CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE		June 30, 2021		December 31, 2020
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**371,353**	$	330,564
Accounts receivable	**5**		**121,344**		80,166
Prepaids and other current assets			**12,408**		13,457
Current income tax receivable			**—**		16,534
Crude oil inventory	**6**		**676**		1,915
			505,781		442,636
Deferred tax asset			**7,840**		42,729
Goodwill			**73,452**		73,452
Exploration and evaluation	**7**		**80,343**		79,365
Property, plant and equipment	**8**		**930,894**		902,899
		$	**1,598,310**	$	1,541,081
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**145,142**	$	115,427
Current income tax payable			**4,177**		—
Current portion of decommissioning and environmental liabilities	**12**		**4,274**		7,054
			153,593		122,481
Lease obligation	**9**		**1,516**		1,820
Cash settled share-based compensation liabilities	**14**		**10,381**		11,843
Decommissioning and environmental liabilities	**12**		**42,145**		44,057
Deferred tax liability			**34,668**		20,402
			242,303		200,603
Shareholders' equity					
Share capital	**13**		**751,024**		763,372
Contributed surplus			**28,114**		43,228
Retained earnings			**576,869**		533,878
			1,356,007		1,340,478
		$	**1,598,310**	$	1,541,081

Commitments (note 20)
Subsequent events (note 21)

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

"signed" Paul Wright Director	"signed" Bob MacDougall Director

Consolidated Statements of Comprehensive Income (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Oil and natural gas sales	**10**	**$ 247,318**	$ 80,407	**$ 469,376**	$ 274,025
Royalties		**(35,724)**	(7,742)	**(61,295)**	(29,959)
Revenue		**211,594**	72,665	**408,081**	244,066
Commodity risk management contracts (loss)	**18**	**—**	(3,940)	**—**	(3,940)
		211,594	68,725	**408,081**	240,126
Expenses					
Production		**27,527**	19,372	**51,943**	44,434
Transportation		**12,414**	9,743	**26,852**	30,079
Purchased oil		**2,545**	3,319	**5,128**	13,560
General and administrative		**10,754**	8,439	**19,602**	17,538
Impairment of property, plant and equipment assets	**8**	**—**	—	**—**	7,000
Equity settled share-based compensation expense	**13**	**253**	724	**1,151**	1,880
Cash settled share-based compensation expense (recovery)	**14**	**3,226**	6,672	**12,730**	(2,619)
Depletion, depreciation and amortization	**8**	**28,162**	25,250	**57,323**	54,919
Foreign exchange (gain) loss		**(3,985)**	6,583	**(8,220)**	(9,565)
		80,896	80,102	**166,509**	157,226
Finance (income)	**11**	**(495)**	(676)	**(708)**	(1,598)
Finance expense	**11**	**3,862**	1,318	**5,515**	5,495
Net finance expense		**3,367**	642	**4,807**	3,897
Income (loss) before income taxes		**127,331**	(12,019)	**236,765**	79,003
Income tax expense (recovery)					
Current tax expense (recovery)		**26,213**	(6,851)	**48,489**	3,248
Deferred tax expense (recovery)		**9,456**	(24,458)	**49,154**	60,244
		35,669	(31,309)	**97,643**	63,492
Net income and comprehensive income for the period		**$ 91,662**	$ 19,290	**$ 139,122**	$ 15,511
Basic net income per common share	**15**	**$ 0.72**	$ 0.14	**$ 1.08**	$ 0.11
Diluted net income per common share	**15**	**$ 0.72**	$ 0.14	**$ 1.08**	$ 0.11

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the six months ended June 30, (thousands of United States dollars)	2021	2020
Share capital		
Balance, beginning of period	**$ 763,372**	$ 812,684
Issuance of common shares under share-based compensation plans	**27,552**	8,669
Repurchase of shares	**(39,900)**	(22,608)
Balance, end of period	**751,024**	798,745
Contributed surplus		
Balance, beginning of period	**43,228**	48,573
Share-based compensation	**1,151**	1,880
Options, RSUs and PSUs exercised	**(16,265)**	(5,977)
Balance, end of period	**28,114**	44,476
Retained earnings		
Balance, beginning of period	**533,878**	541,188
Net income for the period	**139,122**	15,511
Repurchase of shares	**(96,131)**	(40,918)
Balance, end of period	**576,869**	515,781
	$ 1,356,007	$ 1,359,002

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	NOTE	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Operating activities					
Net income		**$ 91,662**	$ 19,290	**$ 139,122**	$ 15,511
Add (deduct) non-cash items					
Depletion, depreciation and amortization	**8**	**28,162**	25,250	**57,323**	54,919
Non-cash finance expense	**11**	**2,915**	262	**3,633**	3,775
Equity settled share-based compensation expense	**13**	**253**	724	**1,151**	1,880
Cash settled share-based compensation expense (recovery)	**14**	**3,226**	6,672	**12,730**	(2,619)
Deferred tax expense (recovery)		**9,456**	(24,458)	**49,154**	60,244
Impairment of property, plant and equipment assets	**8**	**—**	—	**—**	7,000
Unrealized foreign exchange (gain) loss		**(4,087)**	10,954	**(6,913)**	(4,607)
Loss (gain) on settlement of decommissioning liabilities	**12**	**15**	83	**371**	(13)
Net change in non-cash working capital	**16**	**(19,744)**	(61,139)	**(16,571)**	(3,153)
Cash provided by (used in) operating activities		**111,858**	(22,362)	**240,000**	132,937
Investing activities					
Property, plant and equipment expenditures	**8**	**(45,547)**	(2,346)	**(84,062)**	(66,165)
Exploration and evaluation expenditures	**7**	**700**	(2,964)	**(377)**	(10,411)
Net change in non-cash working capital	**16**	**9,715**	(25,997)	**12,840**	(44,179)
Cash (used in) investing activities		**(35,132)**	(31,307)	**(71,599)**	(120,755)
Financing activities					
Issuance of common shares under equity-settled plans	**13**	**1,147**	493	**11,287**	2,692
Common shares repurchased	**13**	**(75,923)**	(12,564)	**(136,031)**	(63,526)
Payments on lease obligation	**9**	**(216)**	(208)	**(459)**	(420)
Net change in non-cash working capital	**16**	**—**	—	**—**	(2,046)
Cash (used in) financing activities		**(74,992)**	(12,279)	**(125,203)**	(63,300)
Increase (decrease) in cash for the period		**1,734**	(65,948)	**43,198**	(51,118)
Impact of foreign exchange on foreign currency-denominated cash balances		**(137)**	2,913	**(2,409)**	(11,332)
Cash, beginning of period		**369,756**	397,424	**330,564**	396,839
Cash, end of period		**$ 371,353**	$ 334,389	**$ 371,353**	$ 334,389

Supplemental Disclosure of Cash Flow Information (note 16)
See accompanying Notes to the Consolidated Interim Financial Statements

1. Corporate Information

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

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

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 4, 2021.

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

a) Statement of compliance

The condensed interim consolidated financial information for the three and six months ended June 30, 2021 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 4, 2021, the date of approval by the Board of Directors.

b) Basis of measurement

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

c) Use of management estimates, judgments and measurement uncertainty

The timely preparation of the 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.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2020.

3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2020.

4. Determination of Fair Values

The methods used in the determination of fair value, for financial and non-financial assets and liabilities have not changed from the previous financial year. Refer to note 4 of the December 31, 2020 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

		June 30, 2021		December 31, 2020
Trade receivables	$	**119,904**	$	80,166
Receivables from partners		**1,440**		—
	$	**121,344**	$	80,166

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Crude Oil Inventory

		June 30, 2021		December 31, 2020
Crude oil inventory	$	**676**	$	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.

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		377
Changes in decommissioning liability		601
Balance at June 30, 2021	**$**	**80,343**

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions of $0.4 million for the six months ended June 30, 2021 represent the Company's share of costs incurred on E&E assets during the period.

There were no indicators of exploration and evaluation impairment in the period ended June 30, 2021.

At June 30, 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		141		83,921		84,062
Changes in decommissioning and environmental liability		—		760		760
Balance at June 30, 2021	**$**	**8,306**	**$**	**2,519,581**	**$**	**2,527,887**
Accumulated Depreciation, Depletion and Amortization						
Balance at December 31, 2019	**$**	**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**	**$**	**1,540,166**
Depletion and depreciation for the period		74		56,919		56,993
Depreciation - Right of Use Asset		330		—		330
DD&A included in crude oil inventory costing		—		(496)		(496)
Balance at June 30, 2021	**$**	**5,854**	**$**	**1,591,139**	**$**	**1,596,993**
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 June 30, 2021	**$**	**2,452**	**$**	**928,442**	**$**	**930,894**

In the six months ended June 30, 2021 property, plant and equipment ("PPE") additions of $84.1 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.

For the six months ended June 30, 2021 future development costs of $364.4 million (six months ended June 30, 2020 - $390.6 million) were included in the depletion calculation for development and production assets. For the six months ended June 30, 2021 $4.3 million of general and administrative costs (six months ended June 30, 2020 - $3.6 million) have been capitalized in respect of development and production activities during the current period.

At June 30, 2021 there were no indicators of impairment noted, or indicators requiring a reversal of previously recorded impairments.

9. Lease Obligation

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

		June 30, 2021		December 31, 2020
Balance, beginning of period	$	2,570	$	1,637
Interest expense		4		54
Lease payments		(463)		(926)
Modifications		—		1,805
Balance, end of period		2,111		2,570
Current portion of lease obligations		(595)		(750)
Non-current portion of lease obligations	$	1,516	$	1,820

The consolidated statements of comprehensive income for the six months ended June 30, 2021 includes expenses related to leases as follows: $4 thousand (six months ended June 30, 2020 - $36 thousand) of interest expense related to the lease obligation, $0.3 million (six months ended June 30, 2020 - $0.4 million) of depreciation for right-of-use assets, $0.3 million (six months ended June 30, 2020 - $0.3 million) of non-lease components associated with the office lease obligation and $0.7 million (six months ended June 30, 2020 - $0.5 million) related to short-term and low value leases.

Total cash outflows related to the office lease obligation were $1.1 million for the six months ended June 30, 2021 (six months ended June 30, 2020 - $1.1 million).

10. Revenue

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

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

	For the three months ended June 30,				For the six months ended June 30,			
		2021		2020		2021		2020
Crude oil	$	242,210	$	77,002	$	458,617	$	266,646
Natural gas		5,108		3,405		10,759		7,379
Oil and natural gas sales	$	247,318	$	80,407	$	469,376	$	274,025

At June 30, 2021, receivables from contracts with customers, which are included in accounts receivable, were $119.9 million (December 31, 2020 - $80.2 million).

11. Net Finance Expense

	For the three months ended June 30,				For the six months ended June 30,			
		2021		2020		2021		2020
Bank charges and credit facility fees	$	930	$	957	$	1,507	$	1,697
Accretion on decommissioning and environmental liabilities		1,049		1,127		1,995		2,220
Interest and other income		(495)		(676)		(708)		(1,598)
Right of use asset interest		2		16		4		36
Loss (gain) on settlement of decommissioning liabilities		15		83		371		(13)
Loss on disposition of tangible assets		—		1,258		—		1,258
Expected credit loss provision (recovery)		1,866		(399)		1,638		944
Other		—		(1,724)		—		(647)
Net finance expense	$	3,367	$	642	$	4,807	$	3,897

		For the three months ended June 30,			For the six months ended June 30,	
		2021	2020		**2021**	2020
Non-cash finance expense	**$**	**2,930**	$ 345	**$**	**4,004**	$ 3,762
Cash finance expense, net		**437**	297		**803**	135
Net finance expense	**$**	**3,367**	$ 642	**$**	**4,807**	$ 3,897

12. 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		1,093		6		1,099
Settlements of obligations during the period		(2,625)		(155)		(2,780)
Loss on settlement of obligations		371		—		371
Accretion expense		1,035		960		1,995
Change in estimate - inflation and discount rates		(3,246)		2,719		(527)
Change in estimate - costs		789		—		789
Foreign exchange (gain)		(3,124)		(2,515)		(5,639)
Balance, June 30, 2021	**$**	**32,503**	**$**	**13,916**	**$**	**46,419**
Current obligation		(1,004)		(3,270)		(4,274)
Long-term obligation	**$**	**31,499**	**$**	**10,646**	**$**	**42,145**

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at June 30, 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 $65.1 million as at June 30, 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 7.9% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2020 – 5.3% risk-free discount rate and a 2% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is $1.0 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 $22.6 million as at June 30, 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 7.9% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2020 – 5.3% risk-free discount rate and a 2% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is $3.3 million (December 31, 2020 – $3.4 million) that is classified as a current obligation.

13. 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	1,778,856		11,287
Allocation of contributed surplus – exercise of options and RSUs	—		16,265
Repurchase of shares	(7,714,000)		(39,900)
Balance, June 30, 2021	**124,937,532**	**$**	**751,024**

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

In the six months ended June 30, 2021, a total of 1,778,856 options, RSUs and PSUs were exercised for proceeds of $11.3 million (year ended December 31, 2020 - 1,429,616 options, RSUs and PSUs were exercised for proceeds of $6.0 million). Also in the six months ended June 30, 2021, the Company repurchased 7,714,000 common shares pursuant to its Normal Course Issuer Bid at a cost of $136.0 million (average cost per share of Cdn$21.41).

For the year ended December 31, 2020, the Company repurchased 13,851,994 common shares pursuant to its Normal Course Issuer Bid at a cost of $171.5 million (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.

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 stock 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	(901,562)	15.79
Forfeited	(53,016)	21.09
Balance, June 30, 2021	**1,305,353**	**18.65**

Stock options outstanding and the weighted average remaining life of the stock options at June 30, 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 - $15.84	223,473	0.41	$	15.61	223,473	0.41	$	15.61
$15.85 - $17.13	282,102	0.69	$	16.02	282,102	0.69	$	16.02
$17.14 - $19.81	345,172	2.17	$	18.63	281,410	2.03	$	18.62
$19.82 - $21.92	248,161	4.18	$	21.45	48,332	3.13	$	20.93
$21.93 - $22.64	206,445	3.65	$	22.19	66,961	3.62	$	22.18
	1,305,353	**2.16**	**$**	**18.65**	**902,278**	**1.39**	**$**	**17.45**

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

For the six months ended June 30,	**2021**	2020
Risk-free interest rate (%)	**0.38**	1.33
Expected life (years)	**4**	4
Expected volatility (%)	**46**	37
Forfeiture rate (%)	**3**	3
Expected dividends	**—**	—

The weighted average fair value at the grant date for the six months ended June 30, 2021 was Cdn$7.85 per option (six months ended June 30, 2020 - Cdn$6.69 per option). The weighted average share price on the exercise date for options exercised in the six months ended June 30, 2021 was Cdn$22.11 (six months ended June 30, 2020 - Cdn$22.24).

c) Restricted and performance share units

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

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

	Number of RSU's	Weighted average exercise price Cdn$/RSU
Balance, December 31, 2019	1,663,318	0.01
Exercised	(600,416)	0.01
Cancelled/Forfeited/Expired	(37,543)	0.01
Balance, December 31, 2020	1,025,359	0.01
Exercised	(449,804)	0.01
Balance, June 30, 2021	**575,555**	**0.01**

RSUs outstanding and the weighted average remaining life of the RSUs at June 30, 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	575,555	1.05	575,555	1.05

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. For the six months ended June 30, 2021 a weighted average forfeiture rate of 3% was applied (six months ended June 30, 2020 - 3%).

Pursuant to the restricted share unit plan, the Company has granted performance share units to certain employees. The performance share units vest three years after the grant date and expire one month after the vesting date. PSUs may be granted with certain performance measures, specified at the grant date as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor of between 0-2x is applied to PSUs eligible to vest at the end of the performance period. In March 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 by performance factor	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, June 30, 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 six months ended June 30, 2021 was Cdn$22.41 per PSU (six months ended June 30, 2020 - Cdn$16.01 per PSU).

d) Equity settled share-based compensation

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Option expense	**$ 252**	$ 294	**$ 572**	$ 596
Restricted and performance share units expense	**1**	430	**579**	1,284
Total equity settled share-based compensation expense	**$ 253**	$ 724	**$ 1,151**	$ 1,880

14. Cash Settled Share-Based Compensation Plans

a) Share appreciation rights ("SARs")

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

	Number of SARs	Weighted average exercise price Cdn$/SAR
Balance, December 31, 2019	568,772	14.80
Exercised	(224,711)	13.33
Forfeited	(5,771)	11.22
Balance, December 31, 2020	338,290	15.84
Exercised	(154,471)	15.81
Balance, June 30, 2021	**183,819**	**15.86**

SARs outstanding and the weighted average remaining life of the SARs at June 30, 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
$12.59 - $15.62	15,443	0.16	$ 15.22	15,443	0.16	$ 15.22
$15.63 - $15.78	132,997	0.37	$ 15.66	132,997	0.37	$ 15.66
$15.79 - $16.83	11,936	0.52	$ 16.14	11,936	0.52	$ 16.14
$16.84 - $17.08	11,000	0.32	$ 16.99	11,000	0.32	$ 16.99
$17.09 - $17.54	12,443	0.50	$ 17.48	12,443	0.50	$ 17.48
	183,819	**0.37**	**$ 15.86**	**183,819**	**0.37**	**$ 15.86**

As at June 30, 2021, 183,819 SARs were vested (December 31, 2020 - 338,290).

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

For the six months ended June 30,	**2021**	2020
Risk-free interest rate (%)	**0.45**	1.04
Expected life (years)	**0.4**	0.4
Expected volatility (%)	**38**	53
Share price ($/Cdn)	**20.70**	16.36
Expected dividends	**—**	—

As at June 30, 2021, the total SARs liability accrued is $0.8 million (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 departure from the Company in accordance with the terms of the DSU Plan. The DSUs liability cannot be settled by the issuance of common shares.

	Number of DSU's
Balance, December 31, 2019	245,785
Granted	35,320
Exercised on board retirement	(63,960)
Balance, December 31, 2020	217,145
Granted	32,575
Balance, June 30, 2021	**249,720**

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 six months ended June 30, 2021 as Cdn$23.07 per DSU (six months ended June 30, 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 June 30, 2021, the total DSUs liability accrued is $4.2 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
Balance, December 31, 2019	991,670
Granted	381,278
Exercised	(476,705)
Forfeited	(20,542)
Balance, December 31, 2020	875,701
Granted	362,801
Exercised	(422,577)
Forfeited	(11,735)
Balance, June 30, 2021	**804,190**

The weighted average fair value at the grant date for six months ended June 30, 2021 was Cdn$21.88 per CRSU (six months ended June 30, 2020 - Cdn$21.75 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 June 30, 2021, the total CRSUs liability accrued is $6.1 million (December 31, 2020 - $8.2 million) of which $1.7 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 new Cash or share settled RSU/PSU incentive plan. This new plan replaced the equity settled RSU/PSU plan. This plan provides for the issuance of RSUs and PSUs to certain employees of Parex Canada. The plan entitles the holders to receive a cash payment equal to the market price of the Company's common shares at the time of exercise or the employee can elect to receive the award in Parex common shares. CosRSUs and CosPSUs vest over a three-year period and are exercised at the vest date.

CosRSU:

	Number of CosRSUs
Balance, December 31, 2019	649,185
Granted	618,649
Exercised	(221,813)
Balance, December 31, 2020	1,046,021
Granted	571,032
Exercised	(398,815)
Forfeited	(56,847)
Balance, June 30, 2021	**1,161,391**

CosPSU:

	Number of CosPSUs
Balance, December 31, 2019	222,100
Granted	211,600
Balance, December 31, 2020	433,700
Granted	276,865
Exercised	(2,794)
Forfeited	(22,705)
Balance, June 30, 2021	**685,066**

As at June 30, 2021, no CosRSUs and CosPSUs were vested.

The weighted average fair value at the grant date for the six months ended June 30, 2021 was Cdn$20.77 per CosRSU and CosPSU (six months ended June 30, 2020 - Cdn$21.72 per CosRSU and CosPSU.)

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of RSUs and PSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at June 30, 2021, the total CosRSUs and CosPSUs liability accrued is $13.2 million (December 31, 2020 - $11.3 million) of which $4.5 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 three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
SARs expense (recovery)	**$ (425)**	$ 895	**$ 42**	$ (1,963)
DSUs expense (recovery)	**301**	1,242	**1,183**	(1,192)
CRSUs expense (recovery)	**1,195**	1,229	**2,810**	(1,430)
CosRSUs and CosPSUs expense	**2,155**	3,306	**8,695**	1,966
Total cash settled share-based compensation expense (recovery)	**$ 3,226**	$ 6,672	**$ 12,730**	$ (2,619)
Cash payments made upon exercise in the period	**$ 1,535**	$ 2,728	**$ 14,120**	$ 11,058

15. Net Income per Share

a) Basic net income per share

	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Net income				
Net income for the purpose of basic net income per share	**$ 91,662**	$ 19,290	**$ 139,122**	$ 15,511
Weighted average number of shares for the purposes of basic net income per share (000s)	**127,346**	139,556	**128,524**	140,681
Basic net income per share	**$ 0.72**	$ 0.14	**$ 1.08**	$ 0.11

b) Diluted net income per share

	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Net income				
Net income used to calculate diluted net income per share	**$ 91,662**	$ 19,290	**$ 139,122**	$ 15,511
Weighted average number of shares for the purposes of basic net income per share (000s)	**127,346**	139,556	**128,524**	140,681
Dilutive effect of stock options, RSUs and PSUs on potential common shares	**694**	1,557	**683**	1,777
Weighted average number of shares for the purposes of diluted net income per share (000s)	**128,040**	141,113	**129,207**	142,458
Diluted net income per share	**$ 0.72**	$ 0.14	**$ 1.08**	$ 0.11

For the three and six months ended June 30, 2021, 411,662 stock options (three and six months ended June 30, 2020 - 672,934) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

16. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Accounts receivable	**$ (43,050)**	$ 22,765	**$ (41,178)**	$ 80,450
Prepaids and other current assets	**3,063**	946	**1,049**	(2,595)
Oil inventory	**2,579**	4,055	**1,239**	(628)
Accounts payable and accrued liabilities	**29,066**	(113,132)	**38,435**	(125,760)
Depletion related to oil inventory	**(803)**	(1,087)	**(496)**	299
Decommissioning and environmental liabilities	**(884)**	(683)	**(2,780)**	(1,144)
Net change in non-cash working capital	**$ (10,029)**	$ (87,136)	**$ (3,731)**	$ (49,378)
Operating	**$ (19,744)**	$ (61,139)	**$ (16,571)**	$ (3,153)
Investing	**9,715**	(25,997)	**12,840**	(44,179)
Financing	**—**	—	**—**	(2,046)
Net change in non-cash working capital	**$ (10,029)**	$ (87,136)	**$ (3,731)**	$ (49,378)

b) Interest and taxes paid

	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Cash interest paid	**$ —**	$ —	**$ —**	$ —
Cash income taxes paid	**$ —**	$ 36,064	**$ —**	$ 45,008

17. Capital Management

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

Parex has a senior secured credit facility which as at June 30, 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 a means to increase liquidity and fund cash needs as they arise. As at June 30, 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") related to the exploration work commitments on its Colombian concessions (see note 20 - Commitments). This performance guarantee facility has a limit of $150.0 million (December 31, 2020 - limit of $150.0 million) of which $15.7 million (December 31, 2020 - $21.9 million) is utilized at June 30, 2021. At June 30, 2021, there is an additional $25.2 million (December 31, 2020 - $24.5 million) of letters of credit that are provided by a Latin American bank on an unsecured basis.

As at June 30, 2021, the Company's net working capital surplus was $352.2 million (December 31, 2020 - $320.2 million), of which $371.4 million is cash.

Parex has the ability to adjust its capital structure by drawing on its existing secured credit facility and making adjustments to its capital expenditure, 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 and the credit facility. As at June 30, 2021 shareholders' equity was $1,356.0 million (December 31, 2020 - $1,340.5 million).

18. Financial Instruments and Risk Management

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

a) Credit risk

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

The Company for the six months ended June 30, 2021 had the majority of its oil sales to 10 counterparties. The accounts receivable balance as at June 30, 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 June 30, 2021, there were no accounts receivable past due (December 31, 2020 - $nil).

None of the Company's receivables are impaired at June 30, 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 June 30, 2021 was $nil.

The following are the contractual maturities of financial liabilities at June 30, 2021:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	$ 130,594	—	—	—	$ 130,594
Current income tax payable	4,177	—	—	—	4,177
Lease obligation	595	1,516	—	—	2,111
Cash settled equity plans payable	13,953	10,381	—	—	24,334
Total	**$ 149,319**	**11,897**	**—**	**—**	**$ 161,216**

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 June 30, 2021, the Company had no outstanding commodity price risk management contracts.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Realized loss on commodity risk management contracts	**$ —**	$ 3,940	**$ —**	$ 3,940
Total	**$ —**	$ 3,940	**$ —**	$ 3,940

d) Foreign currency risk

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

As at June 30, 2021, the Company had no outstanding foreign currency risk management contracts. As at June 30, 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 $0.3 million.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Realized loss on foreign currency risk management contracts	**$ —**	$ 511	**$ —**	$ 511
Unrealized (gain) on foreign currency risk management contracts	**—**	(508)	**$ —**	$ —
Total	**$ —**	$ 3	**$ —**	$ 511

The Company recorded a $0.5 million unrealized gain and $0.5 million loss on these contracts in the three months ended June 30, 2020 which is recorded in the financial statement line item "Foreign exchange (gain) loss".

19. Segmented Information

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

For the three months ended June 30, 2021 (unaudited)	**Canada**	**Colombia**	**Total**
Oil and natural gas sales	$ —	$ 247,318	$ 247,318
Royalties	—	(35,724)	(35,724)
Revenue	—	211,594	211,594
Expenses			
Production	—	27,527	27,527
Transportation	—	12,414	12,414
Purchased oil	—	2,545	2,545
General and administrative	6,123	4,631	10,754
Equity settled share-based compensation expense	253	—	253
Cash settled share-based compensation expense	2,457	769	3,226
Depletion, depreciation and amortization	209	27,953	28,162
Foreign exchange (gain)	(21)	(3,964)	(3,985)
	9,021	71,875	80,896
Finance (income)	(51)	(444)	(495)
Finance expense	694	3,168	3,862
Net finance expense	643	2,724	3,367
Income (loss) before taxes	(9,664)	136,995	127,331
Current tax expense	—	26,213	26,213
Deferred tax expense	462	8,994	9,456
Net income (loss)	**$ (10,126)**	**$ 101,788**	**$ 91,662**
Capital assets (end of period)	$ 2,452	$ 1,008,785	$ 1,011,237
Capital expenditures	$ 78	$ 44,769	$ 44,847
Total assets (end of period)	$ 144,195	$ 1,454,115	$ 1,598,310

For the three months ended June 30, 2020 (unaudited)	**Canada**	**Colombia**	**Total**
Oil and natural gas sales	$ —	$ 80,407	$ 80,407
Royalties	—	(7,742)	(7,742)
Revenue	—	72,665	72,665
Commodity risk management contracts (loss)	—	(3,940)	(3,940)
	—	68,725	68,725
Expenses			
Production	—	19,372	19,372
Transportation	—	9,743	9,743
Purchased oil	—	3,319	3,319
General and administrative	3,706	4,733	8,439
Equity settled share-based compensation expense	724	—	724
Cash settled share-based compensation expense	4,549	2,123	6,672
Depletion, depreciation and amortization	212	25,038	25,250
Foreign exchange loss (gain)	(1,073)	7,656	6,583
	8,118	71,984	80,102
Finance (income) expense	(985)	309	(676)
Finance expense	650	668	1,318
Net finance expense (income)	(335)	977	642
Loss before taxes	(7,783)	(4,236)	(12,019)
Current tax (recovery)	(2)	(6,849)	(6,851)
Deferred tax (recovery)	(1,982)	(22,476)	(24,458)
Net income (loss)	**$ (5,799)**	**$ 25,089**	**$ 19,290**
Capital assets (end of period)	$ 1,311	$ 981,641	$ 982,952
Capital expenditures	$ 41	$ 5,269	$ 5,310
Total assets (end of period)	$ 167,107	$ 1,366,270	$ 1,533,377

For the six months ended June 30, 2021 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	$ —	$ 469,376	$ 469,376
Royalties	—	(61,295)	(61,295)
Revenue	—	408,081	408,081
Expenses			
Production	—	51,943	51,943
Transportation	—	26,852	26,852
Purchased oil	—	5,128	5,128
General and administrative	11,964	7,638	19,602
Equity settled share-based compensation expense	1,151	—	1,151
Cash settled share-based compensation expense	9,878	2,852	12,730
Depletion, depreciation and amortization	404	56,919	57,323
Foreign exchange (gain) loss	9	(8,229)	(8,220)
	23,406	143,103	166,509
Finance (income)	(120)	(588)	(708)
Finance expense	979	4,536	5,515
Net finance expense	859	3,948	4,807
Income (loss) before taxes	(24,265)	261,030	236,765
Current tax expense	—	48,489	48,489
Deferred tax expense (recovery)	(810)	49,964	49,154
Net income (loss)	**$ (23,455)**	**$ 162,577**	**$ 139,122**
Capital assets (end of period)	$ 2,452	$ 1,008,785	$ 1,011,237
Capital expenditures	$ 141	$ 84,298	$ 84,439
Total assets (end of period)	$ 144,195	$ 1,454,115	$ 1,598,310

For the six months ended June 30, 2020 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	$ —	$ 274,025	$ 274,025
Royalties	—	(29,959)	(29,959)
Revenue	—	244,066	244,066
Commodity risk management contracts (loss)	—	(3,940)	(3,940)
	—	240,126	240,126
Expenses			
Production	—	44,434	44,434
Transportation	—	30,079	30,079
Purchased oil	—	13,560	13,560
General and administrative	8,412	9,126	17,538
Impairment of property, plant and equipment assets	—	7,000	7,000
Equity settled share-based compensation expense	1,880	—	1,880
Cash settled share-based compensation (recovery) expense	774	(3,393)	(2,619)
Depletion, depreciation and amortization	429	54,490	54,919
Foreign exchange (gain) loss	1,908	(11,473)	(9,565)
	13,403	143,823	157,226
Finance (income) expense	(2,610)	1,012	(1,598)
Finance expense	900	4,595	5,495
Net finance expense (income)	(1,710)	5,607	3,897
Income (loss) before taxes	(11,693)	90,696	79,003
Current tax expense	—	3,248	3,248
Deferred tax expense (recovery)	(1,460)	61,704	60,244
Net income (loss)	**$ (10,233)**	**$ 25,744**	**$ 15,511**
Capital assets (end of period)	$ 1,311	$ 981,641	$ 982,952
Capital expenditures	$ 105	$ 76,471	$ 76,576
Total assets (end of period)	$ 167,107	$ 1,366,270	$ 1,533,377

In Colombia the majority of oil sales are with ten customers in the oil and gas industry and are subject to normal industry credit risks for both periods ending June 30, 2021 and 2020.

20. Commitments

a) Colombia

At June 30, 2021, performance guarantees are in place with the Colombian National Hydrocarbon Agency ("ANH") for certain blocks. The guarantees are in the form of issued letters of credit totaling $40.9 million (December 31, 2020 - $46.4 million) to support the exploration work commitments in respect of the 24 blocks in Colombia.

At June 30, 2021, Export Development Canada ("EDC") has provided the Company's bank with performance security guarantees to support approximately $15.7 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. At June 30, 2021, there is an additional $25.2 million (December 31, 2020 - $24.5 million) of letters of credit that are provided by a Latin American bank on an unsecured basis. The letters of credit issued to the ANH are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at June 30, 2021 in respect of the Colombia work commitments are estimated to be as follows:

2021	$	38,145
2022		2,151
2023		40,397
Thereafter		89,091
	$	**169,784**

b) Operating leases

In the normal course of business, Parex has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. These commitments include leases for office space and accommodations. The existing minimum lease payments for office space and accommodations at June 30, 2021 are as follows:

		Total	2021	2022	2023	2024	Thereafter
Office and accommodations	$	6,445	1,476	1,821	1,628	1,520	—

21. Subsequent Events

Dividend Program Initiation

On July 7th, 2021 the Company announced the Board of Directors approved the initiation of a dividend program 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. A dividend in the amount of Cdn$0.125 per Common Share has been declared for the third quarter of 2021, which will be payable on September 30, 2021 to shareholders of record as of September 15, 2021.

Arauca and LLA-38 block Farm-in

On July 7th, 2021, Parex and Ecopetrol S.A. ("Ecopetrol") executed agreements whereby Parex will earn an operated, 50% interest in two blocks, the Arauca and LLA-38 blocks (the "Blocks"), located in the proven and highly prolific Llanos basin in the Arauca province of north-eastern Colombia. Collectively, the Blocks contain proved reserves along with development and drill ready exploration prospects.

Parex and Ecopetrol have agreed to an initial work plan for the Blocks, funded solely by Parex, that consists of the drilling of 2 development wells, 1 exploration well and a further capital program of $75.8 million. The overall timing and activities of the capital program, across both the Blocks, will be determined based on partner consultation, customary regulatory approvals, surface access and exploration success, among other factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended June 30, 2021 is dated August 4, 2021 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended June 30, 2021, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2020. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex and factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 3, 2021 ("AIF"), and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

Parex is an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

Abbreviations

Refer to the end of the MD&A for commonly used abbreviations in the document. Refer to the Advisory on Forward-Looking Statements and Non-GAAP Terms used.

Three months ended June 30, 2021 ("second quarter or Q2") Highlights

- Quarterly average production was 43,900 boe/d, an increase of approximately 18% on a per basic share basis over the previous period ended June 30, 2020. Oil production in Q2 2021 was temporarily restricted due to transportation blockades across Colombia that restricted movement of crude oil, and supplies to drilling and completion activities. Refer to "Consolidated Results of Operations" for production split by product type;
- Recognized net income of $91.7 million ($0.72 per share basic) compared to net income of $47.5 million ($0.37 per share basic) in the previous quarter ended March 31, 2021 and a net income of $19.3 million ($0.14 per share basic) in the comparative quarter of 2020;
- Generated an operating netback of $41.29/boe (2020 - $9.95/boe) and funds flow provided by operations ("FFO") netback of $32.02/boe (2020 - $9.96/boe) from an average Brent price of $69.08/bbl (2020 - $33.39/bbl);
- Funds flow provided by operations were $131.6 million ($1.03 per share basic) as compared to funds flow provided by operations of $38.8 million ($0.28 per share basic) for the prior year comparative period; FFO increased in the current quarter primarily due to higher global oil prices;
- Capital expenditures were $44.8 million compared to $5.3 million in the comparative period of 2020;
- A portion of free funds flow of $86.8 million were utilized to purchase and cancel 4,212,315 of the Company's common shares for a total cost of $75.9 million (average price of Cdn$21.67/share) pursuant to the Company's normal course issuer bid ("NCIB") program. Shares outstanding at the end of the period were 124.9 million compared to 139.0 million at June 30, 2020;
- Working capital was $352.2 million at June 30, 2021 compared to $341.7 million at March 31, 2021 and $339.3 million at June 30, 2020. The Company has an undrawn syndicated bank credit facility of $200.0 million; and
- Participated in drilling 10 gross (6.55 net) wells in Colombia resulting in 7 oil wells, 1 disposal well, 1 well under test and 1 abandoned well for a success rate of 88%.

Financial Summary

(Financial figures in $'000s except per share amounts)	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Light Crude Oil and Medium Crude Oil (bbl/d)	**5,881**	4,186	**6,999**	6,268
Heavy Crude Oil (bbl/d)	**36,308**	35,478	**36,627**	40,082
Average daily oil production (bbl/d)(1)	**42,189**	39,664	**43,626**	46,350
Average daily conventional natural gas production (mcf/d)(1)	**10,266**	7,164	**10,236**	7,338
Average oil and natural gas production (boe/d)	**43,900**	40,858	**45,332**	47,573
Production split (% crude oil)	**96**	97	**96**	97
Realized sales price ($/boe)	**59.68**	19.25	**56.21**	29.75
Operating netback ($/boe) (2)	**41.29**	9.95	**39.32**	17.84
Oil and natural gas sales	**247,318**	80,407	**469,376**	274,025
Funds flow provided by operations(2)	**131,602**	38,777	**256,571**	136,090
Per share – basic(2)	**1.03**	0.28	**2.00**	0.97
Per share – diluted (2)	**1.03**	0.27	**1.99**	0.96
Net income	**91,662**	19,290	**139,122**	15,511
Per share – basic	**0.72**	0.14	**1.08**	0.11
Per share – diluted	**0.72**	0.14	**1.08**	0.11
Capital expenditures	**44,847**	5,310	**84,439**	76,576
Free funds flow(2)	**86,755**	33,467	**172,132**	59,514
Total assets (end of period)	**1,598,310**	1,533,377	**1,598,310**	1,533,377
Working capital surplus (end of period)(3)	**352,188**	339,310	**352,188**	339,310
Bank debt (end of period)(4)	**—**	—	**—**	—
Weighted average shares outstanding (000s)				
Basic	**127,346**	139,556	**128,524**	140,681
Diluted	**128,040**	141,113	**129,207**	142,458
Outstanding shares (end of period) (000s)	**124,938**	139,011	**124,938**	139,011

(1) Reference to crude oil or natural gas production in the above table and elsewhere in this MD&A refer to the light crude oil and medium crude oil and heavy crude oil and conventional natural gas, respectively, product types as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.
(2) Non-GAAP term. Refer to "Non-GAAP Terms".
(3) Working capital calculation does not take into consideration the undrawn amount available under the Company's syndicated bank credit facility ("credit facility").
(4) Credit facility borrowing base of $200.0 million as at June 30, 2021.

H2 2021 Corporate Guidance

Provided below is Parex' corporate guidance for the period from July 1, 2021 to December 31, 2021 ("H2 2021"):

	H1 2021 Results	H2 2021 Guidance
Production (average for period) (boe/d)	45,332(1)	46,000-50,000
Total capital expenditures ($ millions)	$84	$165-$190
Brent crude average ($/bbl)(2)	$65	$70
Funds flow provided by operations ($ millions)(3)(4)	$257	$280-$300
Share buy-back program (shares repurchased) ($ millions)	7.7	5.2
Outstanding shares (end of period) (millions)	124.9	120-121

(1) Consisting of 6,999 bbls/d of light crude oil and medium crude oil, 36,627 bbls/d of heavy crude oil and 10,236 mcf/d of conventional natural gas.
(2) Results for the period from January 1, 2021 to June 30, 2021 ("H1 2021") resulted in Brent/Vasconia crude differential of $2.81/bbl and H2 2021 Guidance assumes Brent/Vasconia crude differential of approximately $4.00 under $70/bbl Brent pricing.
(3) Funds flow provided by operations is based on the mid-point of H2 2021 production guidance.
(4) Non-GAAP term. Refer to "Non-GAAP Terms".

Parex is updating its H2 2021 production guidance and is expecting H2 2021 production to average 46,000-50,000 boe/d. The lower end of the range incorporates the possibility of additional disturbances.

Dividend Initiation

In its press release dated July 7, 2021, the Company announced the implementation of a quarterly dividend program with respect to its common shares (the "Common Shares") and approval of the board of directors (the "Board") of the payment of a dividend of CAD$0.125 per Common Share, which will be payable on September 30, 2021 to shareholders of record as of September 15, 2021.

The decision to declare any quarterly dividend and the amount of such dividend, if any, will be subject to the discretion and determined by the Board taking into account, among other things, business performance, financial condition, growth plans and expected capital requirements as well as any contractual restrictions and compliance with applicable law. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future.

Parex is committed to returning capital to shareholders and believes the decision to initiate a dividend program as well as continuing to utilize its NCIB demonstrates such commitment towards maximizing shareholder value.

Financial and Operational Results

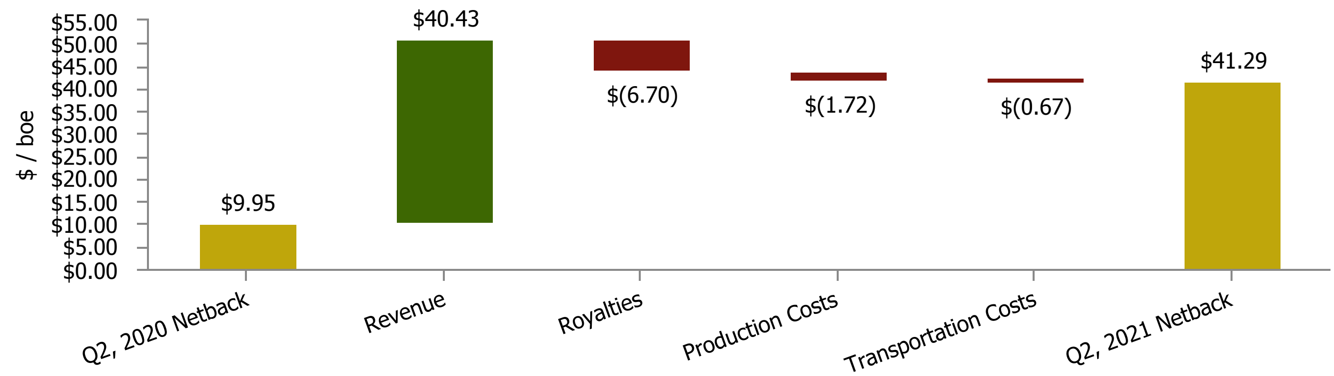
Consolidated Results of Operations

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

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Average daily production				
Light Crude Oil and Medium Crude Oil (bbl/d)	**5,881**	4,186	**6,999**	6,268
Heavy Crude Oil (bbl/d)	**36,308**	35,478	**36,627**	40,082
Crude oil (bbl/d)	**42,189**	39,664	**43,626**	46,350
Conventional Natural Gas (mcf/d)	**10,266**	7,164	**10,236**	7,338
Total (boe/d)	**43,900**	40,858	**45,332**	47,573
Production split (% crude oil production)	**96**	97	**96**	97
Average daily sales of oil and natural gas				
Produced crude oil (bbl/d)	**43,455**	41,583	**44,033**	46,086
Purchased crude oil (bbl/d)	**376**	3,118	**393**	3,290
Produced natural gas (mcf/d)	**10,266**	7,164	**10,236**	7,338
Total (boe/d)	**45,542**	45,895	**46,132**	50,599
Operating netback (000s)[1]				
Oil and natural gas sales	**$ 247,318**	$ 80,407	**$ 469,376**	$ 274,025
Royalties	**(35,724)**	(7,742)	**(61,295)**	(29,959)
Net revenue	**211,594**	72,665	**408,081**	244,066
Production expense	**(27,527)**	(19,372)	**(51,943)**	(44,434)
Transportation expense	**(12,414)**	(9,743)	**(26,852)**	(30,079)
Purchased oil	**(2,545)**	(3,319)	**(5,128)**	(13,560)
Operating netback	**$ 169,108**	$ 40,231	**$ 324,158**	$ 155,993
Operating netback (per boe)[1]				
Oil and natural gas sales	**$ 59.68**	$ 19.25	**$ 56.21**	$ 29.75
Royalties	**(8.69)**	(1.99)	**(7.40)**	(3.48)
Net revenue	**50.99**	17.26	**48.81**	26.27
Production expense	**(6.70)**	(4.98)	**(6.27)**	(5.16)
Transportation expense	**(3.00)**	(2.33)	**(3.22)**	(3.27)
Operating netback	**$ 41.29**	$ 9.95	**$ 39.32**	$ 17.84

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

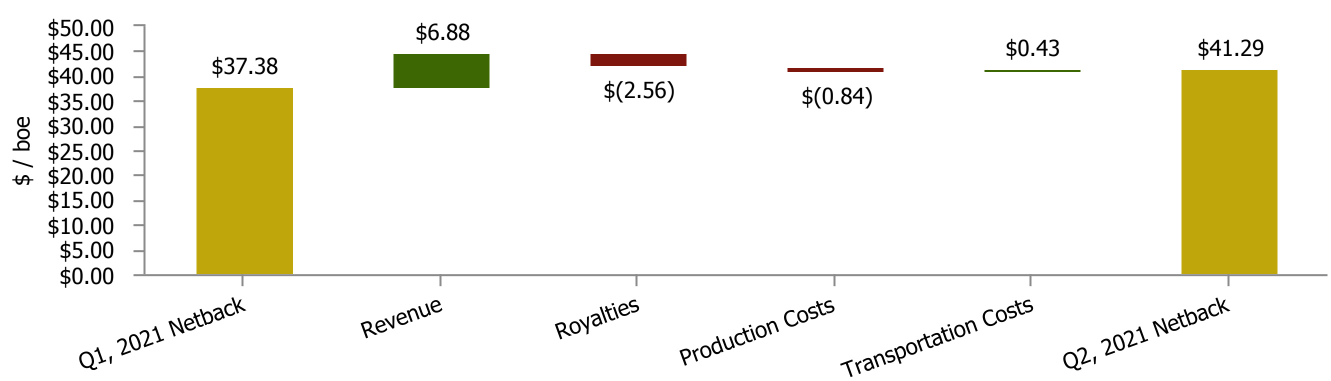
Change in Operating Netback by Component
Q2/20 vs. Q2/21



Overall, the Company's benchmark Brent crude oil price increased by $35.69/bbl, while revenue increased by $40.43/boe in the second quarter of 2021 as compared to the second quarter of 2020. The increase in revenue relative to the Brent crude benchmark increase is mainly the result of stronger Vasconia crude oil pricing (and thereby a lower differential to Brent oil price) and decreased wellhead oil sales in the quarter as compared to the comparative period. Royalties increased by $6.70/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by $1.72/boe mainly as a result of increased well workovers in the current quarter on Block LLA-34 and also bringing back production on legacy fields where production costs are higher on a per bbl basis. Transportation costs increased $0.67/boe mainly as a result of a change in sales mix as a higher percentage of crude was transported and exported in the current period vs. sold at the wellhead, partially offset by the tie-in of additional Block LLA-34 volumes to the Oleoductos de Los Llanos ("ODL") pipeline which carries a lower tariff than the cost of truck transport for this particular volume of crude.

Overall, the operating netback increased by $31.34/boe vs a Brent benchmark crude increase of $35.69/bbl.

Change in Operating Netback by Component
Q1/21 vs. Q2/21



In the second quarter of 2021, the Company's benchmark Brent oil price increased by $7.76/bbl, while revenue increased by $6.88/boe. The decrease in revenue relative to the Brent crude oil benchmark increase is mainly the result of slightly weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) and increased well head sales in the quarter as compared to the comparative period. Royalties increased by $2.56/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by $0.84/boe mainly as a result of increased well workovers in the current quarter in Block LLA-34. Transportation costs decreased $0.43/boe mainly as a result of a change in sales mix as a higher percentage of crude was transported and exported in the prior period vs. sold at the wellhead. Also the tie-in of additional Block LLA-34 volumes to the ODL pipeline which carries a lower tariff than the cost of truck transport for this particular volume of crude has reduced transportation costs.

Overall, the operating netback increased by $3.91/boe vs a Brent benchmark crude increase of $7.76/bbl.

Oil and Natural Gas Sales

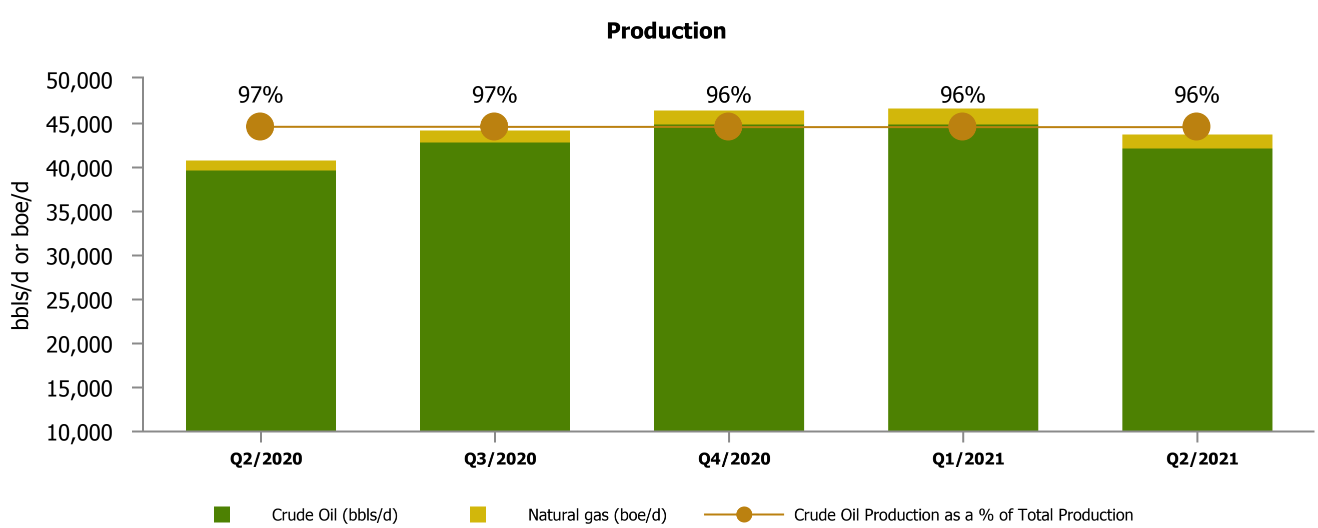
a) Average Daily Production and Sales Volumes (boe/d)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Block LLA-34 (Tigana, Jacana and Tua fields)	**29,963**	31,888	**30,176**	35,595
Block Cabrestero (Bacano and Akira fields)	**5,596**	3,585	**5,723**	4,409
Block Capachos (Capachos and Andina fields)	**2,987**	3,085	**3,848**	3,112
Block LLA-26 (Rumba field)	**1,018**	438	**1,062**	1,062
Block LLA-32 (Kananaskis, Calona, Carmentea and Azogue fields)	**1,114**	661	**1,160**	1,317
Other	**1,511**	7	**1,657**	855
Total Crude Oil Production	**42,189**	39,664	**43,626**	46,350
Natural gas production	**1,711**	1,194	**1,706**	1,223
Total Crude oil and natural gas production	**43,900**	40,858	**45,332**	47,573
Crude oil inventory draw (build)	**1,266**	1,919	**407**	(264)
Average daily sales of produced oil and natural gas	**45,166**	42,777	**45,739**	47,309
Purchased oil	**376**	3,118	**393**	3,290
Sales Volumes	**45,542**	45,895	**46,132**	50,599

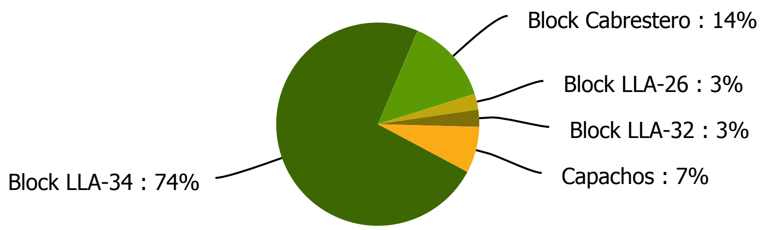
Oil and natural gas production for the second quarter of 2021 averaged 43,900 boe/d, an increase of approximately 7% from the comparative second quarter of 2020 and a decrease of approximately 6% to the first quarter of 2021. The increase in oil and natural gas production in the second quarter of 2021 compared to the second 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 decrease in production in the second quarter of 2021 compared to the first quarter of 2021 is mainly the result of a series of protests across Colombia during May and June 2021 resulting in transportation blockades that restricted the production and marketing of the Company's crude oil. Most of the civil disturbances have been resolved and the transportation blockades have been lifted by the beginning of July 2021.

Oil and natural gas sales in the second quarter of 2021 were 45,542 boe/d compared to 45,895 boe/d for the second quarter of 2020.



Production By Area
(Three Months ended June 30, 2021)



b) Crude Oil Reference and Realized Prices

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Reference Prices				
Brent ($/bbl)	**69.08**	33.39	**65.23**	42.29
Vasconia ($/bbl)	**66.12**	26.70	**62.42**	36.28
WTI ($/bbl)	**66.19**	28.04	**62.22**	37.14
Average Realized Prices				
Realized sales price ($/boe)	**59.68**	19.25	**56.21**	29.75
Realized price (differential) to Brent crude ($/boe)	**(9.40)**	(14.14)	**(9.02)**	(12.54)

During Q2 2021, the differential between Brent reference pricing and the Company's realized sale price was $9.40/boe. The differential to Brent crude during Q2 2021 increased by $0.88/boe compared to the first quarter of 2021 where the differential was $8.52/boe (see below).

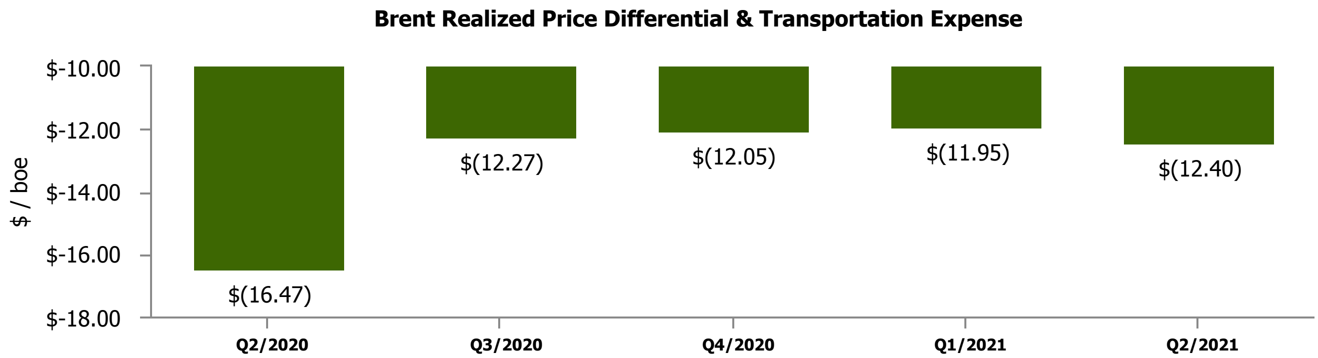
The table below provides a quarter-by-quarter view of Parex' historical oil pricing in Colombia:

Average price for the period	**Q2 2021**	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Brent ($/bbl)	**69.08**	61.32	45.26	43.34	33.39
Vasconia ($/bbl)	**66.12**	58.71	42.69	40.35	26.70
Brent/Vasconia crude (differential) ($/bbl)	**(2.96)**	(2.61)	(2.57)	(2.99)	(6.69)
Parex quality differential ($/bbl)	**(0.07)**	(0.20)	(0.15)	(0.35)	(0.44)
Parex wellhead sales discount ($/bbl)	**(6.37)**	(5.71)	(5.59)	(6.12)	(7.01)
Parex realized sales price ($/boe)	**59.68**	52.80	36.95	33.88	19.25
Parex realized price (differential) to Brent crude ($/boe)	**(9.40)**	(8.52)	(8.31)	(9.46)	(14.14)
Parex transportation expense ($/boe)(1)	**(3.00)**	(3.43)	(3.74)	(2.81)	(2.33)
Parex price differential and transportation expense ($/boe)	**(12.40)**	(11.95)	(12.05)	(12.27)	(16.47)

(1) See Transportation section below. Applies only to direct export cargo sales where Parex incurs the pipeline fees directly.

Differences between Parex' realized price and Vasconia crude price is mainly related to quality adjustments, wellhead sale marketing contracts, and timing of oil sales compared to quarter averages. The differential between Vasconia crude pricing and Brent crude pricing also affects Parex' realized sales price and is set in liquid global markets and therefore attributed to factors that are beyond the Company's control. The significant decrease in global crude oil prices beginning in March 2020 widened the Brent/Vasconia differential to as high as $10/bbl in April and May 2020. In the second quarter of 2021 the Vasconia differential improved to $2.96/bbl average vs $6.69/bbl in Q2 2020. Parex' Colombian oil production is fully exposed to swings in the Vasconia differential to Brent.

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 cargo sales contract. Parex' combined transportation costs plus Brent price differential has been trending lower since Q2 2019, except for the period of the COVID-19 pandemic oil price shock in Q1 & Q2 2020. This improvement is primarily the result of an improvement of global heavy crude oil differentials and Colombia's location allowing Parex crude oil access to all the major global crude oil buying markets and recovery in global oil prices. Also having a positive impact on transportation costs is the ODL pipeline tie-in of Block LLA-34 crude which volumes began to be transported through this pipeline tie-in in Q1 2021.



c) Natural Gas Revenue and Realized Prices

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Revenue (000's)	**$ 5,108**	$ 3,405	**$ 10,759**	$ 7,379
Realized sales price ($/Mcf)	**5.47**	5.22	**5.81**	5.53

Parex natural gas revenues were $5.1 million and $10.8 million for the three and six months ended June 30, 2021 compared to $3.4 million and $7.4 million in the same periods of 2020. The increase in natural gas sales from the prior period 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

Second quarter 2021 oil and natural gas revenue increased $166.9 million or 208% as reconciled in the table below to the second quarter of 2020:

($000s)	
Oil and natural gas revenue, three months ended June 30, 2020	**$ 80,407**
Sales volume of produced oil, an increase of 5% (1,872 bopd)	**3,207**
Sales volume of purchased oil, a decrease of 88% (2,742 bopd)	**(4,723)**
Oil sales price increase of 221%	**166,724**
Sales volume and price change of produced natural gas	**1,703**
Oil and natural gas revenue, three months ended June 30, 2021	**$ 247,318**

Oil and natural gas revenue increased in the three months ended June 30, 2021 compared to the same period in 2020 mainly due to the increase in world oil prices and increased sales volumes of produced oil, partially offset by decreased sales volumes of purchased oil.

e) Crude Oil Inventory in Transit

As at June 30, ($000s)	**2021**	2020
Crude oil in transit	**$ 676**	$ 1,281

As at June 30, 2021, the Company had 25.7 mbbls of crude oil inventory in transit compared to 75.9 mbbls at June 30, 2020, which was injected into the Colombian pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately $26/bbl incurred in bringing the crude oil to its existing condition and location.

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

For the periods ended (mbbls)	**Jun. 30, 2021**	Mar. 31, 2021	Dec. 31, 2020	Sep. 30, 2020
Crude oil inventory in transit - beginning of the period	**140.9**	99.5	88.0	75.9
Oil production	**3,826.7**	4,037.4	4,118.9	3,940.2
Oil sales	**(3,976.1)**	(4,032.9)	(4,354.7)	(4,179.9)
Purchased oil	**34.2**	36.9	247.3	251.8
Crude oil inventory in transit - end of the period	**25.7**	140.9	99.5	88.0
% of period production	**0.7**	3.5	2.4	2.2

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 June 30, 2021 was 0.7%. Parex expects crude oil inventory in future periods to remain in line with normal historic levels of below 5% of period production.

f) Purchased Oil

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Purchased oil expense ($000s)	**$ 2,545**	$ 3,319	**$ 5,128**	$ 13,560

Purchased oil expense for the three and six months ended June 30, 2021 was $2.5 million and $5.1 million compared to $3.3 million and $13.6 million for the 2020 comparative periods and $2.6 million in the first 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 at certain fields, primarily at the Capachos field. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Royalties

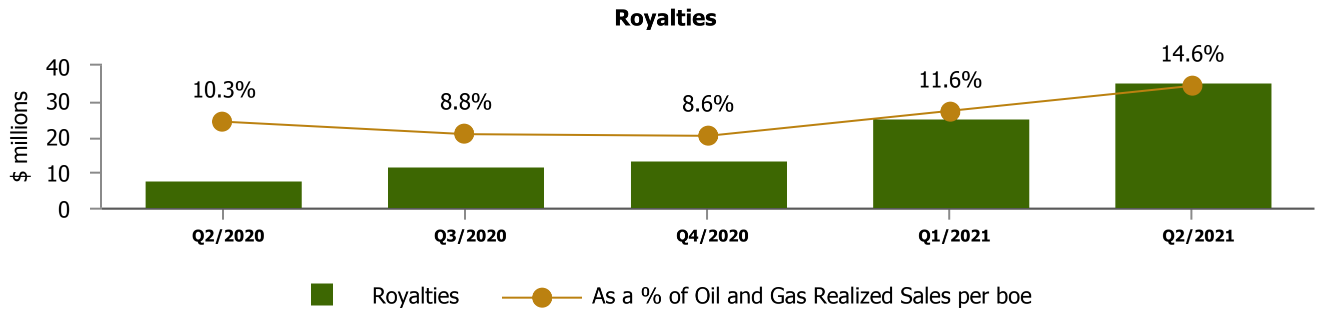
	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Royalties ($000s)	**$ 35,724**	$ 7,742	**$ 61,295**	$ 29,959
Per unit ($/boe)	**8.69**	1.99	**7.40**	3.48
Percentage of sales(1)	**14.6**	10.3	**13.2**	11.7

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

In the three and six months ended June 30, 2021 royalties as a percentage of sales were 14.6% and 13.2% compared to 11.6% during the three months ended March 31, 2021 and 10.3% and 11.7% for the 2020 comparative periods. The increase in royalties as a percentage of sales in the quarter from the previous quarter ended March 31, 2021 is a result of higher benchmark WTI prices which are used in the high price share royalty ("HPR") calculation. Benchmark WTI price for the three and six months ended June 30, 2021 were $66.19 and $62.22 compared to $58.13 during the three months ended March 31, 2021, and $28.04 and $37.14 for the 2020 comparative periods.

The increase in royalty expense to $35.7 million and $61.3 million in the three and six months ended June 30, 2021 compared to $7.7 million and $30.0 million for the 2020 comparative prior year periods is mainly a result of higher benchmark WTI prices used in the calculation of royalties.

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



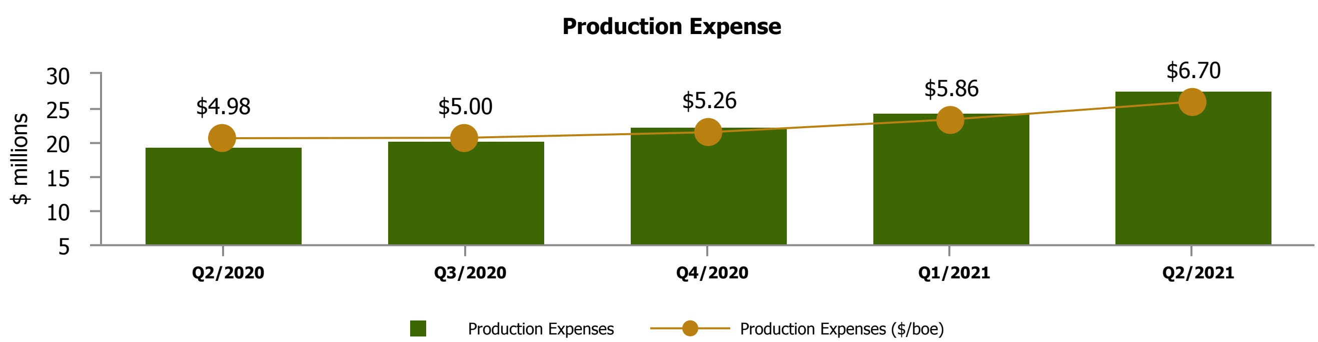
Production Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Production expense (000s)	**$ 27,527**	$ 19,372	**$ 51,943**	$ 44,434
Per unit ($/boe)(1)	**6.70**	4.98	**6.27**	5.16

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

Production expense for the three and six months ended June 30, 2021 was $6.70 and $6.27/boe compared to $4.98 and $5.16/boe in the three and six months ended June 30, 2020. Production expense for the first quarter of 2021 was $5.86/boe.

The increase in production expense for the six months ended June 30, 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 mature 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 June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Transportation expense ($000s)	**$ 12,414**	$ 9,743	**$ 26,852**	$ 30,079
Per unit ($/boe)	**3.00**	2.33	**3.22**	3.27

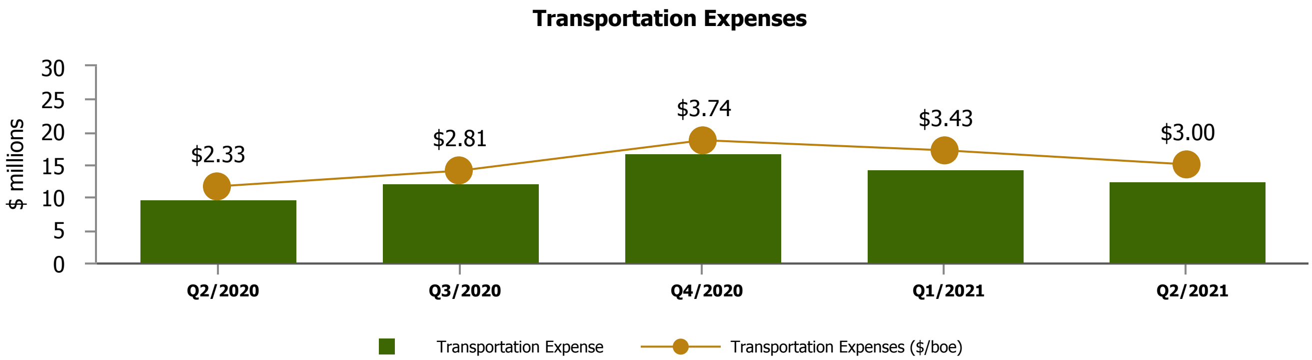
Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and in some instances an oil transportation tariff from delivery point to the buyer's facility and pipeline tariffs.

For the three months ended June 30, 2021 the cost of transportation on a per boe basis has decreased to $3.00/boe from the first quarter of 2021 of $3.43/boe and increased from the comparative period in 2020 of $2.33/boe. Transportation expense will fluctuate period over period due to the mix of sales contract types in force during the period.

The increase from the comparative periods of 2020 is a result of a change in sales mix as a higher percentage of crude was transported and exported in the current period vs. sold at the wellhead, partially offset by the tie-in of additional Block LLA-34 volumes to the ODL pipeline which carries a lower tariff than the cost of truck transport for this particular volume of crude. The decrease from the first quarter of 2021 is mainly due to the change in sales mix as a higher percentage of crude was transported and exported in the prior period vs. sold at the wellhead. Also the tie-in of additional Block LLA-34 volumes to the ODL pipeline which carries a lower tariff than the cost of truck transport for this particular volume of crude has reduced transportation costs.

On a year to date basis, transportation expense has been in line at $3.22/boe with $3.27/boe in the comparative period in 2020.

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



General and Administrative Expense ("G&A")

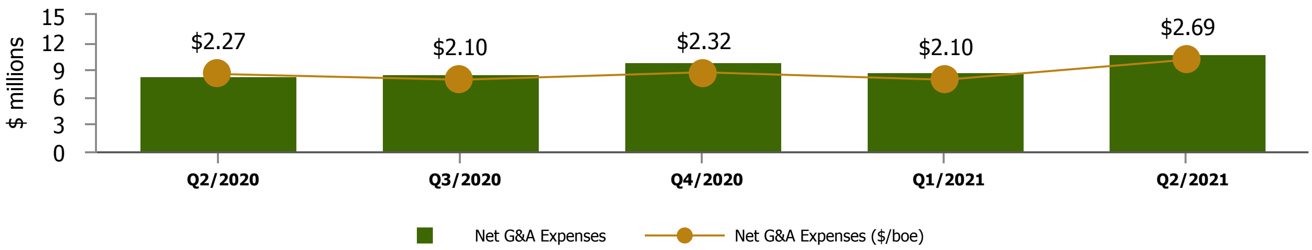
	For the three months ended June 30,		For the six months ended June 30,	
(000s)	**2021**	2020	**2021**	2020
Gross G&A	**$ 13,066**	$ 10,058	**$ 25,152**	$ 21,481
G&A recoveries	**(697)**	(121)	**(1,298)**	(384)
Capitalized G&A	**(1,615)**	(1,498)	**(4,252)**	(3,559)
Total net G&A	**$ 10,754**	$ 8,439	**$ 19,602**	$ 17,538
Per unit ($/boe) (1)	**2.69**	2.27	**2.39**	2.03

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

Net G&A was $10.8 million and $19.6 million for the three and six months ended June 30, 2021 compared to $8.4 million and $17.5 million for the same periods in 2020. Gross G&A was $13.1 million and $25.2 million for the three and six months ended June 30, 2021 (three and six months ended June 30, 2020 - $10.1 million and $21.5 million). Gross and net G&A has increased mainly as a result of a modest increase in head count in the current year and also approximately $1.0M in one-time charges related to certain projects. For the six months ended June 30, 2021, on a per boe basis, net G&A has increased 18% compared to the comparative period in 2020 as result of increased costs and decreased production.

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

Net General and Administrative Expenses



Share-Based Compensation

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Equity settled share-based compensation expense	**$ 253**	$ 724	**$ 1,151**	$ 1,880
Cash settled share-based compensation expense (recovery)	**3,226**	6,672	**12,730**	(2,619)
Total net expense (recovery)	**$ 3,479**	$ 7,396	**$ 13,881**	$ (739)

Share-based compensation expense was $13.9 million for the six months ended June 30, 2021 compared to a $0.7 million recovery of expense recorded 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 compensation as explained below.

Equity settled share-based compensation expense was $1.2 million for the six months ended June 30, 2021 compared to $1.9 million for the same period 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.

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"). For the six months ended June 30, 2021 there was an expense of $12.7 million related to cash settled incentive plans compared to a $2.6 million recovery for the same period in 2020. The increase in expense is attributable mainly to the increase in Parex share price to Cdn$20.70 at June 30, 2021 from Cdn$17.52 at December 31, 2020 compared to a decrease in share price to Cdn$16.36 at June 30, 2020 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 14 of the interim financial statements for the six months ended June 30, 2021. As at June 30, 2021, the total cash settled incentive plans liability accrued was $24.3 million (December 31, 2020 - $23.7 million).

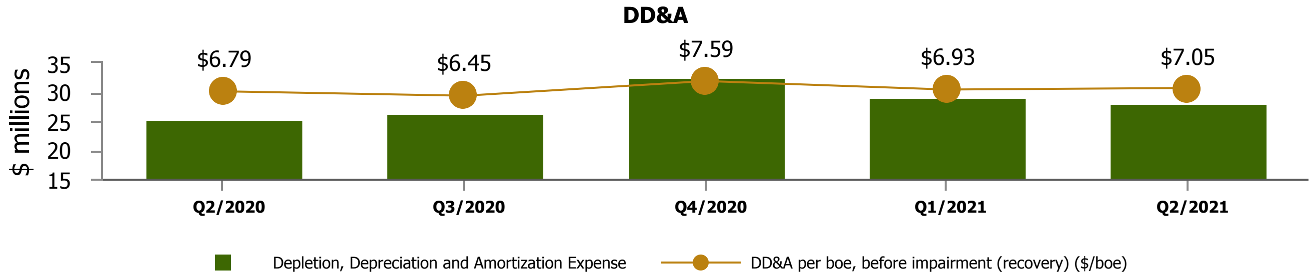
Cash payments to settle cash settled share-based compensation in the three and six months ended June 30, 2021 was $1.5 million and $14.1 million compared to $2.7 million and $11.1 million for the same periods in 2020.

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

	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
DD&A expense (000s)	**$ 28,162**	$ 25,250	**$ 57,323**	$ 54,919
Per unit ($/boe)[1]	**7.05**	6.79	**6.99**	6.34

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

Second quarter 2021 DD&A was $28.2 million ($7.05/boe) compared to $25.3 million ($6.79/boe) for the same period in 2020. DD&A on a $/boe basis increased compared to the prior period due to changes in the CGU production mix as well as adding to our depletable base in Q4 2020 based on transfers from exploration and evaluation assets to developed and producing assets.



Foreign Exchange (Gain) Loss

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Foreign exchange (gain) loss	**$ (3,985)**	$ 6,580	**$ (8,220)**	$ (10,076)
Foreign currency risk management contracts loss	**—**	3	**—**	511
Total foreign exchange (gain) loss	**$ (3,985)**	$ 6,583	**$ (8,220)**	$ (9,565)
Average foreign exchange rates				
USD$/CAD$	**1.23**	1.39	**1.25**	1.37
USD$/Colombian peso	**3,691**	3,846	**3,622**	3,691

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

For the three months ended June 30, 2021, the total foreign exchange gain was $4.0 million (three months ended June 30, 2020 – loss of $6.6 million) attributable to the appreciation of COP against the USD. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statements of comprehensive income.

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

Foreign Exchange Sensitivity Analysis

		$/boe Impact of change in local currency/$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%	$ 0.54	$ (0.54)
Transportation expense	80%	$ 0.24	$ (0.24)
G&A expense	100%	$ 0.27	$ (0.27)

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 Q2 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 June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Bank charges and credit facility fees	**$ 930**	$ 957	**$ 1,507**	$ 1,697
Accretion on decommissioning and environmental liabilities	**1,049**	1,127	**1,995**	2,220
Interest and other income	**(495)**	(676)	**(708)**	(1,598)
Right of use asset interest	**2**	16	**4**	36
Loss (gain) on settlement of decommissioning liabilities	**15**	83	**371**	(13)
Loss on disposition of tangible assets	**—**	1,258	**—**	1,258
Expected credit loss provision (recovery)	**1,866**	(399)	**1,638**	944
Other	**—**	(1,724)	**—**	(647)
Net finance expense	**$ 3,367**	$ 642	**$ 4,807**	$ 3,897

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Non-cash finance expense	**$ 2,930**	$ 345	**$ 4,004**	$ 3,762
Cash finance expense, net	**437**	297	**803**	135
Net finance expense	**$ 3,367**	$ 642	**$ 4,807**	$ 3,897

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

Risk Management

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

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

a) Risk Management Contracts - Brent Crude

At June 30, 2021 the Company had no crude oil risk management contracts in place.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Realized loss on commodity risk management contracts	**$ —**	$ 3,940	**$ —**	$ 3,940
Total	**$ —**	$ 3,940	**$ —**	$ 3,940

b) Risk Management Contracts – Foreign Exchange

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

As at June 30, 2021, the Company had no outstanding foreign currency risk management contracts. As at June 30, 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 $0.3 million.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Realized loss on foreign currency risk management contracts	**$ —**	$ 511	**$ —**	$ 511
Unrealized (gain) on foreign currency risk management contracts	**—**	(508)	**$ —**	$ —
Total	**$ —**	$ 3	**$ —**	$ 511

The Company recorded a $0.5 million unrealized gain and $0.5 million loss on these contracts in the three months ended June 30, 2020 which is recorded in the financial statement line item "Foreign exchange (gain) loss".

Income Tax

The components of tax expense (recovery) for the three and six months ended June 30, 2021 and 2020 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Current tax expense (recovery)	**$ 26,213**	$ (6,851)	**$ 48,489**	$ 3,248
Deferred tax expense (recovery)	**9,456**	(24,458)	**49,154**	60,244
Tax expense (recovery)	**$ 35,669**	$ (31,309)	**$ 97,643**	$ 63,492

Current tax expense in the second quarter of 2021 was $26.2 million as compared to $6.9 million recovery in the comparative period. The increase from the prior year comparative period is mainly a result of an increase in operating cash flows from the prior period.

Deferred tax expense in the three months ended June 30, 2021 was $9.5 million, the increase from the comparative period is mainly related to the foreign exchange impact of the Colombian peso denominated tax basis, which has increased as a result of the depreciation of the Colombian peso to US dollar at the period end date compared to the prior year and its effect on the Colombian tax provision.

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

Capital Expenditures

For the three months ended June 30,	Colombia		Canada		Total	
($000s)	**2021**	2020	**2021**	2020	**2021**	2020
Acquisition of unproved properties	**$ 461**	$ 249	**$ —**	$ —	**$ 461**	$ 249
Geological and geophysical	**240**	38	**—**	—	**240**	38
Drilling and completion	**38,287**	3,150	**—**	—	**38,287**	3,150
Well equipment and facilities	**5,542**	1,790	**—**	—	**5,542**	1,790
Other	**239**	42	**78**	41	**317**	83
Total capital expenditures	**$ 44,769**	$ 5,269	**$ 78**	$ 41	**$ 44,847**	$ 5,310

For the six months ended June 30,	Colombia		Canada		Total	
($000s)	**2021**	2020	**2021**	2020	**2021**	2020
Acquisition of unproved properties	**$ 461**	$ 315	**$ —**	$ —	**$ 461**	$ 315
Geological and geophysical	**407**	778	**—**	—	**407**	778
Drilling and completion	**67,269**	71,094	**—**	—	**67,269**	71,094
Well equipment and facilities	**15,897**	4,167	**—**	—	**15,897**	4,167
Other	**264**	117	**141**	105	**405**	222
Total capital expenditures	**$ 84,298**	$ 76,471	**$ 141**	$ 105	**$ 84,439**	$ 76,576

Capital Expenditures Summary

During the six months ended June 30, 2021 the Company incurred $84.4 million of capital expenditures compared to $76.6 million in the same period of 2020. During Q2 2021 the Company drilled 10 gross (6.55 net) wells, compared to drilling no wells in the comparative period upon the re-activation of the development and exploration program. During Q2, 2021, total drilling and completion costs were $38.3 million of which the majority related to drilling, completion and capitalized workover costs at Block LLA-34, Block LLA-32, Cabrestero, VIM-1 and Boranda blocks. Facilities costs in Q2 2021 were due to the Block LLA-34 flowline construction.

During the six months ended June 30, 2021 capital expenditures of $84.4 million were self-funded from funds flow provided by operations of $256.6 million. The Company strives to fund its annual capital expenditures from funds flow and has demonstrated this goal since 2012 however on a quarterly basis funds flow may be greater or less than capital expenditures due to timing of capital programs and other variables.

Non-cash Impairment Charges

	For the three months ended June 30,		For the six months ended June 30,	
($000s)	**2021**	2020	**2021**	2020
Impairment of PP&E related to Boranda CGU	**$ —**	$ —	**$ —**	$ 7,000
Total non-cash impairment charges before deferred income tax recoveries	**$ —**	$ —	**$ —**	$ 7,000

As a result of the COVID-19 pandemic and the significant decrease in forecast global crude oil prices compared to those at December 31, 2019, an indication of impairment was identified for all CGUs at March 31, 2020 and impairment tests were performed. The Company determined that the carrying amount of the Boranda CGU in the Magdalena Basin exceeded its recoverable amount and an impairment of $7 million was recorded in the consolidated statements of comprehensive (loss) for the three month period ended March 31, 2020. All other CGU's were found to have recoverable amounts greater than carrying amounts. The recoverable amount for this testing was determined using fair value less cost of disposal. Future cash flows for the CGU's declined due to lower crude oil prices.

The fair value as determined for the Company's producing properties was consistent with the Company's independent qualified reserve evaluators reserve estimate at December 31, 2019, updated for forecast oil prices at March 31, 2020 and adjusting for first quarter production and future development capital expenditures. There 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 $7.0 million was due to the lower crude oil price forecast at March 31, 2020 assumed in the fair value calculation compared to the prior year. A 1% change to the assumed discount rate or a 5% change in forward price estimates over the life of the reserves would have an immaterial impact on the impairment.

At June 30, 2021 there were no indicators of impairment noted for PP&E, or indicators of requiring a reversal of previously recorded impairments.

Summary of Quarterly Results

Three months ended ($000s)	**Jun. 30, 2021**	Mar. 31, 2021	Dec. 31, 2020	Sep. 30, 2020
Average daily oil and natural gas production (boe/d)	**43,900**	46,779	46,642	44,305
Average realized sales price - oil ($/boe)	**59.68**	52.80	36.95	33.88
Financial (000s except per share amounts)				
Oil and natural gas sales	**$ 247,318**	$ 222,058	$ 167,264	$ 146,231
Funds flow provided by operations(1)	**$ 131,602**	$ 124,969	$ 81,567	$ 79,384
Per share – basic(1)	**1.03**	0.96	0.61	0.57
Per share – diluted(1)	**1.03**	0.96	0.60	0.57
Net income	**$ 91,662**	$ 47,460	$ 56,192	$ 27,619
Per share – basic	**0.72**	0.37	0.42	0.20
Per share – diluted	**0.72**	0.36	0.42	0.20
Capital Expenditures, excluding corporate acquisitions	**$ 44,847**	$ 39,592	$ 46,932	$ 17,756
Total assets (end of period)	**$ 1,598,310**	$ 1,550,441	$ 1,541,081	$ 1,548,484
Working capital surplus (end of period) (2)	**$ 352,188**	$ 341,686	$ 320,155	$ 370,722

(1) Non-GAAP term. See "Non-GAAP Terms" below.
(2) Working capital does not include the undrawn amount available under the credit facility.

Three months ended ($000s)	**Jun. 30, 2020**	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019
Average daily oil and natural gas production (boe/d)	40,858	54,295	54,221	53,045
Average realized sales price - oil ($/boe)	19.25	38.47	53.00	53.59
Financial (000s except per share amounts)				
Oil and natural gas sales	$ 80,407	$ 193,618	$ 289,585	$ 275,693
Funds flow provided by operations(1)	$ 38,777	$ 97,313	$ 143,269	$ 142,733
Per share – basic(1)	0.28	0.69	1.00	0.99
Per share – diluted(1)	0.27	0.68	0.98	0.97
Net income (loss)	$ 19,290	$ (3,779)	$ 87,218	$ 57,257
Per share – basic	0.14	(0.03)	0.61	0.40
Per share – diluted	0.14	(0.03)	0.60	0.39
Capital Expenditures, excluding corporate acquisitions	$ 5,310	$ 71,266	$ 58,321	$ 48,600
Total assets (end of period)	$ 1,533,377	$ 1,610,341	$ 1,684,581	$ 1,593,802
Working capital surplus (end of period) (2)	$ 339,310	$ 330,356	$ 344,031	$ 279,949

(1) Non-GAAP term. See "Non-GAAP Terms" below.
(2) Working capital does not include the undrawn amount available under the credit facility.

Factors that Caused Variations Quarter Over Quarter

During the second quarter of 2021, production of 43,900 boe/d 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 for 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 volumes sold and realized prices. Working capital decreased to $320.2 million from $370.7 million at September 30, 2020 primarily due to buying back 6.6 million shares pursuant to the Company's NCIB.

During the third quarter of 2020, production of 44,305 boe/d (consisting of 4,626 bbls/d light crude oil and medium crude oil, 38,309 bbls/d of heavy crude oil and 8,220 mcf/d of conventional natural gas) was in excess of production for the previous quarter ended June 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 increased to $370.7 million from $339.3 million at June 30, 2020.

During the second quarter of 2020, production of 40,858 boe/d (consisting of 4,186 bbls/d light crude oil and medium crude oil, 35,478 bbls/d of heavy crude oil and 7,164 mcf/d of conventional natural gas) was lower than production for the previous quarter ended March 31, 2020. Revenue and funds flow provided by operations were lower than the previous quarter mainly due to a decrease in realized prices and volumes sold. Working capital increased to $339.3 million from $330.4 million at March 31, 2020.

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

Liquidity and Capital Resources

As at June 30, 2021 the Company had a working capital surplus of $352.2 million, excluding funds available under the credit facility, as compared to working capital surplus at December 31, 2020 of $320.2 million. Bank debt was $nil as at June 30, 2021, December 31, 2020 and June 30, 2020. The credit facility has a current borrowing base of $200.0 million (December 31, 2020 - $200.0 million). At June 30, 2021 Parex held $371.4 million of cash, compared to $330.6 million at December 31, 2020 and $334.4 million at June 30, 2020. The Company's cash balances reside in current accounts with chartered institutions, the majority of which are held on account in Canada, Barbados, Bermuda and Colombia in USD.

Parex' senior secured credit facility with a syndicate of banks has a current borrowing base of $200.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is $nil balance drawn on the facility as at June 30, 2021, the Company is in compliance with all covenants. The next annual review is scheduled to occur in May 2022.

Refer to note 20 - Commitments of the interim financial statements for the period ended June 30, 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 June 30, 2021 the Company had 124,937,532 common shares outstanding compared to 130,872,676 at December 31, 2020 a decrease of 4.5%. At August 4, 2021 the common shares outstanding has been reduced to 123,702,436.

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 August 4, 2021 Parex has the following securities outstanding:

	Number	%
Common shares	123,702,436	99 %
Stock options	1,305,353	1 %
Restricted share units	555,555	— %
	125,563,344	**100 %**

As of the date of this MD&A, total stock options and RSUs outstanding represent approximately 2% 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 June 30, 2021 were $40.9 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 $15.7 million (December 31, 2020 - $21.9 million) of the letters of credit issued on behalf of Parex at June 30, 2021. Also at June 30, 2021, there is an additional $25.2 million (December 31, 2020 - $24.5 million) of letters of credit that are provided by a Latin American bank on an unsecured basis. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated undiscounted commitments as at June 30, 2021:

(000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	$ 169,784	$ 38,145	$ 42,548	$ —	$ 89,091
Office and accommodations(1)	6,445	2,484	3,270	691	—
Decommissioning and Environmental Obligations	87,773	4,274	—	—	83,499
Total	**$ 264,002**	**$ 44,903**	**$ 45,818**	**$ 691**	**$ 172,590**

(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	1,093	6	1,099
Settlements of obligations during the period	(2,625)	(155)	(2,780)
Loss on settlement of obligations	371	—	371
Accretion expense	1,035	960	1,995
Change in estimate - inflation and discount rates	(3,246)	2,719	(527)
Change in estimate - costs	789	—	789
Foreign exchange (gain)	(3,124)	(2,515)	(5,639)
Balance, June 30, 2021	**$ 32,503**	**$ 13,916**	**$ 46,419**
Current obligation	(1,004)	(3,270)	(4,274)
Long-term obligation	**$ 31,499**	**$ 10,646**	**$ 42,145**

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at June 30, 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 $65.1 million as at June 30, 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 7.89% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2020 – 5.25% risk-free discount rate and a 2% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is $1.0 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 $22.6 million as at June 30, 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 7.89% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2020 – 5.25% risk-free discount rate and a 2% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is $3.3 million (December 31, 2020 – $3.4 million) that is classified as a current obligation.

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

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

Initiation of Dividend Program

On July 7, 2021, the Board approved the initiation of a dividend program pursuant to which the Company expects to pay a regular quarterly cash dividend. If declared, the quarterly dividend is expected to be paid in each of March, June, September and December of each year. The Board has approved the payment of a dividend for the third quarter of 2021 in the amount of CAD$0.125 per Common Share, which will be payable on September 30, 2021 to shareholders of record as of September 15, 2021. The dividend is designated as an "eligible dividend" for the purpose of the Income Tax Act (Canada).

The decision to declare any quarterly dividend and the amount of such dividend, if any, will be subject to the discretion and determined by the Board taking into account, among other things, business performance, financial condition, growth plans and expected capital requirements as well as any contractual restrictions and compliance with applicable law. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future.

Arauca and LLA-38 Block Farm-in

On July 7th, Parex and Ecopetrol S.A. ("Ecopetrol") executed agreements whereby Parex will earn an operated, 50% interest in two blocks, the Arauca and LLA-38 blocks (the "Blocks"), located in the proven and highly prolific Llanos basin in the Arauca province of north-eastern Colombia. Collectively, the Blocks contain proved reserves along with development and drill ready exploration prospects.

The agreements are consistent with Parex' corporate strategy of acquiring assets with near term development potential, industry leading netbacks and significant exploration and appraisal opportunities in the Llanos Basin where Parex has a proven track record of success.

The Blocks are situated approximately 40 kilometers north of Parex' operated, Capachos producing block (Ecopetrol partnered). In developing the Blocks, Parex expects to be able to leverage its proven operating capabilities at Capachos and replicate similar partnerships and mutual benefits with the nearby communities.

The Arauca block is a production reactivation opportunity. Parex plans to immediately commence working with local authorities and communities with the objective of initiating operations in late 2021.

On the adjacent LLA-38 exploration block, initial activity will focus on the drill ready, 3D seismic defined, Califa-1 exploration prospect. Further, Parex will acquire additional 3D seismic to evaluate multiple exploration leads on the block. Parex intends to commence drilling of the Califa-1 exploration prospect in 2022.

Parex' independent qualified reserve evaluator, GLJ Ltd. ("GLJ"), has recognized Company interest proved plus probable reserves of 7.8 million barrels of light & medium crude oil and future development capital of approximately $70 million associated with the Arauca block as of January 1, 2021. The foregoing reserves information is obtained from information contained in the independent reserves report prepared by GLJ dated January 20, 2021 with an effective date of December 31, 2020. Such report was prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. The reserves presented in this press release are based on GLJ's forecast pricing effective January 1, 2021. The report did not include the LLA-38 block.

Parex and Ecopetrol have agreed to an initial work plan for the Blocks, funded solely by Parex, that consists of the drilling of 2 development wells, 1 exploration well and a further capital program of $75.8 million. Further capital expenditures will be allocated 50% Parex and 50% Ecopetrol. The overall timing and activities of the capital program, across both the Blocks, will be determined based on partner consultation, customary regulatory approvals, surface access and exploration success, among other factors.

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;
- H2 2021 guidance for average production, total capital expenditures, Brent crude average price, Brent/Vasconia crude differential, funds flow provided by operations, current tax effective rate on FFO and assumptions underlying such estimates and guidance, number of shares to be repurchased under the NCIB, outstanding number of shares at the end 2021;
- fluctuation in Brent/Vasconia crude differential;
- Parex' dividend program;
- expectation that crude oil inventory in future periods to be in line with normal historic levels;
- the amount and timing of payment of total decommissioning and environmental liability cost;
- the Company's expectations regarding the per boe and G&A expense impact caused by appreciation and depreciation of the Colombian peso;
- the effect of the Colombian peso/US$ exchange rate on the variability of general and administrative, transportation, and production costs;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the use of derivatives primarily with financial institutions to manage movements in the price of crude oil, fluctuations in the US/COP exchange rate and interest rate movements;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- terms of certain contractual obligations;
- the Company's expectation that only the grants under the Company's stock option plan and the exercise of previously issued RSUs and PSUs will result in common shares issued from treasury;
- terms of the contract with Ecopetrol;
- expectation that Parex will be able to leverage its proven operating capabilities at Capachos and replicate similar partnerships and mutual benefits with the nearby communities;
- the benefits of the Blocks; and
- timing of work commencement, activities and operations at the Blocks.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility in market prices for oil; the impact of the COVID-19 pandemic and the ability of Parex to carry on its operations as currently contemplated in light of the COVID-19 pandemic; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval;

imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; 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 does not have sufficient financial resources in the future to pay a dividend; risk that the Board does not declare dividends in the future or that Parex dividend policy changes; the risks discussed under "Risk Factors" in the Company's AIF and under "Decommissioning and Environmental Liabilities" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

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

In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources described can be profitably produced in the future. The recovery and reserve estimates of Parex' reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

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

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

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

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 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.

Non-GAAP Terms

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

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

	For the three months ended June 30,		For the six months ended June 30,	
($000s)	**2021**	2020	**2021**	2020
Cash provided by (used in) operating activities	**$ 111,858**	$ (22,362)	**$ 240,000**	$ 132,937
Net change in non-cash working capital	**19,744**	61,139	**16,571**	3,153
Funds flow provided by operations	**$ 131,602**	$ 38,777	**$ 256,571**	$ 136,090

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

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Funds flow provided by operations	**$ 131,602**	$ 38,777	**$ 256,571**	$ 136,090
Denominator (BOEs)				
Company produced oil and natural gas sales in period	**4,110,106**	3,892,707	**8,278,726**	8,610,784
Funds flow provided by operations per boe	**$ 32.02**	$ 9.96	**$ 30.99**	$ 15.80

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

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Funds flow provided by operations	**$ 131,602**	$ 38,777	**$ 256,571**	$ 136,090
Capital expenditures	**44,847**	5,310	**84,439**	76,576
Free funds flow	**$ 86,755**	$ 33,467	**$ 172,132**	$ 59,514

Funds flow per share *is calculated by dividing funds flow provided by operations by the weighted average number of 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. The following table shows the variables used in the calculation of funds flow per share:*

(000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Funds flow provided by operations	**$ 131,602**	$ 38,777	**$ 256,571**	$ 136,090
Weighted average number of shares for the purposes of basic funds flow	**127,346**	139,556	**128,524**	140,681
Dilutive effect of share options on potential common shares	**694**	1,557	**683**	1,777
Weighted average number of shares for the purposes of diluted funds flow	**128,040**	141,113	**129,207**	142,458

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

Operating netback per boe

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

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

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Oil and natural gas revenue excluding risk management contracts	**$ 247,318**	$ 80,407	**$ 469,376**	$ 274,025
Denominator (BOEs)				
Company produced oil and natural gas sales in period	**4,110,106**	3,892,707	**8,278,726**	8,610,784
Purchased oil volumes sold	**34,216**	283,738	**71,026**	598,871
Total oil and natural gas sales volumes	**4,144,322**	4,176,445	**8,349,752**	9,209,655
Sales price per boe	**$ 59.68**	$ 19.25	**$ 56.21**	$ 29.75

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

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Royalty expense	**$ 35,724**	$ 7,742	**$ 61,295**	$ 29,959
Denominator (BOEs)				
Company produced oil and natural gas sales in period	**4,110,106**	3,892,707	**8,278,726**	8,610,784
Royalty expense per boe	**$ 8.69**	$ 1.99	**$ 7.40**	$ 3.48

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

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Production Expense	**$ 27,527**	$ 19,372	**$ 51,943**	$ 44,434
Denominator (BOEs)				
Company produced oil and natural gas sales in period	**4,110,106**	3,892,707	**8,278,726**	8,610,784
Production expense per boe	**$ 6.70**	$ 4.98	**$ 6.27**	$ 5.16

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

($000s)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Transportation Expense	**$ 12,414**	$ 9,743	**$ 26,852**	$ 30,079
Denominator (BOEs)				
Company produced oil and natural gas sales in period	**4,110,106**	3,892,707	**8,278,726**	8,610,784
Purchased oil volumes sold	**34,216**	283,738	**71,026**	598,871
Total oil and natural gas sales volumes	**4,144,322**	4,176,445	**8,349,752**	9,209,655
Transportation expense per boe	**$ 3.00**	$ 2.33	**$ 3.22**	$ 3.27

Business Environment and Risks

Parex is exposed to various market and operational risks. For a discussion of these risks please refer to the Parex' AIF for the year ended December 31, 2020 as filed on SEDAR at www.sedar.com or Parex' website at www.parexresources.com.

Internal Controls over Financial Reporting

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

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the six months ended June 30, 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" and note 20 - Commitments in unaudited condensed interim 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.

Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2020.

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 Pinsky
Chief Financial Officer & Corporate Secretary

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
Vice President, Corporate Services

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Calgary, Alberta

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Computershare Trust Company of Canada
Calgary, Alberta

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ABBREVIATIONS

Oil and Natural Gas Liquids

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

Other

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