

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended September 30, 2016 is dated November 10, 2016 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended September 30, 2016, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2015. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex and factors that could affect the Company's operations and financial results are included in reports on file with the Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 17, 2016 (the "AIF"), and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

Parex is an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks totaling approximately 2,087,709 gross acres. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

Abbreviations

Refer to the end of the MD&A for commonly used abbreviations in the document. Refer to page 17 for the Advisory on Forward-Looking Statements and page 19 for Non-GAAP Terms used.

Three months ended September 30, 2016 ("third quarter or Q3") Highlights

- Achieved quarterly oil and natural gas production of 29,754 boe/d, slightly in excess of oil and natural gas production for the previous quarter ended June 30, 2016 and an increase of 9 percent over the prior year comparative period;
- Generated funds flow from operations of \$45.1 million (\$0.30 per share basic) as compared to \$0.09 per share for the prior year comparative period and \$0.21 per share in the previous quarter. Funds flow has increased from the comparative period due to having recorded \$31 million (\$0.21 per share basic) of a voluntary tax restructuring charge in the comparative quarter;
- Realized Brent referenced sales price of \$40.19 per boe during the period, (a \$6.79/boe discount to the average Brent price), and an operating netback of \$20.87/boe. Operating and transportation combined unit costs of \$16.07/boe were approximately 1 percent less than the second quarter of 2016 and 21 percent less than the prior year comparative period;
- Working capital increased to \$117.7 million at September 30, 2016 compared to \$97.5 million at June 30, 2016 and \$62.7 million in the comparative period. The Company has an undrawn bank credit facility of \$175.0 million;
- For the nine months ended September 30 2016, wherein Brent oil prices have averaged \$43.15/bbl, funds flow from operations has exceeded capital expenditures by \$47.6 million and the Company has increased its daily oil production by 6 percent as compared to the average daily oil production for the 2015 fiscal year; and
- Participated in drilling 4 wells in Colombia resulting in 3 oil wells and 1 well dry and abandoned.

(Financial figures in 000s except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Average daily oil production (bbl/d)	29,501	27,377	29,146	27,047
Average daily natural gas production (mcf/d)	1,518	-	1,362	-
Average oil and natural gas production (boe/d)	29,754	27,377	29,373	27,047
Production split (% crude oil)	99	100	99	100
Average realized sales price (\$/boe)	40.19	44.62	35.59	50.12
Operating netback ⁽¹⁾ (\$/boe)	20.87	20.70	16.27	24.02
Oil and natural gas sales	\$ 127,541	\$ 123,249	\$ 313,630	\$ 413,273
Funds flow from continuing operations	\$ 45,091	\$ 13,448	\$ 92,340	\$ 96,643
Per share – basic	0.30	0.09	0.61	0.68
Per share – diluted ⁽¹⁾	0.29	0.09	0.60	0.66
Net income (loss)	\$ 6,811	\$ (27,417)	\$ (1,004)	\$ (41,147)
Per share – basic	0.04	(0.18)	(0.01)	(0.29)
Per share – diluted	0.04	(0.18)	(0.01)	(0.29)
Capital Expenditures	\$ 26,313	\$ 37,674	\$ 44,742	\$ 101,871
Total assets (end of period)	\$ 947,354	\$ 1,003,271	\$ 947,354	\$ 1,003,271
Working capital surplus (end of period) ⁽²⁾	\$ 117,747	\$ 62,689	\$ 117,747	\$ 62,689
Bank debt (end of period) ⁽³⁾	-	-	-	-
Weighted average shares outstanding (000s)				
Basic	152,700	150,164	151,985	143,072
Diluted	156,008	153,119	155,139	145,580
Outstanding shares (end of period (000s))	152,666	150,208	152,666	150,208

⁽¹⁾ Non-GAAP term. See “Non-GAAP Terms”.

⁽²⁾ Working capital calculation does not take into consideration the undrawn \$175.0 million (September 30, 2015 - \$200 million) available under the syndicated bank credit facility.

⁽³⁾ Syndicated bank credit facility borrowing base of \$175.0 million as at September 30, 2016.

Strategy

The Company’s strategy is to leverage South American and Western Canadian experience and capability to create shareholder value. Jurisdictions will be targeted that have stable fiscal regimes coupled with oil-prone hydrocarbon-rich basins in under-explored areas. Parex will apply proven technology used in the Western Canada Sedimentary Basin in basins with large oil-in-place potential. The Company will focus on short cycle time from discovery to bringing new reserves on-stream and use a portfolio approach to manage subsurface and commercial risks.

Principal Properties

As at September 30, 2016, the Company's principal land holdings and interests in exploration and production blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
<u>Operated Properties</u>			
LLA-16, 20, 29 and 30	100%	201,864	201,864
LLA-57	100%	52,285	52,285
Los Ocarros	50%	31,066	15,533
El Eden	60%	6,397	3,838
Cabrestero	100%	29,562	29,562
LLA-40	50%	83,465	41,732
LLA-24	100%	147,100	147,100
LLA-26	100%	184,061	184,061
Cebucan	100%	109,185	109,185
Cerrero ⁽¹⁾	100%	83,903	83,903
Capachos ⁽¹⁾	50%	64,073	32,037
LLA-32	70%	57,040	39,928
LLA-10 ⁽¹⁾	50%	189,544	94,772
<u>Non-Operated Properties</u>			
LLA-34	55%	68,382	37,610
Balay	10%	4,500	450
Colombia Magdalena Basin			
<u>Operated Properties</u>			
VMM-11	100%	116,826	116,826
Morpho	100%	51,420	51,420
VIM-1	100%	223,651	223,651
VMM-9	100%	152,412	152,412
Aguas Blancas ⁽¹⁾	50%	13,386	6,693
De Mares ⁽¹⁾	50%	174,387	87,194
Playon ⁽¹⁾	50%	43,200	21,600
Total		2,087,709	1,733,656

⁽¹⁾ Lands are subject to farm-in-agreement earning terms and/or regulatory approval.

Exploration properties that are deemed non-commercial will be relinquished in due course. Accordingly, the gross and net acres described above may decrease over time as lands deemed non-commercial are relinquished. For a description of blocks' phases, commitments and performance guarantees secured by letters of credit refer to the AIF.

2016 Guidance

In Q4 2016, Parex plans to drill 8-10 wells, including 5 appraisal wells on Aguas Blancas. The Company expects production for Q4 2016 to average 30,500 boe/d and full year 2016 production therefore to be approximately 29,600 boe/d, representing approximately an 8% year-over-year growth.

2017 Production and Base Capital Budget Guidance

Parex has a robust asset portfolio that allows for a growing and a self-funded business model. Assuming a full year 2017 Brent oil price scenario of approximately \$50 per barrel ("bbl"), our 2017 production and capital budget guidance is as follows:

1. Full Year Production: 34,000-36,000 bopd

- 2017 average production of approximately 34,000-36,000 barrels of oil per day ("bopd"), an increase of 15-22% over our expected 2016 full year average production rate of approximately 29,600 boe/d;
- Maintaining a production split that is greater than 99% crude oil;
- Based on the current evaluation of our existing portfolio of development and exploration opportunities, Parex anticipates production growth of 10%-20% in 2018.

2. Capital Expenditures: \$200-\$225 million

Brent Oil Price Scenario \$50 per barrel
(\$000s)

Maintenance & Development Capital (12 wells)	\$45,000-\$55,000
Appraisal Growth Capital (13-18 wells)	\$70,000-\$80,000
Exploration Growth Capital (14 wells)	\$85,000-\$90,000
Total 2017 Capital Budget (39-44 wells)	\$200,000-\$225,000

Maintenance & Development Capital: \$45-\$55 million

- Capital is used to generate a forecast base average production rate of 30,000 bopd;
- Drill 12 gross (6.6 net) development wells and enhance production facilities on Block LLA-34;
- Includes capital for well work-overs, civil works and production facilities.

Appraisal Growth Capital \$70-\$80 million

- Fulfill the earning commitments on Ecopetrol farm-in blocks Aguas Blancas and Capachos;
- Drill 2 commitment appraisal wells to earn and establish light oil production on the Capachos Block;
- Includes a water disposal well and production facilities at Capachos;
- Drill 10-15 Aguas Blancas appraisal wells;
- Risked oil appraisal production is forecast to average 2,000-3,000 bopd in 2017.

Exploration Growth Capital: \$85-\$90 million

- Drill 14 exploration wells (9.6 net) including 7 on Block LLA-34;
- Includes 3 wells that will continue to evaluate the LLA-34 Tigana/Jacana trend southwest of the of the existing Jacana wells;
- Conduct 290 km² of 3D seismic for \$15 million on Block VMM-9;
- Risked oil exploration production is budgeted to average 2,000-3,000 bopd in 2017, subject to the drill schedule timing.

This capital forecast includes approximately \$40 million related to Parex fulfilling its farm-in commitments related to the Capachos, Aguas Blancas and LLA-10 blocks.

Financial and Operational Results

Consolidated Results of Operations

Parex' operations are conducted in Colombia and Canada which are the Company's reportable segments.

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Average daily production				
Colombia – oil (bbl/d)	29,501	27,377	29,146	27,047
Colombia – natural gas (mcf/d)	1,518	-	1,362	-
Total (boe/d)	29,754	27,377	29,373	27,047
Production split (% crude oil production)	99	100	99	100
Average daily sales of oil and natural gas				
Colombia – produced oil (bbl/d)	29,601	26,948	29,645	26,973
Colombia – purchased oil (bbl/d)	986	3,073	1,179	3,228
Colombia – Ocesa overlift (bbl/d)	3,650	-	1,230	-
Colombia – produced natural gas (Mcf/d)	1,518	-	1,362	-
Total (boe/d)	34,490	30,021	32,281	30,201
Operating netback (\$000s)				
Oil and natural gas sales	\$ 127,541	\$ 123,249	\$ 313,630	\$ 413,273
Royalties	(8,927)	(8,883)	(23,967)	(31,336)
Net revenue	118,614	114,366	289,663	381,937
Production expense	(12,341)	(17,440)	(37,886)	(55,323)
Transportation expense	(32,843)	(36,752)	(99,442)	(118,157)
Purchased oil	(16,569)	(8,420)	(20,939)	(29,963)
Operating netback	\$ 56,861	\$ 51,754	\$ 131,396	\$ 178,494
Operating netback (per boe) ⁽¹⁾⁽²⁾				
Oil and natural gas sales	\$ 40.19	\$ 44.62	\$ 35.59	\$ 50.12
Royalties	(3.25)	(3.58)	(2.94)	(4.26)
Net revenue	36.94	41.04	32.65	45.86
Production expense	(4.49)	(7.03)	(4.65)	(7.51)
Transportation expense	(11.58)	(13.31)	(11.73)	(14.33)
Operating netback	\$ 20.87	\$ 20.70	\$ 16.27	\$ 24.02

⁽¹⁾ Refer to the individual operating netback component sections below for a description of the denominator used in per boe calculations.

⁽²⁾ Operating netback calculation excludes the impact of (gains) losses on commodity risk management contracts.

The Company's operating netback on a per boe basis for the three and nine months ended September 30, 2016 was \$20.87/boe and \$16.27/boe compared to \$20.14/boe for the second quarter of 2016. The average realized sales price in Colombia for the three and nine months ended September 30, 2016 was \$40.19/boe and \$35.59/boe compared to \$39.74/boe for the second quarter of 2016.

Royalty charges for the three and nine months ended September 30, 2016 were \$3.25/boe and \$2.94/boe in comparison to \$3.33/boe for the second quarter of 2016.

Production expense for the three and nine months ended September 30, 2016 was \$4.49/boe and \$4.65/boe compared to \$4.51/boe for the second quarter of 2016 and \$7.03/boe in the comparative prior year three month period.

Transportation expense per barrel for the three and nine months ended was \$11.58/boe and \$11.73/boe compared to \$11.76/boe for the second quarter of 2016 and \$13.31/boe in the comparative prior year three month period.

Overall the price of the Company's benchmark Brent price decreased by \$0.05/bbl in the third quarter as compared to the second quarter of 2016, while the operating netback increased by \$0.73/boe in the same period.

Colombian Oil Sales

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Block LLA-34 (Max, Tua & Tarotaro fields)	17,937	14,357	17,486	13,634
Block LLA-26 (Rumba field)	4,662	1,893	4,513	705
Block Cabrestero (Kitaro & Akira fields)	3,215	1,850	2,865	2,323
Block LLA-32 (Kananaskis, Carmentea, Maniceno and Bandola fields)	1,448	4,406	1,486	5,119
Block LLA-30 (Adalia field)	900	623	1,195	779
Block Los Ocarros (Las Maracas field)	791	1,745	880	1,878
Block LLA-40 (Begonia field)	475	1,755	625	1,670
Other	73	748	96	939
Total Crude Oil Production	29,501	27,377	29,146	27,047
Natural gas production	253	-	227	-
Total crude oil and natural gas production	29,754	27,377	29,373	27,047
Crude oil inventory (build) draw	3,750	(429)	1,729	(74)
Average daily sales of produced oil and natural gas	33,504	26,948	31,102	26,973
Purchased oil	986	3,073	1,179	3,228
Sales Volumes	34,490	30,021	32,281	30,201

Oil and natural gas production for the third quarter of the year averaged 29,754 boe/d, an increase of approximately 9 percent from the third quarter of 2015. Production increased modestly from the second quarter average by 618 boe/d. The increase in oil sales in the third quarter of 2016 compared to the reported Colombian oil sales of 28,913 boe/d for the three months ended June 30, 2016 was primarily a result of the crude oil inventory draw, and overlifted Ocesa pipeline volumes. The Company expects the overlift position will be eliminated by the end of the first quarter in 2017.

Parex continues to increase quarter over quarter oil production within funds flow from operations.

b) Average Reference and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Reference Prices				
Brent (\$/bbl)	46.98	51.16	43.15	56.58
Vasconia (\$/bbl)	41.92	45.83	37.46	51.22
WTI (\$/bbl)	44.91	46.50	41.56	51.01
Average Realized Prices				
Realized sales price (\$/bbl) ⁽¹⁾	40.22	44.62	35.57	50.12
Realized oil hedging (loss) (\$/bbl)	(0.28)	0.40	(0.64)	0.13
Realized price after hedging (\$/bbl)	39.94	45.02	34.93	50.25
Realized price differential to Brent crude (\$/bbl)	(6.76)	(6.54)	(7.58)	(6.46)

⁽¹⁾ Oil sales per bbl includes the Company's working interest sales volumes, purchased oil sales volumes and the Ocesa overlift volumes.

During Q3 2016, the differential between Brent reference pricing and the realized crude oil sale price was \$6.76/bbl. The differential during Q3 was relatively in line with historical averages (see below). Differences between the Parex realized price and the Vasconia average is mainly a result of quality adjustments on certain oil sale contracts and timing of oil sales.

In the table below, the quarter over quarter Brent and Vasconia crude differentials are shown:

Average price for the period	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Brent (\$/bbl)	46.98	47.03	35.21	44.69	51.16
Vasconia (\$/bbl)	41.92	41.03	29.71	37.15	45.83
Parex realized sales price (\$/bbl)	40.22	39.69	27.08	36.69	44.62
Parex realized price (differential) to Brent crude (\$/bbl)	(6.76)	(7.34)	(8.13)	(8.00)	(6.54)
Parex realized price (differential) to Vasconia crude (\$/bbl)	(1.73)	(1.34)	(2.63)	(0.46)	(1.21)

c) Natural Gas Revenue and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Revenue (000's)	862	-	2,378	-
Realized sales price (\$/Mcf)	6.17	-	6.39	-

d) Oil Revenue

Third quarter 2016 oil and natural gas revenue increased \$4.3 million or 3 percent as reconciled in the table below to the third quarter of 2015:

(\$000s)	
Oil and natural gas revenue, three months ended September 30, 2015	\$ 123,249
Sales volume of produced oil an increase of 11% (2,907 bbl/d)	11,933
Sales volume of purchased oil, a decrease of 68% (2,087 bbl/d)	(8,567)
Oil sales price decrease of 10%	(14,915)
Sales of overlifted Ocesa pipeline volumes (3,649 bbl/d)	14,979
Sales volume of produced gas, an increase of 253 boe/d	862
Oil and natural gas revenue, three months ended September 30, 2016	\$ 127,541

Oil revenue increased in the three months ended September 30, 2016 compared to the same period in 2015 due to the higher produced sales volumes and overlifted Ocesa pipeline volumes. This increase was partially offset by a decrease in purchased oil volumes and a decrease in world oil prices as compared to 2015.

e) Colombian Crude Oil Inventory in Transit (Overlift)

As at September 30, (\$000s)	2016	2015
Crude oil in transit	\$ -	\$ 8,520

As at September 30, 2016, the Company had nil mbbls of crude oil inventory in transit (272.0 mbbls for the third quarter of 2015). Based on timing of Company oil sale export cargos the Company was overlifted from the Ocesa pipeline by 335.7 mbbls at September 30, 2016. The overlift position is expected to be eliminated by the end of the first quarter in 2017. Refer to the 'Purchased Oil' section below for further discussion on the liability recorded for the overlift position.

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

For the periods ended (mbbls)	Sept 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015
Crude oil inventory in transit - beginning of the period	9.3	(124.6)	136.2	272.0
Oil production	2,714.1	2,631.1	2,611.9	2,629.9
Oil sales	(3,149.8)	(2,610.9)	(2,990.0)	(2,938.7)
Purchased oil	90.7	113.7	117.4	173.0
Crude oil inventory in transit (overlift) - end of the period	(335.7)	9.3	(124.6)	136.2
% of period production	-	-	-	5.1

Crude oil inventory build and draw down 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.

f) Purchased Oil

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Purchased oil expense (\$000s)	\$ 16,569	\$ 8,420	\$ 20,939	\$ 29,963

Purchased oil expense for the three and nine months ended September 30, 2016 was \$16.6 and \$20.9 million compared to \$0.2 million for the second quarter of 2016 and \$8.4 and \$30.0 million for the 2015 three and nine month periods. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points. Included in purchased oil expense is an accrual based upon the fair value of the overlift position with the Ocesa pipeline.

Colombian Royalties

		For the three months ended September 30,			For the nine months ended September 30,	
		2016	2015		2016	2015
Royalties (\$000s)	\$	8,927	\$ 8,883	\$	23,967	\$ 31,336
Per unit (\$/boe)	\$	3.25	\$ 3.58	\$	2.94	\$ 4.26
Percentage of sales ⁽¹⁾		8.0%	7.7%		8.2%	8.2%

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

In the three and nine months ended September 30, 2016 royalties as a percentage of sales of 8.0% and 8.2% was comparable to the percentage in the three months ended June 30, 2016 of 8.4% and the prior year comparative periods.

Colombian Production Expense

		For the three months ended September 30,			For the nine months ended September 30,	
		2016	2015		2016	2015
Production expense (\$000s)	\$	12,341	\$ 17,440	\$	37,886	\$ 55,323
Per unit (\$/boe) ⁽¹⁾	\$	4.49	\$ 7.03	\$	4.65	\$ 7.51

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

A breakdown of the production expense on a per boe basis between operated and non-operated fields are provided below:

		For the three months ended September 30,			For the nine months ended September 30,	
		2016	2015		2016	2015
Per unit (\$/boe) – based on sales volumes – operated ⁽¹⁾	\$	5.41	\$ 8.12	\$	5.40	\$ 8.29
Per unit (\$/boe) – based on sales volumes – non-operated ⁽¹⁾	\$	3.90	\$ 5.97	\$	4.13	\$ 6.70

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

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

Production expense for the third quarter was \$4.49/boe which was in line with the second quarter of 2016 of \$4.51/boe and lower than the \$7.03/boe in the comparable three month period in 2015. Operated property production expense in the third quarter was \$5.41/boe compared to \$5.28/boe for the second quarter of 2016 and \$8.12/boe in the comparable three month period in 2015. Non-operated properties production expense was \$3.90/boe for the third quarter of 2016 compared to \$3.92/boe for the second quarter of 2016 and \$5.97/boe for the comparable three month period in 2015. The decrease in operated production expense relates to structural changes in managing costs and direct cost reductions with vendors. The decrease in the non-operated properties production expense relates to Block LLA-34 as fixed operating cost absorption has increased as a result of increased production from this block.

Colombian Transportation Expense

		For the three months ended September 30,			For the nine months ended September 30,	
		2016	2015		2016	2015
Transportation expense (\$000s)	\$	32,843	\$ 36,752	\$	99,442	\$ 118,157
Per unit (\$/boe)	\$	11.58	\$ 13.31	\$	11.73	\$ 14.33

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

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. For the three months ended September 30, 2016, the cost of transportation on a per boe basis has decreased to

\$11.58/boe from the second quarter of \$11.76/boe and decreased from the comparative period of \$13.31/boe. This is a result of decreased pipeline tariff fees, decreased trucking costs.

On a year to date basis transportation expense has decreased to \$11.73/boe from \$14.33/boe in the comparative period. The main reason for this decrease relates to increased available pipeline capacity as total Colombian oil production has decreased over the past year. The weakening of the Colombian peso by approximately 16% in the period also had a strong impact on peso denominated truck transportation costs.

The Company expects transportation costs on a per boe basis for the remainder of 2016 to be in line with 2016 YTD results with variability depending on the marketing mix, delivery points and the Colombian peso/US\$ exchange rate.

General and Administrative Expense (“G&A”)

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Gross G&A	\$ 7,738	\$ 9,562	\$ 26,858	\$ 32,348
G&A recoveries	(173)	(124)	(498)	(272)
Capitalized G&A	(806)	(1,135)	(2,507)	(4,768)
Total G&A	\$ 6,759	\$ 8,303	\$ 23,853	\$ 27,308
G&A reclassified to discontinued operations	-	-	-	149
Net G&A expense – continuing operations	\$ 6,759	\$ 8,303	\$ 23,853	\$ 27,159
Per unit (\$/boe) ⁽¹⁾	\$ 2.47	\$ 3.30	\$ 2.97	\$ 3.70

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

Net G&A was \$6.8 million and \$23.9 million for the three and nine months ended September 30, 2016 compared to \$8.3 million and \$27.3 million for the same periods in 2015. Gross G&A was \$7.7 million and \$26.9 million for the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015 - \$9.6 million and \$32.3 million). Gross G&A has decreased due to one-time costs associated with system and process improvement projects included in the comparative nine month period.

On a per boe basis net G&A in the third quarter decreased 34% compared to the comparative period in 2015. Net G&A on a per boe basis is expected to continue to decrease as the Company increases its capital expenditures over the remaining three months of 2016 resulting in increased G&A capitalization.

The Company’s G&A expense is mainly denominated in local currencies of COP and Cdn dollar which both have weakened against the USD on a year to date comparative basis.

Share-Based Compensation Expense

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Share-based compensation expense	\$ 1,493	\$ 1,330	\$ 4,159	\$ 4,030
Share appreciation rights expense (recovery)	6,580	(1,368)	11,526	2,447
Restricted and deferred share unit expense	1,687	1,034	4,852	3,725
Share-based compensation expense	\$ 9,760	\$ 996	\$ 20,537	\$ 10,202
SARs (recovery) reclassified as discontinued operations	-	-	-	(22)
Total expense – continuing operations	\$ 9,760	\$ 996	\$ 20,537	\$ 10,224

Share-based compensation expense was \$20.5 million for the nine months ended September 30, 2016 compared to \$10.2 million for the same period in 2015.

Share-based compensation expense relating to stock options was \$1.5 million for the three months ended September 30, 2016 compared to \$1.3 million for the same period in 2015.

Share appreciation rights (“SARs”) expense was \$6.6 million expense for the three months ended September 30, 2016 compared to \$1.4 million recovery for the same period in 2015. The Company’s share price fluctuated from Cdn\$9.25 at September 30, 2015, Cdn\$10.16 at December 31, 2015 to Cdn \$16.65 at September 30, 2016. As at September 30, 2016, the total SARs liability accrued is \$14.6 million (December 31, 2015 - \$5.8 million).

Restricted and deferred share unit (“RSUs” and “DSUs”) expense was \$1.7 million for the three months ended September 30, 2016 compared to \$1.0 million for the same period in 2015. The increase is mainly related to a higher number of RSUs outstanding in 2016 versus 2015.

Depletion, Depreciation and Amortization Expense (“DD&A”)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
DD&A expense (\$000s)	\$ 31,917	\$ 39,718	\$ 92,644	\$ 117,149
Per unit (\$/boe) ⁽¹⁾	\$ 11.66	\$ 15.71	\$ 11.55	\$ 15.85

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

Third quarter 2016 DD&A was \$31.9 million (\$11.66/boe) compared to \$39.7 million (\$15.71/boe) for the same period in 2015. This decrease is due to the significant increase in proved and probable reserves, a decrease in future development costs associated with the proved and probable reserves and a change in the CGU production mix from the prior comparative period.

Foreign Exchange (Gain) Loss

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Foreign exchange (gain) loss (\$000s)	\$ 176	\$ 5,865	\$ (284)	\$ 10,370
Foreign Exchange Rates				
CAD\$/US\$	0.77	0.76	0.76	0.79
Colombian peso/US\$	2,946	2,936	3,063	2,637

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos, as the Company’s functional currency is the US dollar. The Company has exposure in Colombia and Canada on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The main drivers of foreign exchange (gains) losses are the revaluation of the Colombian peso denominated income tax, accounts payable and accounts receivable to USD at period end dates. During the three months ended September 30, 2016, the total foreign exchange loss was \$0.2 million (three months ended September 30, 2015 – loss of \$5.9 million). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of comprehensive income (loss). For the three months ended September 30, 2016, \$0.3 million foreign exchange loss is realized and \$0.1 million foreign exchange gain is unrealized (3 months ended September 30, 2015 - \$0.5 million foreign exchange gain is realized and \$6.3 million foreign exchange loss is unrealized).

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

Net Finance Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Bank charges, bank taxes and credit facility fees	\$ 953	\$ 628	\$ 2,275	\$ 2,583
Accretion on decommissioning and environmental liabilities	463	377	1,303	1,205
Unrealized loss (gain) on foreign currency risk management contracts	-	345	-	(1,580)
Realized loss on foreign currency risk management contracts	-	-	-	1,840
(Gain) loss on disposition of tangible assets	-	(60)	-	(60)
Interest and other income	(81)	(182)	(962)	(555)
Colombian net wealth tax	-	-	2,228	3,855
Net finance expense	\$ 1,335	\$ 1,108	\$ 4,844	\$ 7,288

		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Non-cash finance (income) expense	\$	463	\$ 662	\$ 1,303	\$ (435)
Cash finance expense		872	446	4,441	7,723
Net finance expense	\$	1,335	\$ 1,108	\$ 4,844	\$ 7,288

Bank charges, bank taxes and credit facility fees relate to bank taxes paid in Colombia and the undrawn credit facility. The Colombian Net Wealth Tax (“NWT”) is assessed and becomes payable on the opening equity as at January 1st of each year beginning in 2015 extending until 2017, at rates from 1.15% in 2015 to 0.4% in 2017. The Company’s NWT for 2016 is \$2.2 million. The 2016 NWT was accrued for in the first quarter of 2016 and has been paid in two equal semi-annual installments in June and September.

Risk Management

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

The Company has elected not to use hedge accounting and, accordingly, 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.

a) Risk Management Contracts- Brent Crude

The following is a summary of the ICE Brent priced crude oil risk management contracts in place for the nine months ended September 30, 2016:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2016 to June 30, 2016	ICE Brent	5,000	\$47.75	\$52.50	\$70.00	\$1.00
February 1, 2016 to June 30, 2016	ICE Brent	15,000	\$25.00	\$35.00	\$45.00	\$2.08
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$30.50	\$38.00	\$47.00	\$1.00
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$34.25	\$40.25	\$49.50	\$1.00
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$35.00	\$60.00	-
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$40.00	-	\$1.65
September 1, 2016 to December 31, 2016	ICE Brent	5,000	\$36.50	\$41.50	-	\$1.00

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

		For the three months ended Sept 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Realized (gain) loss on commodity risk management contracts	\$	893	\$ (1,099)	\$ 5,579	\$ (1,099)
Unrealized (gain) loss on commodity risk management contracts		(3,743)	(2,434)	3,702	(2,147)
Total	\$	(2,850)	\$ (3,533)	\$ 9,281	\$ (3,246)

Subsequent to September 30, 2016, Parex entered into the following ICE Brent priced crude oil risk management contracts:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
December 1, 2016 to December 31, 2016	ICE Brent	5,000	\$44.00	\$48.00	\$60.50	-
January 1, 2017 to February 28, 2017	ICE Brent	5,000	\$44.00	\$48.00	\$63.35	-

The Company's net unrealized derivative loss on risk management contracts for the nine months ended September 30, 2016 of \$3.7 million (nine month period ended September 30, 2015 – gain of \$2.1 million) is primarily attributable to the Brent forward benchmark price being in excess of the Company's derivative contracts.

b) Risk Management Contracts – Foreign Exchange

The following is a summary of the foreign currency risk management contracts settled during the nine months ended September 30, 2016:

Period Hedged	Reference	Type	Amount USD	Price (COP)
September 2, 2015 to April 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228
September 2, 2015 to June 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228

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

		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Realized loss on foreign currency risk management contracts	\$	-	\$ -	\$ -	\$ 1,840
Unrealized loss (gain) on foreign currency risk management contracts		-	345	-	(1,580)
Total	\$	-	\$ 345	\$ -	\$ 260

The realized loss represents the foreign currency risk management contracts settled during the period. The unrealized loss (gain) represents the fair value change of the underlying foreign currency risk management contracts as at the balance sheet date to be settled in the future, and also reclassification adjustments when contracts are realized and settled.

Income Tax

The components of tax expense for the three and nine months ended September 30, 2016 and 2015 were as follows:

		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Current tax expense	\$	1,951	\$ 30,833	\$ 1,657	\$ 46,744
Deferred tax expense (recovery)		1,002	(39,574)	(20,132)	(32,258)
Tax expense (recovery)	\$	2,953	\$ (8,741)	\$ (18,475)	\$ 14,486

The current and future tax expense (recovery) relates to the Company's operations in Colombia. Current tax in the three and nine months ended September 30, 2016 was \$2.0 million and \$1.7 million respectively (three months and nine months ended 2015 – \$30.8 million and \$46.7 million respectively). The decrease in the current tax expense from the prior periods is a result of the company's tax restructuring that occurred in the comparative period.

Deferred tax in the third quarter of 2016 was an expense of \$1.0 million compared to a deferred tax recovery of \$39.6 million in the comparative 2015 period. The deferred tax recovery in the comparative period relates to the completed voluntary tax restructuring.

The deferred tax recovery recorded in the nine-months ended September 30, 2016 of \$20.1 million mainly relates to non-capital losses being generated in the period.

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 yearend 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. At current benchmark crude oil prices and the Company's current capital expenditure budget, the Company expects total 2016 current tax expense to be approximately \$3-\$4 million.

Capital Expenditures

For the three months ended September 30, (\$000s)	Colombia		Canada		Total	
	2016	2015	2016	2015	2016	2015
Acquisition of unproved properties	52	3,292	-	-	52	3,292
Geological and geophysical	553	942	-	-	553	942
Drilling and completion	22,897	28,936	-	-	22,897	28,936
Well equipment and facilities	2,625	4,046	-	-	2,625	4,046
Other	153	471	33	(13)	186	458
Total capital expenditures	\$ 26,280	\$ 37,687	\$ 33	\$ (13)	\$ 26,313	\$ 37,674

For the nine months ended September 30, (\$000s)	Colombia		Canada		Total	
	2016	2015	2016	2015	2016	2015
Acquisition of unproved properties	369	10,074	-	-	369	10,074
Geological and geophysical	823	1,651	-	-	823	1,651
Drilling and completion	35,527	74,959	-	-	35,527	74,959
Well equipment and facilities	6,198	13,725	-	-	6,198	13,725
Other	1,699	1,333	126	129	1,825	1,462
Total capital expenditures	\$ 44,616	\$ 101,742	\$ 126	\$ 129	\$ 44,742	\$ 101,871

Capital Expenditures Summary

During the nine months September 30, 2016 the Company incurred \$44.7 million of capital expenditures compared to \$101.9 million in the same period of 2015. During Q3, 2016 the Company drilled 4 gross (2.65 net) wells, compared to 7 gross (4.9 net) wells in the comparative period. Parex reduced its capital expenditures with the expectation of lower benchmark oil prices. Capital expenditures are budgeted for 2016 to be \$110-120 million, accordingly capital activity in the fourth quarter of the year is forecast to be greater than the prior nine months.

During Q3, 2016, total drilling and completion costs were \$22.9 million of which the majority related to drilling, completion and capitalized workover costs in Colombia. In the third quarter of 2016 the Company's Colombian operations primarily utilized one drilling rig and one service rig.

During the nine months ended September 30, 2016 capital expenditures of \$44.7 million were self funded from funds flow from operations of \$92.3 million. The Company strives to fund its annual capital expenditures from funds flow and has demonstrated this goal since 2012 however on a quarterly basis funds flow may be greater or less than capital expenditures due to timing of capital programs and other variables.

Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	Sept 30, 2016		June 30, 2016		March 31, 2016		Dec. 31, 2015	
Average daily oil and natural gas production (boe/d)	29,754		29,136		28,900		28,588	
Average realized sales price – oil and natural gas (\$/boe)	40.19		39.74		27.10		36.69	
Financial (000s except per share amounts)								
Oil sales	\$	127,541	\$	104,571	\$	81,518	\$	107,816
Funds flow from continuing operations	\$	45,091	\$	31,792	\$	15,457	\$	33,628
Per share – basic		0.30		0.21		0.10		0.22
Per share – adjusted diluted ⁽¹⁾		0.29		0.20		0.10		0.22
Net income (loss)	\$	6,811	\$	(185)	\$	(7,630)	\$	(3,474)
Per share – basic		0.04		(0.00)		(0.05)		(0.02)
Per share – diluted		0.04		(0.00)		(0.05)		(0.02)
Capital Expenditures, excluding corporate acquisitions	\$	26,313	\$	13,922	\$	4,507	\$	23,611
Total assets (end of period)	\$	947,354	\$	921,665	\$	943,675	\$	957,966
Working capital surplus (end of period) ⁽²⁾	\$	117,747	\$	97,532	\$	79,955	\$	76,708

⁽¹⁾ Non-GAAP term. See "Non-GAAP Terms" below.

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

Three months ended (\$000s)	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014
Average daily oil and natural gas production (boe/d)	27,377	27,025	26,729	26,544
Realized sales price (\$/bbl)	44.62	56.31	49.42	60.08
Financial (000s except per share amounts)				
Oil Sales	\$ 123,249	\$ 155,717	\$ 134,307	\$ 160,584
Funds flow from continuing operations	\$ 13,448	\$ 50,237	\$ 32,958	\$ 49,759
Per share – basic	0.09	0.35	0.24	0.37
Per share – diluted ⁽¹⁾	0.09	0.34	0.24	0.37
Net (loss) income	\$ (27,417)	\$ 1,814	\$ (15,544)	\$ (146,612)
Per share – basic	(0.18)	0.01	(0.12)	(1.09)
Per share – diluted	(0.18)	0.01	(0.12)	(1.09)
Capital Expenditures, excluding corporate acquisitions	\$ 37,674	\$ 37,234	\$ 26,963	\$ 83,571
Total assets (end of period)	\$ 1,003,271	\$ 1,051,150	\$ 1,010,116	\$ 1,034,415
Working capital surplus (end of period) ⁽²⁾	\$ 62,689	\$ 89,754	\$ 9,878	\$ 3,261
Bank debt (end of period)	\$ -	\$ -	\$ 39,500	\$ 35,000

⁽¹⁾ Non-GAAP term. See “Non-GAAP Terms”.

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

Factors that Caused Variations Quarter Over Quarter

In Q3 2016, production of 29,754 boe/d was slightly in excess of production for the previous quarter ended June 30, 2016. Revenue and funds flow from operations were higher than the previous quarter mainly due to the higher produced sales volumes and overlifted Ocesa pipeline volumes. Working capital has increased to \$117.7 million from \$97.5 million at June 30, 2016. Capital expenditures for the third quarter of 2016 were \$26.3 million compared to \$13.9 million for the second quarter of 2016 and mainly related to appraisal drilling on Block LLA-34 and exploration drilling on Block LLA-32, Cerrero and Cabrestero.

During the second quarter of 2016, production of 29,136 boe/d was slightly in excess of production for the previous quarter. Revenue and funds flow from operations were higher than the previous quarter mainly due to an increase in realized sales prices per boe. Working capital increased to \$97.5 million from \$80.0 million at March 31, 2016. Capital expenditures for the second quarter of 2016 were \$13.9 million compared to \$4.5 million for the first quarter of 2016 and mainly related to appraisal drilling on Block LLA-34 and exploration drilling on Block LLA-32 and Cabrestero.

In the first quarter of 2016 revenue and funds flow from operations were lower than the previous quarter mainly due to reduction in realized sales prices per boe. Working capital increased to \$80.0 million from \$76.7 million at December 31, 2015. Capital expenditures for the first quarter of 2016 were \$4.5 million compared to \$23.6 million for the fourth quarter of 2015 and mainly related to workovers and facilities costs in Colombia at Block LLA-32 and prework costs associated with appraisal wells to be drilled.

Liquidity and Capital Resources

As at September 30, 2016 the Company had a working capital surplus of \$117.7 million, excluding amounts available under the credit facility, as compared to working capital surplus at June 30, 2016 of \$97.5 million and a working capital surplus of \$62.7 million in the comparative period. Bank debt was \$nil compared to \$nil at June 30, 2016 and \$nil in the comparative period. The credit facility has a current borrowing base of \$175.0 million. At September 30, 2016 Parex held \$132.0 million of cash, compared to \$94.4 million at June 30, 2016 and \$109.4 million in the comparative period. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados in USD. The increase in the Company's cash as compared to the previous quarter is a result of the Company generating cash flow in excess of capital expenditures in the three months ended September 30, 2016.

Parex' senior secured credit facility (“credit facility”) with a syndicate of banks has a current borrowing base of \$175.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is \$nil balance drawn on the facility as at September 30, 2016, the Company is in compliance with all covenants. The Company had the credit facilities borrowing base redetermined at \$175.0 million in October 2016 during the semi-annual review. See “Contractual Obligations, Commitments and Guarantees”. As the Company currently has

zero bank debt and no plans in 2016 to utilize the credit facility, the next re-determination in May 2017 is not expected to impact the Company's current or future operations or reduce the 2017 outlook.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at September 30, 2016 the Company had 152,666,350 common shares outstanding.

The Company has a stock option, RSU and DSU plan. The plans provide for the issuance of options, RSUs and DSUs to the Company's directors, officers and certain employees to acquire common shares. The maximum number of options, RSUs and DSUs reserved for issuance under the three plans may not exceed 10 percent of the number of common shares issued and outstanding. RSU's reserved for issuance may not exceed 4 percent of the common shares issued and outstanding.

As at November 10, 2016 Parex has the following securities outstanding:

	Number	%
Common shares	152,690,557	95%
Stock options	6,708,690	4%
Restricted share units	2,056,129	1%
Deferred share units	78,600	0%
	161,533,976	100%

As of the date of this MD&A, total stock options, RSUs and DSUs outstanding represent approximately 6 percent 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. Given the low oil price environment the Colombian energy regulator ("ANH") has instituted means by which Companies can apply for extensions of phase commitments for a nine month extended period. The Company has been very proactive in applying for extensions on many blocks which will assist with the Company matching cash flows from operations with capital expenditures. The Company's exploration commitments are described in the 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 and Empresa Colombiana de Petroleos S.A. ("Ecopetrol") which on September 30, 2016 were \$147.5 million (June 30, 2016 - \$143.2 million). Export Development Canada ("EDC") has provided performance security guarantees under the Company's \$200.0 million (June 30, 2016 - \$200.0 million) performance guarantee facility to support approximately \$126.2 million (June 30, 2016 - \$119.1 million) of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH and Ecopetrol are reduced from time to time to reflect the work performed on the various blocks. At September 30, 2016, there are an additional \$21.3 million (June 30, 2016 - \$24.1 million) letters of credit that are provided by a Latin American bank on an unsecured basis.

The following table summarizes the Company's estimated commitments as at September 30, 2016:

(\$000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 252,495	72,263	180,232	-	-
Office and accommodations ⁽¹⁾	4,693	1,872	2,297	349	175
Decommissioning and environmental expenditures	52,892	2,670	5,669	6,138	38,415
Total	\$ 310,080	76,805	188,198	6,487	38,590

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

Decommissioning Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2014	\$	23,812	\$	10,277	\$ 34,089
Additions		2,724		725	3,449
Settlements of obligations during the year		(193)		(246)	(439)
Accretion expense		1,162		426	1,588
Additions related to change in estimate		(694)		(140)	(834)
Foreign exchange (gain)		-		(2,454)	(2,454)
Balance, December 31, 2015	\$	26,811	\$	8,588	\$ 35,399
Additions		333		705	1,038
Settlements of obligations during the period		-		(84)	(84)
Accretion expense		1,051		252	1,303
Additions related to change in estimate		-		1,677	1,677
Foreign exchange loss		-		561	561
Balance, September 30, 2016	\$	28,195	\$	11,699	\$ 39,894
Current obligation		-		(2,398)	(2,398)
Long-term obligation	\$	28,195	\$	9,301	\$ 37,496

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at September 30, 2016, 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 \$38.4 million as at September 30, 2016 (December 31, 2015 – \$36.7 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5.25 percent and an inflation rate of 2.5 percent were used in the valuation of the liabilities (December 31, 2015 – 5.25 percent weighted average risk-free discount rate and a 2.5 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$14.5 million as at September 30, 2016 (December 31, 2015 – \$15.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 8 percent and an inflation rate of 4 percent were used in the valuation of the liabilities (December 31, 2015 – 8 percent risk-free discount rate and a 4 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.4 million (December 31, 2015 – \$2.1 million) that is classified as a current obligation.

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

Advisory on Forward-Looking Statements

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

- the Company's operational strategy and focus, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- the Company's exploration blocks subject to farm-in and earning requirements and the effect on the Company's land holdings as lands deemed non-commercial are released;
- the Company's anticipated 2017 capital budget, including the amount thereof;
- the Company's expected 2016 full year average production rate, forecasted 2017 average production based on certain oil prices, and anticipated production growth in 2018;
- the Company's 2017 capital expenditure budget, including the expected allocations of such expenditures to each of maintenance and development capital, appraisal growth capital and exploration growth capital;
- the Company's anticipated drilling, development, exploration and other growth plans within its capital expenditure budget, including the Company's plans to fulfill certain farm-in and other earning commitments;
- activities to be undertaken in various areas including the fulfillment of exploration commitments and farm-in obligations;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- the Company's expected range of capital expenditures for 2016, anticipated drilling plans and forecasted fourth quarter and full year 2016 production;
- the Company's forecasted 2017 average production, capital activity, range of capital budget, and drilling plans (including anticipated number of wells);
- the Company's expectation that its 2017 capital expenditure program will be fully funded from funds flow from operations and potentially supplemented from existing working capital and the Company's bank facility;
- drilling plans including the targeted number of wells to be drilled, including the anticipated locations of such wells, and timing of drilling, completion and tie-in of wells;
- the Company's expectation that the overlifted Ocesa pipeline volumes will be eliminated by the end of the first quarter in 2017;
- expected transportation costs on a per boe basis for the remainder of 2016 and effect of the marketing mix, delivery points and the Colombian peso/US\$ exchange rate on the variability of such transportation costs;
- the expected effect of increased capital expenditures on 2016 G&A;
- terms and cost of share-based compensation plans, including option plan, restricted share unit plan, deferred share unit plan and share appreciation rights;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the use of derivatives primarily with financial institutions to manage movements in the price of crude oil, fluctuations in the US/COP exchange rate and interest rate movements;
- terms of the Company's risk management contracts, including the mark-to-market position on commodity risk management contracts, and the Company's ability to manage and forecast cash flow;
- the Company's estimated total amount of current tax expense for 2016;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;

- the Company's expectation that the next redetermination of its credit facility will not impact its current or future operations or reduce the 2017 outlook;
- terms of the Company's exploration and other contractual commitments and their timing of settlement;
- estimated amounts, timing and the anticipated sources of funding for the Company's environmental, decommissioning and restoration obligations; and
- effect of business and environmental risks on the Company.

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

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current and future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to areas of the Company's operations and infrastructure; that Parex' evaluation of its existing portfolio of development and exploration opportunities is consistent with its expectations; future exchange rates; the price of oil; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of reserves and future production rates; royalty rates; future operating costs; foreign exchange rates; the status of litigation; timing of drilling and completion of wells; pipeline availability, 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; 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 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 and, in particular the information in respect of the Company's expected funds flow from operations for 2016 and capital expenditures for 2017, may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed above. The actual results of operations of the Company and the resulting financial results may vary from the amounts set forth herein, and such variations may be material. The Company and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments. FOFI contained in this MD&A was made as of the date of this MD&A and the Company disclaims any intention or obligations to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law.

Non-GAAP Terms

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

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

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Funds flow provided by continuing operations	\$ 45,091	\$ 13,448	\$ 92,340	\$ 96,643
Weighted average number of shares for the purposes of basic funds flow (000s)	152,700	150,164	151,985	143,072
Dilutive effect of share options on potential common shares	3,308	2,949	3,154	2,502
Weighted average number of shares for the purposes of diluted funds flow	156,008	153,113	155,139	145,574

Operating netback per boe is determined by sales revenue excluding risk management contracts divided by total equivalent sales volume including purchased oil volumes and Ocesa overlift volumes. Royalties and production expense are divided by total equivalent sales volume excluding purchased oil volumes and Ocesa overlift volumes. Transportation expense is divided by total equivalent sales volumes including purchased oil volumes and excluding Ocesa overlift volumes. The Company considers operating netbacks to be a key measure as they demonstrate Parex' profitability relative to current commodity prices.

Adjusted EBITDA is defined as net income (loss) before interest, taxes, depletion and depreciation and adjusted for other non-cash items, transaction costs and extraordinary and non-recurring items.

Free cash flow (deficiency) is determined by funds flow from continuing operations less capital expenditures as follows:

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Funds flow from continuing operations	\$ 45,091	\$ 13,448	\$ 92,340	\$ 96,643
Capital expenditures, excluding corporate acquisitions	26,313	37,674	44,742	101,871
Free cash flow (deficiency)	\$ 18,778	\$ (24,226)	\$ 47,598	\$ (5,228)

Business Environment and Risks

There have been no significant changes during the nine months ended September 30, 2016 to the risks and uncertainties identified in the Company's Annual Information Form dated March 17, 2016.

Internal Controls over Financial Reporting

There was no change in the Company's internal controls over financial reporting that occurred during the most recently completed period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the nine months ended September 30, 2016.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized in 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.

Accounting Policies and Estimates

In preparing this Management Discussion and Analysis, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	September 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		\$ 132,055	\$ 94,823
Accounts receivable	5	76,415	79,855
Prepays and other current assets		2,185	8,396
Crude oil inventory	6	-	3,207
Derivative financial instruments	17	-	2,566
		210,655	188,847
Deferred tax asset	13	11,268	-
Goodwill		73,452	73,452
Exploration and evaluation	7	135,736	121,354
Property, plant and equipment	8	516,243	574,313
		\$ 947,354	\$ 957,966
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 83,368	\$ 67,080
Derivative financial instruments	17	1,621	-
Current income and equity tax payable	13	5,521	42,957
Current portion of decommissioning and environmental liabilities	11	2,398	2,102
		92,908	112,139
Other long-term liabilities	10	2,867	1,969
Decommissioning and environmental liabilities	11	37,496	33,297
Deferred tax liability	13	59,771	68,635
		193,042	216,040
Shareholders' equity			
Share capital	12	820,041	812,737
Contributed surplus		39,474	33,388
Retained earnings		(105,203)	(104,199)
		754,312	741,926
		\$ 947,354	\$ 957,966

Commitments (note 19)

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Oil and natural gas sales		\$ 127,541	\$ 123,249	\$ 313,630	\$ 413,273
Royalties		(8,927)	(8,883)	(23,967)	(31,336)
Revenue		118,614	114,366	289,663	381,937
Commodity risk management contracts	17	2,850	3,533	(9,281)	3,246
		121,464	117,899	280,382	385,183
Expenses					
Production		12,341	17,440	37,886	55,323
Transportation		32,843	36,752	99,442	118,157
Purchased oil		16,569	8,420	20,939	29,963
General and administrative		6,759	8,303	23,853	27,159
Impairment of property, plant and equipment	8	-	31,144	-	31,144
Impairment of exploration and evaluation assets	7	-	4,497	-	4,497
Share-based compensation	12	9,760	996	20,537	10,224
Depletion, depreciation and amortization	8	31,917	39,718	92,644	117,149
(Gain) on settlement of decommissioning liabilities	11	-	(186)	-	(211)
Foreign exchange (gain) loss		176	5,865	(284)	10,370
		110,365	152,949	295,017	403,775
Finance (income)	9	(81)	(182)	(962)	(555)
Finance expense	9	1,416	1,290	5,806	7,843
Net finance expense		1,335	1,108	4,844	7,288
Income (loss) from continuing operations before income taxes		9,764	(36,158)	(19,479)	(25,880)
Income tax expense					
Current tax expense	13	1,951	30,833	1,657	46,744
Deferred tax (recovery) expense	13	1,002	(39,574)	(20,132)	(32,258)
		2,953	(8,741)	(18,475)	14,486
Net income (loss) and comprehensive income (loss) from continuing operations after income taxes		\$ 6,811	\$ (27,417)	\$ (1,004)	\$ (40,366)
(Loss) from discontinued operations after income taxes		-	-	-	(781)
Net income (loss) and comprehensive income (loss) for the period		\$ 6,811	\$ (27,417)	\$ (1,004)	\$ (41,147)
Basic net income (loss) per common share – continuing operations	14	\$ 0.04	\$ (0.18)	\$ (0.01)	\$ (0.28)
Diluted net income (loss) per common share – continuing operations	14	\$ 0.04	\$ (0.18)	\$ (0.01)	\$ (0.28)
Basic and diluted net (loss) per common share – discontinued operations	14	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Shareholders' Equity (unaudited)

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

		2016		2015
Share capital				
Balance, beginning of period	\$	812,737	\$	694,110
Issuance of common shares under option plans		7,304		3,320
Issued through bought deal financing		-		113,620
Share issue costs		-		(4,997)
Balance, end of period	\$	820,041	\$	806,053
Contributed surplus				
Balance, beginning of period	\$	33,388	\$	26,106
Share-based compensation		9,011		7,755
Options exercised		(2,925)		(1,191)
Balance, end of period	\$	39,474	\$	32,670
Retained (deficit)				
Balance, beginning of period	\$	(104,199)	\$	(59,578)
Net (loss) for the period		(1,004)		(41,147)
Balance, end of period	\$	(105,203)	\$	(100,725)
	\$	754,312	\$	737,998

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

		For the three months ended September 30,		For the nine months ended September 30,	
(thousands of United States dollars)	NOTE	2016	2015	2016	2015
Operating activities					
Net income (loss) from continuing operations		\$ 6,811	\$ (27,417)	\$ (1,004)	\$ (40,366)
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	31,917	39,718	92,644	117,149
Non-cash finance (income) expense	9	463	662	1,303	(435)
Share-based compensation	12	9,760	996	20,537	10,224
Deferred tax (recovery) expense	13	1,002	(39,574)	(20,132)	(32,258)
Impairment of property, plant and equipment	8	-	31,144	-	31,144
Impairment of exploration and evaluation assets	7	-	4,497	-	4,497
Unrealized foreign exchange (gain) loss		(85)	6,333	(1,880)	10,323
Unrealized (gain) loss on commodity risk management contracts	17	(3,743)	(2,434)	3,702	(2,147)
Gain on settlement of decommissioning liabilities		-	(186)	-	(211)
Abandonment costs paid	11	(10)	(94)	(84)	(270)
Stock appreciation rights paid	12	(1,024)	(197)	(2,746)	(1,007)
Funds flow from continuing operations		45,091	13,448	92,340	96,643
Net change in non-cash working capital – continuing operations	15	10,162	80,893	(21,538)	55,898
Cash provided by operating activities – continuing operations		\$ 55,253	\$ 94,341	\$ 70,802	\$ 152,541
Cash used in operating activities – discontinued operations		-	-	-	(238)
Cash provided by operating activities		\$ 55,253	\$ 94,341	\$ 70,802	\$ 152,303
Investing activities					
Property, plant and equipment expenditures	8	(14,329)	(16,752)	(30,360)	(50,849)
Exploration and evaluation expenditures	7	(11,984)	(20,922)	(14,382)	(51,022)
Net change in non-cash working capital	15	7,016	(48,872)	5,988	(53,166)
Cash used in investing activities – continuing operations		\$ (19,297)	\$ (86,546)	\$ (38,754)	\$ (155,037)
Cash provided by investing activities – discontinued operations		-	-	-	1,672
Cash (used in) investing activities		\$ (19,297)	\$ (86,546)	\$ (38,754)	\$ (153,365)
Financing activities					
Issuance of common shares under option plans	12	1,622	413	4,378	2,129
Issuance of common shares through bought deal financing	12	-	-	-	113,620
Share issue costs		-	-	-	(4,997)
Long term debt (repaid)		-	-	-	(35,000)
Cash provided by financing activities		\$ 1,622	\$ 413	\$ 4,378	\$ 75,752
Increase in cash for the period		37,578	8,208	36,426	74,690
Impact of foreign exchange on foreign currency-denominated cash balances		38	(2,731)	806	(4,319)
Cash, beginning of period		94,439	103,894	94,823	39,000
Cash, end of period		\$ 132,055	\$ 109,371	\$ 132,055	\$ 109,371

Supplemental Disclosure of Cash Flow Information (note 15)

See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended September 30, 2016

(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 South America.

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

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2016.

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

a) Statement of compliance

The condensed interim consolidated financial information for the three and nine months ended September 30, 2016 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 10, 2016, the date of approval by the Board of Directors.

b) Basis of measurement

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

c) Use of management estimates, judgments and measurement uncertainty

The timely preparation of the condensed interim 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 condensed interim 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 condensed interim consolidated financial statements. Accordingly, actual results could differ from estimated amounts as future confirming events occur.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

3. Summary of Significant Accounting Policies

There is no impact on the condensed interim consolidated financial statements for the adoption of new accounting standards effective January 1, 2016. The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company’s consolidated financial statements for the year ended December 31, 2015.

4. Determination of Fair Values

The methods used in the determination of fair value, for financial and non-financial assets and liabilities have not changed from the previous financial year. Refer to note 4 of the December 31, 2015 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	September 30, 2016	December 31, 2015
Trade receivables	\$ 27,792	\$ 26,395
Colombia income taxes receivable	41,636	46,992
Receivables from partners	45	2,465
Value added taxes (VAT)	6,942	4,003
	\$ 76,415	\$ 79,855

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. Colombian income tax receivable is a result of withholding tax incurred on Colombia oil sales. The balance can either be received in cash or applied to Colombian cash income tax payable. Receivables from partners consist of cash calls outstanding from joint venture partners in Colombia to recover ongoing capital costs and operating costs, or overhead recoveries outstanding from joint venture partners. All accounts receivable are expected to be received within the next 12 months and are thus recognized as current assets.

6. Inventory

	September 30, 2016	December 31, 2015
Crude oil inventory	\$ -	\$ 3,207

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

7. Exploration and Evaluation Assets

	Colombia Total
Cost	
Balance at December 31, 2014	\$ 132,048
Additions	60,335
Transfers to PP&E	(44,121)
Changes in decommissioning liability	117
Exploration and evaluation impairment	(27,025)
Balance at December 31, 2015	\$ 121,354
Additions	14,382
Balance at September 30, 2016	\$ 135,736

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions represent the Company's share of costs incurred on E&E assets during the period. For the nine months ended September 30, 2016 no transfers from E&E to PP&E were made.

During the year ended December 31, 2015 amounts transferred to PP&E of \$44.1 million were primarily associated with the Block LLA-26 assets. Also in 2015, the Company recorded \$27.0 million of impairment charges on its E&E assets mainly related to Block LLA-57.

8. Property, Plant and Equipment

		Canada		Colombia		Trinidad & Tobago		Total
Cost								
Balance at December 31, 2014	\$	3,393	\$	1,426,111	\$	238	\$	1,429,742
Additions		214		64,933		-		65,147
Transfer from E&E assets		-		44,121		-		44,121
Dispositions		-		-		(238)		(238)
Changes in decommissioning and environmental liability		-		2,498		-		2,498
Balance at December 31, 2015	\$	3,607	\$	1,537,663	\$	-	\$	1,541,270
Additions		126		30,234		-		30,360
Changes in decommissioning and environmental liability		-		2,715		-		2,715
Balance at September 30, 2016	\$	3,733	\$	1,570,612	\$	-	\$	1,574,345
Accumulated Depreciation, Depletion and Amortization								
Balance at December 31, 2014	\$	2,815	\$	784,487	\$	238	\$	787,540
Depletion and depreciation for the year		247		152,152		-		152,399
DD&A included in crude oil inventory costing		-		(3,888)		-		(3,888)
Dispositions		-		-		(238)		(238)
Impairment		-		31,144		-		31,144
Balance at December 31, 2015	\$	3,062	\$	963,895	\$	-	\$	966,957
Depletion and depreciation for the period		231		92,413		-		92,644
DD&A included in crude oil inventory costing		-		(1,499)		-		(1,499)
Balance at September 30, 2016	\$	3,293	\$	1,054,809	\$	-	\$	1,058,102
Net book value:								
At December 31, 2014	\$	578	\$	641,624	\$	-	\$	642,202
At December 31, 2015	\$	545	\$	573,768	\$	-	\$	574,313
At September 30, 2016	\$	440	\$	515,803	\$	-	\$	516,243

In the nine months ended September 30, 2016 property, plant and equipment (“PPE”) additions mainly relate to appraisal drilling on Block LLA-34 and exploration drilling on Block LLA-32, Cerrero and Cabrestero. There were no transfers from E&E for the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$44.1 million transferred from E&E assets).

For the nine months ended September 30, 2016 future development costs of \$252.1 million (nine months ended September 30, 2015 - \$360.8 million) were included in the depletion calculation for development and production assets. For the nine months ended September 30, 2016 \$2.5 million of general and administrative costs (nine months ended September 30, 2015 - \$4.8 million) have been capitalized in respect of development and production activities during the current period.

During 2015, additions of \$65.2 million mainly related to development expenditures in Colombia at Block LLA-32, Block LLA-34 and Rumba. In the year ended December 31, 2015 \$44.1 million was transferred from E&E assets. Also in 2015, the Company recorded \$31.1 million of impairment charges related to the Northern Llanos Basin CGU.

9. Net Finance Expense

		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Bank charges, bank taxes and credit facility fees	\$	953	\$ 628	\$ 2,275	\$ 2,583
Accretion on decommissioning and environmental liabilities		463	377	1,303	1,205
Unrealized loss (gain) on foreign currency risk management contracts		-	345	-	(1,580)
Realized loss on foreign currency risk management contracts		-	-	-	1,840
(Gain) on disposition of tangible assets		-	(60)	-	(60)
Interest and other income		(81)	(182)	(962)	(555)
Colombian net wealth tax		-	-	2,228	3,855
Net finance expense	\$	1,335	\$ 1,108	\$ 4,844	\$ 7,288

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Non-cash finance (income) expense	\$ 463	\$ 662	\$ 1,303	\$ (435)
Cash finance expense	872	446	3,541	7,723
Net finance expense	\$ 1,335	\$ 1,108	\$ 4,844	\$ 7,288

10. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	September 30, 2016	December 31, 2015
Long-term SARs payable	\$ 2,867	\$ 1,969

11. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2014	\$ 23,812	\$	10,277	\$	34,089
Additions	2,724		725		3,449
Settlements of obligations during the year	(193)		(246)		(439)
Accretion expense	1,162		426		1,588
Additions related to change in estimate	(694)		(140)		(834)
Foreign exchange (gain)	-		(2,454)		(2,454)
Balance, December 31, 2015	\$ 26,811	\$	8,588	\$	35,399
Additions	333		705		1,038
Settlements of obligations during the period	-		(84)		(84)
Accretion expense	1,051		252		1,303
Additions related to change in estimate	-		1,677		1,677
Foreign exchange loss	-		561		561
Balance, September 30, 2016	\$ 28,195	\$	11,699	\$	39,894
Current obligation	-		(2,398)		(2,398)
Long-term obligation	\$ 28,195	\$	9,301	\$	37,496

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at September 30, 2016, 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 \$38.4 million as at September 30, 2016 (December 31, 2015 – \$36.7 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5.25 percent and an inflation rate of 2.5 percent were used in the valuation of the liabilities (December 31, 2015 – 5.25 percent weighted average risk-free discount rate and a 2.5 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$14.5 million as at September 30, 2016 (December 31, 2015 – \$15.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 8 percent and an inflation rate of 4 percent were used in the valuation of the liabilities (December 31, 2015 – 8 percent risk-free discount rate and a 4 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.4 million (December 31, 2015 – \$2.1 million) that is classified as a current obligation.

12. Share Capital

a) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2014	134,689,938	\$	694,110
Issued for cash – exercise of options and RSUs	1,849,364		6,263
Issued through bought deal financing	14,950,000		113,620
Share issue costs	-		(4,997)
Allocation of contributed surplus – exercise of options and RSUs	-		3,741
Balance, December 31, 2015	151,489,302	\$	812,737
Issued for cash – exercise of options and RSUs	1,177,048		4,378
Allocation of contributed surplus – exercise of options and RSUs			2,926
Balance, September 30, 2016	152,666,350	\$	820,041

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

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's directors, officers, and certain employees to acquire common shares. The maximum number of options, restricted share units and deferred share units reserved for issuance under the option, restricted share unit and deferred share unit plans may not exceed 10 percent of the number of common shares issued and outstanding. The options vest over a three-year period and expire 5 years from the date of grant.

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2015	7,854,511	8.11
Granted	25,000	11.54
Exercised	(958,866)	5.92
Forfeited	(193,334)	8.22
Balance, September 30, 2016	6,727,311	8.43

Stock options outstanding and the weighted average remaining life of the stock options at September 30, 2016 are as follows:

Options outstanding				Options vested		
Exercise price Cdn\$	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$4.36 - \$6.06	390,785	1.17	4.63	382,451	1.15	4.61
\$6.07 - \$6.22	2,630,079	2.04	6.07	1,464,821	2.04	6.07
\$6.23 - \$10.59	1,692,238	3.09	9.94	535,141	3.08	9.90
\$10.60 - \$11.24	1,916,500	4.11	10.94	-	-	-
\$11.25 - \$13.93	97,709	3.28	11.83	26,250	2.70	12.26
	6,727,311	2.86	8.43	2,408,663	2.14	6.76

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

For the nine months ended September 30,	2016	2015
Risk-free interest rate (%)	0.64	0.89
Expected life (years)	4	4
Expected volatility (%)	47	47
Expected dividends	-	-
Forfeiture rate (%)	3	3

The weighted average fair value at the grant date of options issued during the nine months ended September 30, 2016 was Cdn\$4.30 per option (nine months ended September 30, 2015 – Cdn\$2.44 per option). The weighted average share price on the exercise date for options exercised in the nine months ended September 30, 2016 was Cdn\$13.26 (nine months ended September 30, 2015 – Cdn\$9.26).

c) Share appreciation rights (“SARs”)

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

	Number of SARs	Weighted average exercise price Cdn\$/SAR
Balance, December 31, 2015	3,475,001	9.01
Granted	361,243	14.39
Exercised	(547,571)	7.04
Forfeited	(248,867)	10.27
Balance, September 30, 2016	3,039,806	9.86

As at September 30, 2016, 546,911 SARs were vested (December 31, 2015 – 893,702).

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

For the nine months ended September 30,	2015	2015
Risk-free interest rate (%)	0.54	0.60
Expected life (years)	4	3
Expected volatility (%)	47	46
Share price	16.65	9.25
Expected dividends	-	-

As at September 30, 2016, the total SARs liability accrued is \$14.6 million (December 31, 2015 - \$5.8 million) of which \$2.9 million (December 31, 2015 - \$2.0 million) is classified as long-term in accordance with the three year vesting period. For the nine months ended September 30, 2016, Parex recorded \$11.5 million of compensation cost related to the outstanding SARs (nine months ended September 30, 2015 – expense of \$2.4 million) and paid \$2.7 million (nine months ended September 30, 2015 - \$1.0 million) under the plan.

d) Restricted share units (“RSU”)

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

	Number of RSU’s	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2015	2,306,965	0.01
Granted	8,100	0.01
Exercised	(218,182)	0.01
Forfeited	(35,168)	0.01
Balance, September 30, 2016	2,061,715	0.01

RSUs outstanding and the weighted average remaining life of the RSUs at September 30, 2016 are as follows:

Exercise price Cdn\$	RSUs outstanding		RSUs vested	
	Number of options	Weighted average remaining life (years)	Number of options	Weighted average remaining life (years)
0.01	2,061,715	3.32	475,020	2.35

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the nine months ended September 30, 2016 was Cdn\$13.06 per RSU (nine months ended September 30, 2015 – Cdn\$6.53 per RSU). For the nine months ended September 30, 2016 a weighted average forfeiture rate of 3% was applied (nine months ended September 30, 2015 – 3%).

e) *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 shares vest immediately, are equivalent in value to the five day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date, and are settled in either common shares or cash at the discretion of the Company. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

	Number of DSU's	Weighted average exercise price Cdn\$/DSU
Balance, December 31, 2015 and September 30, 2016	78,600	0.01

There were no DSUs granted during the nine months ended September 30, 2016. The weighted average fair value at the grant date for the year ended December 31, 2015 was Cdn\$10.88 per DSU.

f) *Share-based compensation*

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Share-based compensation expense	\$ 3,180	\$ 2,364	\$ 9,011	\$ 7,755
SARs (recovery) expense	6,580	(1,368)	11,526	2,447
Total	\$ 9,760	\$ 996	\$ 20,537	\$ 10,202
SARs (recovery) reclassified as discontinued operations	-	-	-	(22)
Total – continuing operations	\$ 9,760	\$ 996	\$ 20,537	\$ 10,224

13. Income Tax

The components of tax expense for the three and nine months ended September 30, 2016 and 2015 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Current tax expense	\$ 1,951	\$ 30,833	\$ 1,657	\$ 46,744
Deferred tax expense (recovery)	1,002	(39,574)	(20,132)	(32,258)
Tax expense (recovery)	\$ 2,953	\$ (8,741)	\$ (18,475)	\$ 14,486

14. Net income (loss) per Share

a) Basic net income (loss) per share

	For the three months ended September 30, 2016		2015		For the nine months ended September 30, 2016		2015	
Net income (loss)								
Net income (loss) for the purpose of basic net income (loss) per share – continuing	\$	6,811	\$	(27,417)	\$	(1,004)	\$	(40,366)
Net (loss) for the purpose of basic net (loss) per share – discontinued operations		-		-		-		(781)
Net income (loss) for the period	\$	6,811	\$	(27,417)	\$	(1,004)	\$	(41,147)
Weighted average number of shares for the purposes of basic net income (loss) per share (000s)		152,700		150,164		151,985		143,072
Basic net income (loss) per share – continuing operations		0.04		(0.18)		(0.01)		(0.28)
Basic net (loss) per share – discontinued operations		-		-		-		(0.01)
Basic net income (loss) per share	\$	0.04	\$	(0.18)	\$	(0.01)	\$	(0.29)

b) Diluted net income (loss) per share

	For the three months ended September 30, 2016		2015		For the nine months ended September 30, 2016		2015	
Net (loss) income– continuing operations								
Net (loss) income used to calculate diluted net (loss) income per share – continuing operations	\$	6,811	\$	(27,417)	\$	(1,004)	\$	(40,366)
Weighted average number of shares for the purposes of basic net (loss) income per share (000s)		152,700		150,164		151,985		143,072
Dilutive effect of share options on potential common shares		3,308		-		-		-
Weighted average number of shares for the purposes of diluted net (loss) income per share		156,008		150,164		151,985		143,072
Diluted net income (loss) per share – continuing operations	\$	0.04	\$	(0.18)	\$	(0.01)	\$	(0.28)
Net (loss) – discontinued operations								
Net (loss) used to calculate diluted net (loss) per share – discontinued operations	\$	-	\$	-	\$	-	\$	(781)
Weighted average number of shares for the purposes of diluted net (loss) per share		-		150,164		-		143,072
Diluted net (loss) per share – discontinued operations	\$	-	\$	-	\$	-	\$	(0.01)

At September 30, 2016 there were no share options that had an exercise price in excess of the average market value of the shares from the option grant date to the end of the period (December 31, 2015 - 3,685,542 options). As a result, no share options are excluded from the calculation of diluted earnings per share.

15. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended September 30,			For the nine months ended September 30,		
	2016	2015		2016	2015	
Accounts receivable	\$ 979	\$ 17,775	\$	\$ 3,440	\$ 50,341	
Prepays and other current assets	1,526	(1,275)		6,211	(578)	
Oil inventory	290	(802)		3,207	2,439	
Accounts payable and accrued liabilities	14,486	15,504		(26,910)	(48,492)	
Depletion related to oil inventory	(103)	819		(1,498)	(978)	
Net change in non-cash working capital	\$ 17,178	\$ 32,021	\$	\$ (15,550)	\$ 2,732	
Operating	10,162	80,893		(21,538)	55,898	
Investing	7,016	(48,872)		5,988	(53,166)	
Financing	-	-		-	-	
Net change in non-cash working capital	\$ 17,178	\$ 32,021	\$	\$ (15,550)	\$ 2,732	

b) Interest and taxes paid

	For the three months ended September 30,			For the nine months ended September 30,		
	2016	2015		2016	2015	
Cash interest paid	\$ 129	\$ 8	\$	\$ 364	\$ 579	
Cash income and equity taxes paid	\$ -	\$ -	\$	\$ 18,291	\$ 24,755	

16. 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 manages its capital to achieve the following:

- Maintain balance sheet strength in order to meet the Company's strategic growth objectives; and
- Ensure financial capacity is available to fund the Company's exploration commitments.

Parex has a senior secured credit facility which as at September 30, 2016 had a borrowing base in the amount of \$175.0 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at September 30, 2016, \$nil (December 31, 2015 - \$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 Petroleos S.A. ("Ecopetrol") related to the exploration work commitments on its Colombian concessions (see note 19 - Commitments). This performance guarantee facility has a limit of \$200.0 million (December 31, 2015 - limit of \$200.0 million) of which \$126.2 million (December 31, 2015 - \$123.7 million) is utilized at September 30, 2016. At September 30, 2016, there are an additional \$21.3 million (December 31, 2015 - \$26.6 million) letters of credit that are provided by a Latin American bank on an unsecured basis.

As at September 30, 2016 the Company's net working capital surplus is \$117.7 million (December 31, 2015 - \$76.7 million), of which \$132.1 million is cash.

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity and the credit facility. As at September 30, 2016 shareholders' equity was \$754.3 million (December 31, 2015 - \$741.9 million).

17. Financial Instruments and Risk Management

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

a) Credit risk

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

The Company for the nine months ended September 30, 2016 had the majority of its oil sales to 10 counterparties. Accounts receivable balance as at September 30, 2016 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At September 30, 2016 there are \$0.6 million of accounts receivable past due, all of which are considered collectible (December 31, 2015 - \$1.1 million).

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 \$175.0 million credit facility at September 30, 2016 was \$nil.

The following are the contractual maturities of financial liabilities at September 30, 2016:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 73,251	-	-	-	\$ 73,251
SARs payable	11,738	2,867	-	-	14,605
Total	\$ 84,989	2,867	-	-	\$ 87,856

⁽¹⁾ Includes the liability on Derivative Financial Instruments.

The following are the contractual maturities of financial liabilities at December 31, 2015:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 63,224	-	-	-	\$ 63,224
SARs payable	3,856	1,969	-	-	5,825
Total	\$ 67,080	1,969	-	-	\$ 69,049

c) Commodity price risk

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

As at September 30, 2016, the Company had outstanding risk management contracts which are used to manage its exposure to fluctuations in the price of crude oil

The following is a summary of the ICE Brent priced crude oil risk management contracts in place during the nine months ended September 30, 2016:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2016 to June 30, 2016	ICE Brent	5,000	\$47.75	\$52.50	\$70.00	\$1.00
February 1, 2016 to June 30, 2016	ICE Brent	15,000	\$25.00	\$35.00	\$45.00	\$2.08
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$30.50	\$38.00	\$47.00	\$1.00
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$34.25	\$40.25	\$49.50	\$1.00
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$35.00	\$60.00	-
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$40.00	-	\$1.65
September 1, 2016 to December 31, 2016	ICE Brent	5,000	\$36.50	\$41.50	-	\$1.00

The fair value of the ICE Brent priced crude oil risk management contracts is a \$1.6 million liability (December 31, 2015 – asset of \$2.6 million) and is recorded in the financial statement line item “Derivative financial instruments” in the consolidated balance sheet.

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

		For the three months ended Sept 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Realized (gain) loss on commodity risk management contracts	\$	893	\$ (1,099)	\$ 5,579	\$ (1,099)
Unrealized (gain) loss on commodity risk management contracts		(3,743)	(2,434)	3,702	(2,147)
Total	\$	(2,850)	\$ (3,533)	\$ 9,281	\$ (3,246)

As at September 30, 2016, Parex had committed to the future sale of 1,830,000 barrels of oil with collars and puts from Brent oil prices of \$35.00 to \$63.35 per bbl. The following sensitivity shows the resulting unrealized loss (gain) and impact on income (loss) before tax for the oil hedged contracts if Brent oil price were to increase/decrease by \$10/bbl from the spot rate as at September 30, 2016:

	Brent Price	Impact for the nine months ended September 30, 2016	
		Increase of \$10/bbl	Decrease of \$10/bbl
Oil hedged contract loss (gain)	Period end	\$ 1,432	\$ (2,009)

Subsequent to September 30, 2016, Parex entered into the following ICE Brent priced crude oil risk management contracts:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
December 1, 2016 to December 31, 2016	ICE Brent	5,000	\$44.00	\$48.00	\$60.50	-
January 1, 2017 to February 28, 2017	ICE Brent	5,000	\$44.00	\$48.00	\$63.35	-

d) Foreign currency risk

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

The following is a summary of the foreign currency risk management contracts settled during the nine months ended September 30, 2016:

Period Hedged	Reference	Type	Amount USD	Price (COP)
September 2, 2015 to April 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228
September 2, 2015 to June 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228

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

		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Realized loss on foreign currency risk management contracts	\$	-	\$ -	\$ -	\$ 1,840
Unrealized loss (gain) on foreign currency risk management contracts		-	345	-	(1,580)
Total	\$	-	\$ 345	\$ -	\$ 260

The Company recorded \$nil on these contracts in the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$0.3 million loss) which is recorded in the financial statement line item “Finance expense” in the consolidated statements of comprehensive income (loss) (note 9).

18. Segmented Information

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

For the three months ended September 30, 2016 (unaudited)				
	Canada		Colombia	
				Total
Oil sales	\$	-	\$	127,541
Royalties		-		(8,927)
Revenue		-		118,614
Commodity risk management contracts		-		2,850
		-		121,464
Expenses				
Production		-		12,341
Transportation		-		32,843
Purchased oil		-		16,569
General and administrative		4,136		2,623
Share-based compensation		3,180		6,580
Depletion, depreciation and amortization		78		31,839
Foreign exchange (gain) loss		1,002		(826)
		8,396		101,969
Finance (income)		(137)		56
Finance expense		307		1,109
Net finance expense		170		1,165
Net income (loss) before taxes		(8,566)		18,330
Current tax expense		-		1,951
Deferred tax expense		-		1,002
Net income (loss)	\$	(8,566)	\$	15,377
Capital assets (end of period)	\$	440	\$	651,539
Capital expenditures	\$	33	\$	26,280
Total assets (end of period)	\$	82,559	\$	864,795

For the three months ended September 30, 2015 (unaudited)				
	Canada		Colombia	
				Total
Oil sales	\$	-	\$	123,249
Royalties		-		(8,883)
Revenue		-		114,366
Commodity risk management contracts		-		3,533
		-		117,899
Expenses				
Production		-		17,440
Transportation		-		36,752
Purchased oil		-		8,420
General and administrative		3,243		5,060
Share-based compensation		2,363		(1,367)
Depletion, depreciation and amortization		60		39,658
(Gain) on settlement of decommissioning liabilities		-		(186)
Foreign exchange loss		245		5,620
Impairment of property, plant and equipment		-		31,144
Impairment of exploration and evaluation assets		-		4,497
		5,911		147,038
Finance (income)		(118)		(66)
Finance expense		357		935
Net finance expense		239		869
Net (loss) before taxes from continuing operations		(6,150)		(30,008)
Current tax expense		-		30,833
Deferred tax (recovery)		-		(39,574)
Net (loss) from continuing operations	\$	(6,150)	\$	(21,267)
Net (loss) from discontinued operations		-		-
Net (loss)	\$	(6,150)	\$	(21,267)
Capital assets (end of period)	\$	541	\$	725,432
Capital expenditures	\$	(13)	\$	37,687
Total assets (end of period)	\$	75,989	\$	927,282

For the nine months ended September 30, 2016 (unaudited)					
	Canada		Colombia		Total
Oil sales	\$	-	\$	313,630	\$ 313,630
Royalties		-		(23,967)	(23,967)
Revenue		-		289,663	289,663
Commodity risk management contracts		-		(9,281)	(9,281)
		-		280,382	280,382
Expenses					
Production		-		37,886	37,886
Transportation		-		99,442	99,442
Purchased oil		-		20,939	20,939
General and administrative		11,017		12,836	23,853
Share-based compensation		9,011		11,526	20,537
Depletion, depreciation and amortization		231		92,413	92,644
Foreign exchange (gain) loss		28		(312)	(284)
		20,287		274,730	295,017
Finance (income)		(404)		(558)	(962)
Finance expense		1,195		4,611	5,806
Net finance expense		795		4,053	4,844
Net income (loss) before taxes		(21,078)		1,599	(19,479)
Current tax expense		-		1,657	1,657
Deferred tax (recovery)		-		(20,132)	(20,132)
Net income (loss)	\$	(21,078)	\$	20,074	\$ (1,004)
Capital assets (end of period)	\$	440	\$	651,539	\$ 651,979
Capital expenditures	\$	126	\$	44,616	\$ 44,742
Total assets (end of period)	\$	82,559	\$	864,795	\$ 947,354

For the nine months ended September 30, 2015 (unaudited)						
	Canada		Colombia		Trinidad & Tobago	Total
Oil sales	\$	-	\$	413,273	\$ -	\$ 413,273
Royalties		-		(31,336)	-	(31,336)
Revenue		-		381,937	-	381,937
Commodity risk management contracts		-		3,246	-	3,246
		-		385,183	-	385,183
Expenses						
Production		-		55,323	-	55,323
Transportation		-		118,157	-	118,157
Purchased oil		-		29,963	-	29,963
General and administrative		10,606		16,553	-	27,159
Share-based compensation		7,755		2,469	-	10,224
Depletion, depreciation and amortization		167		116,982	-	117,149
(Gain) on settlement of decommissioning liabilities		-		(211)	-	(211)
Foreign exchange loss		813		9,557	-	10,370
Impairment of property, plant and equipment		-		31,144	-	31,144
Impairment of exploration and evaluation assets		-		4,497	-	4,497
		19,341		384,434	-	403,775
Finance (income)		(345)		(210)	-	(555)
Finance expense		3,707		4,136	-	7,843
Net finance expense		3,362		3,926	-	7,288
Net (loss) before taxes		(22,703)		(3,177)	-	(25,880)
Current tax expense		-		46,744	-	46,744
Deferred tax (recovery)		-		(32,258)	-	(32,258)
Net (loss) from continuing operations	\$	(22,703)	\$	(17,663)	\$ -	\$ (40,366)
Net (loss) from discontinued operations		-		-	(781)	(781)
Net (loss)	\$	(22,703)	\$	(17,663)	\$ (781)	\$ (41,147)
Capital assets (end of period)	\$	541	\$	725,432	\$ -	\$ 725,973
Capital expenditures	\$	129	\$	101,742	\$ -	\$ 101,871
Total assets (end of period)	\$	75,989	\$	927,282	\$ -	\$ 1,003,271

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

19. Commitments

a) Colombia

At September 30, 2016 performance guarantees are in place with the ANH and Ecopetrol. The guarantees are in the form of issued letters of credit totaling \$147.5 million (December 31, 2015 - \$150.3 million).

At September 30, 2016 EDC has provided the Company's bank with performance security guarantees to support approximately \$126.2 million (December 31, 2015 - \$123.7 million) of the letters of credit issued on behalf of Parex. There are an additional \$21.3 million (December 31, 2015 - \$26.6 million) letters of credit that are provided by a Latin American bank on an unsecured basis. 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 and Ecopetrol are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at September 30, 2016 in respect of the Colombia blocks are estimated to be as follows:

(000's)		
2016	\$	6,100
2017		66,913
Thereafter		179,482
	\$	252,495

b) Operating leases

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

The existing minimum lease payments for office space and accommodations at September 30, 2016 are as follows:

		Total	2016	2017	2018	2019	2020	Thereafter
Office and accommodations	\$	4,693	627	1,659	1,117	1,021	53	216

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John F. Bechtold

Lisa Colnett

Robert J. Engbloom

Wayne K. Foo

Bob MacDougall

Glenn McNamara

Ron D. Miller

Paul D. Wright

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Chief Executive Officer

David R. Taylor
President

Kenneth G. Pinsky
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ABBREVIATIONS

Oil and Natural Gas Liquids

bbls	barrels
mbbls	one thousand barrels
mmmbbls	one million barrels
NGLs	natural gas liquids
bbls/d	barrels of oil per day
mbbls/d	one thousand barrels per day
BOE or boe	barrel of oil equivalent, using the conversion factor of 6 Mcf: 1 bbl
mboe	one thousand barrels of oil equivalent
mmboe	one million barrels of oil equivalent
bfpd	barrels of fluid per day
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

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