



# FINANCIAL STATEMENTS

FOR THE YEAR ENDED **DECEMBER 31, 2023**

PAREXRESOURCES.COM

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## MANAGEMENT'S REPORT

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

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

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

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

"signed"

Imad Mohsen

President and Chief Executive Officer

"signed"

Sanjay Bishnoi

Chief Financial Officer

February 29, 2024



## Independent auditor's report

To the Shareholders of Parex Resources Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Parex Resources Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2023 and 2022;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

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### Basis for opinion

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

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

#### Independence

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

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### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were

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



addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>The impact of oil and natural gas reserves on net property, plant and equipment (PP&amp;E)</b></p> <p><i>Refer to note 2 – Basis of preparation, significant accounting estimates and judgments, note 3 – Summary of material accounting policies, note 4 – Determination of fair values and note 8 – Property, plant and equipment to the consolidated financial statements.</i></p> <p>The Company has \$1,338 million of net PP&amp;E as at December 31, 2023. Depletion, depreciation and amortization (DD&amp;A) expense was \$194 million for the year then ended.</p> <p>PP&amp;E within each cash generating unit (CGU) is depleted using the unit-of-production method based on proved plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use. The proved plus probable reserves are prepared by the Company's independent qualified reserve evaluators (management's experts).</p> <p>For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The carrying amounts of the Company's long-term assets are reviewed at each reporting date to determine whether there are any indicators of impairment. If an indicator of impairment exists, management estimates the asset's recoverable amount. Impairment loss is recognized if the carrying amount of an asset or its</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> <li>• Tested how management determined the recoverable amount for the Boranda/Fortuna CGU and DD&amp;A expense for each of the CGUs, which included the following: <ul style="list-style-type: none"> <li>– Evaluated the appropriateness of the method used by management in making these estimates.</li> <li>– Tested the data used in determining these estimates.</li> <li>– Evaluated the reasonableness of the assumptions used in developing the underlying estimates: <ul style="list-style-type: none"> <li>○ Proved plus probable reserves, future development costs and operating costs by considering the past performance of each significant CGU, and whether these assumptions were consistent with evidence obtained in other areas of the audit.</li> <li>○ Future commodity prices by comparing those forecasts with other reputable third party industry forecasts.</li> <li>○ The discount rate by determining whether it is consistent with evidence obtained.</li> </ul> </li> <li>– Recalculated the unit-of-production rates used to calculate the DD&amp;A expense for each of the Company's CGUs.</li> </ul> </li> <li>• The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved plus probable reserves used to determine the DD&amp;A expense and the recoverable amount of the</li> </ul>



CGU exceeds its estimated recoverable amount. The fair value less cost of disposal (FVLCD) is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future after tax net cash flows of proved plus probable reserves using forecast prices and costs prepared by the Company's independent qualified reserve evaluators (management's experts).

An indication of impairment was identified for the Boranda/Fortuna CGU as at December 31, 2023 and an impairment test was performed. The Company determined that the carrying amount for the Boranda/Fortuna CGU exceeded its recoverable amount and an impairment of \$60 million was recorded. The recoverable amount was determined using fair value less cost of disposal. As at December 31, 2023, there were no indicators of impairment noted, or indicators requiring a reversal of previously recorded impairments for the remaining CGUs. Determining the recoverable amount of a CGU or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations.

We determined that this is a key audit matter due to (i) the significant judgment made by management, including the use of management's experts, when developing the expected future after tax net cash flows to determine the recoverable amount and the proved plus probable oil and natural gas reserves; and (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions.

Boranda/Fortuna CGU. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.



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## **Other information**

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

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

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

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

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

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

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

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



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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or



regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Calgary, Alberta  
February 29, 2024

**CONSOLIDATED FINANCIAL STATEMENTS**  
**Consolidated Balance Sheets**

As at (thousands of United States dollars)	NOTE	December 31, 2023	December 31, 2022
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	21	\$ 140,352	\$ 419,002
Accounts receivable	5	118,567	117,958
Prepays and other current assets		44,990	52,009
Current income tax receivable	19	29,012	—
Crude oil inventory	6	4,254	4,633
		<b>337,175</b>	593,602
Deferred tax asset	19	246,678	110,908
Goodwill	12	73,452	73,452
Exploration and evaluation	7	211,590	115,745
Property, plant and equipment	8	1,338,175	1,255,395
Long-term inventory	9	204,701	165,271
Other long-term assets	21	3,556	—
		<b>\$ 2,415,327</b>	\$ 2,314,373
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 252,148	\$ 306,762
Derivative financial instruments	24	—	1,278
Current income tax payable	19	—	193,854
Current portion of decommissioning and environmental liabilities	16	6,000	6,720
		<b>258,148</b>	508,614
Bank debt	10	90,000	—
Lease obligation	11	5,736	6,079
Cash settled share-based compensation liabilities	15	16,284	13,132
Decommissioning and environmental liabilities	16	89,732	46,572
Deferred tax liability	19	—	24,984
		<b>459,900</b>	599,381
Shareholders' equity			
Share capital	17	660,817	682,718
Contributed surplus		19,248	20,334
Retained earnings		1,275,362	1,011,940
		<b>1,955,427</b>	1,714,992
		<b>\$ 2,415,327</b>	\$ 2,314,373

Commitments and Contingencies (note 26)  
Subsequent Events (note 28)  
See accompanying Notes to the Consolidated Financial Statements

Approved by the Board:

"signed"

Sigmund Cornelius  
Director

"signed"

Bob MacDougall  
Director



## Consolidated Statements of Comprehensive Income

For the year ended December 31,

(thousands of United States dollars, except per share amounts)

	NOTE	2023	2022
Oil and natural gas sales	13	\$ 1,414,552	\$ 1,643,589
Royalties		(244,703)	(332,895)
Revenue		1,169,849	1,310,694
<b>Expenses</b>			
Production		207,129	129,980
Transportation		68,306	61,229
Purchased oil		4,583	9,936
General and administrative		61,077	51,222
Impairment of exploration and evaluation assets	7	82,858	103,394
Impairment of property, plant and equipment assets	8	59,682	—
Equity settled share-based compensation expense	17	1,043	1,228
Cash settled share-based compensation expense	18	29,321	17,900
Depletion, depreciation and amortization	8	194,229	149,351
Foreign exchange loss (gain)	24	5,486	(17,405)
		713,714	506,835
Finance (income)	14	(14,520)	(9,015)
Finance expense	14	16,416	9,708
<b>Net finance expense</b>		<b>1,896</b>	<b>693</b>
<b>Income before income taxes</b>		<b>454,239</b>	<b>803,166</b>
<b>Income tax (recovery) expense</b>			
Current tax expense	19	155,683	346,037
Deferred tax (recovery)	19	(160,753)	(154,239)
		(5,070)	191,798
<b>Net income and comprehensive income for the year</b>		<b>\$ 459,309</b>	<b>\$ 611,368</b>
<b>Basic net income per common share</b>	20	<b>\$ 4.32</b>	<b>\$ 5.38</b>
<b>Diluted net income per common share</b>	20	<b>\$ 4.32</b>	<b>\$ 5.38</b>

See accompanying Notes to the Consolidated Financial Statements

## Consolidated Statements of Changes in Equity

For the year ended December 31,  
(thousands of United States dollars)

	<b>2023</b>		2022	
<b>Share Capital</b>				
Balance, beginning of year	\$	<b>682,718</b>	\$	731,713
Issuance of common shares under share-based compensation plans		<b>5,956</b>		11,084
Repurchase of shares		<b>(27,857)</b>		(60,079)
Balance, end of year	\$	<b>660,817</b>	\$	682,718
<b>Contributed Surplus</b>				
Balance, beginning of year	\$	<b>20,334</b>	\$	24,530
Share-based compensation		<b>1,043</b>		1,228
Options and RSUs exercised		<b>(2,129)</b>		(5,424)
Balance, end of year	\$	<b>19,248</b>	\$	20,334
<b>Retained earnings</b>				
Balance, beginning of year	\$	<b>1,011,940</b>	\$	637,448
Net income for the year		<b>459,309</b>		611,368
Repurchase of shares		<b>(77,211)</b>		(161,385)
Dividends		<b>(118,676)</b>		(75,491)
Balance, end of year		<b>1,275,362</b>		1,011,940
	\$	<b>1,955,427</b>	\$	1,714,992

See accompanying Notes to the Consolidated Financial Statements

## Consolidated Statements of Cash Flows

For the year ended December 31,  
(thousands of United States dollars)

	NOTE	2023	2022
<b>Operating activities</b>			
Net income		\$ 459,309	\$ 611,368
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	194,229	149,351
Non-cash finance expense	14	8,347	5,048
Equity settled share-based compensation expense	17	1,043	1,228
Cash settled share-based compensation expense	18	29,321	17,900
Deferred tax (recovery)	19	(160,753)	(154,239)
Impairment of exploration and evaluation assets	7	82,858	103,394
Impairment of property, plant and equipment assets	8	59,682	—
Unrealized foreign exchange (gain)	24	(6,453)	(9,692)
Loss on settlement of decommissioning liabilities	16	199	532
Net change in non-cash working capital	21	(291,311)	258,712
Cash provided by operating activities		376,471	983,602
<b>Investing activities</b>			
Property, plant and equipment expenditures	8	(310,933)	(389,979)
Exploration and evaluation expenditures	7	(172,410)	(122,273)
Long-term inventory expenditures, net of transfers	9	(39,430)	(140,266)
Net change in non-cash working capital	21	(12,742)	14,417
Cash (used in) investing activities		(535,515)	(638,101)
<b>Financing activities</b>			
Issuance of common shares under equity-settled plans	17	3,827	5,660
Common shares repurchased	17	(105,068)	(221,464)
Dividends	17	(118,676)	(75,491)
Bank debt	10	90,000	—
Payments on lease obligation	11	(712)	(685)
Cash (used in) financing activities		(130,629)	(291,980)
<b>(Decrease) increase in cash and cash equivalents for the year</b>		<b>(289,673)</b>	<b>53,521</b>
<b>Impact of foreign exchange on foreign currency-denominated cash balances</b>		<b>14,579</b>	<b>(12,857)</b>
<b>Cash and cash equivalents and restricted cash and cash equivalents, beginning of year</b>	<b>21</b>	<b>419,002</b>	<b>378,338</b>
<b>Cash and cash equivalents and restricted cash and cash equivalents, end of year</b>	<b>21</b>	<b>\$ 143,908</b>	<b>\$ 419,002</b>

Supplemental Disclosure of Cash Flow Information (note 21)  
See accompanying Notes to the Consolidated Financial Statements

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2023

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

### 1. Corporate Information

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

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

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 29, 2024.

### 2. Basis of Preparation, Significant Accounting Estimates and Judgements

#### **a) Statement of compliance**

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

The policies applied in these consolidated financial statements are based on FRS Accounting Standards issued and outstanding as of February 29, 2024, the date the Board of Directors approved the consolidated financial statements.

#### **b) Basis of measurement**

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

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

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

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

Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

### **(i) Depletion, depreciation and reserves**

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

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

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

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

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

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

### **(iv) Decommissioning and environmental liabilities**

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

Liabilities for environmental costs are recognized in the period in which they are incurred, normally when the asset is developed and the associated costs can be estimated. These liabilities are in addition to the decommissioning liabilities due to government regulations that require the Company to perform additional mitigation against the environmental issues attributed to water usage and deforestation from oil and gas activities performed. In addition, the timing of expected settlement of the environmental liabilities differs from the timing of expected settlement of the decommissioning liabilities. Refer to note 16 – Decommissioning and Environmental Liabilities.

### **(v) Impairment indicators and discount rate**

The recoverable amounts of CGUs and individual assets have been determined as the greater of either an asset's or CGU's value in use or fair value less costs of disposal. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, quantity of reserves and discount rates as well as future development and operating costs. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the oil and natural gas reserves and the recoverable economical reserves and may require a material adjustment to the carrying value of oil and natural gas assets. The Company monitors internal and external indicators of impairment relating to its property, plant and equipment, and exploration and evaluation assets. Refer to note 7 – Exploration and Evaluation Assets, note 8 – Property, Plant and Equipment and note 12 – Goodwill.

**(vi) Share-based compensation**

Compensation costs accrued for under the Company's Stock Option plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of Parex shares and expected term of the issued stock option. Compensation costs accrued for under the Company's Deferred Share Unit ("DSU") plan, Cash Settled Restricted Share Units ("CRSU") plan and Cash or share settled Restricted Share Units ("CosRSU") and Performance Share Units ("CosPSU") plan pursuant to which CosRSUs and CosPSUs may be issued are measured at fair value based on the market price of Parex shares on the date of issuance. Refer to note 17 - Share Capital and note 18 - Cash Settled Incentive Plans.

**(vii) Derivative financial asset/liability**

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

**(viii) Income taxes**

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

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused temporary differences can be utilized. Future projected income and future tax rates could be affected by oil prices, quantities of oil and gas reserves, and future oil and gas production. If these factors or other circumstances change, the Company would reassess its ability to record any increase or decrease in its deferred income tax asset. To the extent that actual outcomes differ from management's estimates, taxation charges or credits may arise in future periods. Refer to note 19 - Income Tax.

**(ix) Business combinations, corporate and property acquisitions**

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

**x) Impact of climate change and environmental initiative regulations**

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

### 3. Summary of Material Accounting Policies

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

#### a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2023. The principal operating subsidiaries and their activities are:

<b>Entity</b>	<b>Country of incorporation</b>	<b>Country of principle business activity</b>	<b>Ownership %</b>	<b>Principle business activity</b>
Parex Resources (Colombia) AG	Switzerland	Colombia	100	Oil and natural gas exploration and development
Verano Energy (Switzerland) AG	Switzerland	Colombia	100	Oil and natural gas exploration and development

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

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

#### b) Foreign currency translation

##### (i) Functional and presentation currency

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

##### (ii) Transactions and balances

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

#### c) Financial instruments

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

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

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

## Classification and Measurement of Financial Assets

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

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

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

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

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

## Impairment of Financial Assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

As at December 31, 2023, all of the Company's receivables were outstanding for less than 90 days. The average expected credit loss on the Company's trade accounts receivable was 0.3% at December 31, 2023.

## Classification and Measurement of Financial Liabilities

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

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

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



## **Derivative Financial Instruments**

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

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

### **d) Capital assets**

#### **(i) Exploration and evaluation**

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

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

#### **(ii) Property, plant and equipment**

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

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

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

#### **(iii) Long-term inventory**

All costs in the form of long-lead material and equipment inventory, such as drill casing, natural gas compressors, and other major equipment, are initially capitalized. As the assets are used, they will be incorporated into the costs of the related E&E and PP&E projects.

### **e) Impairment of long-term assets**

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

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

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

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

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

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

**f) Crude oil inventory**

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.

**g) Purchased oil**

Purchased oil includes costs to buy third party oil. The costs for third party oil are initially recorded in inventory until the crude oil title is transferred.

**h) Goodwill**

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

**i) Revenue recognition**

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

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

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

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

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

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

**j) Equity settled share-based compensation**

The Company has an incentive stock option plan pursuant to which the Company may issue options for certain employees, officers and directors as described in note 17 - Share Capital. The Company records share-based compensation expense using the fair value method. The fair value of an option granted is calculated at the grant date using the Black-Scholes pricing model and expensed over the vesting period of the option. The Company determines an appropriate forfeiture rate by examining the history of its forfeitures. The Company records the cumulative share-based compensation as contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share-based compensation for the exercised security. Any consideration received on the exercise of stock options is credited to share capital.

Upon the exercise of the options the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

**k) Cash settled share-based compensation**

The Company has a Cash Settled Restricted Share Unit ("CRSUs") plan which allows the Company to issue CRSUs to certain employees of Parex Colombia as described in note 18 - Cash Settled Incentive Plans. Obligations for payments of cash under the foreign subsidiaries' CRSUs plan are accrued as compensation expense over the vesting period based on the fair value of CRSUs. The fair value of CRSUs is equal to the market price of the Company's common shares at the valuation date. In accordance with the fair value method, increases or decreases in the fair value of the CRSUs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture. The CRSUs liability cannot be settled by the issuance of common shares.

The Company has a Deferred Share Unit ("DSU") plan which allows the Company to issue DSUs to all non-employee directors of Parex Resources Inc., as described in note 18 - Cash Settled Incentive Plans. As DSUs vest immediately on issuance, obligations for payments of cash under the DSUs plan are accrued as compensation expense immediately on issuance based on the fair value of the DSUs. The fair value of DSUs at each reporting period is equal to the market price of the Company's common shares at the valuation date. In accordance with the fair value method, increases or decreases in the fair value of the DSUs result in a corresponding change in the recorded liability. The accrued compensation for a unit that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

The Company has a Cash or Share Settled Restricted Share Unit/Performance Share Unit ("CosRSU/CosPSU") incentive plan to issue CosRSUs and CosPSUs to certain employees of Parex Canada as described in note 18 - Cash Settled Incentive Plans. Obligations for payments of cash or settlement of shares under the CosRSUs and CosPSUs plan are accrued as compensation expense over the vesting period based on the fair value of the CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equal the market price of the Company's common shares at the valuation date. In accordance with the fair value method, increases or decreases in the fair value of the CosRSUs and CosPSUs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture. The CosRSUs and CosPSUs liability can be settled in cash or by the issuance of common shares at the election of the employee.

**l) Provisions**

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

**m) Decommissioning and environmental liabilities**

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

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

**n) Operating Segments**

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

**o) Finance income and expense**

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

**p) Cash and cash equivalents**

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

**q) Restricted cash and cash equivalents**

Restricted cash and cash equivalents is comprised of cash and cash equivalents pledged to satisfy commitments in long term contracts. Restrictions will lapse when work obligations are satisfied pursuant to the contracts. Cash and claims to cash that are restricted as to withdrawal or use for other than current operations or are designated for expenditure to satisfy commitments pursuant to long-term contracts, are excluded from the current asset classification. The long-term portion of restricted cash and cash equivalents is included in other long-term assets on the Company's balance sheet.

**r) Income taxes**

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

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

**s) Per share information**

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

**t) Leases**

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

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

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

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

#### **u) Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. When the company repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. The excess of the purchase price over the average carrying value is recognized as a deduction from Retained Earnings. Shares are cancelled upon repurchase.

#### **v) Dividends**

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

#### **w) New Accounting Policies**

##### **i) Amendments to IAS 8 Changes in Estimates vs Changes in Accounting Policies**

On January 1, 2023, the Company adopted Changes in Estimates vs Changes in Accounting Policies, which made amendments to IAS 8 Changes in Estimates vs Changes in Accounting Policies. The amendments help to distinguish changes in accounting estimates from changes in accounting policies. There was not a material impact to the Company's financial statements.

##### **ii) Amendments to IAS 12 Income Taxes**

On January 1, 2023, the Company adopted issued amendments to IAS 12 Income Taxes, which made amendments to IAS 12 Income Taxes. The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. There was not a material impact to the Company's financial statements.

The Company has adopted the amendment to IAS 12 International Tax Reform - Pillar Two Model Rules in the interim period ending June 30, 2023. As a result, the Company has applied the exception to not recognize and disclose information about deferred tax assets and liabilities related to Pillar Two incomes taxes. This exception has been applied retrospectively but no adjustments to previously reported figures were reported.

#### **x) Future Accounting Pronouncements**

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2024. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the financial statements.

##### **i) Amendments to IAS 1 Presentation of Financial Statements**

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statements of financial position. This will be effective on January 1, 2024.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective on January 1, 2024. The Company will continue to monitor and assess for impacts from the amendment of IAS 1. The Company does not anticipate any material impacts from these amendments on the consolidated financial statements as a result of the initial application.

### **4. Determination of Fair Values**

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

#### **a) PP&E and intangible exploration assets**

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

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

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2023 and 2022 the fair value of these balances approximated their carrying value due to their short-term to maturity.

**c) Stock options**

The fair value of stock options is measured using the Black-Scholes pricing model. Measurement inputs include the share price on the measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends, expected forfeiture rate and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 17 - Share Capital.

**d) Cash settled restricted share units, cash or share settled restricted share units and performance share units and deferred share units**

The fair value of stock CRSUs, DSUs, CosRSU and CosPSU are measured based on the market price of Parex shares on each balance sheet date. Refer to note 18 - Cash Settled Incentive Plans.

**e) Derivative financial asset /liability**

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

**5. Accounts Receivable**

	<b>December 31, 2023</b>	December 31, 2022
Trade receivables	<b>\$ 105,625</b>	\$ 113,176
Value added taxes (VAT)	<b>12,942</b>	4,782
	<b>\$ 118,567</b>	\$ 117,958

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. VAT receivable is \$13.0 million as at December 31, 2023 (December 31, 2022 - \$4.8 million). All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

**6. Crude Oil Inventory**

	<b>December 31, 2023</b>	December 31, 2022
Crude oil inventory	<b>\$ 4,254</b>	\$ 4,633

Crude oil inventory consists of crude oil in transit at the balance sheet date and is valued at the lower of cost, using the weighted average cost method, and net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude oil to its existing condition and location. During 2023, \$704.4 million (year ended December 31, 2022 - \$653.9 million) of produced crude oil inventory cost was expensed to the consolidated statements of comprehensive income. Purchased crude oil is sold immediately. The cost associated with purchased oil is shown in the consolidated statements of comprehensive income as purchased oil expense.

## 7. Exploration and Evaluation Assets

<b>Cost</b>	
<b>Balance at December 31, 2021</b>	<b>\$ 95,496</b>
Additions and transfers	122,273
Changes in decommissioning liability	1,370
Exploration and evaluation impairment	(103,394)
<b>Balance at December 31, 2022</b>	<b>\$ 115,745</b>
Additions and transfers	172,410
Changes in decommissioning liability	6,293
Exploration and evaluation impairment	(82,858)
<b>Balance at December 31, 2023</b>	<b>\$ 211,590</b>

### Additions and Transfers

E&E assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. During the year ended December 31, 2023 additions of \$172.4 million (year ended December 31, 2022 - \$122.3 million) represent the Company's share of costs incurred on E&E assets during the period. For the year ended December 31, 2023 \$2.3 million of general and administrative costs (year ended December 31, 2022 - \$1.0 million) have been capitalized in respect of exploration and evaluation activities during the current period.

### 2023 Impairments

During 2023, the Company completed impairment reviews of its E&E assets. It was determined that the carrying amount of certain E&E assets wouldn't be recovered, primarily associated with the VIM-43 and LLA-134 blocks for costs related to exploration wells which indicated non-economic results, the Company also has plans to relinquish the LLA-134 block. In addition, impairment includes LLA-81 block costs that were impaired on transfer to property, plant and equipment as the carrying amount exceeded its recoverable amount. The impairment review compared the carrying value of the assets to the fair value less cost of disposal (level 3 input) to determine the recoverable amount which was determined to be \$nil for VIM-43 and LLA-134 block assets and \$12.3 million for LLA-81 block assets. It was determined that the impairment was \$82.9 million which is recorded in the consolidated statements of comprehensive income for the year ended December 31, 2023.

### 2022 Impairments

During 2022, the Company completed impairment reviews of its E&E assets. It was determined that the carrying amount of certain E&E assets wouldn't be recovered, primarily associated with the Fortuna block costs and the CPO-11 block costs related to exploration wells which indicated non-economic results and the Company has plans to relinquish the block. The impairment review compared the carrying value of the assets to the fair value less cost of disposal (level 3 input) to determine the recoverable amount which was determined to be \$nil for these assets. It was determined that the impairment was \$103.4 million which is recorded in the consolidated statements of comprehensive income for the year ended December 31, 2022.

The fair value less cost of disposal approach requires assumptions which are level 3 inputs.

At December 31, 2023 and December 31, 2022, the Company did not have any E&E assets in Canada.

## 8. Property, Plant and Equipment

	Canada	Colombia	Total
<b>Cost</b>			
<b>Balance at December 31, 2021</b>	<b>\$ 11,886</b>	<b>\$ 2,658,714</b>	<b>\$ 2,670,600</b>
Additions and transfers	2,078	387,901	389,979
Right-of-use asset addition (non-cash)	1,832	1,100	2,932
Changes in decommissioning and environmental liability	—	3,384	3,384
<b>Balance at December 31, 2022</b>	<b>15,796</b>	<b>3,051,099</b>	<b>3,066,895</b>
Additions and transfers	1,816	309,117	310,933
Changes in decommissioning and environmental liability	—	25,721	25,721
<b>Balance at December 31, 2023</b>	<b>\$ 17,612</b>	<b>\$ 3,385,937</b>	<b>\$ 3,403,549</b>
<b>Accumulated Depreciation, Depletion and Amortization</b>			
<b>Balance at December 31, 2021</b>	<b>\$ 6,297</b>	<b>\$ 1,654,932</b>	<b>\$ 1,661,229</b>
Depletion and depreciation for the year	801	147,801	148,602
Depreciation - Right-of-use asset	749	—	749
DD&A included in crude oil inventory costing	—	920	920
<b>Balance at December 31, 2022</b>	<b>7,847</b>	<b>1,803,653</b>	<b>1,811,500</b>
Depletion and depreciation for the year	1,164	192,225	193,389
Depreciation - Right-of-use asset	767	73	840
DD&A included in crude oil inventory costing	—	(37)	(37)
Property, plant and equipment impairment	—	59,682	59,682
<b>Balance at December 31, 2023</b>	<b>\$ 9,778</b>	<b>\$ 2,055,596</b>	<b>\$ 2,065,374</b>
Net book value:			
As at December 31, 2021	\$ 5,589	\$ 1,003,782	\$ 1,009,371
As at December 31, 2022	\$ 7,949	\$ 1,247,446	\$ 1,255,395
<b>As at December 31, 2023</b>	<b>\$ 7,834</b>	<b>\$ 1,330,341</b>	<b>\$ 1,338,175</b>

### Additions and Transfers

During 2023, property, plant and equipment ("PPE") additions of \$310.9 million mainly relate to drilling costs in Colombia at Blocks LLA-26, LLA-34, Cabretero and Capachos and facility costs at Blocks LLA-34, LLA-40, Cabretero, Capachos and VIM-1.

During the year ended December 31, 2022, additions of \$390.0 million mainly related to drilling costs in Colombia at Blocks LLA-26, LLA-34, LLA-40, Cabretero, Capachos, Fortuna, VIM-1 and Boranda and facility costs at Block LLA-34, Cabretero, Capachos and VIM-1.

For the year ended December 31, 2023 future development costs of \$409.5 million (year ended December 31, 2022 - \$524.7 million) were included in the depletion calculation for development and production assets. For the year ended December 31, 2023 \$7.1 million of general and administrative costs (year ended December 31, 2022 - \$8.6 million) have been capitalized in respect of development and production activities during the current period.

### Impairments

The carrying amounts of the Company's PP&E assets are reviewed at each reporting date to determine whether there is any indication of impairment. A revision of the estimation of the total proved and probable reserves in the Boranda/Fortuna CGU in the Magdalena Basin at year-end evidenced a decline as compared to the prior year estimation. Management considered this to be an indicator of impairment and carried out an impairment review of this CGU. No impairment indicators were noted in the other CGUs.



## 2023

The Company determined that the carrying amount of the Boranda/Fortuna CGU in the Magdalena Basin exceeded its recoverable amount and an impairment of \$59.7 million was recorded in the consolidated statements of comprehensive income for the three month period ended December 31, 2023. All other CGU's were found to have recoverable amounts greater than carrying amounts. The recoverable amount was determined using fair value less cost of disposal. The fair value less cost of disposal approach requires assumptions which are level 3 inputs.

The fair value was determined using discounted future after tax net cash flows of proved plus probable reserves using forecast prices and costs prepared by the Company's independent qualified reserve evaluators at December 31, 2023. Refer to note 12 – Goodwill for the future crude oil prices used by Parex's independent reserve evaluator. There are no E&E assets associated with this CGU. Future cash flows were discounted using a rate of 14%. As at December 31, 2023, the recoverable amount of the Boranda/Fortuna CGU was estimated to be \$40.9 million. A 1% change to the assumed discount rate or a 5% change in forward price estimates over the life of the reserves would have an immaterial impact on the impairment.

## 2022

At December 31, 2022 there were no indicators of impairment noted or indicators requiring a reversal of previously recorded impairments.

## 9. Long-term Inventory

The Company has long-lead material inventory such as drill casing, natural gas compressors, and other major equipment.

<b>Cost</b>	
<b>Balance at December 31, 2021</b>	<b>\$ 25,005</b>
Additions	186,080
Transfers to E&E and PP&E assets	(45,814)
<b>Balance at December 31, 2022</b>	<b>\$ 165,271</b>
Additions	114,803
Transfers to E&E and PP&E assets	(75,373)
<b>Balance at December 31, 2023</b>	<b>\$ 204,701</b>

## 10. Bank Debt

	<b>December 31, 2023</b>	December 31, 2022
Bank debt	<b>\$ 90,000</b>	\$ —

The Company has a senior secured credit facility with a syndicate of banks which at December 31, 2023 had a borrowing base of \$200.0 million (December 31, 2022 - \$200.0 million). The credit facility is intended to serve as means to increase liquidity and fund cash or letter of credit needs as they arise. As at December 31, 2023, \$90.0 million (December 31, 2022 - \$nil) was drawn on the credit facility.

The credit facility bears interest based in the following manner:

- (i) each SOFR based Loan will bear interest at a rate per annum equal to SOFR plus the applicable margin indicated in the pricing table in the agreement; payable on repayment date in arrears; and
- (ii) each U.S. Base Rate Loan will bear interest at a variable rate of interest per annum equal to the U.S. Base Rate plus the applicable margin indicated in the pricing table in the agreement; payable quarterly in arrears;
- (iii) each Canadian Prime Rate Loan will bear interest at a variable rate of interest per annum equal to the Canadian Prime Rate plus the applicable margin indicated in the pricing table in the agreement; payable quarterly in arrears; and
- (iv) the commitment fees payable quarterly in arrears will be calculated based in the pricing table in the agreement.

The credit facility is secured by the Company's Colombian assets and has final maturity date of May 21, 2025. The next annual review is scheduled to occur in May 2024.

Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. The Company was in compliance with all key covenants at December 31, 2023.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") and Empresa Colombiana de Petróleos S.A., ("Ecopetrol") joint venture blocks related to the exploration work commitments on its Colombian concessions (see note 26 - Commitments and Contingencies). This performance guarantee facility has a limit of \$150.0 million (December 31, 2022 - limit of \$150.0 million) of which \$8.0 million is utilized at December 31, 2023 (December 31, 2022 - \$9.4 million). At December 31, 2023, there is an additional \$133.0 million (December 31, 2022 - \$119.7 million) of letters of credit that are provided by select Latin American banks on an unsecured basis.

## 11. Lease Obligation

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

	Canada	Colombia	Total
<b>Balance at December 31, 2021</b>	<b>\$ 5,079</b>	<b>\$ –</b>	<b>\$ 5,079</b>
Additions	1,832	1,100	2,932
Interest expense	46	34	80
Lease payments	(729)	(36)	(765)
Foreign exchange (gain)	(449)	(43)	(492)
<b>Balance at December 31, 2022</b>	<b>\$ 5,779</b>	<b>\$ 1,055</b>	<b>\$ 6,834</b>
Interest expense	43	151	194
Lease payments	(746)	(160)	(906)
Foreign exchange loss	78	270	348
<b>Balance at December 31, 2023</b>	<b>\$ 5,154</b>	<b>\$ 1,316</b>	<b>\$ 6,470</b>
Current obligation	(722)	(12)	(734)
<b>Long-term obligation</b>	<b>\$ 4,432</b>	<b>\$ 1,304</b>	<b>\$ 5,736</b>

The consolidated statements of comprehensive income for the year ended December 31, 2023 includes expenses related to leases as follows: \$0.2 million (year ended December 31, 2022 - \$0.1 million) of interest expense related to the lease obligation, \$0.8 million (year ended December 31, 2022 - \$0.7 million) of depreciation for right-of-use assets, \$0.8 million (year ended December 31, 2022 - \$0.7 million) of non-lease components associated with the office lease obligation and \$2.2 million (year ended December 31, 2022 - \$1.3 million) related to short-term and low value leases.

Total cash outflows related to the office lease obligation were \$2.5 million for the year ended December 31, 2023 (year ended December 31, 2022 - \$2.2 million).

During the year ended December 31, 2022, the Company had included an addition for the Canada office lease where the Company had signed a new agreement for additional office space and an addition in Colombia for the lease related to a solar farm power generation system on the Cabrestero block.

## 12. Goodwill

	<b>December 31, 2023</b>	December 31, 2022
Goodwill	<b>\$ 73,452</b>	\$ 73,452

### **Impairment test of goodwill**

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

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

#### *Valuation Techniques*

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

#### *Significant Assumptions*

##### *Oil Reserves*

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

##### *Future Oil Prices*

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

Prices used at December 31, 2023 are as follows:

	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Thereafter</b>
Brent (\$US/bbl)	77.00	79.50	81.49	82.58	84.19	2% increase per year
WTI (\$US/bbl)	72.50	75.00	76.99	78.53	80.10	2% increase per year

Prices used at December 31, 2022 are as follows:

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Thereafter</b>
Brent (\$US/bbl)	80.00	80.50	81.50	82.00	82.53	2% increase per year
WTI (\$US/bbl)	75.00	75.00	75.43	76.94	78.48	2% increase per year

#### *Discount Rate*

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in similar industries, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Its determination requires separate analysis of the cost of equity and debt and considers a risk premium based on an assessment of risks related to the projected cash flows of the group of Colombia based CGUs whose revenues are denominated in USD. The after tax discount rate used in performing the impairment test was 14% (year ended December 31, 2022 - 14%).

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

### 13. Oil and Natural Gas Sales

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

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

For the year ended December 31,	2023		2022	
Crude oil	\$	1,402,331	\$	1,622,707
Natural gas		10,096		20,882
Oil and natural gas sales		1,412,427		1,643,589
Other revenue		2,125		—
Revenue	\$	1,414,552	\$	1,643,589

At December 31, 2023, receivables from contracts with customers, which are included in accounts receivable, were \$105.6 million (December 31, 2022 - \$113.2 million).

### 14. Net Finance Expense

For the year ended December 31,	2023		2022	
Bank charges and credit facility fees	\$	5,524	\$	3,875
Accretion on decommissioning and environmental liabilities		8,701		5,807
Interest and other income		(14,520)		(9,015)
Right of use asset interest		194		80
Loss on settlement of decommissioning liabilities		199		532
Expected credit loss (recovery) provision		(421)		(557)
Other		2,219		(29)
Net finance expense	\$	1,896	\$	693

For the year ended December 31,	2023		2022	
Non-cash finance expense	\$	8,546	\$	5,580
Cash finance (income) expense		(6,650)		(4,887)
Net finance expense	\$	1,896	\$	693

### 15. Cash Settled Share-Based Compensation Liabilities

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

	December 31, 2023		December 31, 2022	
Long-term DSUs payable	\$	5,515	\$	4,460
Long-term CRSUs payable		2,404		2,135
Long-term CosRSUs and CosPSUs payable		8,365		6,537
<b>Total cash settled-share based compensation payable</b>	\$	16,284	\$	13,132

## 16. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2021	\$	36,730	\$	18,224	\$ 54,954
Additions		5,330		3,266	8,596
Settlements of obligations during the year		(2,871)		(822)	(3,693)
Loss on settlement of obligations		532		—	532
Accretion expense		3,663		2,144	5,807
Change in estimate - inflation and discount rates		(12,504)		(5,233)	(17,737)
Change in estimate - costs		13,733		162	13,895
Foreign exchange (gain)		(5,795)		(3,267)	(9,062)
Balance, December 31, 2022	\$	38,818	\$	14,474	\$ 53,292
Additions		9,676		1,379	11,055
Settlements of obligations during the year		(3,110)		(3,695)	(6,805)
Loss on settlement of obligations		199		—	199
Accretion expense		6,098		2,603	8,701
Change in estimate - inflation and discount rates		17,592		2,316	19,908
Change in estimate - costs		(1,331)		2,382	1,051
Foreign exchange loss		3,581		4,750	8,331
<b>Balance, December 31, 2023</b>		<b>71,523</b>		<b>24,209</b>	<b>95,732</b>
Current obligation		(3,000)		(3,000)	(6,000)
<b>Long-term obligation</b>	\$	<b>68,523</b>	\$	<b>21,209</b>	\$ <b>89,732</b>

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2023, 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 \$201.4 million as at December 31, 2023 (December 31, 2022 – \$147.6 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 9.4% and an inflation rate of 4.0% were used in the valuation of the liabilities (December 31, 2022 – 14% risk-free discount rate and a 3.5% inflation rate). The risk-free discount rate and the inflation rate used in 2023 and 2022 are based on forecast Colombia rates.

Included in the decommissioning liability is \$3.0 million (December 31, 2022 – \$5.5 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 \$33.4 million as at December 31, 2023 (December 31, 2022 – \$19.5 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 9.4% and an inflation rate of 4.0% were used in the valuation of the liabilities (December 31, 2022 – 14% risk-free discount rate and a 3.5% inflation rate). The risk-free discount rate and the inflation rate used in 2023 and 2022 are based on forecast Colombia rates.

Included in the environmental liability is \$3.0 million (December 31, 2022 – \$1.2 million) that is classified as a current obligation.

## 17. Share Capital

### a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2021	120,265,664	\$ 731,713
Issued for cash – exercise of options and RSUs	667,159	5,660
Allocation of contributed surplus – exercise of options and RSUs	—	5,424
Repurchase of shares	(11,820,533)	(60,079)
Balance, December 31, 2022	109,112,290	\$ 682,718
Issued for cash – exercise of options and RSUs	327,528	3,827
Allocation of contributed surplus – exercise of options and RSUs	—	2,129
Repurchase of shares	(5,628,100)	(27,857)
<b>Balance, December 31, 2023</b>	<b>103,811,718</b>	<b>\$ 660,817</b>

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

In 2023, a total of 327,528 options and RSUs were exercised for proceeds of \$3.8 million (year ended December 31, 2022 - 667,159 options and RSUs were exercised for \$5.7 million).

In 2023, the Company repurchased 5,628,100 common shares pursuant to its Normal Course Issuer Bid for \$105.1 million at an average cost per share of Cdn\$25.16 (year ended December 31, 2022 - 11,820,533 common shares repurchased for \$221.5 million at an average cost per share of Cdn\$24.08). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

Dividends paid in 2023 were \$118.7 million or Cdn\$1.50 per share (2022 - \$75.5 million or Cdn\$0.89 per share) to shareholders on record for each dividend payment.

### b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's officers and certain employees to acquire common shares. The maximum number of options reserved for issuance under the stock option plan may not exceed 5% of the number of common shares issued and outstanding. The stock options vest over a three-year period and expire five years from the date of grant.

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2021	995,132	19.36
Granted	172,103	27.01
Exercised	(409,187)	17.47
Balance, December 31, 2022	758,048	22.12
Granted	196,583	22.77
Exercised	(263,986)	19.47
<b>Balance, December 31, 2023</b>	<b>690,645</b>	<b>23.32</b>

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2023 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$18.24 - \$21.92	176,080	1.85	21.25	116,153	1.72	21.04
\$21.93 - \$22.41	140,334	1.11	22.18	140,334	1.11	22.18
\$22.42 - \$24.12	202,128	4.05	22.77	3,696	2.24	22.64
\$24.13 - \$26.44	3,892	3.43	25.68	1,297	3.43	25.68
\$26.45 - \$28.39	168,211	3.11	27.04	56,058	3.11	27.04
	<b>690,645</b>	<b>2.66</b>	<b>23.32</b>	<b>317,538</b>	<b>1.71</b>	<b>22.64</b>

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

For the year ended December 31,	2023	2022
Risk-free interest rate (%)	3.38	1.58
Expected life (years)	4	4
Expected volatility (%)	48	48
Forfeiture rate (%)	3	3
Expected dividends	6.01	4.96

The weighted average fair value at the grant date for the year ended December 31, 2023 was Cdn\$5.97 per option (year ended December 31, 2022 – Cdn\$10.42 per option). The weighted average share price on the exercise date for options exercised in 2023 was Cdn\$24.37 (year ended December 31, 2022 – Cdn\$26.15).

### c) Restricted share units

Pursuant to the restricted share unit plan, the Company had an RSU plan that provided grants of restricted share units to certain employees. The plan was extinguished during the first quarter of 2023 and was replaced with the CosRSU plan.

### d) Equity settled share-based compensation

For the year ended December 31,	2023	2022
Option expense	\$ 1,043	\$ 1,228
<b>Total equity settled share-based compensation expense</b>	<b>\$ 1,043</b>	<b>\$ 1,228</b>

## 18. Cash Settled Incentive Plans

### a) Cash or share settled Restricted Share Units and Performance Share Units ("CosRSUs and CosPSUs")

The Company has in place a Cash or share settled RSU/PSU incentive 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, 2021	1,196,332
Granted <sup>(1)</sup>	581,226
Exercised	(602,568)
Forfeited	(23,286)
Balance, December 31, 2022	1,151,704
Granted <sup>(1)</sup>	676,119
Exercised	(582,105)
Forfeited	(9,203)
<b>Balance, December 31, 2023</b>	<b>1,236,515</b>

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

**CosPSU:**

	Number of CosPSUs
Balance, December 31, 2021	701,001
Granted <sup>(1)</sup>	249,673
Granted by performance factor	146,232
Exercised	(372,716)
Forfeited	(2,004)
Balance, December 31, 2022	722,186
Granted <sup>(1)</sup>	328,679
Granted by performance factor	(19,468)
Exercised	(209,532)
<b>Balance, December 31, 2023</b>	<b>821,865</b>

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

As at December 31, 2023, no CosRSUs and CosPSUs were vested.

The weighted average fair value at the grant date for the year ended December 31, 2023 was Cdn\$22.99 per CosRSU and CosPSU (year ended December 31, 2022 - Cdn\$18.12 per CosRSU and CosPSU).

Pursuant to the cash or share settled restricted share unit and performance share unit plan, the Company has granted cash or share settled performance share units to certain employees. The CosPSUs vest three years after the grant date. CosPSUs 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 predetermined adjustment factor of between 0-2x is applied to CosPSUs eligible to vest at the end of the performance period. In March 2023 the board of directors approved a multiplier of 0.93X be applied to the 2020 CosPSU grant resulting in 19,468 CosPSU's reduction. In March 2022 the board of directors approved a multiplier of 1.64X be applied to the 2019 CosPSU grant resulting in 146,232 CosPSU's issued.

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at December 31, 2023, the total CosRSUs and CosPSUs liability accrued is \$24.7 million (December 31, 2022 - \$17.1 million) of which \$8.4 million (December 31, 2022 - \$6.5 million) is classified as long-term in accordance with the three-year vesting period.

**b) Deferred share units ("DSUs")**

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

	Number of DSU's	Weighted average exercise price Cdn\$/DSU
Balance, December 31, 2021	255,528	—
Granted <sup>(1)</sup>	44,237	—
Balance, December 31, 2022	299,765	—
Granted <sup>(1)</sup>	43,529	—
Exercised on board retirement	(30,000)	—
<b>Balance, December 31, 2023</b>	<b>313,294</b>	—

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

The fair value at the grant date is equivalent to the five day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date. The weighted average fair value at the grant date for the year ended December 31, 2023 was Cdn\$27.77 per DSU (year ended December 31, 2022 - Cdn\$23.79 per DSU).



Given the DSUs vest immediately, obligations for payments of cash under the DSUs plan are accrued as compensation expense immediately based on the fair value of the DSU. As at December 31, 2023 the total DSUs liability accrued is \$5.9 million (December 31, 2022 - \$4.5 million) of which \$5.5 million (December 31, 2022 - \$4.5 million) is classified as long-term in accordance with the terms of the DSU plan.

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

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

	Number of CRSUs	Weighted average exercise price Cdn\$/CRSU
Balance, December 31, 2021	818,929	—
Granted <sup>(1)</sup>	399,854	—
Exercised	(425,924)	—
Forfeited	(35,219)	—
Balance, December 31, 2022	757,640	—
Granted <sup>(1)</sup>	344,653	—
Exercised	(377,086)	—
Forfeited	(46,095)	—
<b>Balance, December 31, 2023</b>	<b>679,112</b>	<b>—</b>

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

The weighted average fair value at the grant date for the year ended December 31, 2023 was Cdn\$22.94 per CRSU (year ended December 31, 2022 - Cdn\$18.02 per CRSU).

Obligations for payments of cash under the CRSUs plan are accrued as compensation expense over the vesting period based on the fair value of CRSUs. The fair value of CRSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at December 31, 2023, the total CRSUs liability accrued is \$8.0 million (December 31, 2022 - \$6.8 million) of which \$2.4 million (December 31, 2022 - \$2.1 million) is classified as long-term in accordance with the three-year vesting period.

**d) Cash settled share-based compensation**

For the year ended December 31,	<b>2023</b>		2022	
CosRSUs and CosPSUs expense	\$	<b>21,550</b>	\$	14,919
DSUs expense		<b>2,091</b>		104
CRSUs expense		<b>5,680</b>		2,908
SARs (recovery)		—		(31)
<b>Total cash settled share-based compensation expense</b>	<b>\$</b>	<b>29,321</b>	<b>\$</b>	<b>17,900</b>
<b>Cash payments made upon exercise</b>	<b>\$</b>	<b>20,988</b>	<b>\$</b>	<b>28,654</b>

## 19. Income Tax

The components of tax expense for 2023 and 2022 were as follows:

For the year ended December 31,	2023		2022	
Current tax expense	\$	147,595	\$	345,599
Adjustments in respect of prior period		8,088		438
Total current tax expense	\$	155,683	\$	346,037
Deferred tax (recovery)		(160,753)		(154,239)
Total tax (recovery) expense	\$	(5,070)	\$	191,798

In December 2021, the Organization for Economic Co-operation and Development ("OECD") issued model rules for new global minimum tax framework ("Pillar Two"). In May 2023, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12") to address Pillar Two, which provide clarity on the impacts and additional disclosure requirements once legislation is substantively enacted. Parex has applied the mandatory temporary exemption of IAS 12 and in turn, has not recognized the impacts of Pillar Two in the deferred tax calculation. The Company is not expecting a material impact as a result of Pillar Two.

### Factors affecting tax expense for the year

The standard Colombian corporate income tax rate for 2023 was 35% plus an applicable 10% surtax as Parex is an oil producing entity under Colombian law. The total Colombian corporate tax rate for 2023 is 45% (year ended December 31, 2022 – 35%). The following is a reconciliation of income taxes calculated at the Colombian corporate tax rate to the tax expense for 2023 and 2022:

For the year ended December 31,	2023		2022	
Income before tax	\$	454,239	\$	803,166
Income before tax multiplied by the standard rate of Colombian corporate tax of 45% (2022 – 35%)		204,408		281,108
<b>Effects of:</b>				
Income taxes recorded at rates different from the Colombian tax rate		33,775		(173,172)
Impact of Colombian tax rate changes		(2,555)		7,698
Impact of deferred tax rate changes		—		17,183
Non-deductible expense and other permanent differences		69,930		5,969
Share-based compensation		240		282
Adjustment in respect of prior period		(1,444)		(2,920)
Foreign exchange impact on tax pools denominated in foreign currency		(307,296)		55,564
Change in unrecognized deferred tax assets		(2,128)		86
<b>Total tax expense</b>	\$	<b>(5,070)</b>	\$	191,798

Colombian current tax rates are as follows: 35% for 2023; and 35% thereafter plus an applicable surtax for Colombian oil producing companies of between 0% to 15% dependent on the price of Brent crude relative to historical averages.

The analysis of deferred income tax assets as follows:

	December 31, 2023		December 31, 2022	
Deferred tax assets to be settled within 12 months	\$	1,303	\$	1,113
Deferred tax assets to be settled after more than 12 months		245,375		109,795
Deferred income tax assets	\$	246,678	\$	110,908

The analysis of deferred income tax liabilities as follows:

	December 31, 2023		December 31, 2022	
Deferred tax liabilities (asset) to be settled within 12 months	\$	—	\$	1,381
Deferred tax liabilities to be settled after more than 12 months	\$	—		23,603
Deferred income tax liability	\$	—	\$	24,984
Net deferred tax (asset)	\$	(246,678)	\$	(85,924)

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

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

<b>Deferred Tax (Liability)</b>	<b>December 31, 2023</b>		Charged (credited) to the statement of comprehensive income		December 31, 2022		Charged (credited) to the statement of comprehensive income	
PP&E	\$	—	\$	41,039	\$	(41,039)	\$	57,748
Decommissioning liability		—		(11,746)		11,746		(7,488)
Cash-settled equity based compensation		—		(2,928)		2,928		(195)
Other		—		(1,381)		1,381		125
<b>Balance, end of period</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>24,984</b>	<b>\$</b>	<b>(24,984)</b>	<b>\$</b>	<b>50,190</b>

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

<b>Deferred Tax Asset</b>	<b>December 31, 2023</b>		Charged (credited) to the statement of comprehensive income		December 31, 2022		Charged (credited) to the statement of comprehensive income	
PP&E	\$	192,532	\$	100,262	\$	92,270	\$	93,456
Loss carry forwards		—		—		—		(466)
Decommissioning liability		41,165		29,996		11,169		11,169
Other		12,981		5,512		7,469		(110)
<b>Balance, end of period</b>	<b>\$</b>	<b>246,678</b>	<b>\$</b>	<b>135,770</b>	<b>\$</b>	<b>110,908</b>	<b>\$</b>	<b>104,049</b>

The Company has losses as well as other cumulative tax deductions in excess of book value in Canada available to reduce future taxable income in future years. At December 31, 2023 the deferred tax asset amount recorded in Canada is \$7.0 million. The Company did not recognize deferred income tax assets on capital losses and other items in Canada of \$32.0 million. Non-capital losses in Canada expire in 20 years and capital losses carry-forward indefinitely. The Company does not have losses available in Colombia. Amounts denominated in foreign currency have been translated at the December 31, 2023 exchange rate. At December 31, 2023 the Company had the following losses carry-forward:

	Canada	
<b>Year of expiry</b>		
Indefinitely	\$	157,222
	<b>\$</b>	<b>157,222</b>

Earnings retained by subsidiaries amounted to \$2,332.8 million at December 31, 2023 (December 31, 2022 - \$1,617.2 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

## 20. Net income per Share

### a) Basic net income per share

For the year ended December 31,	2023	2022
<b>Net income</b>		
Net income for the purpose of basic net income per share	\$ 459,309	\$ 611,368
<b>Weighted average number of shares for the purposes of basic net income per share (000's)</b>	<b>106,247</b>	113,572
<b>Basic net income per share</b>	<b>\$ 4.32</b>	\$ 5.38

## b) Diluted net income per share

For the year ended December 31,	2023	2022
<b>Net income</b>		
Net income used to calculate diluted net income per share	\$ 459,309	\$ 611,368
<b>Weighted average number of shares for the purposes of basic net income per share (000's)</b>	<b>106,247</b>	113,572
Dilutive effect of share options and RSUs on potential common shares	48	89
<b>Weighted average number of shares for the purposes of diluted net income per share</b>	<b>106,295</b>	113,661
<b>Diluted net income per share</b>	<b>\$ 4.32</b>	\$ 5.38

For the year ended December 31, 2023, 191,416 stock options (December 31, 2022 - 182,467) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

## 21. Supplemental Disclosure of Cash Flow Information

### a) Reconciliation of cash and cash equivalents and restricted cash and cash equivalents

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents to the amounts shown in the consolidated statement of cash flows:

For the year ended December 31,	2023	2022
Cash and cash equivalents	\$ 140,352	\$ 419,002
Restricted cash and cash equivalents - long-term <sup>(1)</sup>	3,556	—
	<b>\$ 143,908</b>	\$ 419,002

(1) Included in Other long-term assets on the consolidated balance sheet.

### b) Net change in non-cash working capital

For the year ended December 31,	2023	2022
Accounts receivable	\$ (609)	\$ 64,191
Prepays and other current assets	7,019	(39,843)
Crude oil inventory	379	(3,248)
Accounts payable and accrued liabilities	(304,000)	254,802
Depletion related to crude oil inventory	(37)	920
Decommissioning and environmental liabilities	(6,805)	(3,693)
Net change in non-cash working capital	<b>\$ (304,053)</b>	\$ 273,129
Operating	\$ (291,311)	\$ 258,712
Investing	(12,742)	14,417
Net change in non-cash working capital	<b>\$ (304,053)</b>	\$ 273,129

### c) Interest and taxes paid

For the year ended December 31,	2023	2022
Cash interest paid	\$ —	\$ —
Cash income taxes paid	\$ 245,423	\$ 30,587

## 22. Employee Salaries and Benefit Expenses

For the year ended December 31,	2023	2022
Salaries, bonuses and other short-term benefits	\$ 47,832	\$ 39,746
Equity settled share-based compensation	1,043	1,228
Cash settled share-based compensation	29,321	17,900
	<b>\$ 78,196</b>	\$ 58,874

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

## 23. Capital Management

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

The Company has a senior secured credit facility with a syndicate of banks which at December 31, 2023 had a borrowing base in the amount of \$200.0 million (December 31, 2022 - \$200.0 million). The credit facility is intended to serve as means to increase liquidity and fund cash or letter of credit needs as they arise. As at December 31, 2023, \$90.0 million (December 31, 2022 - \$nil) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") and Empresa Colombiana de Petróleos S.A., ("Ecopetrol") joint venture blocks related to the exploration work commitments on its Colombian concessions (see note 26 - Commitments and Contingencies). This performance guarantee facility has a limit of \$150.0 million (December 31, 2022 - limit of \$150.0 million) of which \$8.0 million is utilized at December 31, 2023 (December 31, 2022 - \$9.4 million). At December 31, 2023, there is an additional \$133.0 million (December 31, 2022 - \$119.7 million) of letters of credit that are provided by select Latin American banks on an unsecured basis.

As at December 31, 2023 the Company's net working capital surplus was \$79.0 million (December 31, 2022 - \$85.0 million), of which \$140.4 million is cash.

The Company has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure and share buy-back and dividend programs to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity, the credit facility and its working capital. As at December 31, 2023 shareholders' equity was \$1,955.4 million (December 31, 2022 - \$1,715.0 million).

## 24. Financial Instruments and Risk Management

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

Long-term financial instruments of the Company carried on the consolidated balance sheet are carried at amortized cost. Financial derivative instruments, specifically fixed price contracts, are carried at fair value.

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

Level 1 – quoted prices in active markets for identical financial instruments.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

As at December 31, 2023, 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 \$8.5 million.

### a) Credit risk

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

The Company for the year ended December 31, 2023 had the majority of its oil sales to 4 counterparties. Accounts receivable balance as at December 31, 2023 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At December 31, 2023 there are no accounts receivable past due (December 31, 2022 - \$nil).

As at December 31, 2023 and 2022 the Company's accounts receivable are aged as follows:

For the year ended December 31,	2023		2022	
Current (less than 90 days)	\$	118,567	\$	117,958
Past due (more than 90 days)		—		—
<b>Total</b>	<b>\$</b>	<b>118,567</b>	<b>\$</b>	<b>117,958</b>

None of the Company's receivables are impaired at December 31, 2023. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

### b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. The Company is committed to maintaining a strong balance sheet and has the ability to change its capital program based on expected operating cash flows. The balance drawn on the Company's \$200.0 million credit facility at December 31, 2023 was \$90.0 million (December 31, 2022 - \$nil).

The following are the contractual maturities of financial liabilities at December 31, 2023:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	229,063	—	—	—	\$ 229,063
Bank debt	—	90,000	—	—	90,000
Lease obligation	734	5,736	—	—	6,470
Cash settled equity plans payable	22,351	16,284	—	—	38,635
<b>Total</b>	<b>\$ 252,148</b>	<b>112,020</b>	<b>—</b>	<b>—</b>	<b>\$ 364,168</b>

The following are the contractual maturities of financial liabilities at December 31, 2022:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities <sup>(1)</sup>	\$ 292,062	—	—	—	\$ 292,062
Current income tax payable	193,854	—	—	—	193,854
Lease obligation	755	6,079	—	—	6,834
Cash settled equity plans payable	15,223	13,132	—	—	28,355
<b>Total</b>	<b>\$ 501,894</b>	<b>19,211</b>	<b>—</b>	<b>—</b>	<b>\$ 521,105</b>

(1) Includes the liability for derivative financial instruments.

### c) Commodity price risk

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

As at December 31, 2023 the Company had no outstanding commodity price risk management contracts.

#### 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 December 31, 2023 the Company had no outstanding foreign currency risk management contracts.

The following is a summary of the foreign currency risk management contracts put in place since December 31, 2023:

Period Hedged	Reference	Currency Option Type	Amount CAD	Strike Adjustment CAD
January 24, 2024 to February 15, 2024	CAD	Strike Forward	\$15,000,000	-0.0015
January 24, 2024 to March 27, 2024	CAD	Strike Forward	\$37,000,000	-0.0025

The table below summarizes the (gain) loss on the foreign currency risk management contracts that were in place during the year ended December 31, 2023 and 2022:

For the year ended December 31,		2023	2022
Unrealized (gain) loss on foreign currency risk management contracts	\$	(1,278)	\$ 807
Realized gain on foreign currency risk management contracts		(4,831)	—
Total	\$	(6,109)	\$ 807

## 25. Segmented Information

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

For the year ended December 31, 2023	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 1,414,552	\$ 1,414,552
Royalties	—	(244,703)	(244,703)
Revenue	—	1,169,849	1,169,849
<b>Expenses</b>			
Production	—	207,129	207,129
Transportation	—	68,306	68,306
Purchased oil	—	4,583	4,583
General and administrative	36,164	24,913	61,077
Impairment of property, plant and equipment assets	—	59,682	59,682
Impairment of exploration and evaluation assets	—	82,858	82,858
Equity settled share-based compensation expense	1,043	—	1,043
Cash settled share-based compensation expense	23,640	5,681	29,321
Depletion, depreciation and amortization	1,931	192,298	194,229
Foreign exchange loss (gain)	(278)	5,764	5,486
	62,500	651,214	713,714
Finance (income)	(3,973)	(10,547)	(14,520)
Finance expense	2,551	13,865	16,416
Net finance expense (income)	(1,422)	3,318	1,896
Income (loss) before taxes	(61,078)	515,317	454,239
Current tax expense	5,341	150,342	155,683
Deferred tax (recovery)	(1,945)	(158,808)	(160,753)
<b>Net income (loss)</b>	<b>\$ (64,474)</b>	<b>\$ 523,783</b>	<b>\$ 459,309</b>
Capital assets (end of year)	\$ 7,834	\$ 1,541,931	\$ 1,549,765
Capital expenditures	\$ 1,816	\$ 481,527	\$ 483,343
Total assets (end of year)	\$ 107,334	\$ 2,307,993	\$ 2,415,327

<b>For the year ended December 31, 2022</b>	<b>Canada</b>		<b>Colombia</b>		<b>Total</b>
Oil and natural gas sales	\$	—	\$	1,643,589	\$ 1,643,589
Royalties		—		(332,895)	(332,895)
Revenue		—		1,310,694	1,310,694
<b>Expenses</b>					
Production		—		129,980	129,980
Transportation		—		61,229	61,229
Purchased oil		—		9,936	9,936
General and administrative		33,106		18,116	51,222
Impairment of exploration and evaluation assets		—		103,394	103,394
Equity settled share-based compensation expense		1,228		—	1,228
Cash settled share-based compensation expense		15,023		2,877	17,900
Depletion, depreciation and amortization		1,520		147,831	149,351
Foreign exchange (gain) loss		1,366		(18,771)	(17,405)
		52,243		454,592	506,835
Finance (income)		(2,684)		(6,331)	(9,015)
Finance expense		1,562		8,146	9,708
Net finance expense (income)		(1,122)		1,815	693
Income (loss) before taxes		(51,121)		854,287	803,166
Current tax expense		6,632		339,405	346,037
Deferred tax (recovery) expense		2,060		(156,299)	(154,239)
<b>Net income (loss)</b>	<b>\$</b>	<b>(59,813)</b>	<b>\$</b>	<b>671,181</b>	<b>\$ 611,368</b>
Capital assets (end of year)	\$	7,949	\$	1,363,191	\$ 1,371,140
Capital expenditures	\$	2,078	\$	510,174	\$ 512,252
Total assets (end of year)	\$	284,476	\$	2,029,897	\$ 2,314,373

For the year ended December 31, 2023 and December 31, 2022, the Company had one external customer in the oil and gas industry that subject to normal industry credit risks, constituted more than 10% of commodity sales from production. Sales to this customer totaled \$1,028.6 million for the year ended December 31, 2023 and \$1,235.0 million for the year ended December 31, 2022, respectively.

## 26. Commitments and Contingencies

### a) Colombia

At December 31, 2023 performance guarantees are in place with the ANH for certain blocks. The guarantees are in the form of issued letters of credit totaling \$141.0 million (December 31, 2022 - \$129.1 million) to support the exploration work commitments in respect of the 39 blocks in Colombia.

At December 31, 2023 EDC has provided the Company's bank with performance security guarantees to support approximately \$8.0 million (December 31, 2022 - \$9.4 million) of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH are reduced from time to time to reflect completed work on an ongoing basis. At December 31, 2023, there are an additional \$133.0 million (December 31, 2022 - \$119.7 million) letters of credit that are provided by a Latin American bank on an unsecured basis.

The value of the Company's exploration commitments as at December 31, 2023 in respect of the Colombia work commitments under E&P contracts, and joint venture farm-in arrangements are estimated to be as follows:

(000s)	
2024	\$ 21,530
2025	230,793
2026	40,756
Thereafter	164,990
	\$ 458,069



**b) Operating leases**

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

The existing minimum lease payments for office space and accommodations at December 31, 2023 are as follows:

(000s)	Total	2024	2025	2026	2027	Thereafter
Office and accommodations	\$ 6,789	2,076	1,085	840	2,788	—

**27. Related Party Disclosures****a) Significant Subsidiaries**

The consolidated financial statements include the financial statements of Parex Resources Inc. at December 31, 2023 and 2022. Transactions between subsidiaries are eliminated upon consolidation.

**b) Compensation of Key Management Personnel**

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

For the year ended December 31,	2023		2022	
Salaries, directors' fees and other benefits	\$	5,448	\$	4,972
Equity settled share-based compensation		637		709
Cash settled share-based compensation		5,841		7,984
	\$	11,926	\$	13,665

**c) Other transactions**

The Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2023 and 2022.

**28. Subsequent Event**

On January 22, 2024, the Company commenced an NCIB to purchase for cancellation, from time to time, as it considers advisable up to a maximum of 10,198,838 Common Shares on the open market through the facilities of the TSX and/or alternative trading systems. The NCIB will terminate on January 21, 2025. The Company also entered into an automatic share purchase plan with a broker to facilitate repurchases of Common Shares pursuant to the Company's NCIB. Under the Company's automatic share purchase plan, the Company's broker may repurchase Common Shares under the NCIB during the Company's self-imposed blackout periods. The Company has repurchased approximately 0.5 million shares to date in 2024 at an average price of Cdn\$21.88 per share, for total consideration of Cdn\$11.8 million under the current normal course issuer bid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or the "Company") for the three months and years ended December 31, 2023 and 2022 is dated February 29, 2024 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2023 and 2022 (the "audited consolidated financial statements"). The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

Additional information related to Parex are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated February 29, 2024 (the "AIF"), and may be accessed through the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).

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

### Company Profile

Parex is the largest independent oil and gas company in Colombia, focusing on sustainable, conventional production. Parex's corporate headquarters are in Calgary, Canada, and the Company has an operating office in Bogotá, Colombia. Parex is a member of the S&P/TSX Composite ESG Index and its common shares trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

### Abbreviations

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

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

### 2023 Highlights

- Annual crude oil and natural gas production in 2023 averaged 54,356 boe/d (99% crude oil and 1% natural gas), an increase of 4% over the 2022 average production of 52,049 boe/d (97% crude oil and 3% natural gas). Production per share\*\*\* increased by 12% compared to 2022 primarily as a result of developmental drilling and the reduction of outstanding shares. Refer to "Consolidated Results of Operations" for annual production split by product type.
- Recognized net income of \$459.3 million (\$4.32 per share basic) for the year ended December 31, 2023 compared to net income of \$611.4 million (\$5.38 per share basic) in 2022.
- Generated annual funds flow provided by operations ("FFO")\* of \$667.8 million (\$6.29 per share basic\*\*) compared to \$724.9 million (\$6.38 per share basic) in 2022.
- A total of \$223.7 million was returned to shareholders through dividends of \$118.7 million and share repurchases of \$105.1 million. Repurchased 5.6 million common shares under the Company's normal course issuer bid ("NCIB"), reducing outstanding shares by 5% in 2023. The Company's regular quarterly dividend increased by 50% to Cdn\$0.375 for 2023 compared to Cdn\$0.250 for the fourth quarter of 2022.

### Three Months Ended December 31, 2023 ("fourth quarter" or "Q4") Highlights

- Quarterly crude oil and natural gas production averaged 57,329 boe/d (98% crude oil and 2% natural gas), an increase of 6% over the fourth quarter of 2022. Refer to "Consolidated Results of Operations" for production split by product type.
- Recognized net income of \$133.8 million (\$1.28 per share basic) compared to net income of \$250.0 million (\$2.29 per share basic) in the comparative quarter of 2022.
- Generated quarterly FFO\* of \$193.4 million (\$1.85 per share basic\*\*) compared to \$85.2 million (\$0.78 per share basic) in the fourth quarter of 2022.
- Generated an operating netback\*\* of \$41.79/boe (Q4 2022 - \$51.29/boe) and an FFO netback\*\* of \$36.81/boe (Q4 2022 - \$17.02/boe) from an average Brent price of \$82.90/bbl (2022 - \$88.63/bbl).

\* Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".

\*\* Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

\*\*\* Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".

### Financial Summary

(Financial figures in \$000s except per share amounts)	For the three months ended December 31,		For the year ended December 31,		
	2023	2022	2023	2022	2021
Light Crude Oil and Medium Crude Oil (bbl/d)	9,700	10,511	8,417	7,471	6,831
Heavy Crude Oil (bbl/d)	46,760	42,746	45,163	43,008	38,449
Average oil production (bbl/d) <sup>(1)</sup>	56,460	53,257	53,580	50,479	45,280
Average conventional natural gas production (mcf/d) <sup>(1)</sup>	5,214	6,000	4,656	9,420	10,308
Average oil and natural gas production (boe/d)	57,329	54,257	54,356	52,049	46,998
Production split (% crude oil)	98	98	99	97	96
Oil and natural gas sales price (\$/boe) <sup>(6)</sup>	71.12	74.81	71.00	86.88	60.97
Operating netback (\$/boe) <sup>(1)</sup>	41.79	51.29	44.84	59.06	42.53
Oil and natural gas sales	373,643	376,347	1,414,552	1,643,589	1,057,184
Funds flow provided by operations <sup>(7)</sup>	193,377	85,194	667,782	724,890	577,545
Per share – basic <sup>(1)(3)</sup>	1.85	0.78	6.29	6.38	4.61
Per share – diluted <sup>(1)(3)</sup>	1.85	0.78	6.28	6.38	4.60
Net income	133,783	249,958	459,309	611,368	303,105
Per share – basic <sup>(3)</sup>	1.28	2.29	4.32	5.38	2.42
Per share – diluted <sup>(3)</sup>	1.28	2.29	4.32	5.38	2.41
Dividends paid	29,505	20,108	118,676	75,491	47,631
Per share – Cdn\$ <sup>(3)(6)</sup>	0.375	0.25	1.50	0.89	0.50
Shares repurchases	22,453	3,206	105,068	221,464	218,491
Number of shares repurchased (000s)	1,220	220	5,628	11,821	12,869
Capital expenditures <sup>(2)</sup>	91,419	147,746	483,343	512,252	272,234
Long-term inventory expenditures	(866)	56,415	39,430	140,266	5,001
Free funds flow <sup>(2)</sup>	101,958	(62,552)	184,439	212,638	305,311
EBITDA <sup>(2)</sup>	110,653	213,604	650,364	953,210	633,280
Adjusted EBITDA <sup>(2)</sup>	201,345	244,637	816,815	1,066,040	689,177
Total assets (end of period)	2,415,327	2,314,373	2,415,327	2,314,373	1,784,221
Working capital surplus (end of period) <sup>(4)(7)</sup>	79,027	84,988	79,027	84,988	325,780
Bank debt (end of period) <sup>(5)</sup>	90,000	—	90,000	—	—
Weighted average shares outstanding (000s)					
Basic	104,394	109,107	106,247	113,572	125,210
Diluted	104,448	109,140	106,295	113,661	125,599
Outstanding shares (end of period) (000s)	103,812	109,112	103,812	109,112	120,266

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

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

(3) Per share amounts (with the exception of dividends) are based on weighted average common shares. Dividends paid per share are based on the number of common shares outstanding at each dividend record date.

(4) Working capital calculation does not take into consideration the undrawn amount available under the syndicated bank credit facility.

(5) Syndicated bank credit facility borrowing base of \$200.0 million as at December 31, 2023 and December 31, 2022.

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

(7) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory". For the fourth quarter and year ended December 31, 2022 funds flow provided by operations includes a \$100 million (\$0.92 per share basic) increased current tax expense as a result of a voluntary, internal corporate restructuring. See the "Income Tax" section.

## 2023 Guidance vs Actuals

The table below is a summary of Parex's original annual guidance for 2023 and a review of 2023 actual results:

	2023 Guidance (as released December 2022)	2023 Actuals	% variance from 2023 Guidance - midpoint
Brent crude average price (\$/bbl)	80	<b>82</b>	3
Production (average for period) (boe/d) <sup>(1)</sup>	57,000-63,000	<b>54,356</b>	(9)
Total Capital Expenditures (\$ millions) <sup>(2)</sup>	425-475	<b>483</b>	7
Funds Flow provided by operations <sup>(4)</sup> (\$ millions)	645-715	<b>668</b>	(2)
Funds Flow provided by operations netback <sup>(3)</sup> (\$/boe)	31	<b>34</b>	10
Current tax effective rate on FFO (%) <sup>(5)</sup>	32%	<b>19%</b>	(41)
Return of Capital (Dividends & Share Repurchases) - % of total FFO <sup>(5)</sup>	≥33%	<b>34%</b>	3

(1) Refer to "Consolidated Results of Operations" for annual production split by product type

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

(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

(4) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".

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

In 2023 Brent crude prices were slightly higher than Parex's 2023 guidance. As Parex is unhedged, higher oil prices contributed to higher funds flow provided by operations and free funds flow, however the voluntary tax restructuring completed in late December 2022 had a significant impact on funds flow from operations which offset oil and gas production volumes being lower than original 2023 guidance. Parex's actual 2023 average production volumes being below its guidance range was largely a result of delays and production shut-ins in the Capachos Block and slower onstream timing from the Arauca field. Capital expenditures were above the forecasted range largely as a result of drilling and testing delays related to the Arauca drilling program. Funds flow provided by operations and funds flow provided by operations netback were either in line or above expected 2023 guidance. This is largely as a result of a lower than expected current tax effective rate due to the tax restructuring completed in late 2022, a lower than expected surtax band (10%), and a reversal of the non-deductibility of royalties by the Constitutional Court of Colombia.

### Return of Capital to Shareholders

Parex looks to provide a significant return of capital to shareholders through dividends and share repurchases, while investing in the Company's assets to provide a total shareholder return. In 2023 Parex bought back 5% of its outstanding shares under the Company's NCIB, as it intended. To further increase shareholder returns in 2023 the Company increased the Company's regular quarterly dividend by 50% to Cdn\$0.375 for 2023 compared to Cdn\$0.250 for the fourth quarter of 2022 which delivered \$118.7 million to Parex shareholders through dividends in 2023.

## 2024 Guidance

The following table summarizes the Company's 2024 annual guidance:

	2024 Guidance (As released on January 15, 2024)
Brent crude average price (\$/bbl)	75
Production (average for period) (boe/d)	54,000-60,000
Total Capital Expenditures (\$ millions) <sup>(1)(2)</sup>	390-430
Funds flow provided by operations <sup>(4)</sup> (\$ millions)	590-660
Funds Flow provided by operations netback <sup>(1)(3)</sup> (\$/boe)	29-31
Free funds flow (FFO less total capex mid-points) <sup>(1)(3)</sup> (\$ millions)	215

(1) Please see the Company's January 15, 2024 news release for additional details on 2024 corporate guidance and netback sensitivity estimates.

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

(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

(4) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory"

## Financial and Operational Results

### Consolidated Results of Operations

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

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
<b>Average daily production</b>				
Light Crude and Medium Crude Oil (bbl/d)	9,700	10,511	8,417	7,471
Heavy Crude Oil (bbl/d)	46,760	42,746	45,163	43,008
Crude oil (bbl/d)	56,460	53,257	53,580	50,479
Conventional Natural Gas (mcf/d)	5,214	6,000	4,656	9,420
Total (boe/d)	57,329	54,257	54,356	52,049
<b>Production split (% crude oil production)</b>				
	98	98	99	97
<b>Average daily sales of oil and natural gas</b>				
Produced crude oil (bbl/d)	56,240	53,406	53,684	50,213
Purchased crude oil (bbl/d)	—	279	125	245
Produced natural gas (mcf/d)	5,214	6,000	4,656	9,420
Total (boe/d)	57,109	54,685	54,585	52,028
<b>Operating netback (000s)</b>				
Oil and natural gas sales	\$ 373,643	\$ 376,347	\$ 1,414,552	\$ 1,643,589
Royalties	(63,695)	(64,445)	(244,703)	(332,895)
Net revenue <sup>(4)</sup>	309,948	311,902	1,169,849	1,310,694
Production expense	(71,833)	(35,740)	(207,129)	(129,980)
Transportation expense	(18,621)	(17,629)	(68,306)	(61,229)
Purchased oil expense	(498)	(2,207)	(4,583)	(9,936)
Operating netback <sup>(1)</sup>	\$ 218,996	\$ 256,326	\$ 889,831	\$ 1,109,549
<b>Operating netback (per boe)</b>				
Brent (\$/bbl)	\$ 82.90	\$ 88.63	\$ 82.18	\$ 99.04
Parex price differential	(11.78)	(13.82)	(11.18)	(12.16)
Oil and natural gas sales <sup>(2)</sup>	\$ 71.12	\$ 74.81	\$ 71.00	\$ 86.88
Royalties <sup>(2)</sup>	(12.12)	(12.88)	(12.31)	(17.68)
Net revenue	59.00	61.93	58.69	69.20
Production expense <sup>(2)</sup>	(13.67)	(7.14)	(10.42)	(6.90)
Transportation expense <sup>(2)</sup>	(3.54)	(3.50)	(3.43)	(3.24)
Operating netback <sup>(3)</sup>	\$ 41.79	\$ 51.29	\$ 44.84	\$ 59.06

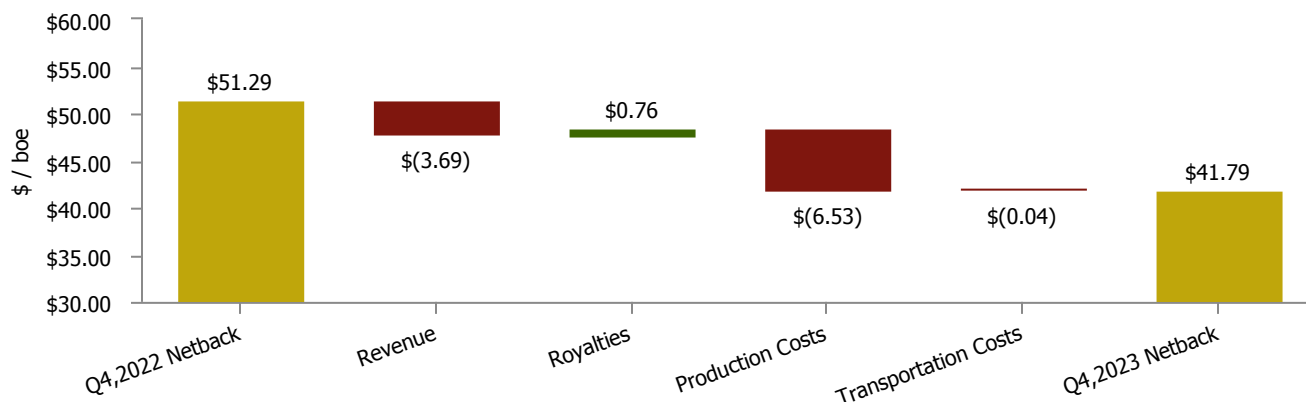
(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".

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

(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

(4) Net revenue for the year ended December 31, 2021 was \$900.2 million.

**Change in Operating Netback by Component  
Q4/22 vs. Q4/23**



In the fourth quarter of 2023, the Company's benchmark Brent price decreased by \$5.73/bbl, while revenue decreased by \$3.69/boe as compared to the fourth quarter of 2022. The increase in revenue relative to the Brent crude benchmark decrease was mainly a result of higher realized sales price per boe resulting from decreased gas sales and lower location and quality differentials (and thereby a lower differential to Brent oil price). Royalties decreased by \$0.76/boe as a result of lower crude oil benchmark prices in the quarter. Production costs increased by \$6.53/boe mainly as a result of increasing electrical power costs. Also impacting production costs were well workovers and maintenance in the current quarter on Block LLA-34, Cabretero and Capachos Blocks and the appreciation of the Colombian peso. Transportation costs in the quarter decreased by \$0.04/boe as compared to the comparative period.

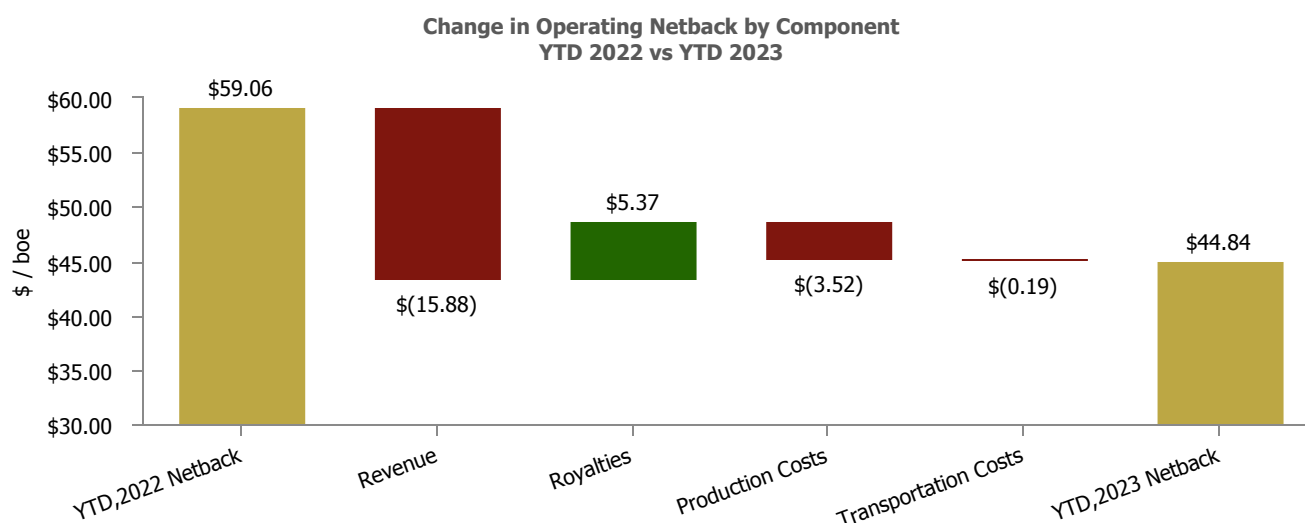
Overall, the operating netback decreased by \$9.50/boe vs a Brent benchmark crude price decrease of \$5.73/bbl.

**Change in Operating Netback by Component  
Q3/23 vs. Q4/23**



In the fourth quarter of 2023, the Company's benchmark Brent oil price decreased by \$3.02/bbl, while revenue decreased by \$4.86/boe as compared to the third quarter of 2023. The decrease in revenue relative to the Brent crude oil benchmark decrease is mainly a result of higher location and quality differentials (and thereby a higher differential to Brent oil price) and weaker crude oil pricing in the quarter as compared to the comparative period. Royalties decreased by \$1.60/boe as a result of lower crude oil benchmark prices in the quarter. Production costs increased by \$3.94/boe mainly as a result of increased electrical power costs and well workovers and maintenance in the current quarter on Block LLA-34, Cabretero and Capachos Blocks. Transportation costs decreased by \$0.02/boe as compared to the third quarter of 2023.

Overall, the operating netback decreased by \$7.18/boe vs a Brent benchmark crude price decrease of \$3.02/bbl.



In 2023, the Company's benchmark Brent price decreased by \$16.86/bbl, while revenue decreased by \$15.88/boe as compared to 2022. The increase in revenue relative to the higher Brent crude benchmark decrease was mainly a result of higher realized sales price per boe resulting from decreased gas sales. Royalties decreased by \$5.37/boe as a result of lower crude oil benchmark prices in 2023. Production costs in 2023 increased by \$3.52/boe mainly as a result of increasing electrical power costs. Also impacting production costs were well workovers and maintenance in the current year on Block LLA-34, Cabrestero and Capachos Blocks, as well as the temporary shut-in at the Capachos Block where lower field production expenses are realized. Transportation costs in 2023 increased by \$0.19/boe as compared to 2022.

Overall, the operating netback decreased by \$14.22/boe vs a Brent benchmark crude price decrease of \$16.86/bbl.

## Oil and Natural Gas Sales

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

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Block LLA-34	29,513	30,035	29,827	31,359
Southern Llanos Basin	20,884	18,158	18,639	14,893
Northern Llanos Basin	3,974	3,510	3,042	2,982
Magdalena Basin	2,089	1,554	2,072	1,245
<b>Total Crude Oil Production</b>	<b>56,460</b>	<b>53,257</b>	<b>53,580</b>	<b>50,479</b>
Natural gas production	869	1,000	776	1,570
<b>Total crude oil and natural gas production</b>	<b>57,329</b>	<b>54,257</b>	<b>54,356</b>	<b>52,049</b>
Crude oil inventory draw (build)	(220)	149	104	(266)
<b>Average daily sales of produced oil and natural gas</b>	<b>57,109</b>	<b>54,406</b>	<b>54,460</b>	<b>51,783</b>
Purchased oil	—	279	125	245
<b>Sales Volumes</b>	<b>57,109</b>	<b>54,685</b>	<b>54,585</b>	<b>52,028</b>

Crude oil and natural gas production for the fourth quarter of 2023 averaged 57,329 boe/d, an increase of approximately 6% from the fourth quarter of 2022 production of 54,257 boe/d and an increase of approximately 5% from the third quarter of 2023 production of 54,573 boe/d.

The increase in oil and natural gas production in the fourth quarter of 2023 compared to the fourth quarter of 2022 is mainly the result of development on the Cabrestero, LLA-26, LLA-40 and VIM-1 Blocks, partially offset by increased downtime in Block LLA-34. In addition to this, production in the fourth quarter of 2022 was impacted by proactive shut-ins in the Capachos Block due to security concerns.

The increase in oil and natural gas production in the fourth quarter of 2023 compared to the third quarter of 2023 is mainly the result of production from additional wells drilled during the quarter on the Cabrestero Block.

Block LLA-34 oil production in 2023 was approximately 5% less than the comparative period in 2022. This decrease is mainly due to increased downtime for workovers.

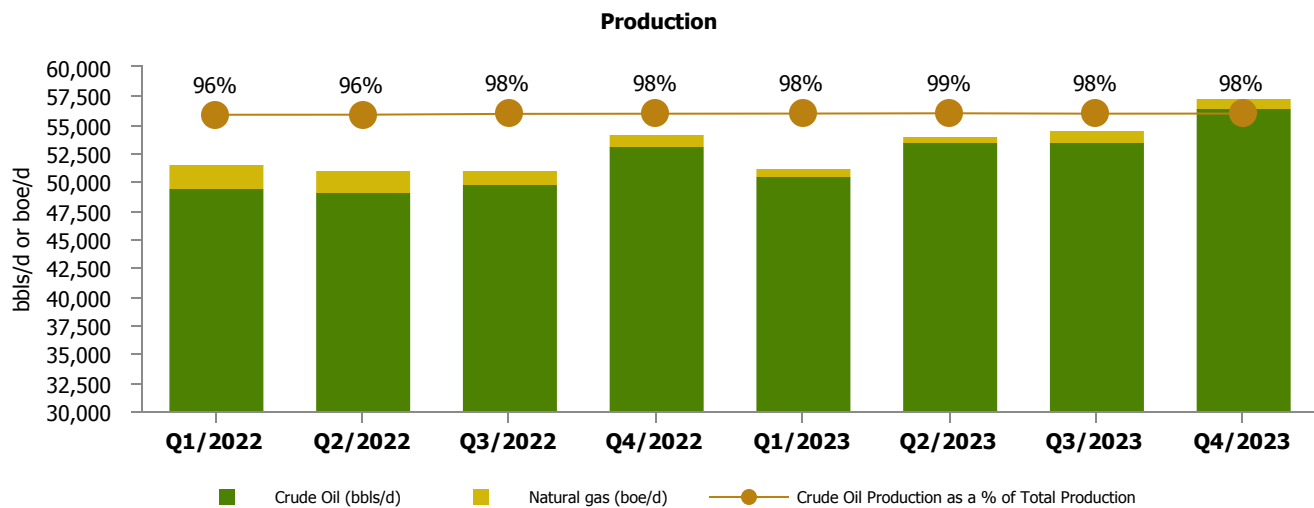
Northern Llanos basin production in 2023 was approximately 2% higher than the prior year comparative period. Production on the Capachos Block in third quarter of 2022 was impacted by temporary localized blockades and in the fourth quarter of 2022 was impacted by proactive shut-ins due to temporary security concerns. Production was also temporarily shut-in on the Capachos Block during the first and second quarters of 2023 due to temporary security concerns.

Southern Llanos basin production was approximately 25% higher than the prior year comparative period mainly due to successful drilling campaigns on the Cabretero, LLA-26 and LLA-40 Blocks.

Magdalena basin production in 2023 was approximately 66% higher than the prior year comparative period of 2022 due to increased production on the VIM-1 Block. In the first quarter of 2023, the Company successfully started gas cycling on the VIM-1 Block, which by reinjecting gas maintains reservoir pressure and maximizes liquids production.

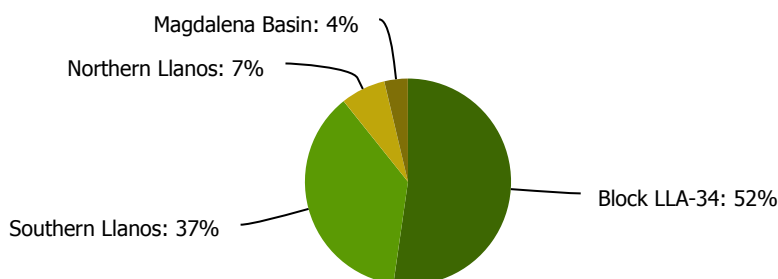
Oil and natural gas sales in the fourth quarter of 2023 were 57,109 boe/d compared to 54,685 boe/d for the fourth quarter of 2022. The increase in oil sales volumes was a result of the increase in oil production, partially offset by decreased purchased oil purchases/sales over the comparative period.

Refer to "Consolidated Results of Operations" for annual production split by product type.





**Production By Area  
(Three Months ended December 31, 2023)**



**b) Crude Oil Reference and Realized Prices**

Average price for the period	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Brent (\$/bbl)	<b>82.90</b>	85.92	77.84	82.16	88.63
Parex location and quality differential (\$/bbl)	<b>(4.29)</b>	(3.23)	(5.13)	(6.90)	(7.63)
Parex wellhead sales discount (\$/bbl)	<b>(6.94)</b>	(5.98)	(5.23)	(5.29)	(5.45)
<b>Parex realized oil sales price (\$/bbl)<sup>(2)</sup></b>	<b>71.67</b>	76.71	67.48	69.97	75.55
Parex realized price (differential) to Brent crude (\$/bbl)	<b>(11.23)</b>	(9.21)	(10.36)	(12.19)	(13.08)
Parex transportation expense (\$/bbl) <sup>(1)(2)</sup>	<b>(3.58)</b>	(3.62)	(3.53)	(2.96)	(3.37)
<b>Parex price differential and transportation expense (\$/bbl)<sup>(2)</sup></b>	<b>(14.81)</b>	(12.83)	(13.89)	(15.15)	(16.45)

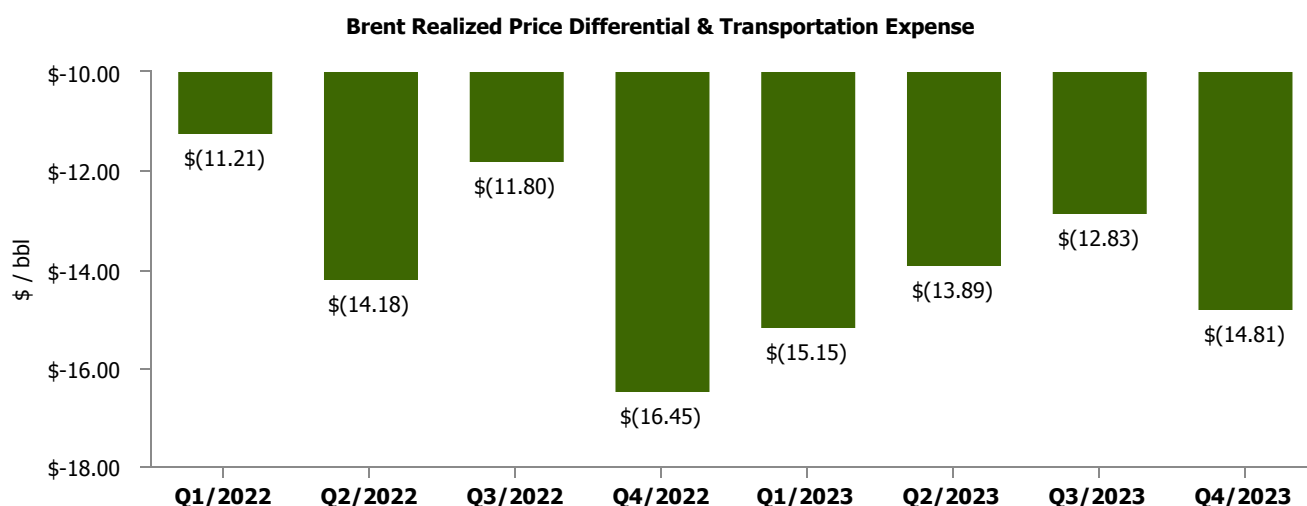
(1) Applies only to direct export cargo sales where Parex incurs the pipeline fees directly. See "Transportation Expense".

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

During the fourth quarter of 2023, the differential between Brent reference pricing and the Company's realized oil sale price was \$11.23/bbl. The differential to Brent crude during the fourth quarter of 2023 increased by \$2.02/bbl compared to the third quarter of 2023 where the differential was \$9.21/bbl. This was primarily the result of the location and quality differential increasing \$1.06/bbl mainly related to increased differentials on heavy oil, and the wellhead sales discount increasing \$0.96/bbl as result of increased sales at the wellhead compared to the prior period. Compared to the fourth quarter of 2022 Parex's realized price improved from a differential of \$13.08/bbl to \$11.23/bbl which was mainly driven by a decrease in location and quality differential.

Differences between Parex's realized price and Brent crude price is mainly related to location and quality adjustments, wellhead sale marketing contracts, and the timing of oil sales compared to quarter averages. The location and quality differential between Brent crude pricing also affects Parex's realized sales price and is set in liquid global markets and therefore attributed to factors that are beyond the Company's control making it inherently difficult to forecast.

Parex's realized price differential to Brent crude 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 direct export sales contracts.



**c) Natural Gas Sales and Realized Prices**

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Natural gas sales (\$000s)	\$ 2,839	\$ 3,195	\$10,096	\$ 20,882
Realized sales price (\$/Mcf) <sup>(1)</sup>	5.92	5.79	5.94	6.07

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

Parex natural gas sales were \$2.8 million and \$10.1 million for the three months and year ended December 31, 2023 compared to \$3.2 million and \$20.9 million in the same periods of 2022. The decrease in natural gas sales from the prior periods is related to decreased natural gas volumes sold from Block LLA-32 as sales to Block LLA-34 for power generation have been reduced due to the tie-in of Block LLA-34 to the national electricity grid, partially offset by increased volumes sold from the VIM-1 Block.

**d) Oil and Natural Gas Sales**

In 2023 oil and natural gas sales decreased by \$229.0 million or 14% as reconciled in the table below to 2022:

(\$000s)

Oil and natural gas sales, year ended December 31, 2022	\$ 1,643,589
Sales volume of produced oil, an increase of 7% (3,471 bbl/d)	118,416
Sales volume of purchased oil, a decrease of 49% (120 bbl/d)	(3,900)
Sales price decrease of 19%	(334,892)
Sales volume and price change of produced natural gas	(10,786)
Other revenue	2,125
<b>Oil and natural gas sales, year ended December 31, 2023</b>	<b>\$ 1,414,552</b>

Oil and natural gas sales decreased year over year mainly due to the decrease in world oil prices.

**e) Crude Oil Inventory in Transit**

As at December 31, (\$000s)

	2023	2022
Crude oil in transit	\$ 4,254	\$ 4,633

As at December 31, 2023, the Company had 105.6 mbbbls (December 31, 2022 - 143.8 mbbbls) of crude oil inventory in transit, which was injected into Colombian pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, transportation costs, depletion expense and royalty expense) at approximately \$40/bbl (\$32/bbl - 2022) 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 (mmbbls)	Dec. 31, 2023	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023
Crude oil inventory in transit - beginning of the period	85.4	110.3	44.9	143.8
Oil production	5,194.3	4,932.7	4,880.0	4,549.5
Oil sales	(5,174.1)	(4,965.8)	(4,834.2)	(4,666.0)
Purchased oil	—	8.2	19.6	17.6
Crude oil inventory in transit (overlift) - end of the period	105.6	85.4	110.3	44.9
% of period production	2.0	1.7	2.3	1.0

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. The Company expects crude oil inventory in future periods to be in line with normal historic levels of below 5% of period production.

#### f) Purchased Oil

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Purchased oil expense (\$000s)	\$ 498	\$ 2,207	\$ 4,583	\$ 9,936

Purchased oil expense for the three months and year ended December 31, 2023 was \$0.5 million and \$4.6 million compared to \$2.2 million and \$9.9 million for the 2022 comparative periods and \$1.0 million in the third quarter of 2023.

Purchased oil expense has decreased compared to the same periods of 2022 as a result of a decrease in oil blending operations and a decrease in purchases of partner crude from the Capachos Block. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

#### Royalties

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Base royalties <sup>(1)</sup>	\$ 32,097	\$ 28,996	\$ 119,730	\$ 132,162
Economic rights <sup>(2)</sup>	31,598	35,449	124,973	200,733
Royalties (\$000s)	\$ 63,695	\$ 64,445	\$ 244,703	\$ 332,895
Per unit (\$/boe) <sup>(3)</sup>	12.12	12.88	12.31	17.68
Percentage of sales <sup>(1)(3)</sup>	17	17	17	20
Percentage of base royalties paid in cash	5	72	8	66
Percentage of base royalties paid in kind <sup>(4)</sup>	95	28	92	34

(1) Base royalties are sliding scale royalties based on field production and payable to the Colombian National Hydrocarbon Agency ("ANH"). Refer to the Company's AIF, which may be accessed through the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).

(2) Economic rights include high price share royalties applicable to production in excess of 5 million barrels of oil and X-Factor royalties are an additional royalty applicable to heavy oil production, both payable to ANH. Refer to the Company's AIF, which may be accessed through the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).

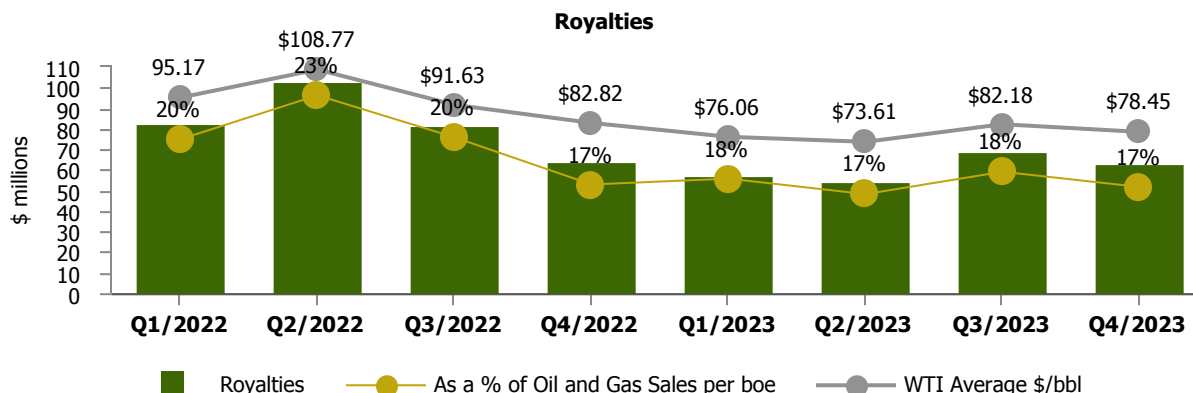
(3) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".

(4) Royalties paid in kind reduce the Company's sales volumes.

For the three months and year ended December 31, 2023 royalties as a percentage of sales were 17% compared to 17% and 20% for the 2022 comparative periods. Third quarter of 2023 royalties as a percentage of sales was 18%. The decrease in royalties as a percentage of sales compared to the prior year is a result of lower benchmark WTI prices which are used in the high price share royalty ("HPR") calculation. Compared to the third quarter of 2023 and the average for 2022, the benchmark WTI price in the fourth quarter of 2023 was lower resulting in a decrease in royalties as a percentage of sales. Benchmark WTI prices for the three months and year ended December 31, 2023 were \$78.45 and \$77.58 compared to \$82.82 and \$94.57 for the 2022 comparative periods and \$82.18 in the third quarter of 2023.

The decrease in royalty expense to \$63.7 million and \$244.7 million in the three months and year ended December 31, 2023, respectively, compared to \$64.4 million and \$332.9 million for the 2022 comparative periods is a result of lower benchmark WTI prices used in the calculation of high price share royalties in 2023 compared to 2022 and increased oil and natural gas production and sales over the prior period. As realized oil prices decrease, the high price share royalties as a percentage of oil sales also decrease.

The HPR comes into effect when accumulated production of any production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices exceed pricing determined in the contract. The calculation is described as a "High Price Share" in the "Industry Conditions - High Price Participation" section of Company's AIF, which may be accessed through the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).



### Production Expense

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Production expense (\$000s)	\$ 71,833	\$ 35,740	\$ 207,129	\$ 129,980
Per unit (\$/boe) <sup>(1)</sup>	13.67	7.14	10.42	6.90

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

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

Production expense for the three months and year ended December 31, 2023 was \$13.67/boe and \$10.42/boe compared to \$7.14/boe and \$6.90/boe for the three months and year ended December 31, 2022. Production expense for the third quarter of 2023 was \$9.73/boe.

The table below provides a reconciliation of the increase in production expense per boe by main components:

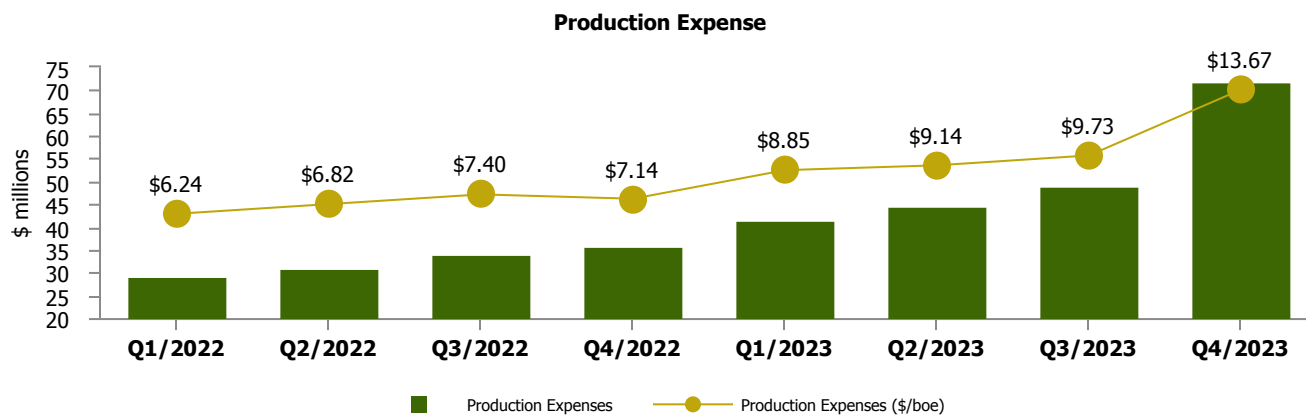
	Q4 2023 vs Q4 2022		2023 vs 2022	
Prior year production expense per boe <sup>(1)</sup>	\$	7.14	\$	6.90
Power generation		2.50		1.30
Workover and well maintenance		2.20		1.20
Colombian pesos ("COP") appreciation		1.30		0.98
Other		0.53		0.04
<b>Current year production expense per boe<sup>(1)</sup></b>	<b>\$</b>	<b>13.67</b>	<b>\$</b>	<b>10.42</b>

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

The increase in production expense for the three months and year ended December 31, 2023 over the 2022 comparative periods is mainly the result of increased cost of electrical power that supplies fields with required power to operate, workover and well maintenance on Block LLA-34, the Cabrestero Block and the Capachos Block and the appreciation of the COP.

Colombia has experienced an El Niño-induced drought that has led to an escalation in power costs across the country during the past year. Colombia is heavily reliant on hydroelectric power. For 2024, it is expected that production costs will remain elevated as a result of the rise in the cost of power.

The increase in production expense from the third quarter of 2023 is mainly the result of increased power generation costs and well workovers and maintenance on Block LLA-34, the Cabrestero Block and the Capachos Block.



### Transportation Expense

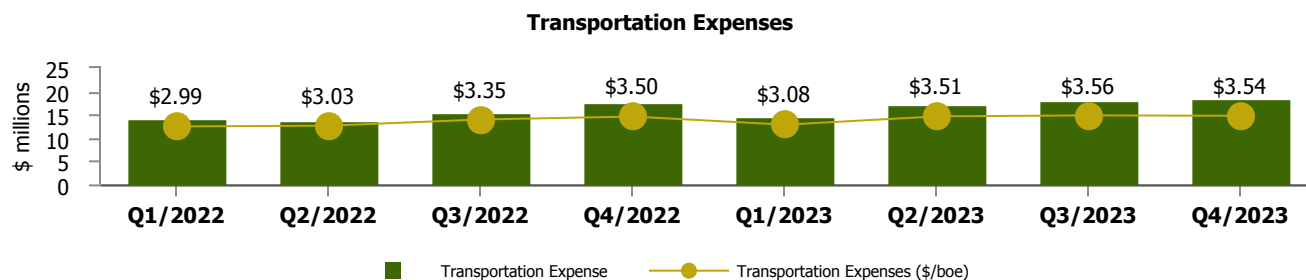
	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Transportation expense (\$000s)	\$ 18,621	\$ 17,629	\$ 68,306	\$ 61,229
Per unit (\$/boe) <sup>(1)</sup>	3.54	3.50	3.43	3.24

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

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

For the three months ended December 31, 2023, transportation expense decreased to \$3.54/boe compared to \$3.56/boe for the third quarter of 2023 and increased from \$3.50/boe for the comparative period in 2022. On a year to date basis transportation expense has increased to \$3.43/boe from \$3.24/boe in the comparative period in 2022. Transportation expense will fluctuate period over period due the mix of sales contracts types in force during the period.

The combined transportation expense and price differential from Brent for the fourth quarter of 2023, on a per boe basis, has decreased from the fourth quarter of 2022 and increased from third quarter of 2023. See "Crude Oil Reference and Realized Prices".



## General and Administrative Expense ("G&A")

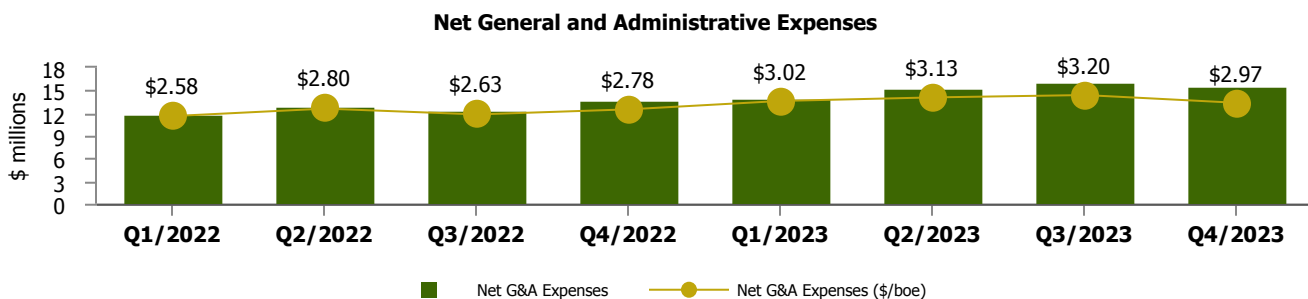
(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Gross G&A	\$ 19,471	\$ 17,709	\$ 73,155	\$ 63,634
G&A recoveries	(984)	(1,066)	(2,722)	(2,841)
Capitalized G&A	(2,831)	(2,784)	(9,356)	(9,571)
Net G&A expense	\$ 15,656	\$ 13,859	\$ 61,077	\$ 51,222
Per unit (\$/boe) <sup>(1)</sup>	2.97	2.78	3.08	2.70

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

Net G&A was \$15.7 million and \$61.1 million for the three months and year ended December 31, 2023 compared to \$13.9 million and \$51.2 million for the same periods in 2022. Gross G&A was \$19.5 million and \$73.2 million for the three months and year ended December 31, 2023 (three months and year ended December 31, 2022 - \$17.7 million and \$63.6 million). Gross and net G&A has increased mainly as a result of increased staffing levels during 2022 and the appreciation of the COP.

On a per boe basis net G&A in 2023 increased by 14% to \$3.08 from \$2.70 in 2022 mainly as result of increased staffing levels during 2023 and staff salary increases mainly in Colombia as a result of high inflation levels in Colombia. The appreciation of the COP represented approximately \$0.09/boe of the increase per boe compared to 2022.

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



## Share-Based Compensation

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Equity settled share-based compensation expense	\$ 264	\$ 309	\$ 1,043	\$ 1,228
Cash settled share-based compensation expense	7,410	4,792	29,321	17,900
Total share-based compensation expense	\$ 7,674	\$ 5,101	\$ 30,364	\$ 19,128

Share-based compensation expense was \$7.7 million and \$30.4 million for the three months and year ended December 31, 2023 compared to \$5.1 million and \$19.1 million for the same periods in 2022.

Equity settled share-based compensation expense was \$0.3 million and \$1.0 million for the three months and year ended December 31, 2023 compared to \$0.3 million and \$1.2 million for the same periods in 2022. Equity settled share-based compensation includes the Company's stock option plan. The decrease in the equity settled plan expense from the prior year is mainly related to the decrease in the awards remaining to be amortized under this plan as compared to the prior year.

Cash settled share-based compensation relates to the Company's cash settled incentive plans and includes 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"). Cash settled share-based compensation expense for the three months and year ended December 31, 2023 was \$7.4 million and \$29.3 million compared to \$4.8 million and \$17.9 million for the same periods in 2022. This increase in expense is mainly attributable to the increase in Parex's share price from period end dates, partially offset by less units being granted compared to the prior period. Parex share price increased to Cdn\$24.95 at December 31, 2023 from Cdn\$20.15 at December 31, 2022.

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 18 - Cash Settled Incentive Plans of the audited consolidated financial statements. As at December 31, 2023, the total cash settled incentive plans liability accrued was \$38.6 million (December 31, 2022 - \$28.4 million) of which \$16.3 million (December 31, 2022 - \$13.1 million) is classified as long-term in accordance with the vesting periods.

Cash payments to settle cash settled share-based compensation in the three months and year ended December 31, 2023 were \$0.7 million and \$21.0 million compared to \$0.4 million and \$28.7 million for the same periods in 2022. The decrease year over year is mainly related to the decrease in Parex share price at the time of settlement and the decrease in the number of PSUs being vested.

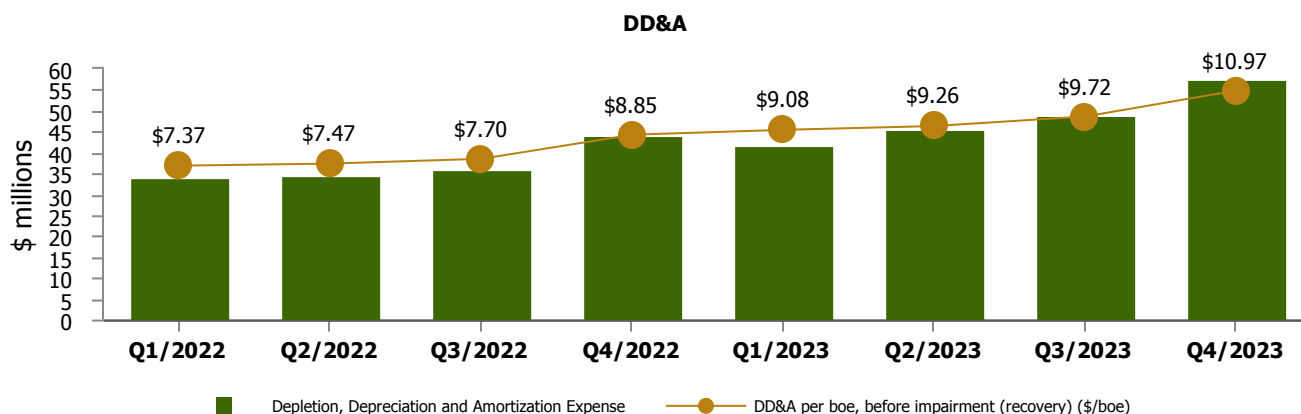
### Depletion, Depreciation and Amortization Expense ("DD&A")

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
DD&A (\$000s) total	\$ 57,833	\$ 44,167	\$ 194,229	\$ 149,351
Per unit (\$/boe) <sup>(1)</sup>	10.97	8.85	9.79	7.86

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

Fourth quarter 2023 DD&A was \$57.8 million (\$10.97/boe) compared to \$44.2 million (\$8.85/boe) for the same period in 2022. For the year ended December 31, 2023 DD&A was \$194.2 million (\$9.79/boe) as compared to \$149.4 million (\$7.86/boe) for the prior year.

For the fourth quarter of 2023, future development costs of \$409.5 million (three months ended December 31, 2022 - \$524.7 million) were included in the depletion calculation. Fourth quarter 2023 DD&A of \$10.97/boe increased from the comparative period of \$8.85/boe due to adding to our depletable capital base through capital expenditures made during the period, along with an increase in the depletion rate over the previous comparative period.



## Foreign Exchange

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Foreign exchange (gain) loss	\$ (317)	\$ (3,020)	\$ 11,595	\$ (18,212)
Foreign currency risk management contracts (gain) loss	—	288	(6,109)	807
Total foreign exchange (gain) loss	\$ (317)	\$ (2,732)	\$ 5,486	\$ (17,405)
Average foreign exchange rates				
USD\$/Cdn\$	1.36	1.36	1.35	1.30
USD\$/COP	4,070	4,808	4,325	4,255

The Company's main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Cdn and COP, as the Company's functional currency is the U.S. dollar ("USD"). 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 COP denominated income tax payable and tax withholdings receivable, and accounts payable. The timing of payment settlements, accruals and their adjustments have impacts on foreign exchange gains/losses.

For the three months and year ended December 31, 2023, a total foreign exchange gain of \$0.3 million and loss of \$5.5 million was recorded compared to a gain of \$2.7 million and a gain of \$17.4 million in the respective prior year periods. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statements of comprehensive income.

In the second quarter of 2023 the Company also recorded a \$4.8 million realized gain on a COP/USD collar which settled in the money and is included in the total foreign exchange for the year ended December 31, 2023.

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

## Foreign Exchange Sensitivity Analysis

Cost component	Estimated percent of cost denominated in local currency	\$/boe Impact of change in local currency/ \$USD exchange rate	
		10% appreciation of local currency	10% depreciation of local currency
Production expense	90 %	\$ 1.23	\$ (1.23)
Transportation expense	50 %	\$ 0.18	\$ (0.18)
G&A expense	100 %	\$ 0.30	\$ (0.30)

The table above displays the estimated per boe impact of a change in Parex's local currencies and the effect on Parex's key cost components. The component impact in \$/boe terms uses Q4 2023 per boe costs. This analysis ignores all other factors impacting cost structure including efficiencies, cost reduction strategies, and cost inflation.

As at December 31, 2023, with other variables unchanged, the impact on the Company's financial instruments of a 10% strengthening (weakening) of the Cdn and COP against the USD would have decreased (increased) net income by approximately \$8.5 million.



## Net Finance Expense

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Bank charges and credit facility fees	\$ 1,089	\$ 841	\$ 5,524	\$ 3,875
Accretion on decommissioning and environmental liabilities	2,459	1,489	8,701	5,807
Interest and other income	(2,274)	(4,724)	(14,520)	(9,015)
Right of use asset interest	51	46	194	80
Loss (gain) on settlement of decommissioning liabilities	(166)	(529)	199	532
Expected credit loss (recovery) provision	(464)	(342)	(421)	(557)
Other	271	37	2,219	(29)
<b>Net finance expense (income)</b>	<b>\$ 966</b>	<b>\$ (3,182)</b>	<b>\$ 1,896</b>	<b>\$ 693</b>

	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Non-cash finance expense	\$ 1,853	\$ 482	\$ 8,546	\$ 5,580
Cash finance (income)	(887)	(3,664)	(6,650)	(4,887)
<b>Net finance expense (income)</b>	<b>\$ 966</b>	<b>\$ (3,182)</b>	<b>\$ 1,896</b>	<b>\$ 693</b>

Bank charges and credit facility fees relate to bank taxes paid in Colombia and the interest and standby fees related to the Company's credit facility. The non-cash components of net finance expense include the accretion on decommissioning and environmental liabilities, loss on settlement of decommissioning liabilities, loss on disposition of tangible assets, other and the expected credit loss provision (recovery).

## Risk Management

Management of cash flow variability is an integral component of Parex's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the board of directors ("the Board" or "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 USD/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's 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

As at December 31, 2023 the Company had no outstanding commodity price risk management contracts.

The Company has no commodity risk management contracts in place for 2024 and is therefore fully exposed to fluctuations in oil prices.

### b) Risk Management Contracts – Foreign Exchange

The Company is exposed to foreign currency risk as various portions of its cash balances are held in COP and Cdn while its committed capital expenditures are expected to be primarily denominated in USD.

As at December 31, 2023 the Company had no outstanding foreign currency risk management contracts.

The following is a summary of the foreign currency risk management contracts put in place since December 31, 2023:

<b>Period Hedged</b>	<b>Reference</b>	<b>Currency Option Type</b>	<b>Amount USD</b>	<b>Strike Price CAD</b>
January 24, 2024 to February 15, 2024	CAD	Strike Forward	\$15,000,000	-0.0015
January 24, 2024 to March 27, 2024	CAD	Strike Forward	\$37,000,000	-0.0025

The table below summarizes the (gain) loss on the foreign currency risk management contracts that were in place during the three months and years ended December 31, 2023 and 2022:

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	<b>2023</b>	2022	<b>2023</b>	2022
Unrealized (gain) loss on foreign currency risk management contracts	—	288	<b>(1,278)</b>	807
Realized gain on foreign currency risk management contracts	—	—	<b>(4,831)</b>	—
<b>Total</b>	<b>\$ —</b>	<b>\$ 288</b>	<b>\$ (6,109)</b>	<b>\$ 807</b>

### **Total Non-Current Financial Liabilities**

The following table summarized the total non-current financial liabilities for the three most recently completed financial years:

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Bank debt	<b>\$ 90,000</b>	\$ —	\$ —
Lease obligation	<b>5,736</b>	6,079	4,512
Cash settled equity plans payable	<b>16,284</b>	13,132	14,322
<b>Total</b>	<b>\$ 112,020</b>	<b>\$ 19,211</b>	<b>\$ 18,834</b>

### **Income Tax**

The components of tax (recovery) expense for the three months and year ended December 31, 2023 and 2022 were as follows:

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	<b>2023</b>	2022	<b>2023</b>	2022
Current tax expense	<b>\$ 8,855</b>	\$ 163,107	<b>\$ 155,683</b>	\$ 346,037
Deferred tax expense (recovery)	<b>(90,784)</b>	(240,446)	<b>(160,753)</b>	(154,239)
<b>Total tax expense (recovery)</b>	<b>\$ (81,929)</b>	<b>\$ (77,339)</b>	<b>\$ (5,070)</b>	<b>\$ 191,798</b>
<b>Effective current tax rate on funds flow provided by operations before tax<sup>(1)</sup></b>	<b>4%</b>	66%	<b>19%</b>	32%

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

Current tax expense in the fourth quarter of 2023 was \$8.9 million as compared to \$163.1 million in the comparative three month period. For the full year 2023 the Company recorded \$155.7 million of current tax expense as compared to \$346.0 million in 2022.

The significant decrease in current tax expense from the prior periods current tax expense relates mainly to the \$100 million restructuring cost incurred in the three months ended December 31, 2022. The restructuring was a voluntary, internal corporate entity restructuring to consolidate certain assets in the Southern Llanos basin into one corporate entity for operational and administrative optimization. Also having a significant impact on the fourth quarter 2023 and full year 2023 current tax was the overturned decision by the Constitutional Court of Colombia regarding the deductibility of royalties, and also the Colombia surtax band of 10% being less than forecast. It was assumed the surtax band would be 15% for current tax provision purposes until the third quarter of 2023. For further details regarding the deductibility of royalties and Colombia surtax bands refer to "2023 Tax Reform" below.

Partially offsetting the decrease in current taxes incurred in the fourth of 2022, was the increase in 2023 current tax as a result of the Company being subject to the 10% Colombian surtax band as a result of the 2023 Colombian tax reform (refer to "2023 Tax Reform" below).

For the three months and year ended December 31, 2023 deferred tax was a recovery of \$90.8 million and \$160.8 million (recovery of \$240.4 million and \$154.2 million for the three months and year ended December 31, 2022). The deferred tax recovery in the current year periods is largely a result of the depreciation of the COP at the period end dates. Also impacting the deferred tax recovery was the accounting impairments recorded which reduced the temporary difference between the accounting and tax basis of assets.

## 2023 Tax Reform

In November 2022, the Colombian government enacted a new tax reform to replace the previous tax scheme that was implemented in 2021. The new tax reform became effective January 1, 2023 and includes a base income tax rate for 2023 and beyond of 35% plus the creation of a surtax of between 0% to 15% for Colombian oil companies. The surtax calculation is linked to the historical Brent oil price over a 10 year period.

Also included as part of the tax reform was the inability for oil and gas Company's to deduct royalties from taxable income. This reform however was overturned in the fourth quarter of 2023 by the Constitutional Court of Colombia. In early 2024, the Colombian government appealed this decision. It is expected that the Constitutional Court of Colombia will have a ruling on this appeal late in the first quarter of 2024. Parex has assumed the deductibility of royalties ruling will be upheld for the purposes of calculating 2023 current tax and forecast 2024 current tax.

## 2024 Current Tax Guidance

The table below reflects the expected effective current tax rate on funds flow provided by operations before tax in 2024:

Brent price assumption	\$65/bbl	\$75/bbl	\$85/bbl
Effect current tax rate on before tax funds flow from operations	10-12%	19-21%	25-27%

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 year ended December 31, (\$000s)	Colombia		Canada		Total	
	2023	2022	2023	2022	2023	2022
Acquisition of unproved properties	\$ 7,770	\$ 5,686	\$ —	\$ —	\$ 7,770	\$ 5,686
Geological and geophysical	2,497	15,463	—	—	2,497	15,463
Drilling and completion	396,584	426,695	—	—	396,584	426,695
Well equipment and facilities	74,247	61,754	—	—	74,247	61,754
Other	429	576	1,816	2,078	2,245	2,654
<b>Total capital expenditures<sup>(1)</sup></b>	<b>\$ 481,527</b>	<b>\$ 510,174</b>	<b>\$ 1,816</b>	<b>\$ 2,078</b>	<b>\$ 483,343</b>	<b>\$ 512,252</b>

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

For the three months ended December 31, (\$000s)	Colombia		Canada		Total	
	2023	2022	2023	2022	2023	2022
Acquisition of unproved properties	\$ 722	\$ (2,248)	\$ —	\$ —	\$ 722	\$ (2,248)
Geological and geophysical	780	2,575	—	—	780	2,575
Drilling and completion	47,000	135,183	—	—	47,000	135,183
Well equipment and facilities	41,624	11,964	—	—	41,624	11,964
Other	371	237	922	35	1,293	272
<b>Total capital expenditures<sup>(1)</sup></b>	<b>\$ 90,497</b>	<b>\$ 147,711</b>	<b>\$ 922</b>	<b>\$ 35</b>	<b>\$ 91,419</b>	<b>\$ 147,746</b>

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

Below is additional information related to capital expenditures in the period by key operating area:

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Block LLA-34	\$ 30,373	\$ 29,309	\$ 118,275	\$ 102,777
Southern Llanos	13,478	66,657	209,513	198,899
Northern Llanos	43,904	26,242	96,697	63,934
Magdalena Basin	2,372	25,266	56,613	143,988
Corporate	1,292	272	2,245	2,654
<b>Total capital expenditures<sup>(1)</sup></b>	<b>\$ 91,419</b>	<b>\$ 147,746</b>	<b>\$ 483,343</b>	<b>\$ 512,252</b>

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

During the year ended December 31, 2023 the Company incurred \$483.3 million of capital expenditures compared to \$512.3 million in the same period of 2022. During 2023 the Company drilled 59 gross (43.60 net) wells, compared to 66 gross (48.90 net) wells in 2022.

During the year ended December 31, 2023 the Company's capital expenditures of \$483.3 million were self-funded from funds flow provided by operations of \$667.8 million.

In the fourth quarter of 2023 the Company drilled 11 gross (8.30 net) wells in Colombia compared to 20 gross (14.35 net) wells in the comparative period in 2022. Drilling and completion costs during the fourth quarter of 2023 totaled \$47.0 million mainly related to drilling and completion costs in Colombia at the Arauca Block, the Cabrestero Block, the Capachos Block, and Blocks LLA-34, LLA-81 and LLA-122.

Capital expenditures were lower in the fourth quarter of 2023 as compared to third quarter of 2023, primarily driven by decreased activity on the Cabrestero Block and Block LLA-81, as well as overall corporate activity being reduced with a lower rig count.

### Long-Term Inventory

The Company has long-lead material and equipment inventory such as drill casing, natural gas compressors, and other major equipment. With strong demand for material and equipment used in oil and gas operations, the Company took an active, first mover approach to securing material and equipment ahead of its 2023 and 2024 capital programs, specifically specialty casing and tubing for the Northern Llanos drilling program. The Northern Llanos drilling program (Capachos and Arauca projects) experienced delays in the first half of 2023 which has resulted in an increase in inventory levels.

Parex expects to draw on long-lead inventory from current levels through the next six to nine months and thereby will reduce this balance over time.

<b>Cost</b>	
<b>Balance at December 31, 2021</b>	<b>\$ 25,005</b>
Additions	186,080
Transfers to E&E and PP&E assets	(45,814)
<b>Balance at December 31, 2022</b>	<b>\$ 165,271</b>
Additions	114,803
Transfers to E&E and PP&E assets	(75,373)
<b>Balance at December 31, 2023</b>	<b>\$ 204,701</b>

The below table represents the long-term inventory expenditures for the three months and years ended December 31, 2023 and 2022:

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Additions	<b>\$ 14,281</b>	\$ 81,407	<b>\$ 114,803</b>	\$186,080
Transfers to D&P and E&E assets	<b>(15,147)</b>	(24,992)	<b>(75,373)</b>	(45,814)
<b>Total long-term inventory expenditures</b>	<b>\$ (866)</b>	\$ 56,415	<b>\$ 39,430</b>	\$140,266

### Non-Cash Impairment Charges

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2023	2022	2023	2022
Impairment of E&E assets	<b>\$ 25,648</b>	\$ 26,494	<b>\$ 82,858</b>	\$ 103,394
Impairment of PP&E related to Boranda/Fortuna CGU	<b>59,682</b>	—	<b>59,682</b>	—
<b>Total non-cash impairment charges before deferred income tax recoveries</b>	<b>\$ 85,330</b>	\$ 26,494	<b>\$ 142,540</b>	\$ 103,394

## 2023 Impairments

The Company recorded impairments of exploration and evaluation ("E&E") assets during the three months and year ended December 31, 2023 of \$25.6 million and \$82.9 million, respectively. It was determined that the carrying amount of certain E&E assets wouldn't be recovered, primarily associated with the VIM-43 and LLA-134 Blocks for costs related to exploration wells which indicated non-economic results, the Company also has plans to relinquish the LLA-134 Block. In addition, impairment includes LLA-81 block costs that were impaired on transfer to property, plant and equipment ("PP&E") as the carrying amount exceeded its recoverable. The impairment review compared the carrying value of the assets to the fair value less cost of disposal (level 3 input) to determine the recoverable amount which was determined to be \$nil for VIM-43 and LLA-134 Block assets and \$12.3 million for LLA-81 Block assets. It was determined that the impairment was \$82.9 million which is recorded in the consolidated statements of comprehensive income for the year ended December 31, 2023.

At December 31, 2023 Parex tested its cash generating units ("CGUs") for PP&E impairment. The Company determined that the carrying amount of the Boranda/Fortuna CGU in the Magdalena Basin exceeded its recoverable amount and an impairment of \$59.7 million was recorded in the consolidated statements of comprehensive income for the three months and year ended December 31, 2023. There are no E&E assets associated with this CGU.

As at December 31, 2023, the recoverable amount of the Boranda/Fortuna CGU was estimated to be \$40.9 million. A 1% change to the assumed discount rate or a 5% change in forward price estimates over the life of the reserves would have an immaterial impact on the impairment. All other CGUs were found to have recoverable amounts greater than carrying amounts. 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, 2023. The recoverable amount was determined using estimated fair value less costs of disposal.

Future cash flows were discounted using an after tax discount rate of 14% with the following prices being used by Parex's independent reserve evaluator as at December 31, 2023:

	2024	2025	2026	2027	2028	Thereafter
Brent (\$US/bbl)	77.00	79.50	81.49	82.58	84.19	2% increase per year
WTI (\$US/bbl)	72.50	75.00	76.99	78.53	80.10	2% increase per year

## 2022 Impairments

The Company recorded impairments of E&E assets during the three months and year ended December 31, 2022 of \$26.5 million and \$103.4 million, respectively. It was determined that the carrying amount of certain E&E assets, primarily associated with the Fortuna Block costs related to exploration wells which indicated non-economic results and the CPO-11 Block costs related to exploration wells which indicated non-economic results and the Company has plans to relinquish the CPO-11 Block. The impairment review compared the carrying value of the assets to the fair value less cost of disposal (level 3 input) to determine the recoverable amount which was determined to be \$nil for these assets. The net book value of costs on these blocks has been impaired to \$nil.

At December 31, 2022 Parex tested its CGUs for PP&E impairment where it was determined that the recoverable amount of the CGUs exceeded their carrying amounts, and therefore the Company's CGUs were not impaired. The recoverable amount was determined using estimated fair value less costs of disposal. Future cash flows were discounted using an after tax rate of 14% with the following prices being used by Parex's independent reserve evaluator as at December 31, 2022:

	2023	2024	2025	2026	2027	Thereafter
Brent (\$US/bbl)	80.00	80.50	81.50	82.00	82.53	2% increase per year
WTI (\$US/bbl)	75.00	75.00	75.43	76.94	78.48	2% increase per year

For further information regarding the impairment charges for the years ended December 31, 2023 and 2022, refer to note 7 - Exploration and Evaluation Assets and note 8 - Property, Plant and Equipment in the audited consolidated financial statements.

## Impairment Test of Goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3 - Summary of Material Accounting Policies of the audited consolidated financial statements. The Company has allocated goodwill to the Colombia operating segment. The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded. For additional information refer to note 12 - Goodwill in the audited consolidated financial statements.

## Summary of Quarterly Results (unaudited)

Three months ended (\$000s) (except per share amounts)	Dec. 31, 2023	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023
<b>Average daily production</b>				
Light Crude Oil and Medium Crude Oil (bbl/d)	9,700	8,837	7,982	7,115
Heavy Crude Oil (bbl/d)	46,760	44,779	45,644	43,435
Crude Oil (bbl/d)	56,460	53,616	53,626	50,550
Conventional Natural Gas (mcf/d)	5,214	5,742	2,964	4,692
Total (boe/d)	57,329	54,573	54,120	51,332
Realized sales price - oil (\$/bbl) <sup>(6)</sup>	71.67	76.71	67.48	69.97
<b>Financial (000s except per share amounts)</b>				
Oil and natural gas sales	\$ 373,643	\$ 383,998	\$ 328,178	\$ 328,733
Funds flow provided by operations <sup>(5)</sup>	\$ 193,377	\$ 157,839	\$ 154,842	\$ 161,724
Per share – basic <sup>(2)</sup>	1.85	1.49	1.45	1.49
Per share – diluted <sup>(2)</sup>	1.85	1.49	1.45	1.49
Net income	\$ 133,783	\$ 119,736	\$ 101,415	\$ 104,375
Per share – basic	1.28	1.13	0.95	0.96
Per share – diluted	1.28	1.13	0.95	0.96
Dividends paid	29,505	29,239	30,101	29,831
Per share – Cdn\$ <sup>(4)(6)</sup>	0.375	0.375	0.375	0.375
Capital Expenditures <sup>(1)</sup>	\$ 91,419	\$ 156,747	\$ 121,309	\$ 113,868
Long-term inventory expenditures	\$ (866)	\$ (374)	\$ 20,903	\$ 19,767
Total assets (end of period)	\$ 2,415,327	\$ 2,263,479	\$ 2,225,799	\$ 2,349,748
Outstanding shares (end of period) (000s)	103,812	105,014	106,194	107,419
Working capital (deficit) surplus (end of period) <sup>(3)(5)</sup>	\$ 79,027	\$ (57,511)	\$ (2,957)	\$ 29,662

Three months ended (\$000s) (except per share amounts)	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022
<b>Average daily production</b>				
Light Crude Oil and Medium Crude Oil (bbl/d)	10,511	6,903	6,734	5,687
Heavy Crude Oil (bbl/d)	42,746	43,063	42,373	43,865
Crude Oil (bbl/d)	53,257	49,966	49,107	49,552
Conventional Natural Gas (mcf/d)	6,000	6,750	12,216	12,816
Total (boe/d)	54,257	51,091	51,143	51,688
Realized sales price - oil (\$/bbl) <sup>(6)</sup>	75.55	89.33	100.83	89.68
<b>Financial (000s except per share amounts)</b>				
Oil and natural gas sales	\$ 376,347	\$ 405,371	\$ 448,255	\$ 413,616
Funds flow provided by operations <sup>(5)</sup>	\$ 85,194	\$ 206,412	\$ 227,796	\$ 205,488
Per share – basic <sup>(2)</sup>	0.78	1.85	1.98	1.73
Per share – diluted <sup>(2)</sup>	0.78	1.85	1.98	1.73
Net income (loss)	\$ 249,958	\$ 65,632	\$ 143,128	\$ 152,650
Per share – basic	2.29	0.59	1.24	1.29
Per share – diluted	2.29	0.59	1.24	1.29
Dividends paid	20,108	20,042	22,226	13,115
Per share – Cdn\$ <sup>(4)(6)</sup>	0.250	0.250	0.250	0.140
Capital Expenditures <sup>(1)</sup>	\$ 147,746	\$ 127,353	\$ 126,240	\$ 110,913
Long-term inventory expenditures	\$ 56,415	\$ 65,725	\$ 6,541	\$ 11,585
Total assets (end of period)	\$ 2,314,373	\$ 2,089,253	\$ 2,086,407	\$ 1,923,836
Outstanding shares (end of period) (000s)	109,112	109,323	113,810	116,413
Working capital surplus (end of period) <sup>(3)(5)</sup>	\$ 84,988	\$ 229,763	\$ 311,496	\$ 286,684

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

(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

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

(4) Per share amounts (with the exception of dividends) are based on weighted average common shares. Dividends paid per share are based on the number of common shares outstanding at each dividend record date.

(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory". For the year ended December 31, 2022 funds flow provided by operations included a \$100.0 million (\$0.92 per share basic) increased current tax expense as a result of a voluntary internal corporate restructuring, refer to the "Income Tax" section.

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

## Factors that Caused Variations Quarter Over Quarter

During the fourth quarter of 2023, production of 57,329 boe/d (consisting of 9,700 bbls/d light crude oil and medium crude oil, 46,760 bbls/d of heavy crude oil and 5,214 mcf/d of conventional natural gas) increased by 5% over the previous quarter ended September 30, 2023. Revenue was lower than the previous quarter due a decrease in realized prices. Funds flow provided by operations was higher than the previous quarter due to a decrease in current income tax expense due to a number of factors. Refer to "Income Tax" for a detailed description of the main drivers of the decrease in current tax in the fourth quarter. Working capital increased to \$79.0 million\* from a deficit of \$57.5 million\* at September 30, 2023 largely due to bank debt borrowings of \$90.0 million. Dividends paid on common shares for the quarter were \$29.5 million (Cdn\$0.375 per common share\*\*\*). The cost associated with the repurchase of common shares under the NCIB program during the quarter was \$22.5 million.

During the third quarter of 2023, production of 54,573 boe/d (consisting of 8,837 bbls/d light crude oil and medium crude oil, 44,779 bbls/d of heavy crude oil and 5,742 mcf/d of conventional natural gas) was higher than the previous quarter ended June 30, 2023. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices. The decrease in working capital to a deficit of \$57.5 million\* from a deficit of \$3.0 million\* at June 30, 2023 is primarily a result of increased capital expenditures on resumption of full operations in the Northern Llanos basin, as well as the Company's common share repurchases under the NCIB and the Colombian income tax payables being settled in the third quarter of 2023. Dividends paid on common shares for the quarter were \$29.2 million (Cdn\$0.375 per common share\*\*\*). The repurchase of common shares under the NCIB during the quarter for a total cost of \$24.3 million.

During the second quarter of 2023, production of 54,120 boe/d (consisting of 7,982 bbls/d light crude oil and medium crude oil, 45,644 bbls/d of heavy crude oil and 2,964 mcf/d of conventional natural gas) was higher than the previous quarter ended March 31, 2023. Revenue and funds flow provided by operations were lower than the previous quarter due to a decrease in realized prices. The decrease in working capital to a deficit of \$3.0 million\* from \$29.7 million\* surplus at March 31, 2023 is primarily a result from inventory build due to the suspension of operations in the Northern Llanos basin, as well as the Company's common share repurchases under the NCIB and the purchase of additional long lead capital inventory items and the Colombian income tax payables being settled in the first half of 2023. Dividends paid on common shares for the quarter were \$30.1 million (Cdn\$0.375 per common share\*\*\*). Purchases of long-lead inventory for capital projects were \$20.9 million for the quarter. The repurchase of common shares under the NCIB during the quarter was \$25.5 million.

During the first quarter of 2023, production of 51,332 boe/d (consisting of 7,115 bbls/d light crude oil and medium crude oil, 43,435 bbls/d of heavy crude oil and 4,692 mcf/d of conventional natural gas) was lower than the previous quarter ended December 31, 2022. Revenue was lower than the previous quarter due to a decrease in realized prices. Funds flow provided by operations were higher than the previous quarter as the fourth quarter of 2022 included approximately \$100.0 million\* (\$0.92 per share basic\*\*) related to increased current tax expense as a result of a voluntary internal corporate restructuring. Working capital decreased to \$29.7 million\* from \$85.0 million\* at December 31, 2022 primarily from inventory build due to the suspension of operations in the Northern Llanos basin. Dividends paid on common shares for the quarter were \$29.8 million (Cdn\$0.375 per common share\*\*\*). Purchases of long-lead inventory for capital projects were \$19.8 million for the quarter. The repurchase of common shares under the NCIB during the quarter was \$32.9 million.

During the fourth quarter of 2022, production of 54,257 boe/d (consisting of 10,511 bbls/d light crude oil and medium crude oil, 42,746 bbls/d of heavy crude oil and 6,000 mcf/d of conventional natural gas) increased by 6% from the previous quarter ended September 30, 2022. Revenue and funds flow provided by operations were lower than the previous quarter due to a decrease in realized prices and the voluntary restructuring completed in the fourth quarter of 2022. For the three months ended December 31, 2023 funds flow provided by operations includes approximately \$100 million\* (\$0.92 per share basic\*\*) related to increased current tax expense as a result of a voluntary internal corporate restructuring. Working capital decreased to \$85.0 million\* from \$229.8 million\* at September 30, 2022. Dividends paid on common shares for the quarter were \$20.1 million (Cdn\$0.250 per common share\*\*\*). Purchases of long-lead inventory for capital projects were \$56.4 million for the quarter.

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

\* Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory".

\*\* Non-GAAP ratio". See "Non-GAAP and Other Financial Measures Advisory".

\*\*\* Supplementary Financial measure". See "Non-GAAP and Other Financial Measures Advisory".

## Fourth Quarter Results

Consolidated Statements of Comprehensive Income for the three months ended December 31, 2023 and 2022:

(\$000s) For the three month period ended December 31,	2023		2022	
Oil and natural gas sales	\$	373,643	\$	376,347
Royalties		(63,695)		(64,445)
Revenue		309,948		311,902
<b>Expenses</b>				
Production		71,833		35,740
Transportation		18,621		17,629
Purchased oil		498		2,207
General and administrative		15,656		13,859
Impairment of property, plant and equipment assets		59,682		—
Impairment of exploration and evaluation assets		25,648		26,494
Equity settled share-based compensation expense		264		309
Cash settled share-based compensation expense		7,410		4,792
Depletion, depreciation and amortization		57,833		44,167
Foreign exchange (gain)		(317)		(2,732)
		257,128		142,465
Finance (income)		(2,274)		(4,724)
Finance expense		3,240		1,542
<b>Net finance expense (income)</b>		966		(3,182)
<b>Income before income taxes</b>		51,854		172,619
<b>Income tax (recovery)</b>				
Current tax expense		8,855		163,107
Deferred tax (recovery)		(90,784)		(240,446)
		(81,929)		(77,339)
<b>Net income and comprehensive income for the period</b>	\$	133,783	\$	249,958

## Liquidity and Capital Resources

As at December 31, 2023 the Company had a working capital surplus of \$79.0 million\* as compared to working capital surplus of \$85.0 million\* at December 31, 2022. At December 31, 2023 working capital was supplemented by the Company's secured credit facility that had \$90.0 million (December 31, 2022 - \$nil) drawn due to the timing of vendor payments and oil sale collections in the days before December 31, 2023.

Compared to December 31, 2022, working capital increased by the \$90.0 million received under the credit facility which was offset by the decrease in working capital primarily resulting from inventory build due to the suspension of operations in the Northern Llanos basin, as well as the Company's NCIB repurchases, the purchase of additional long lead capital inventory items and Colombian income tax payables being settled in 2023.

The credit facility has a current borrowing base of \$200.0 million, which is subject to a borrowing base redetermination to be completed by the end of May 2024 and matures on May 21, 2025. As at December 31, 2023 Parex held \$140.4 million of cash compared to \$34.5 million on September 30, 2023 and \$419.0 million on December 31, 2022. The Company's cash balances reside primarily in current accounts with chartered financial institutions, the majority of which are held on account in Canada, Switzerland and Colombia in USD.

Parex expects working capital to build throughout 2024, with forecast production growth, declining capital expenditures and inventory deployment, subject to commodity prices remaining in line with the fourth quarter of 2023. Parex expects to draw on the credit facility at various times throughout 2024 to manage timing differences associated with timing of vendor payments and oil sales collections.



Parex's 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. There is a \$90.0 million balance drawn on the facility as at December 31, 2023. The Company is in compliance with all covenants. The next annual review is scheduled to occur in May 2024. The next re-determination of the credit facility is not expected to impact the Company's current or future operations or reduce the 2024 outlook or change the Company's guidance.

Refer to note 26 - Commitments and Contingencies of the audited consolidated financial statements for a description of the performance guarantee facility with Export Development Canada as well as the unsecured letters of credit.

\* Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory".

## Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at December 31, 2023 the Company had 103,811,718 common shares outstanding compared to 109,112,290 at December 31, 2022, a decrease of 5%. At February 29, 2024 the common shares outstanding has been reduced to 103,313,986 due to the Company's 2023 NCIB.

The Company has a stock option plan that provides for the issuance of stock options to the Company's officers, executives and certain employees to acquire common shares issued from treasury.

As at February 29, 2024 Parex had the following securities outstanding:

	Number	%
Common shares	103,313,986	99
Stock options	665,745	1
	103,979,731	100

As of the date of this MD&A, total stock options outstanding represent approximately 1% of the total issued and outstanding common shares.

## Contractual Obligations, Commitments and Guarantees

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

In Colombia, the Company has provided guarantees to the ANH in the amount of \$141.0 million as at December 31, 2023 (December 31, 2022 - \$129.1 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, 2022 - \$150.0 million) performance guarantee facility to support approximately \$8.0 million of the letters of credit (December 31, 2022 - \$9.4 million) issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks. At December 31, 2023, there were an additional \$133.0 million letters of credit (December 31, 2022 - \$119.7 million) that were provided by select Latin American banks on an unsecured basis.

At December 31, 2023, the total lease obligation was \$6.5 million (December 31, 2022 - \$6.8 million) of which \$5.7 million (December 31, 2022 - \$6.1 million) is classified as long-term in accordance with the lease term.

The following table summarizes the Company's estimated undiscounted commitments as at December 31, 2023:

(\$000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 458,069	\$ 21,530	\$ 271,549	\$ 164,990	\$ —
Office and accommodations <sup>(1)</sup>	6,789	1,073	2,866	1,618	1,232
Decommissioning and Environmental Obligations	234,830	6,000	—	—	228,830
<b>Total</b>	<b>\$ 699,688</b>	<b>\$ 28,603</b>	<b>\$ 274,415</b>	<b>\$ 166,608</b>	<b>\$ 230,062</b>

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

## Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2021	\$	36,730	\$	18,224	\$ 54,954
Additions		5,330		3,266	8,596
Settlements of obligations during the year		(2,871)		(822)	(3,693)
Loss on settlement of obligations		532		—	532
Accretion expense		3,663		2,144	5,807
Change in estimate - inflation and discount rates		(12,504)		(5,233)	(17,737)
Change in estimate - costs		13,733		162	13,895
Foreign exchange (gain)		(5,795)		(3,267)	(9,062)
Balance, December 31, 2022	\$	38,818	\$	14,474	\$ 53,292
Additions		9,676		1,379	11,055
Settlements of obligations during the year		(3,110)		(3,695)	(6,805)
Loss on settlement of obligations		199		—	199
Accretion expense		6,098		2,603	8,701
Change in estimate - inflation and discount rates		17,592		2,316	19,908
Change in estimate - costs		(1,331)		2,382	1,051
Foreign exchange loss		3,581		4,750	8,331
<b>Balance, December 31, 2023</b>		<b>71,523</b>		<b>24,209</b>	<b>95,732</b>
Current obligation		(3,000)		(3,000)	(6,000)
<b>Long-term obligation</b>	\$	<b>68,523</b>	\$	<b>21,209</b>	\$ <b>89,732</b>

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2023, with 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 \$201.4 million as at December 31, 2023 (December 31, 2022 - \$147.6 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 9.4% and an inflation rate of 4.0% were used in the valuation of the liabilities (December 31, 2022 - 14% risk-free discount rate and a 3.5% inflation rate). The risk-free discount rate and the inflation rate used in 2023 and 2022 are based on forecast Colombia rates.

Included in the decommissioning liability is \$3.0 million (December 31, 2022 - \$5.5 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 \$33.4 million as at December 31, 2023 (December 31, 2022 - \$19.5 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 9.4% and an inflation rate of 4.0% were used in the valuation of the liabilities (December 31, 2022 - 14% risk-free discount rate and a 3.5% inflation rate). The risk-free discount rate and the inflation rate used in 2023 and 2022 are based on forecast Colombia rates.

Included in the environmental liability is \$3.0 million (December 31, 2022 - \$1.2 million) that is classified as a current obligation.

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

- changes in laws, legislation and regulations;
- construction of new facilities;
- change in commodity price;
- change in the estimate of oil reserves and the resulting amendment to the life of reserves;
- changes in technology; and
- execution of decommissioning and environmental liabilities.

## Subsequent Event

On January 22, 2024, the Company commenced an NCIB to purchase for cancellation, from time to time, as it considers advisable up to a maximum of 10,198,838 Common Shares on the open market through the facilities of the TSX and/or alternative trading systems. The NCIB will terminate on January 21, 2025. The Company also entered into an automatic share purchase plan with a broker to facilitate repurchases of Common Shares pursuant to the Company's NCIB. Under the Company's automatic share purchase plan, the Company's broker may repurchase Common Shares under the NCIB during the Company's self-imposed blackout periods. The Company has repurchased approximately 0.5 million shares to date in 2024 at an average price of Cdn\$21.88 per share, for total consideration of Cdn\$11.8 million under the current normal course issuer bid.

## Advisory on Forward-Looking Statements

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

- the Company's operational strategy, plans, priorities and focus;
- Parex's expectation to provide a significant return of capital through dividends, including its regular quarterly dividend, and share repurchases, while investing in the Company's assets to provide an appealing total shareholder return;
- Parex's expectations as to debt levels, commodity risk management and other hedging activities;
- Parex's expectation regarding increased future production costs;
- Parex's 2024 guidance, including its anticipated funds flow provided by operations netback, capital expenditures; funds flow provided by operations, free funds flow and annual average production;
- the anticipated benefits to be derived from the Company's voluntary, internal corporate entity restructuring;
- Parex's expectation that crude oil inventory in future periods will be in line with normal historic levels;
- Parex's plans to relinquish certain blocks;
- the terms of the Company's credit facility including the timing of the next annual review and borrowing base redetermination;
- the Company's expectation that the next redetermination of its credit facility will not impact its current or future operations or reduce its 2024 outlook or change the Company's guidance;
- the Company's plan to draw on the credit facility through 2024;
- the Company's expectation that only the grants under the Company's stock option plan will result in common shares issued from treasury;
- estimated amounts, timing and the anticipated sources of funding for the Company's exploration, capital expenditure programs, office and accommodations, environmental, decommissioning and restoration obligations;
- the anticipated total undiscounted cash flows required to settle the Company's decommissioning and environmental liability cost, the anticipated timing thereof, and the internal resources available to the Company at the time of settlement;
- Parex's plans to reduce operational Scope 1 and 2 GHG emissions and the anticipated timing thereof;
- Parex's ESG targets of eliminating flaring and reducing operational emissions;
- Parex's goal of maintaining its target representation of women on the Board;
- the Company's expectations regarding the impacts to its per boe and G&A expense caused by appreciation and depreciation of the COP;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the fluctuation of earnings based on strip prices;
- the Company's estimated effective tax rate for 2024;
- the anticipated timing of the appeal at the Constitutional Court of Colombia regarding the deduction of royalties from taxable income and the anticipated results thereof;
- Parex's expectations that it will draw on its long-lead material and equipment inventory through the next six to nine months;
- anticipated growth in Parex's working capital and production and decline of capital expenditures and inventory deployment in 2024;
- terms of certain of Parex's contractual obligations;
- Parex's plan to monitor and disclose key metrics surrounding the environmental impacts of its operations;

- Parex's expectations that peace negotiations will further institutional strengthening and development in Colombia;
- Parex's expectations that it will be successful in attracting and retaining qualified successors to its Chief Executive Officer and other senior officers in the event of departure; and
- the statements set forth under "Accounting Policies and Estimates" in this MD&A.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; determination by Organization of Petroleum Exporting Countries ("OPEC") and other country as to production levels; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility and fluctuations in market prices for oil; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve, resource and revenue estimates; incorrect forecasts of the production and growth potential of Parex's assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; risk of failure to achieve the perceived benefits from the voluntary corporate restructuring when anticipated, or at all; failure of counterparties to perform under the terms of their contracts; changes to pipeline capacity; the risk that Parex's evaluation of its existing portfolio of development and exploration opportunities may not be consistent with its expectations; failure to meet expected production targets; the risk that Parex may not have sufficient financial resources in the future to pay a dividend; the risk that the Board may not declare dividends in the future and that there may not be base dividend growth or that Parex's dividend policy changes; the risk that Parex's risk management strategy may not be an effective means of managing and forecasting cash flow; the risk that anticipated capital expenditures, growth in production and production per share may be different than anticipated; the risk that the Company may not meet its ESG targets of eliminating flaring and reducing emissions; the risk that the Company's capital and operating expenditures relating to the protection of the environment may be greater than anticipated; the risk that the Company's environmental strategies may not be successful and that the Company may not remain in material compliance with environmental protection legislation; the risk that Parex's long-lead material and equipment inventory may not be put into use with the capital program; the risk that the impacts of community unrest on the Company may be greater than anticipated; the risk that Parex may not be successful in attracting and retaining qualified successors to its Chief Executive Officer and other senior officers in the event of departure; the risk that the appeal at the Constitutional Court of Colombia may not occur when anticipated and that the result may adversely affect the Company; the risk that the Company's inventory deployment in 2024 may be greater than anticipated; the risks discussed under "Risk Factors" and under "Decommissioning and Environmental Liabilities" in this MD&A; and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR+ website ([www.sedarplus.ca](http://www.sedarplus.ca)).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current and future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; access to areas of the Company's operations and infrastructure in light of the impact of community unrest on the Company's operations; 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 and environmental legislation on the Company's operations; recoverability of reserves and future production rates; timing and number of dry hole write-offs permitted for Colombian tax purposes; the anticipated benefits from the voluntary corporate restructuring; royalty rates; future operating costs; foreign exchange rates; the status of litigation; timing of drilling and completion of wells; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company's conduct and results of operations will be consistent with its expectations; that the Company will have the ability to develop the Company's oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the estimates of the Company's reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that the Company will be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; on-stream timing of production from successful exploration wells; operational performance of non-operated producing fields; pipeline capacity; that Parex will have sufficient financial resources in the future to pay a dividend; that the Board will declare dividends in the future; that Parex will have sufficient financial resources to repurchase shares under its NCIB; that strip prices will remain unchanged; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing or generate sufficient cash flow to develop such reserves.

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

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

This MD&A contains information that may be considered a financial outlook under applicable securities laws about the Company's potential financial position, including, but not limited to: Parex's 2024 guidance, including its anticipated funds flow provided by operations netback, capital expenditures, funds flow provided by operations, and free funds flow; estimated amounts and the anticipated sources of funding for the Company's exploration, office and accommodations, environmental, decommissioning and restoration obligations; the anticipated total undiscounted cash flows required to settle the Company's decommissioning and environmental liability costs and the internal resources available to the Company at the time of settlement; and the Company's estimated effective tax rate for 2024; all of which are subject to numerous assumptions, risk factors, limitations and qualifications, including those set forth in the above paragraphs. The actual results of operations of the Company and the resulting financial results will vary from the amounts set forth in this MD&A and such variations may be material. This information has been provided for illustration only and with respect to future periods are based on budgets and forecasts that are speculative and are subject to a variety of contingencies and may not be appropriate for other purposes. Accordingly, these estimates are not to be relied upon as indicative of future results. Except as required by applicable securities laws, the Company undertakes no obligation to update such financial outlook. The financial outlook contained in this MD&A was made as of the date of this MD&A and was provided for the purpose of providing further information about the Company's potential future business operations. Readers are cautioned that the financial outlook contained in this MD&A is not conclusive and is subject to change.

## **Distribution Advisory**

The Company's future shareholder distributions, including but not limited to the payment of dividends and the acquisition by the Company of its shares pursuant to its NCIB, if any, and the level thereof is uncertain. Any decision to pay further dividends on the common shares (including the actual amount, the declaration date, the record date and the payment date in connection therewith and any special dividends) or acquire shares of the Company will be subject to the discretion of the Board of Directors of Parex 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. Further, 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 the Company will pay dividends or repurchase any shares of the Company in the future.

## Oil & Gas Matters Advisory

This report contains a number of oil and gas metrics, including operating netbacks and FFO netbacks. These oil and gas metrics have been prepared by management and do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance of the Company and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide security holders with measures to compare the Company's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this report, should not be relied upon for investment or other purposes. The term "Boe" means a barrel of oil equivalent on the basis of 6 thousand cubic feet ("Mcf") of natural gas to 1 bbl. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1Bbl, utilizing a conversion ratio at 6 Mcf:1 Bbl may be misleading as an indication of value.

## Non-GAAP and Other Financial Measures Advisory

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

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

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

### Non-GAAP Financial Measures

**Capital expenditures**, is a non-GAAP financial measure which the Company uses to describe its capital costs associated with oil and gas expenditures. The measure considers both property, plant and equipment expenditures and exploration and evaluation asset expenditures which are items in the Company's statement of cash flows for the period.

(\$000s)	For the three months ended December 31,		For the year ended December 31,		
	2023	2022	2023	2022	2021
Property, plant and equipment expenditures	\$ 50,753	\$ 111,512	\$ 310,933	\$ 389,979	\$ 212,153
Exploration and evaluation expenditures	40,666	36,234	172,410	122,273	60,081
<b>Capital expenditures</b>	<b>\$ 91,419</b>	<b>\$ 147,746</b>	<b>\$ 483,343</b>	<b>\$ 512,252</b>	<b>\$ 272,234</b>

(\$000s)	For the three months ended					
	September 2023	June 2023	March 2023	September 2022	June 2022	March 2022
Property, plant and equipment expenditures	\$ 93,957	\$ 82,999	\$ 83,224	\$ 101,253	\$ 93,346	\$ 83,868
Exploration and evaluation expenditures	62,790	38,310	30,644	26,100	32,894	27,045
<b>Capital expenditures</b>	<b>\$ 156,747</b>	<b>\$ 121,309</b>	<b>\$ 113,868</b>	<b>\$ 127,353</b>	<b>\$ 126,240</b>	<b>\$ 110,913</b>

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

(\$000s)	For the three months ended December 31,		For the year ended December 31,		
	2023	2022	2023	2022	2021
<b>Cash provided by operating activities</b>	\$ 194,242	\$ 297,569	\$ 376,471	\$ 983,602	\$ 534,301
Net change in non-cash working capital	(865)	(212,375)	291,311	(258,712)	43,244
<b>Funds flow provided by operations</b>	<b>193,377</b>	85,194	<b>667,782</b>	724,890	577,545
Capital expenditures	91,419	147,746	483,343	512,252	272,234
<b>Free funds flow</b>	<b>\$ 101,958</b>	\$ (62,552)	<b>\$ 184,439</b>	\$ 212,638	\$ 305,311

**EBITDA**, is a non-GAAP financial measure that is defined as net income adjusted for finance income and expenses, income tax expense (recovery) and depletion, depreciation and amortization.

**Adjusted EBITDA**, is a non-GAAP financial measure defined as EBITDA adjusted for non-cash impairment charges, unrealized foreign exchange gains (losses), unrealized gains (losses) on risk management contracts and share-based compensation expense.

The Company considers EBITDA and Adjusted EBITDA to be key measures as they demonstrate Parex's profitability before finance income and expenses, taxes, depletion, depreciation and amortization and other non-cash items. A reconciliation from net income to EBITDA and Adjusted EBITDA is as follows:

(\$000s)	For the three months ended December 31,		For the year ended December 31,		
	2023	2022	2023	2022	2021
<b>Net income</b>	\$ 133,783	\$ 249,958	\$ 459,309	\$ 611,368	\$ 303,105
Adjustments to reconcile net income to EBITDA:					
Finance income	(2,274)	(4,724)	(14,520)	(9,015)	(1,608)
Finance expense	3,240	1,542	16,416	9,708	9,677
Income tax (recovery) expense	(81,929)	(77,339)	(5,070)	191,798	200,710
Depletion, depreciation and amortization	57,833	44,167	194,229	149,351	121,396
<b>EBITDA</b>	<b>\$ 110,653</b>	\$ 213,604	<b>\$ 650,364</b>	\$ 953,210	\$ 633,280
Non-cash impairment charges	85,330	26,494	142,540	103,394	27,000
Share-based compensation expense	7,674	5,101	30,364	19,128	27,682
Unrealized foreign exchange (gain) loss	(2,312)	(562)	(6,453)	(9,692)	1,215
<b>Adjusted EBITDA</b>	<b>\$ 201,345</b>	\$ 244,637	<b>\$ 816,815</b>	\$ 1,066,040	\$ 689,177

**Operating netback**, is a non-GAAP financial measure that the Company considers to be a key measure as it demonstrates Parex's profitability relative to current commodity prices. Parex calculates operating netback as oil and natural gas sales from production less royalties, operating, and transportation expense. Refer to "Financial and Operational Results – Consolidated Results of Operations" for the calculation of operating netback.

#### **Non-GAAP Financial Ratios**

**Operating netback per boe**, is a non-GAAP financial ratio that the Company considers to be a key measure as it demonstrates Parex's profitability relative to current commodity prices. Parex calculates operating netback per boe as operating netback divided by the total equivalent sales volume including purchased oil volumes for oil and natural gas sales price and transportation expense per boe and by the total equivalent sales volume excluding purchased oil volumes for royalties and operating expense per boe.

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

**Basic and diluted funds flow provided by operations per share or FFO per share**, is calculated by dividing funds flow provided by operations by the weighted average number of basic and diluted shares outstanding. Parex presents basic and diluted funds flow provided by operations per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share. The Company considers basic and diluted funds flow provided by operations per share to be a key measure as it demonstrates Parex's profitability after all cash costs relative to the weighted average number of basic and diluted shares outstanding.

### Capital Management Measures

**Funds flow provided by operations**, is a capital management measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. The Company considers funds flow provided by operations to be a key measure as it demonstrates Parex's profitability after all cash costs. A reconciliation from cash provided by (used in) operating activities to funds flow provided by operations is as follows:

(\$000s)	For the three months ended December 31,		For the year ended December 31,		
	2023	2022	2023	2022	2021
<b>Cash provided by operating activities</b>	\$ 194,242	\$ 297,569	\$ 376,471	\$ 983,602	\$ 534,301
Net change in non-cash working capital	(865)	(212,375)	291,311	(258,712)	43,244
<b>Funds flow provided by operations</b>	\$ 193,377	\$ 85,194	\$ 667,782	\$ 724,890	\$ 577,545

(\$000s)	For the three months ended					
	September 2023	June 2023	March 2023	September 2022	June 2022	March 2022
<b>Cash provided by (used in) operating activities</b>	\$ 87,568	\$ (36,612)	\$ 131,273	\$ 250,643	\$ 244,783	\$ 190,607
Net change in non-cash working capital	70,271	191,454	30,451	(44,231)	(16,987)	14,881
<b>Funds flow provided by operations</b>	\$ 157,839	\$ 154,842	\$ 161,724	\$ 206,412	\$ 227,796	\$ 205,488

**Working capital surplus (deficit)**, is a capital management measure which the Company uses to describe its liquidity position and its ability to meet its short term liabilities. Working capital surplus (deficit) is defined as current assets less current liabilities:

(\$000s)	For the three months ended December 31,		For the year ended December 31,		
	2023	2022	2023	2022	2021
Current assets	\$ 337,175	\$ 593,602	\$ 337,175	\$ 593,602	\$ 574,038
Current liabilities	258,148	508,614	258,148	508,614	248,258
<b>Working capital surplus</b>	\$ 79,027	\$ 84,988	\$ 79,027	\$ 84,988	\$ 325,780

(\$000s)	For the three months ended					
	September 2023	June 2023	March 2023	September 2022	June 2022	March 2022
<b>Current assets</b>	\$ 240,559	\$ 322,146	\$ 528,744	\$ 613,900	\$ 695,053	\$ 626,916
Current liabilities	298,070	325,103	499,082	384,137	383,557	340,232
<b>Working capital (deficit) surplus</b>	\$ (57,511)	\$ (2,957)	\$ 29,662	\$ 229,763	\$ 311,496	\$ 286,684

### Supplementary Financial Measures

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

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

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



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

**"Net revenue per boe"** is comprised of net revenue, as determined in accordance with IFRS, divided by the total equivalent sales volume and includes purchased oil volumes.

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

**"Price differential and transportation expense per bbl"** is comprised of realized oil sales price per bbl, as defined herein, less Brent crude price to calculate the price differential, plus transportation expense per bbl as defined herein.

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

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

**"Realized oil sales price per bbl"** is comprised of total oil sales, as determined in accordance with IFRS, divided by the Company's total oil sales volumes equivalent sales volume including purchased.

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

**"Return of capital as a percentage of total funds flow provided by operations"** is comprised of dividends declared and shares repurchased during the period, divided by funds flow provided by operations.

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

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

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

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

## **Environmental Initiatives Impacting Parex**

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

As of December 31, 2022, Colombia has ratified the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (the "Escazu Agreement"). The Company cannot predict with any certainty at this time the impacts to the Company that implementation of the Escazu Agreement may entail, as no details are yet available regarding the ways in which implementation will be carried out for the countries that have ratified it. However, it is anticipated that the Escazu Agreement will increase the participation of communities and the demand for access to information, which could affect the processes for obtaining environmental licenses, permits and authorizations applicable to the Company, may result in the incurrence of additional unanticipated costs, and could create friction with the communities, among other risks.

## **Business Environment and Risks**

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

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

### **Risk Governance**

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

### **Risk Factors**

#### **Colombia**

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

#### ***Social Disruptions and Instability***

The oil and natural gas exploration, development and operating activities conducted by Parex may, at times, be subject to disruption. Parex operates in Colombia. In Colombia companies operating in the oil and gas industry have experienced interruptions to their operations and production curtailments as a result of social instability and labour disruptions.

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

#### ***Guerrilla Activity in Colombia***

A 50-year armed conflict between government forces and anti-government insurgent groups and illegal paramilitary groups, both thought to be funded by the drug trade, continues in Colombia. Insurgents continue to attack civilians and violent guerrilla activity continues in certain parts of the country. Regions that border Venezuela and Ecuador have historically been areas of high security risk and there continues to be guerrilla activity.

On September 26, 2016, the Colombian government and the Revolutionary Armed Forces of Colombia ("FARC") signed a peace agreement (the "Peace Agreement") and, on November 30, 2016, the Peace Agreement was ratified by the Colombian government. Pursuant to the Peace Agreement, the FARC agreed to demobilize its troops and urban militia members and hand over its weapons to a United Nations mission within 180 days. The FARC then became a legal political party. Under the Peace Agreement, the FARC was guaranteed at least five seats in the Senate and another five seats in the House of Representatives in the 2018 congressional elections. Despite of these efforts, in August 2019 some former leaders of this group left the process and announced the resumption of hostilities.

On December 31, 2022, President Gustavo Petro announced a bilateral ceasefire, starting on January 1, 2023 until June 30, 2023, initially with five illegal armed organizations: ELN, Segunda Marquetalia, Estado Mayor Central, Autodefensas Gaitanistas de Colombia (AGC) and the Sierra Nevada illegal group. During 2023, the Colombian government has also taken part in peace negotiations with the Ejército de Liberación Nacional ("ELN") and announced the start of a peace process with the FARC dissidents, who did not align to the peace agreement signed in 2016. At this time no agreement has been reached with either groups.

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

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

Set forth below are a series of events that have impacted Parex's operations:

There were a series of protests across Colombia during May 2021 and again in spring 2022 which resulted in transportation blockades that restricted the production and marketing of Parex's crude oil which resulted in a temporary decrease to Parex production at that time. Additionally, the transportation blockades impeded the supply of materials required for capital expenditure activities, including drilling and completions. The blockades were not directly related to Parex's activities or those of its industry partners. In Colombia labor disruptions can be local or nationwide.

Since 2017 Parex has been performing work on the Capachos Block located approximately 75 kms from the Venezuela border, in the department of Arauca. In 2018, work on the Capachos Block was temporarily suspended for 20 days, due to security concerns for Parex contractors and equipment. During 2021 and 2022, Parex commenced additional operations on the Arauca Block which is in close proximity to Capachos. Historically the ELN has had a presence in the greater area.

During the third quarter 2022, production on the Capachos Block was impacted by temporary localized blockades and during the fourth quarter 2022, production was impacted by proactive shut-ins in the Capachos Block due to security concerns.

On January 21, 2023, the Company proactively shut-in its Capachos Block again and halted drilling operations at the Arauca Block, due to heightened security concerns related to the peace talks at the Federal Government level in Colombia. The shut-ins had a significant impact on Parex drilling and production.

Following the resumption of operations at Capachos in mid-April and Arauca in late May 2023, a social-related shut-in occurred again in early June 2023, which affected both blocks and further halting drilling and production. The shut-in was resolved and the Company had been fully operational at both blocks from late June 2023 until January 2024.

In 2023, there were a total of over 75 days of social related shut-in in the Capachos area and over 100 days of social related shut-in in the Arauca area.

On January 22, 2024, Parex again shut-in its operations at the Capachos Block, as well as halted drilling and testing operations at the Arauca Block due to the ongoing social protests in the area. Operations on Capachos and Arauca resumed on February 22, 2024.

As at the date of this MD&A, the Company has fully resumed operations at its Capachos and Arauca Blocks. Note that the Company's FY 2024 average production guidance remains unchanged due to production contingencies incorporated into the guidance range.

### **Geopolitical Risks**

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

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

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

There have been certain events in Colombia and abroad, which have resulted in political tensions between Colombia and some of its neighboring countries. Colombia is immediately adjacent to Venezuela, which is continuing to go through a period of political uncertainty. The impact on the Company's operations in Colombia as a result of Venezuela's political situation are not known and cannot be reasonably foreseen. However, in recent months, since August 2022, diplomatic relations have been reestablished with the Government of Venezuela and the new government of Colombia, and this situation allows to generate greater cooperation actions to resolve situations at the border. Note that with the exception of the Capachos and Arauca Blocks the Company's reserves and production are not proximate to the Colombia-Venezuela border.

Parex is aware of and at all times complies with any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC").

Although continuity in political relations is expected, the result of these relations remains uncertain, therefore, it is possible that impacts on border towns and cities related to migration and border operations could again occur and therefore, could negatively affect Colombia's economy, social issues and overall security situation.

### ***Risks of Foreign Operations***

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

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

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

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

Parex assets and operations are located in Colombia and the Company's sales are currently derived from its Colombian crude oil and natural gas production. Accordingly, the Company's financial condition and results of operations depend to a significant extent on macroeconomic and political and regulatory conditions prevailing from time to time in Colombia and on the exchange rates between the COP and the USD.

If the perception of improved overall security in Colombia deteriorates or if the investment climate worsens, the Colombian economy may face lower growth rates than the ones posted recently, which could negatively affect the Company's financial condition and results of operations.

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

### **Royalties**

The Colombia government may adopt new royalty regimes, or modify the existing royalty regimes, which may impact the economics of the Company's projects. An increase in royalties reduces the Company's earnings and could make future capital investments, or the Company's operations less economic.

### **Income Taxes**

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

In August 2022, the Ministry of Finance submitted a tax reform bill to Congress proposing changes to the Colombian tax regime. The tax reform bill was sanctioned by President Petro as Law 2277 of 2022 on December 13, 2022, and became effective starting January 1, 2023. The law is expected to increase tax collection to approximately COP 20 trillion by the end of 2023 (approximately 3% of the country GDP).

The tax reform includes, among other things:

- (a) an income tax surcharge for companies engaged in the extraction of crude oil and coal of 0%, 5%, 10% or 15% and, based on international prices. For fiscal year 2023, the surtax of 5%, 10% or 15% applied when the Brent price reaches USD \$68.58/bbl, USD \$76.03/bbl and USD \$81.27/bbl, respectively, according to ANH Resolution No. 0181 (revenues from the sale of natural gas are not subject to this surtax); and
- (b) non-deductibility of royalties

The Colombia government may adopt new tax regimes, or modify the existing tax regimes, which may impact the economics of the Company's projects. In August 2022, a tax reform bill was submitted to Congress proposing significant changes to the Colombian oil and gas tax regime. As part of the 2022 tax reform, the Colombian government banned the deduction royalty payments from the corporate tax liability for oil and natural gas companies. This decision was recently overturned by Colombia's Constitutional Court however the decision continues to be appealed. The outcome of this appeal has the potential to have a significant impact on the Company's earnings and could make future capital investments, or the Company's operations less economic.

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

### **Foreign Subsidiaries**

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

### **Legal Systems**

Colombia is a civil law jurisdiction. Additionally, all of the Company's material subsidiaries (which excludes its Colombian branches) are domiciled in countries where the legal system is based on civil code. The Colombia branches are domiciled in Colombia, which also has a legal system based upon civil code. There can be no assurance that joint ventures, licenses, license or permit applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

## **Regulatory Approvals**

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

Parex has 50% working interest Block LLA-38 in the Northern Llanos basin subject to its earning commitment to spend \$57 million. Activities on this block have been suspended due to security issues in the area impacting development. Parex also has 100% working interest in the Block VSM-25 in the Magdalena basin subject to its earning commitment to spend \$19 million. Activities on this block have been suspended due to a local government act that banned oil and gas operations. Judicial ruling is pending to determine the impact. Due to these reasons both of these blocks are in force majeure suspension. There is no certainty that Parex will be permitted to conduct activities on Block LLA-38 and VSM-25.

## **Indigenous Rights**

Parex currently carries out and plans to continue carrying out activities in areas classified by the Government as indigenous reserves and Afro-Colombian lands. To undertake these activities, Parex must first comply with prior consultation processes, set forth by Colombian law. These prior consultation processes are required for obtaining environmental licenses to start projects, works or activities in areas inhabited by ethnic communities. In addition, consultations can be seen as a potential instrument to involve communities in the decision of developing extracting industry and infrastructure projects in their territories. Generally, these consultation processes last between six months to one year depending on the community expectations but may be significantly delayed if an agreement with the communities cannot be reached. Parex strives to be respectful of the constitution and laws and the autonomy of indigenous and afro-descendant communities, and therefore does not enter their territories until an agreement has been reached with them. Parex also strives to structure management plans to prevent, mitigate, repair or offset the impact of projects, as identified by local communities.

In recent years, indigenous communities have also been claiming their ancestral territories and requesting recognition of their right to be consulted about projects already in operation. This opposition results from, among other factors, the communities' view on the exploitation of natural resources, the environment, and the effects on their cultures, territories and spiritual beliefs. According to this, Parex may be exposed to operational restrictions as a result of the opposition of these communities.

No certainty can be given that Parex will be able to reach an agreement with the different communities that object to planned or continued operations or that such communities will participate in consultation processes if available.

## **Title to Assets**

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

## **Risks Associated with Geographically Concentrated Operations**

The majority of the Company's production comes from one block in the Llanos Basin in Colombia. For the year ended December 31, 2023, the Tigana, Jacana, Tigui and Tua Fields located in Block LLA-34 collectively generated approximately 54% of the Company's production and at December 31, 2023, Block LLA-34 accounted for 56% of its proved oil and gas reserves. As a result of this concentration, the Company may be disproportionately exposed to the impact of, among other things, regional supply and demand factors including limitations on its ability to most profitably sell or market its oil and gas to a smaller pool of potential buyers, delays or interruptions of production from wells in these areas caused by governmental regulation, community protests, guerrilla activities, processing or transportation capacity constraints, continued authorization by the government to explore and drill in these areas, severe weather events and the availability of drilling rigs and related equipment, facilities, personnel or services. Due to the concentrated nature of the Company's portfolio of properties, a number of the Company's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on its results of operations than it might have on other companies that have a more diversified portfolio of properties.

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

### ***Non-Operated Risk of Significant Assets***

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

### ***Diversification***

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

### ***Expansion into New Activities***

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

### ***United States Relations with Colombia***

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

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

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

### ***Canada relations with Colombia***

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

### ***Reputational Risk Associated with the Company's Operations***

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

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

### ***Forced or Child Labour in Supply Chains***

In May 2023 An Act to enact the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* and to amend the Customs Tariff was passed and came into force on January 1, 2024 in Canada. Pursuant to the new legislation, any company that is subject to the reporting requirements, including Parex, is required to conduct certain due diligence on its supply chains and to file an annual report accordingly. While the Company is currently unaware of any forced or child labour in any of its supply chains, the increased scrutiny on the supply chains of Canadian companies could uncover the risk or existence of forced or child labour in a supply chain to which the Company has a connection, which could negatively impact the reputation of the Company. Additionally, due to the fact that the reporting requirements are new and thus there is no existing industry standard, the Company is at risk of inadvertently preparing a report that is insufficient.

### ***Corruption***

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

### ***Liabilities under Anti-Bribery Laws***

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



### ***Pandemics and their Effect on the Global Economy***

In the event of a global pandemic, countries around the world may close international borders and order the closure of institutions and businesses deemed non-essential. This could result in a significant reduction in economic activity in Canada, Colombia and internationally along with a drop in demand for oil and natural gas. Any reduction in economic activity in certain countries resulting from outbreaks, government-imposed lockdowns and other restrictions could have a negative effect on demand for oil and natural gas and could aggravate the other risk factors identified herein.

### ***The Israel - Palestine War***

On October 7, 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on the Israeli population and industrial centres located along Israel's border with the Gaza Strip and in other areas within the State of Israel. Following the attack, Israel's security cabinet declared war against Hamas and the military campaign against these terrorist organizations has launched a series of responding attacks in Palestine.

The outcome of the conflict has the potential to have wide-ranging consequences on the world economy. Global oil prices have increased since the beginning of the Israel-Palestine war. While neither Israel nor the Gaza Strip are significant oil producers, there is a risk that the conflict could lead to wider regional instability in the Middle East, home to some of the world's biggest oil producers. To date, these events have not impacted the Company's ability to carry on business, and there have been no significant delays or direct security issues affecting the Company's operations, offices or personnel. The long-term impacts of the conflict remain uncertain and the Company continues to monitor the evolving situation.

### ***The War in Ukraine***

In February 2022, Russian military forces invaded Ukraine. Ukrainian military personnel and civilians continue to actively resist the invasion. Many countries throughout the world have provided aid to Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in its resistance to the Russian invasion. The North Atlantic Treaty Organization ("NATO") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. Additionally, certain countries including Canada have imposed strict financial and trade sanctions against Russia. The outcome of the ongoing conflict remains uncertain and may have wide-ranging consequences on the peace and stability of the region and the world economy.

### ***Commodity Prices, Markets and Marketing***

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

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

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

Oil and natural gas prices may be volatile for a variety of reasons including market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, pandemics, OPEC and non-OPEC producers actions in respect of supply, political uncertainties, sanctions imposed on certain oil producing nations by other countries and ongoing conflicts in the Middle East and elsewhere. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects. The Company monitors market

conditions and may selectively utilize derivative instruments to reduce exposure to crude oil price movements. However, the Company is of the view that it is neither appropriate nor possible to eliminate 100% of its exposure to commodity price volatility.

### ***Reserves Estimates***

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

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

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

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

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

### ***Conditions in the Oil and Natural Gas Industry***

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

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

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by Parex will result in discoveries of oil or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Parex's operations will be subject to all the risks normally associated with the exploration, development and operation of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, potential environmental damage, blow-outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of Parex and others. In accordance with customary industry practice, Parex will maintain insurance coverage, but will not be fully insured against all risks, nor are all such risks insurable.

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

### ***Exploration, Development and Production Risks***

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

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

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

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

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

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

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

### ***Gathering and Processing Facilities and Pipeline Systems***

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

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

### ***Availability of Drilling Equipment and Access***

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

### ***Power Supply***

Several of the Company's producing fields are connected to the national transmission system and depend on its expansion and reliability to keep stable production levels. The national electricity market is volatile due to changes in hydrology and availability of fuels (natural gas, diesel, etc.), which brings uncertainty to energy prices. If energy were to become unavailable or difficult to obtain, the Company's results of operation and financial condition could be adversely affected.

### ***Water Management***

Parex produces water as part of its operations. Taking into account the nature of reservoirs, the water production levels to be managed by the Company may increase in the future. In order to achieve oil and gas production goals and to avoid any production restrictions going forward, Parex will need to secure the required capacity to manage water levels. Factors that may trigger a possible constraint to the Company's crude oil production due to the rising water production levels are: (i) ineffective project management of the required facilities, (ii) the Company's and its partners' ability to timely obtain the environmental permits related to water management, (iii) social and community interactions that could affect the development and operation of these projects, and (iv) the availability of capital to execute the required projects.

### ***Failure to Realize Anticipated Benefits of Acquisitions and Dispositions***

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

### ***Abandonment and Reclamation Cost Risk***

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

## **Environmental Regulation and Risks**

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

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

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

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

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

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

## ***Climate Change***

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

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

## ***Climate Change Transition Risks***

### ***Climate Change Related Regulation and Policies***

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

### ***Climate Change Related Litigation***

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

## ***Technology***

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

### ***Demand and Commodity Prices***

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

### ***Access to Capital and Insurance***

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

### ***Changing Investor Sentiment***

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

### ***Shareholder Activism***

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

### ***Climate Change – Physical Risks***

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

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

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

### ***Parex ESG Targets and Ambitions***

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

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

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

### ***GHG Emissions Targets and Ambitions***

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

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

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

### ***Diversity and Inclusion Target***

The Company's inclusion and diversity target for the Board of Directors to have at least 30 percent representation from any one gender has been achieved since 2022. Efforts to continue to meet such target may increase the time and costs associated with appointing and replacing key personnel in the future. Further, a failure to achieve the target in the future may influence the Company's reputation with its stakeholders and impact recruitment initiatives.

### ***Litigation***

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



### ***Information Technology Systems and Cyber-Security***

The Company has become increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure and its ability to expand and continually update this infrastructure, to conduct daily operations. The Company depends on various information technology systems to estimate reserve quantities, process and record financial data, manage its land base, manage financial resources, analyze seismic information, administer its contracts with its operators and lessees and communicate with employees and third-party partners.

Further, the Company is subject to a variety of information technology and system risks as a part of its operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Company's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to the Company's business activities or its competitive position.

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

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

### ***Breach of Confidentiality***

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

### ***Dependence on Management***

The Chief Executive Officer and the other senior officers of the Company are critical to its success. In the event of the departure of the Chief Executive Officer or another senior officer, the Company believes that it will be successful in attracting and retaining qualified successors, but there can be no assurance of such success.

If the Company is not successful in attracting and retaining qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future funds flow provided by operations, earnings, results of operations and financial condition. The Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

### ***Ability to Attract and Retain Qualified Personnel***

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

### ***Labour Relations***

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

In addition, in the legislative field in Colombia, new labor legislation is expected to be enacted during 2024. The proposed law includes an 18-point reform to individual and collective labor legislation. Some of the changes cover areas such as: job stability and hiring modalities; outsourcing/subcontracting; parameters on the use of service contracts; apprenticeship contracts; workday length; decarbonization; work on digital platforms; informal and migrant work, among others. Parex cannot assure the contents of the final legislation or that it will not have an adverse effect on the Company's operations and financial condition.

### ***Liquidity***

The Company's ability to fund current and future capital projects and carry out the business plan is dependent on its ability to generate cash flow, as well as raise capital in a timely manner under favourable terms and conditions and is impacted by the Company's credit ratings and the condition of the capital and credit markets. In addition, changes in credit ratings may affect the ability to, and the associated costs of, entering into derivative or hedging transactions, as well as entering into and maintaining certain contracts with customers and suppliers on acceptable terms. For example, if Parex experiences a downgrade in its credit ratings, it may be required to post collateral, letters of credit, cash or other forms of security as financial assurance for its performance under certain contractual arrangements with third parties. The occurrence of any of the foregoing could adversely impact the Company's ability to execute portions of its business strategy, including hedging, and could have a material adverse effect on the Company's liquidity and capital position. Management of liquidity risk requires Parex to maintain sufficient cash and cash equivalents, along with other sources of capital consisting of cash flow from operating activities, available credit facilities, commercial paper, and access to debt capital markets, to meet its obligations as they become due.

### ***Credit Facilities***

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

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

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

### ***Additional Funding***

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

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

### ***Issuance of Debt***

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

### ***Dilution***

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

### ***Third-Party Credit Risk***

Parex may be exposed to third-party credit risk through its contractual arrangements with its current or future customers of its crude oil and natural gas sales and counterparties to the Company's derivative risk management contracts. In addition, Parex may be exposed to third-party credit risk from purchasers' of assets from Parex for various liabilities, including well abandonment and reclamation obligations assumed by the purchasers. If such third parties fail to meet their contractual obligations to Parex, such failures may have a material adverse effect on the Company's business, financial condition, results of operations, and prospects. The use of derivative risk management contracts involves the risk that the counterparties will be unable to meet the financial terms of such transactions. Parex is unable to predict changes in a counterparty's creditworthiness or ability to perform. Even if Parex accurately predicts the sudden changes, the Company's ability to negate this risk may be limited depending upon market conditions and the contractual terms of the agreements. During periods of declining commodity prices, the Company's derivative receivable positions generally increase, which increases the Company's counterparty credit exposure. Should any of such third parties be petitioned for bankruptcy, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, Parex may be unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect the Company's financial and operational results.

### ***Variations in Foreign Exchange Rates***

The Company's main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Cdn and COP, as the Company's functional currency is the USD. 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 USD/COP exchange rate has fluctuated significantly during the last several years. Given the effects of rising inflation, increasing interest rates in the U.S. and Colombia, different global growth perspectives, pandemics, political tensions in the world's largest economies, current and expected crude oil prices in the next few years and political uncertainty in Colombia, there is no clear view of how the USD and the COP will behave in the medium to long-term. Continued market volatility is expected to continue to lead to USD fluctuations that will remain difficult to forecast.

### ***Inflation and Cost Management***

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

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

### ***Rising Interest Rates***

Many central banks including the Bank of Canada, the Bank of Colombia and U.S. Federal Reserve have taken steps to raise interest rates in an attempt to combat inflation. The increase in borrowing costs may impact project returns and future development decisions, which could have a material adverse effect on the Company's financial performance and cash flows. If market interest rates continue to rise, the Company's financing expenses could increase and the cost of capital will deteriorate, which could have an adverse effect on the Company's ability to execute certain projects, results of operations and financial condition. Finally, if Parex incurs new debt in the future to fund working capital, capital projects or acquisitions, the prevailing interest rates and spreads at any specific time could be less favorable in terms of cost, which could adversely affect the Company's financial condition and results of operations.

Rising interest rates could also result in a recession in Canada, Colombia, the United States or other countries. A recession may have a negative impact on demand for crude oil and natural gas, causing a decrease in commodity prices.

### ***Insurance and Security***

Parex maintains insurance coverage as part of its risk management program. However, such insurance may not provide comprehensive coverage in all circumstances, nor are all such risks insurable. Parex self-insures some risks, and its insurance coverage does not cover all the costs arising out of the allocation of liabilities and risk of loss arising from the Company's operations.

The Company's insurance policies are generally renewed on an annual basis and, depending on factors such as market conditions, the premiums, policy limits and/or deductibles for certain insurance policies can vary substantially. In some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Significantly increased costs could lead Parex to decide to reduce or possibly eliminate, coverage. In addition, insurance is purchased from a number of third-party insurers, often in layered insurance arrangements, some of whom may discontinue providing insurance coverage for their own policy or strategic reasons. Should any of these insurers refuse to continue to provide insurance coverage, the Company's overall risk exposure could be increased and Parex could incur significant costs.

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

### **Market Price of Common Shares**

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

### **Risk Management of Commodity Prices or Currency**

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

### **Purchase of Securities under the NCIB**

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

### **Dividends**

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

### **Cost of New Technologies**

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

### **Earnings of the Company**

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

### ***Accounting Adjustments***

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

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

### ***Cash from Subsidiaries***

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

### ***Potential Conflicts of Interest***

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

### ***Internal Controls***

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

### ***Forward-Looking Statements May Prove Inaccurate***

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

Additional information on the risks, assumptions and uncertainties are found under the heading "Advisory on Forward Looking Statements" of this MD&A.

## Internal Controls over Financial Reporting

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation authorities is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Parex evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded Parex DC&P were effective as at December 31, 2023.

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

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

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining ICFR for Parex. They have, as at the financial year ended December 31, 2023, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Parex officers used to design the Company's ICFR is the 2013 Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Parex conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2023 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2023, Parex maintained effective ICFR. It should be noted that while Parex officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Parex's ICFR during the year ended December 31, 2023 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the twelve months ended December 31, 2023 other than normal course guarantees entered into in the form of letters of credit to support the exploration work commitments on its blocks. For further information refer to "Contractual Obligations, Commitments and Guarantees" section above and note 26 - Commitments and Contingencies in the audited consolidated financial statements.

## Financial Instruments and Other Instruments

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

## Related Party Transactions

### Compensation of Key Management Personnel

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

	<b>2023</b>		2022
Salaries, directors' fees and other benefits	\$ 5,448	\$	4,972
Equity settled share-based compensation	<b>637</b>		709
Cash settled share-based compensation	<b>5,841</b>		7,984
	<b>\$ 11,926</b>	\$	13,665

### Other related party transactions

The Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2023 and 2022.

### Material Accounting Policies

Refer to note 3 - Summary of Material Accounting Policies of the audited consolidated financial statements for a summary of significant accounting policies applied by the Company.

### Significant Accounting Estimates

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

#### *Oil and natural gas reserves*

The Company retains qualified independent reserves evaluators to evaluate the Company's proved and probable oil and natural gas reserves. As at December 31, 2023 and in prior periods, Parex's reserves were evaluated by GLJ Ltd., who are a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with the COGE handbook and NI 51-101. The Operations and Reserves Committee of the Company's Board of Directors is comprised of independent directors whose mandate is to steward the reserves evaluation process.

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

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

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



### ***Decommissioning and Environmental Liabilities***

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

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

### ***Current and Deferred tax***

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

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

### ***Share-Based Compensation***

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

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

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

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

PSUs may be granted with certain performance measures, specified at the grant date as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor of between 0-2x is applied to PSUs eligible to vest at the end of the performance period. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor.

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

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date.

**Goodwill**

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

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

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

**Derivative liabilities**

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

**Legal, Environmental Remediation and other Contingent Matters**

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

**DIRECTORS**

**Wayne Foo**  
Chairman of the Board

**Robert Engbloom**  
Lead Director

**Lynn Azar**

**Lisa Colnett**

**Sigmund Cornelius**

**G.R. (Bob) MacDougall**

**Glenn McNamara**

**Imad Mohsen**

**Carmen Sylvain**

**OFFICERS & SENIOR EXECUTIVES**

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President & Chief Executive Officer

**Daniel Ferreira**  
President & Country Manager, Parex Resources Colombia

**Sanjay Bishnoi**  
Chief Financial Officer & Corporate Secretary

**Eric Furlan**  
Chief Operating Officer

**Mike Kruchten**  
Sr. Vice President, Capital Markets & Corporate Planning

**Joshua Share**  
Sr. Vice President, Corporate Services

**Katie Bernard**  
Vice President, New Ventures

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**ABBREVIATIONS****Oil and Natural Gas Liquids**

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

**Other**

WTI	West Texas Intermediate
Brent	Brent Ice
kms	Kilometres
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.