operational risks. Furthermore, the long-term ambition of reaching net zero emissions by 2050 is inherently less certain due to the longer timeframe and certain factors outside of the Company’s control, including the commercial application of future technologies that may be necessary to achieve this long-term ambition.

A reduction in GHG emissions relies on, among other things, the ability to develop, access and implement commercially viable and scalable emission reduction strategies and related technology and products. If the Company is unable to implement these strategies and technologies as planned without negatively impacting expected operations or cost structures, or such strategies or technologies do not perform as expected, Parex may be unable to meet the 2030 GHG reduction target or 2050 net zero emissions ambition on the current timelines, or at all.

In addition, achieving the 2030 GHG reduction target and 2050 net zero ambition relies on a stable regulatory framework and will require capital expenditures and Company resources, with the potential that actual costs may differ from the original estimates and the differences may be material. Furthermore, the cost of investing in emissions-reduction technologies, and the resultant change in the deployment of resources and focus, could have a negative impact on future operating and financial results.

Russian Ukrainian Conflict

In February 2022, Russian military forces invaded Ukraine. In response, Ukrainian military personal and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide-ranging consequences on the peace and stability of the region and the world economy.

In addition, certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which sanctions may have far reaching effects on the global economy. As part of the sanctions package, the German government paused the certification process for the 1,200 km Nord Stream 2 natural gas pipeline that was built to carry natural gas from Russia to Germany. Russia is a major exporter of oil and natural gas. Disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and have a significant impact on worldwide prices of oil and natural gas. A lack of supply and high prices of oil and natural gas could have a significant adverse impact on the world economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

Diversity and Inclusion Target

The Company’s inclusion and diversity focus area includes a target for the Board of Directors to have at least 30 percent representation from any one gender by no later than May 2023. Efforts to meet such target may increase the time and costs associated with appointing and replacing key personnel. Further, a failure or delay in achieving the target may influence the Company’s reputation with its stakeholders and impact recruitment initiatives.

Pandemic Risk

Pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity.

In March 2020, the World Health Organization declared COVID-19 a global pandemic; prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed nonessential. This resulted in a swift and significant reduction in economic activity in Canada and internationally along with a sudden drop in demand for crude oil and liquids and natural gas. Since 2020, crude oil prices have largely recovered from their historic lows, but price support from future demand remains uncertain as countries experience varying degrees of virus outbreak and newly emerging virus variants following efforts to re-open local economies and international borders.

While the duration and full impact of the COVID-19 pandemic is not yet known, effects of COVID-19 may also include disruptions to production operations, limited access to materials and services, increased employee absenteeism from illness, and temporary closures of Parex’ facilities.

The extent to which Parex’ operational and financial results are affected by COVID-19 will depend on various factors and consequences beyond its control such as the duration and scope of the pandemic; additional actions taken by business and government in response to the pandemic, and the speed and effectiveness of responses to combat the virus. Additionally, COVID-19 and its effect on local and global economic conditions stemming from the pandemic could also aggravate the other risk factors identified in this MD&A, the extent of which is not yet known.

United States Relations with Colombia

Colombia is among several nations whose progress in stemming the production and transit of illegal drugs is subject to annual certification by the President of the United States of America. Although Colombia has received a current certification, there can be no assurance that, in the future, Colombia will receive certification or a national interest waiver. The failure to receive certification or a national interest waiver may result in any of the following:

- all bilateral aid, except anti-narcotics and humanitarian aid, would be suspended;
- the Export-Import Bank of the United States and the Overseas Private Investment Company would not approve financing for new projects in Colombia;
- United States representatives at multilateral lending institutions would be required to vote against all loan requests from Colombia, although such votes would not constitute vetoes, and
- the President of the United States and Congress would retain the right to apply future trade sanctions.

Each of these consequences could result in adverse economic consequences in Colombia and could further heighten the political and economic risks associated with operations there. Any changes in the holders of significant government offices could have adverse consequences on Parex Colombia's relationship with the ANH and the Colombian government's ability to control guerrilla activities, and could exacerbate the factors relating to Parex' subsidiaries foreign operations. Any sanctions imposed on Colombia by the United States government could threaten Parex' subsidiaries ability to obtain any necessary financing to develop the Colombian properties. There can be no assurance that the United States will not impose sanctions on Colombia in the future, nor can the effect in Colombia that these sanctions might cause be predicted.

Canada relations with Colombia

The Canada-Colombia Free Trade Agreement became effective on August 15, 2011. Through the agreement, Canada's producers and exporters benefit from reduced or eliminated tariffs on nearly all of Canada's exports to Colombia. The agreement also provides a more predictable, transparent and rules-based trading environment for Canadian investors and businesses. The Canada-Colombia Tax Convention came into force June 12, 2012 for the avoidance of double taxation.

Liabilities under Anti-Bribery Laws

The Company is subject to anti-bribery laws in Canada and Colombia and may be subject to similar laws in other jurisdictions where it may operate in the future. The Company may face, directly or indirectly, corrupt demands by federal or local officials, tribal or insurgent organizations, international organizations, contractors looking for work with Parex, or other private entities. As a result, the Company faces the risk of unauthorized payments or offers of payments by employees, contractors, agents, and partners of its subsidiaries or affiliates, given that these parties are not always subject to the Company's control or direction. It is the Company's policy to prohibit these practices. However, the Company's existing safeguards and any future improvements to those measures may prove to be less than effective or may not be followed, and the Company's employees, contractors, agents, and partners may engage in illegal conduct for which it might be held responsible. A violation of any of these laws, even if prohibited by the Company's policies, may result in criminal or civil sanctions or other penalties (including profit disgorgement) as well as reputational damage and could have a material adverse effect on the Company's business and financial condition.

Commodity Prices, Markets and Marketing

Numerous factors beyond the Company's control do, and will continue to affect the marketability and price of oil and natural gas acquired, produced or discovered by the Company. Accordingly, commodity prices are the Company's most significant financial risk. The Company's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines to deliver that oil and natural gas to commercial markets. Deliverability uncertainties related to the distance the Company's reserves are to pipelines, processing and storage facilities, operational problems affecting pipelines and facilities and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil, and natural gas. Many other aspects of the oil and natural gas business may also affect the Company. At present, crude oil sales are generally benchmarked against Brent reference prices and subject to price differentials for crude quality.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of additional factors beyond the control of the Company. These factors include economic and political conditions, in the United States, Canada, Europe, China and emerging markets, the actions of Organization of Petroleum Exporting Countries (**"OPEC"**) and other oil and gas exporting nations, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of oil and natural gas, risks of supply disruption, the price of foreign imports, and the availability of alternative fuel sources. Prices for oil and natural gas are also subject to the availability of foreign markets and the Company's ability to access such markets. A material decline in prices could result in a reduction of the Company's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes and the value of the Company's reserves. The Company might also elect not to produce from certain wells at lower prices.

All these factors could result in a material decrease in the Company's expected net production revenue and a reduction in its oil and natural gas production, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Company's reserves, borrowing capacity, revenues, profitability and funds flow from operations, and may have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

Oil and natural gas prices may be volatile for a variety of reasons including market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, the ongoing COVID-19 pandemic, OPEC and non-OPEC producers actions in respect of supply, political uncertainties, sanctions imposed on certain oil producing nations by other countries and ongoing conflicts in the Middle East. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects. The Company monitors market conditions and may selectively utilize derivative instruments to reduce exposure to crude oil price movements. However, the Company is of the view that it is neither appropriate nor possible to eliminate 100% of its exposure to commodity price volatility.

Social Disruptions and Instability

The oil and natural gas exploration, development and operating activities conducted by the Company may, at times, be subject to disruption. Parex operates in Colombia. In Colombia companies operating in the oil and gas industry have experienced interruptions to their operations and production curtailments as a result of social instability and labour disruptions. For example, there were a series of protests across Colombia during May 2021 which resulted in transportation blockades that restricted the production and marketing of Parex' crude oil which resulted in a temporary decrease to Parex production at that time. Additionally, the transportation blockades impeded the supply of materials required for capital expenditure activities, including drilling and completions. The blockades were not directly related to Parex' activities or those of its industry partners. In Colombia labor disruptions can be local or nationwide.

The Company cannot provide assurances that this type of social instability or labour disruption will not be experienced in future. The potential impact of future social instability, labour disruptions and any lack of public order may have on the oil and gas industry in Colombia, and on the Company's operations in particular, is not known at this time. This uncertainty may affect operations in unpredictable ways, including disruptions of fuel supplies and markets, ability to move equipment such as drilling rigs from site to site, or disruption of infrastructure facilities, including pipelines, production facilities, public roads, and off-loading stations, which could be targets or experience collateral damage as a result of social instability, labour disputes or protests. Parex may suffer loss of production, or be required to incur significant costs in the future to safeguard its assets against such activities, incur standby charges on stranded or idled equipment or to remediate potential damage to the Company's facilities. There can be no assurance that Parex will be successful in protecting itself against these risks and the related financial consequences. Further, these risks may not in any part be insurable in the event the Company does suffer damage. See Guerrilla Activity in Colombia.

Reserves Estimates

There are numerous uncertainties inherent in estimating reserves, and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth in this document are estimates only. Generally, estimates of economically recoverable oil and natural gas reserves (including the breakdown of reserves by product type) and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties; production rates; ultimate reserve recovery; timing and amount of capital expenditures; marketability of oil and natural gas; royalty rates; and the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves. Such variations could be material.

In accordance with applicable securities laws, the Company's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Company's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in the Company's reserves since that date.

The Borrowing Base Under Parex' Revolving Credit Facility May be Reduced

The borrowing base under the Company's revolving Credit Facility is currently $200 million. Parex' borrowing base is re-determined by the lenders twice per year. The Company's borrowing base may decrease as a result of fluctuations in oil and natural gas prices, operating difficulties, declines in reserves, unforeseen increase cost and lending requirements or regulations.

Additional Funding

Depending on future exploration, development, acquisition and divestiture plans, Parex may require additional financing. The ability of Parex to arrange any such financing in the future will depend in part upon the prevailing capital market conditions, risk associated with the international operations, as well as the business performance of Parex. Periodic fluctuations in commodity prices may affect lending policies for potential future lenders. This in turn could limit growth prospects in the short run or may even require Parex to dedicate existing cash balances or funds flow from operations, dispose of properties or raise new equity to continue operations under circumstances of declining energy prices, disappointing drilling results, or economic or political dislocation in foreign countries. There can be no assurance that Parex will be successful in its efforts to arrange additional financing on terms satisfactory to Parex. Due to the conditions in the oil and gas industry, global economic volatility, and that the Company operates in an emerging market country, the Company may from time to time have restricted access to capital and increased borrowing costs. If additional financing is raised by the issuance of shares from treasury of Parex, control of Parex may change and shareholders may suffer additional dilution.

As a result of global economic and political volatility, the Company may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Company's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing shareholders. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties.

Conditions in the Oil and Natural Gas Industry

The petroleum industry is competitive in all of its phases. The Company competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Company. The Company's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price, process, and reliability of delivery and storage.

The impact on the oil and natural gas industry from commodity price volatility is significant. During periods of high prices, producers may generate sufficient funds flow from operations to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. The cost of purchasing land or properties and work commitments associated with new exploration blocks similarly can increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers may also decline.

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by Parex will result in discoveries of oil or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.
Parex' operations will be subject to all the risks normally associated with the exploration, development and operation of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, potential environmental damage, blow-outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of Parex and others. In accordance with customary industry practice, Parex will maintain insurance coverage, but will not be fully insured against all risks, nor are all such risks insurable.

Oil and natural gas exploration and development activities are dependent on the availability of seismic, drilling, completions and other specialized equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Parex and may delay exploration and development activities.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, the Company's existing reserves, and the production from them, will decline over time as the Company produces from such reserves. A future increase in the Company's reserves will depend on both the ability of the Company to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Company will be able continue to find satisfactory properties to acquire or participate in. Moreover, management of the Company may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that the Company will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

The Company is exposed to a high level of exploration risk. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless the Company is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital-intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, Parex employs highly experienced geologists and geophysicists, uses technology such as 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. In addition, the Company takes a portfolio approach to exploration by dispersing drilling locations among different exploration blocks and geological basins and by targeting multiple play-types. The Company may also choose to mitigate exploration risk through acquisitions that may require raising funds.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and production declines from normal field operating conditions, which can negatively affect revenue and funds flow from operations levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment and cause personal injury or threaten wildlife. Particularly, the Company may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Company.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

As is standard industry practice, the Company is not fully insured against all risks, nor are all risks insurable. Although the Company maintains liability insurance and business interruption insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event the Company could incur significant costs.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, and the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired businesses and assets may require substantial management effort, time and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided by third parties and assets required to provide such services. In this regard, non-core assets may be periodically disposed of so the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company may realize less on disposition than their carrying value on the financial statements of the Company.

Political Uncertainty

Parex' results can be adversely impacted by political, legal, or regulatory developments in Canada and elsewhere that affect local operations and local and international markets. Changes in government, government policy or regulations, changes in law or interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and duration of regulatory reviews could impact Parex' existing operations and planned projects. This includes actions by regulators or other political actors to delay or deny necessary licenses and permits for Parex' activities or restrict the operation of third-party infrastructure that Parex relies on. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation (including Indigenous stakeholders), may increase the cost of compliance or reduce or delay available business opportunities and adversely impact Parex' results.

Other government and political factors that could adversely affect Parex' financial results include increases in taxes or government royalty rates (including retroactive claims) and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards, and the use of alternative fuels or uncompetitive fuel components could affect Parex' operations. Many governments are providing tax advantages and other subsidies to support alternative energy sources or are mandating the use of specific fuels or technologies. Governments and others are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources, and the success of these initiatives may decrease demand for Parex' products.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry including the balance between economic development and environmental policy. The oil and natural gas industry has become an increasingly politically polarizing topic in Canada, which has resulted in a rise in civil disobedience surrounding oil and natural gas development—particularly with respect to infrastructure projects. Protests, blockades and demonstrations have the potential to delay and disrupt Parex' activities.

Colombia is immediately adjacent to Venezuela, which is continuing to go through a period of political uncertainty. The impact on the Company's operations in Colombia as a result of Venezuela's political situation are not known and cannot be reasonably foreseen. However, with the exception of the Capachos and Arauca blocks the Company's reserves and production are not proximate to the Colombia Venezuela border.

Corruption

The Company's operations are governed by the laws of many jurisdictions, which generally prohibit bribery and other forms of corruption. The Company has policies in place to prevent any form of corruption or bribery, which includes enforcement of policies against giving or accepting money or gifts in certain circumstances and an annual certification from each employee confirming that each employee has received and understood the Company's anticorruption policies. It is possible that the Company, some of its subsidiaries, or some of the Company or its subsidiaries' employees or contractors, could be charged with bribery or corruption as a result of the unauthorized actions of employees or contractors. If the Company is found guilty of such a violation, which could include a failure to take effective steps to prevent or address corruption by its employees or contractors, the Company could be subject to onerous penalties and reputational damage. A mere investigation itself could lead to significant corporate disruption, high legal costs and forced settlements (such as the imposition of an internal monitor). In addition, bribery allegations or bribery or corruption convictions could impair the Company's ability to work with governments or nongovernmental organizations. Such convictions or allegations could result in the formal exclusion of the Company from a country or area, national or international lawsuits, government sanctions or fines, project suspension or delays, reduced market capitalization and increased investor concern. Further, from time to time the Company may acquire a company that subsequently is subject to a bribery or corruption charge, whereby the Company could assume onerous penalties and/or suffer reputational damage as a result of activities in which the Company had no part.

Risks Associated with Geographically Concentrated Operations

The majority of the Company's production comes from one block in the Llanos Basin in Colombia. For the year ended December 31, 2021, the Tigana, Jacana and Tua Fields located in Block LLA-34 collectively generated approximately 67% of the Company's production and at December 31, 2021, LLA-34 accounted for 64% of its proved oil and gas reserves. As a result of this concentration, the Company may be disproportionately exposed to the impact of, among other things, regional supply and demand factors including limitations on its ability to most profitably sell or market its oil and gas to a smaller pool of potential buyers, delays or interruptions of production from wells in these areas caused by governmental regulation, community protests, guerrilla activities, processing or transportation capacity constraints, continued authorization by the government to explore and drill in these areas, severe weather events and the availability of drilling rigs and related equipment, facilities, personnel or services. Due to the concentrated nature of the Company's portfolio of properties, a number of the Company's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on its results of operations than it might have on other companies that have a more diversified portfolio of properties.

The Company relies on local infrastructure and the availability of transportation for storage and shipment of its products. This infrastructure, including storage and transportation facilities, is less developed than that in North America and may be insufficient for the Company's needs at commercially acceptable terms in the localities in which it operates. Further, the Company operates in remote areas and may rely on helicopters, boats or other transportation methods. Some of these transport methods may result in increased levels of risk and could lead to operational delays which could affect the Company's ability to add to its reserve base or produce oil, or serious injury or loss of life and could have a significant impact on the Company's reputation or cash flow. Additionally, some of this equipment is specialized and may be difficult to obtain in the Company's areas of operations, which could hamper or delay operations, and could increase the cost of those operations.

Gathering and Processing Facilities and Pipeline Systems

The Company delivers its products through gathering, processing and pipeline systems, some of which it does not own. The amount of oil and natural gas that the Company can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering, processing and pipeline systems. The lack of availability of capacity in any of the gathering, processing and pipeline systems could result in the Company's inability to realize the full economic potential of its production or in a reduction of the price offered for the Company's production. The Company currently produces oil in multiple basins in Colombia and is heavily reliant on the Ocensa pipeline system. Although pipeline expansions in Colombia have occurred from time to time, the lack of firm pipeline capacity may limit the ability to produce and to market oil and natural gas production. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Company's business and, in turn, the Company's financial condition, results of operations and funds flow from operations.

All of the Company's production is delivered for export to shipment on facilities owned by third parties and over which the Company does not have control. From time to time, these facilities may discontinue or decrease operations, either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially adversely affect the Company's ability to process its production and to deliver the same for sale. Unexpected shut-downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Company's production, operations and financial results.

Non-Operated Risk of Significant Assets

Block LLA-34 is not operated by the Company in which the Company has a 55% working interest, and the majority of the Company's oil production and oil reserves are attributed to that block. As a result, the Company may not have the ability to manage development of the blocks oil and natural gas reserves on a pace that the Company would choose. Further, managing the cost of development is largely the responsibility of the operator of the block. Historically, the operator of Block LLA-34 and the Company have agreed on the exploration and development efforts for the block. The Joint Operating Agreement for the block provides the Company with certain protection such as the right to audit the operator, the right for approval of all capital plans for the block and the approval of an annual capital and operating budget.

Labour Relations

Parex operates in a country that has large state sponsored or majority owned oil and gas companies that have traditionally employed unionized personnel. From time to time unions may attempt or threaten to disrupt field operations and crude oil transportation activities of their employers which may directly or indirectly effect the operations of Parex.

Foreign Subsidiaries

Parex conducts all of its operations in Colombia through foreign subsidiaries and foreign branches. Therefore, to the extent of these holdings, Parex will be dependent on the funds flow from operations of these subsidiaries to meet its obligations excluding any additional equity or debt Parex may issue from time to time. The ability of its subsidiaries to make payments and transfer cash to Parex may be constrained by, among other things: the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates; and the introduction of foreign exchange and/or currency controls or repatriation restrictions, or the availability of hard currency to be repatriated.

Information Technology Systems and Cyber-Security

The Company is increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure and its ability to expand and continually update this infrastructure, to conduct daily operations. The Company depends on various information technology systems to estimate reserve quantities, process and record financial data, manage its land base, manage financial resources, analyze seismic information, administer its contracts with its operators and lessees and communicate with employees and third-party partners.
Further, the Company is subject to a variety of information technology and system risks as a part of its operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Company's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to the Company's business activities or its competitive position.

In addition, cyber phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Company becomes a victim to a cyber phishing attack it could result in a loss or theft of the Company's financial resources or critical data and information or could result in a loss of control of the Company's technological infrastructure or financial resources. The Company's employees are often the targets of such cyber phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "Trojan horse" programs to the Company's computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

The Company maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts annual cyber-security risk assessments. The Company also employs encryption protection of its confidential information, all computers and other electronic devices. Despite the Company's efforts to mitigate such cyber phishing attacks through education and training, cyber phishing activities remain a serious problem that may damage its information technology infrastructure. The Company applies technical and process controls in line with industry-accepted standards to protect its information assets and systems including a written incident response plan for responding to a cyber-securities incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Company's performance and earnings, as well as on its reputation and any damages sustained may not be adequately covered by the Company's current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks of Foreign Operations

Parex' operations may be adversely affected by changes in foreign government policies and legislation or social instability and other factors which are not within the control of Parex, including, but not limited to: nationalization, expropriation of property without fair compensation or marketable compensation, or renegotiation or nullification of existing concessions and contracts; the imposition of specific drilling obligations and the development and abandonment of fields; changes in energy and environmental policies or the personnel administering them; changes in oil and natural gas pricing policies; the actions of national labour unions; currency fluctuations and devaluations; currency exchange controls; economic sanctions; and royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which Parex' operations will be conducted, as well as risks of loss due to civil strife, acts of war, terrorism, guerrilla activities and insurrections. Parex' operations may also be adversely affected by laws and policies of Colombia affecting foreign trade, taxation of the oil and gas sector and investment. If Parex' operations are disrupted and/or the economic integrity of its projects is threatened for unexpected reasons, its business may be harmed. Prolonged problems may threaten the commercial viability of its operations.

In addition, there can be no assurance that contracts, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments in foreign jurisdictions, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

In the event of a dispute arising in connection with Parex' operations in Colombia, Parex may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgements in such other jurisdictions. Parex may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, Parex' exploration, development and production activities in Colombia could be substantially affected by factors beyond Parex' control, any of which could have a material adverse effect on Parex.

Acquiring interests and conducting exploration and development operations in foreign jurisdictions often require compliance with numerous and extensive procedures and formalities. These procedures and formalities may result in unexpected or lengthy delays in commencing important business activities. In some cases, failure to follow such formalities or obtain relevant evidence may call into question the validity of the entity or the actions taken. Management is unable to predict the effect of additional corporate and regulatory formalities which may be adopted in the future including whether any such laws or regulations would materially increase Parex' cost of doing business or affect its operations in any area.

Parex may in the future acquire oil and natural gas properties and operations outside of Colombia, which expansion may present challenges and risks that Parex has not faced in the past, any of which could adversely affect the results of operations and/or financial condition of Parex.

Security and Insurance

Colombia has a publicized history of security problems. The Company and its personnel are subject to these risks, but through effective security and social programs, Parex believes these risks can be effectively managed. The Company maintains insurance in an amount that it considers adequate and consistent with industry practice and its operations, however, it is difficult to obtain insurance coverage to protect against terrorist incidents and, as a result, the Company's insurance program excludes this coverage. Consequently, incidents like this in the future could have a material adverse impact on the Company's operations.

Legal Systems

Colombia is a civil law jurisdiction. Each of Barbados and Bermuda, being part of the Commonwealth, has a similar legal system to Canada. There can be no assurance that joint ventures, licenses, license or permit applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Potential Conflicts of Interest

There are potential conflicts of interest to which some of the directors and officers of the Company will be subject in connection with the operations of the Company. Some of the directors and officers are engaged and will continue to be engaged in the search for oil and natural gas interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Company. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the Alberta Business Corporation Act ("**ABCA**") which require a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the Company, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Regulatory
Various levels of governments impose extensive controls and regulations on oil and natural gas operations (exploration, development, production, pricing, marketing and transportation). In Colombia, the oil and gas industry regulatory body is the ANH, and for environmental permitting a separate body, the ANLA. Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Company's costs, either of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, the Company will require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Parex has a 100% working interest in the Block VMM-9 in the Middle Magdalena Basin subject to its earning commitment to spend $89 million. This block is an unconventional block whereby activities to be conducted would include unconventional stimulation techniques. Colombia currently has no unconventional oil and gas regulatory framework to allow the timely permitting of unconventional stimulation techniques and therefore this block is in force majeure suspension. There is no certainty that Parex will be permitted conduct activities on Block VMM-9.

Issuance of Debt
From time to time, the Company may enter into transactions to acquire assets or shares of other entities. These transactions may be financed in whole or in part with debt, which may increase the Company's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Company may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Company's articles nor its bylaws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time, could impair the Company's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access
Oil and natural gas exploration, development and operating activities are dependent on the availability of third-party contractor drilling and related equipment as well as skilled personnel trained to use such equipment in the areas where such activities will be conducted. Demand for such limited equipment and skilled personnel or access restrictions may affect the availability of such equipment and skilled personnel to the Company and may delay exploration and development activities.

Title to Assets
The assignment of working interests under the exploration and production contracts in the jurisdictions in which the Company operates is a detailed and time-consuming process. The Company's properties may be subject to unforeseen title claims. Title to assets in Colombia is by way of an undivided working interest provided by the exploration and exploitation contracts or convenio signed with ANH. While the Company will diligently investigate title to all property and will follow usual industry practice in obtaining satisfactory title opinions and, to the best of the Company's knowledge, title to all of the Company's properties are in good standing, this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects. The Company does not warrant title to the oil properties.

Dilution
In order to finance future operations or acquisition opportunities, the Company may issue Common Shares or raise funds through the issuance of Common Shares or the issuance of debt instruments or securities convertible into Common Shares, which will be dilutive to Parex shareholders. The Company cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into Common Shares or the effect, if any, that future issuances and sales of the Company’s securities will have on the market price of the Common Shares.

Market Price of Common Shares
The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Company's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and gas market. In recent years, the volatility of commodities has increased due, in part, to the implementation of computerized trading and the decrease of discretionary commodity trading. In addition, in certain jurisdictions institutions, including government sponsored entities, have determined to decrease their ownership in oil and gas entities which may impact the liquidity of certain securities and put downward pressure on the trading price of those securities. Similarly, the market price of the Common Shares could be subject to significant fluctuations in response to variations in the Company's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the Common Shares will trade cannot be accurately predicted.

Cost of New Technologies

The petroleum industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Company does implement such technologies, there is no assurance that the Company will do so successfully. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be affected adversely and materially. If the Company is unable to utilize the most advanced commercially available technology, or is unsuccessful in implementing certain technologies its business, financial condition and results of operations could also be adversely affected in a material way.

Risk Management of Commodity Prices or Currency

From time to time, the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Company engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Company's risk management arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which: production falls short of the hedged volumes or prices fall significantly lower than projected; there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the risk management arrangement; the counterparties to the risk management arrangements or other price risk management contracts fail to perform under those arrangements; or a sudden unexpected event materially impacts oil and natural gas prices. The Company may also enter into agreements to receive currencies at a fixed price or fix interest rates of floating rate-based debt. Therefore, and as above with commodity price risk management, there are risks associated with any currency or interest rate swap, or commodity derivative agreement.

Litigation

In the normal course of the Company's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. Potential litigation may develop in relation to personal injuries (including resulting from exposure to hazardous substances, property damage, property taxes, land and access rights, environmental issues, including claims relating to contamination or natural resource damages and contract disputes). The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and, as a result, could have a material adverse effect on the Company's assets, liabilities, business, financial condition and results of operations. Even if the Company prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse affect on the Company's financial condition.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Company may disclose confidential information relating to the business, operations or affairs of the Company. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Company at competitive risk and may cause significant damage to its business. The harm to the Company's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Company will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Income Taxes

The Company and its subsidiaries file all required income tax returns and the Company believes that it is in full compliance with applicable Canadian, Colombian, Barbadian, and Bermudian tax laws; however, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company's tax filings, whether by re-characterization of exploration and development expenditures, or questioning the deductibility of expenses or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Company. Furthermore, tax authorities having jurisdiction over the Company may disagree with how the Company calculates its income for tax purposes or could change administrative practices to the Company's detriment.

Diversification
The Company's business focuses on the petroleum industry in Colombia. Other companies have the ability to manage their risk by diversification; however, the Company lacks diversification, in terms of the geographic scope of its business. As a result, factors affecting the industry or the regions in which it operates will likely impact the Company more acutely than if the Company's business was more diversified.

Expansion into New Activities
The operations and expertise of the Company's management are currently focused primarily on oil and gas production, exploration and development in Colombia. In the future the Company may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and, as a result, may face unexpected risks or, alternatively, significantly increase the Company's exposure to one or more existing risk factors, which may in turn result in the Company's future operational and financial conditions being adversely affected.

Earnings of the Company
The Company's accounting policies conform to IFRS which constitutes generally accepted accounting principles in Canada. Accounting under IFRS may result in non-cash charges and /or write-downs of net assets in the financial statements on a quarterly basis. Similarly, non-cash gains and reversals of asset write-downs may also be recorded from time-to-time. Income statement volatility resulting from such non-cash gains and losses under IFRS may be viewed unfavorably by the market and could result in an inability to borrow funds and/or could result in a decline in the price of the Common Shares.

Accounting Adjustments
The presentation of financial information in accordance with IFRS requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in the Company's consolidated financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the consolidated financial statements. Such non-cash charges and write-downs may be viewed unfavorably by the market and may result in an inability to borrow funds and/or may result in a decline in the Common Share price.

Lower oil and gas prices may increase the risk of write-downs of Parex' oil and gas property investments. Under IFRS, property, plant and equipment costs are aggregated into groups known as Cash Generation Units ("**CGU's**") for impairment testing. CGUs are reviewed for indicators that the carrying value of the CGU may exceed its recoverable amount. If an indication of impairment exists, the CGU's recoverable amount is then estimated. A CGU's recoverable amount is defined as the higher of the fair value less costs to sell and its value in use. If the carrying amount exceeds its recoverable amount an impairment loss is recorded to comprehensive net income in the period to reduce the carrying value of the CGU to its recoverable amount. While these impairment losses would not affect funds flow from operations, the charge to comprehensive net income could be viewed unfavourably in the market.

Cash from Subsidiaries
The Company's ability to obtain cash from its foreign subsidiaries may be restricted. The Company currently conducts all of its operations through its foreign subsidiaries and foreign branches. Therefore, the Company will be dependent on the funds flow from operations of these subsidiaries to meet its obligations and/or pay any future dividends. The ability of its subsidiaries to make payments to the Company may be constrained by among other things: the level of taxation, particularly corporate profits and withholding taxes, in the jurisdictions in which it operates; the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated; and contractual restrictions with third parties. Currently, there are no restrictions on the repatriation from Colombia of earnings to foreign entities; however, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future.

Dependence on Management
The Chief Executive Officer and senior officers of the Company are critical to its success. In the event of the departure of the Chief Executive Officer or a senior officer, the Company believes that it will be successful in attracting and retaining qualified successors, but there can be no assurance of such success.
If the Company is not successful in attracting and retaining qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future funds flow from operations, earnings, results of operations and financial condition. The Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

Ability to Attract and Retain Qualified Personnel

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration, development and operation of oil and gas properties in the jurisdictions in which the Company operates is limited, and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, technical and operations staff, as necessary. If Parex is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future funds flow from operations, net income, results of operations and financial condition.

Credit Facilities

The Company currently has a credit facility and the amount authorized thereunder is dependent on the borrowing base determined by its lenders. The Company is required to comply with covenants under its credit facility which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability, or price, of additional funding and in the event that the Company does not comply with these covenants, the Company's access to capital could be restricted or, if drawn, repayment could be required. Events beyond the Company's control may contribute to the failure of the Company to comply with such covenants. In addition, the Company's credit facility may impose operating and financial restrictions on the Company that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Company's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others. The Company's lenders use the Company's reserves, commodity prices, applicable discount rate and other factors, to periodically determine the Company's borrowing base. While commodity prices have recently increased, they remain volatile as a result of various factors including actions taken to limit OPEC and non-OPEC production and increasing production by US shale producers. Depressed commodity prices could reduce the Company's borrowing base, reducing the funds available to the Company under the credit facility. This could, if the credit facility is drawn, result in the requirement to repay a portion, or all, of the Company's indebtedness.

Internal Controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Based on their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, and even those controls determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and harm the trading price of the Common Shares.

Reputational Risk Associated with the Company's Operations

The Company's business, operations or financial condition may be negatively impacted as a result of any negative public opinion towards the Company or as a result of any negative sentiment toward, or in respect of, the Company's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Company operates as well as their opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licenses and increased costs and/or cost overruns. The Company's reputation and public opinion could also be impacted by the actions and activities of other companies operating in the oil and natural gas industry, particularly other producers, over which the Company has no control. In particular, the Company's reputation could be impacted by negative publicity related to environmental damage, loss of life, injury or damage to property caused by the Company's operations, or due to opposition from special interest groups opposed to oil and natural gas development. In addition, if the Company develops a reputation of having an unsafe work site it may impact the ability of the Company to attract and retain the necessary skilled employees and consultants to operate its business.

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory and legal risks, among others, must all be managed effectively to safeguard the Company's reputation. Damage to the Company's reputation could result in negative investor sentiment towards the Company, which may result in limiting the Company's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Company's securities.

Purchase of Securities under the NCIB

Any potential purchase of Parex securities by the Company under the NCIB is at the discretion of the Board, and is dependent upon, among other things, cash flow, results of operations, financial condition of the Company, the need for funds to finance ongoing operations and other considerations, as the Board of Directors considers relevant.

Dividends

Regular and special dividends are not guaranteed and could fluctuate with the performance of the Company and its subsidiaries. The Board of Directors has the discretion to determine the amount of dividends to be declared and paid to shareholders each quarter. In determining the level of dividends, the Board of Directors will take into consideration numerous factors, including current and expected future levels of earnings; cash flow from operating activities; income taxes; capital expenditures; working capital requirements; current and potential future environmental liabilities; the impact of interest rates and/or foreign exchange rates; crude oil prices; the need for funds to finance ongoing operations and other considerations, as the Board of Directors considers relevant. Dividends may be increased, reduced, suspended or eliminated entirely depending on the Company's operations and the performance of its assets and businesses.

Forward-Looking Statements May Prove Inaccurate

Shareholders and investor are cautioned not to place undue reliance on forward-looking statements and other future looking financial information. By their nature, forward-looking statements and information involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found under the heading "Forward Looking Statements" of this MD&A.

Inflation and Cost Management

A failure to secure the services and equipment necessary to the Company's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Company's financial performance and cash flows. The Company's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. The Company's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flows.

The cost or availability of oil and gas field equipment may adversely affect the Company's ability to undertake exploration, development and construction projects. The oil and gas industry is cyclical in nature and is prone to shortages of supply of equipment and services including drilling rigs, geological and geophysical services, engineering and construction services, major equipment items for infrastructure projects and construction materials generally. These materials and services may not be available when required at reasonable prices. A failure to secure the services and equipment necessary to the Company's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Company's financial performance and cash flows.

Internal Controls over Financial Reporting

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation authorities is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Parex evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded Parex DC&P were effective as at December 31, 2021.

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Parex;
2) Are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of Parex are being made in accordance with authorizations of management and Directors of Parex; and
3) Are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial reports.

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining ICFR for Parex. They have, as at the financial year ended December 31, 2021, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Parex officers used to design the Company's ICFR is the 2013 Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Parex conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2021 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2021, Parex maintained effective ICFR. It should be noted that while Parex officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Parex' ICFR during the year ended December 31, 2021 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the twelve months ended December 31, 2021 other than normal course guarantees entered into in the form of letters of credit to support the exploration work commitments on its blocks. For further information refer to "Contractual Obligations, Commitments and Guarantees" section above and note 24 - Commitments and Contingencies in the December 31, 2021 consolidated financial statements.

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.

Related Party Transactions

Compensation of Key Management Personnel

Key management personnel compensation, including directors, is as follows:

		2021		2020
Salaries, directors' fees and other benefits	**$**	**6,365**	$	4,515
Equity settled share-based compensation		**1,075**		1,613
Cash settled share-based compensation		**2,424**		1,451
	$	**9,864**	$	7,579

At December 31, 2021 key management personnel are comprised of the Company's directors and eight executives. As at December 31, 2021, there is a Cdn$9.1 million commitment relating to change of control or termination of employment of the eight executives (December 31, 2020 - Cdn$9.1 million for the eight executives).

Other related party transactions

The Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2021 and 2020.

Significant Accounting Policies

Refer to note 3 - Summary of Significant Accounting Policies of the December 31, 2021 consolidated financial statements for a summary of significant accounting policies applied by the Company.

Significant Accounting Estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make significant judgments, assumptions and estimates that affect the financial results of the Company. The following discussion outlines the accounting policies and practices involving the use of estimates that the Company believes are critical in determining Parex' financial results.

Oil and natural gas reserves

The Company retains qualified independent reserves evaluators to evaluate the Company's proved and probable oil and natural gas reserves. As at December 31, 2021 and in prior periods, Parex' reserves were evaluated by GLJ Ltd., who are a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with the COGE handbook and NI 51-101. The Operations and Reserves Committee of the Company's Board of Directors is comprised of independent directors whose mandate is to steward the reserves evaluation process.

The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, expected rates of production and the timing of future capital expenditures, all of which are subject to major uncertainties and interpretations. The Company expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net income, as they are a key component in the calculation of DD&A and for determining potential asset impairment. A downward revision in reserves estimates or an increase in estimated future development costs could result in the recognition of a higher DD&A charge to net income.

Oil and natural gas assets (development and producing costs) are aggregated into CGUs based on their ability to generate largely independent cash flows. If the carrying value of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income. The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell may be determined using discounted future net cash flows of proved plus probable reserves using forecast prices and costs. A downward revision in reserves estimates could result in the recognition of impairments charged to net income.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net income.

Decommissioning and Environmental Liabilities

The Company is required to recognize a liability for future dismantling, decommissioning, environmental, abandoning and site disturbance remediation costs associated with the Company's oil and natural gas properties in accordance with existing laws, contracts or other policies. The fair value of the estimated decommissioning and environmental liability is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related long-lived asset, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to net income, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

Decommissioning and environmental liabilities are determined by using management's best estimate of costs, taking into account the anticipated method and extent of restoration consistent with legal requirements, technological advances, industry practices and the possible use of the site. Since these estimates are specific to the sites involved, there are many individual assumptions underlying the Company's total decommissioning and environmental liability. These individual assumptions can be subject to change based on experience. Restoration technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. The Company estimates future decommissioning and environmental costs based on current estimates adjusted for inflation. This estimate for inflation is also subject to management uncertainty.

Current and Deferred tax

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred tax liabilities and assets is recognized in net income in the period that the change occurs. Deferred tax assets are only recognized to the extent that it is probable that sufficient future taxable income will be available in the applicable jurisdiction to allow the deferred tax assets to be realized.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations from multiple jurisdictions. Rates are also affected by legislative changes. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded in the financial statements. Estimates of current income tax for interim periods are also subject to additional uncertainty. A variety of factors cannot be known until year-end and, therefore, estimates are used for interim period current tax provisions.

Share-Based Compensation

The Company records stock-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date, and expensed equally over the vesting term of the option. The Company records the cumulative stock-based compensation as contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated stock-based compensation for the exercised option. Any consideration received on the exercise of stock options is credited to share capital.

The determination of stock-based compensation expense is based on assumptions regarding stock volatility, risk-free interest rates and the expected life of the options. These assumptions, by their nature, are subject to measurement uncertainty.

Obligations for payments of cash under the subsidiaries' 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. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

The determination of SARs expense is based on assumptions regarding stock volatility, risk-free interest rates and the expected life of the SAR. These assumptions, by their nature, are subject to measurement uncertainty.

The fair value of an RSU, PSU and CRSU is calculated using the market price of Parex shares on the date of issuance, and expensed over the vesting period of the RSU, PSU or CRSU.

In accordance with the fair value method, increases or decreases in the fair value of the CRSUs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

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. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor.

The fair value of a DSU is calculated using the market price of Parex shares on the date of issuance, and expensed immediately. In accordance with the fair value method, increases or decreases in the fair value of the DSUs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

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 CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date.

Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired, and is assessed for impairment annually at December 31 of each year. To test for impairment, goodwill is allocated to each of the Company's CGUs, or groups of CGUs, that are expected to benefit from the acquisition and is tested as described in the Company's impairment policy. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD").

Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future net cash flows of proved plus probable reserves using forecast prices and costs. A downward revision in reserves estimates could result in the recognition of a goodwill impairment charge to net earnings.

These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves and discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGUs.

Derivative liabilities

Risk management contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. The fair value of the risk management contract on initial recognition is normally the transaction price. Subsequent to initial recognition, the fair value are based on quoted market price where available from active markets, otherwise fair values are estimated based on market prices at the reporting date for similar assets or liabilities with similar terms and conditions.

Legal, Environmental Remediation and other Contingent Matters

In respect of these matters, the Company is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and if such a loss can reasonably be estimated. When any such loss is determined, it is charged to net income. Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to net income when warranted by circumstances.

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DIRECTORS

Wayne Foo
Chairman of the Board

Lisa Colnett

Sigmund Cornelius

Robert Engbloom

Bob MacDougall

Glenn McNamara

Imad Mohsen

Carmen Sylvain

Paul Wright

OFFICERS & SENIOR EXECUTIVES

Imad Mohsen
President and Chief Executive Officer

Eric Furlan
Chief Operating Officer

Kenneth G. Pinsky
Chief Financial Officer & Corporate Secretary

Katie Bernard
Vice *President, New Ventures*

Daniel Ferreiro
President, Parex Colombia & Country Manager

Ryan Fowler
Sr. Vice President, Exploration & Business Development

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

Joshua Share
Sr. *Vice President, Corporate Services*

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Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

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RESERVES EVALUATORS

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ABBREVIATIONS

Oil and Natural Gas Liquids

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

Other

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

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