MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or the "Company") for the three months and year ended December 31, 2022 and 2021 is dated March 8, 2023 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2022 and 2021 (the "audited consolidated financial statements"). The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 8, 2023 (the "AIF"), and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

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

Abbreviations

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

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

2022 Highlights

- Annual crude oil and natural gas production in 2022 averaged 52,049 barrels of oil equivalent per day ("boe/d") (97% crude oil and 3% natural gas) an increase of 11% over the 2021 average production of 46,998 boe/d (96% crude oil and 4% natural gas). Production per share*** increased by 23% compared to 2021 primarily as a result of developmental drilling and the reduction of outstanding shares. Refer to "Consolidated Results of Operations" for annual production split by product type.
- Recognized net income of $611.4 million ($5.38 per share basic) for the year ended December 31, 2022 compared to net income of $303.1 million ($2.42 per share basic) in 2021.
- Generated annual funds flow provided by operations ("FFO")* of $724.9 million ($6.38 per share basic**) compared to $577.5 million ($4.61 per share basic) in 2021.
- A total of $297.0 million was returned to shareholders through dividends of $75.5 million and share repurchases of $221.5 million. Completed the Company's 2022 normal course issuer bid ("NCIB"), repurchasing the maximum allowable 11.8 million common shares reducing outstanding shares by 9.3% in 2022. Increased the Company's regular quarterly dividend by 100% to Cdn$0.25 for the fourth quarter of 2022 compared to Cdn$0.125 for the fourth quarter of 2021.

Three Months Ended December 31, 2022 ("fourth quarter" or "Q4") Highlights

- Quarterly crude oil and natural gas production averaged 54,257 boe/d (98% crude oil and 2% natural gas), an increase of 9% over the fourth quarter of 2021. Refer to "Consolidated Results of Operations" for production split by product type.
- Recognized net income of $250.0 million ($2.29 per share basic) compared to net income of $96.0 million ($0.80 per share basic) in the comparative quarter of 2021.
- Generated quarterly FFO* of $85.2 million ($0.78 per share basic**) compared to $168.3 million ($1.39 per share basic) in the fourth quarter of 2021.
- Generated an operating netback** of $51.29/boe (Q4 2021 - $46.79/boe) and an FFO netback** of $17.02/boe (Q4 2021 - $36.41/boe) from an average Brent price of $88.63/bbl (2021 - $79.66/bbl).

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

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

*** Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measures.

Financial Summary

	For the three months ended December 31,		For the year ended December 31,		
(Financial figures in $000s except per share amounts)	**2022**	2021	**2022**	2021	2020
Light Crude Oil and Medium Crude Oil (bbl/d)	**10,511**	6,376	**7,471**	6,831	6,021
Heavy Crude Oil (bbl/d)	**42,746**	41,534	**43,008**	38,449	39,197
Average oil production (bbl/d)(1)	**53,257**	47,910	**50,479**	45,280	45,218
Average conventional natural gas production (mcf/d)(1)	**6,000**	11,214	**9,420**	10,308	7,800
Average oil and natural gas production (boe/d)	**54,257**	49,779	**52,049**	46,998	46,518
Production split (% crude oil)	**98**	96	**97**	96	97
Realized sales price ($/boe)(7)	**74.81**	67.81	**86.88**	60.97	32.55
Operating netback ($/boe)(2)	**51.29**	46.79	**59.06**	42.53	20.84
Oil and natural gas sales	**376,347**	315,327	**1,643,589**	1,057,184	587,520
Funds flow provided by operations(8)	**85,194**	168,261	**724,890**	577,545	297,041
Per share – basic(2)(4)	**0.78**	1.39	**6.38**	4.61	2.15
Per share – diluted(2)(4)	**0.78**	1.39	**6.38**	4.60	2.13
Adjusted funds flow provided by operations(8)	**185,194**	168,261	**824,890**	577,545	297,041
Per share – basic(2)(4)	**1.70**	1.39	**7.26**	4.61	2.15
Per share – diluted(2)(4)	**1.70**	1.39	**7.26**	4.60	2.13
Net income	**249,958**	96,041	**611,368**	303,105	99,322
Per share – basic(4)	**2.29**	0.80	**5.38**	2.42	0.72
Per share – diluted(4)	**2.29**	0.79	**5.38**	2.41	0.71
Dividends paid	**20,108**	35,610	**75,491**	47,631	—
Per share – Cdn$(4)(7)	**0.250**	0.375	**0.890**	0.500	—
Shares repurchased	**—**	24,411	**221,464**	218,491	171,514
Number of shares repurchased (000s)	**220**	1,510	**11,821**	12,869	13,852
Capital expenditures(3)	**147,746**	114,268	**512,252**	272,234	144,987
Other long-term asset expenditures	**56,415**	4,239	**140,266**	5,001	(3,723)
Free funds flow (3)	**(62,552)**	53,993	**212,638**	305,311	152,054
Total assets (end of period)	**2,314,373**	1,784,221	**2,314,373**	1,784,221	1,541,081
Working capital surplus (end of period)(5)(8)	**84,988**	325,780	**84,988**	325,780	320,155
Bank debt (end of period)(6)	**—**	—	**—**	—	—
Weighted average shares outstanding (000s)					
Basic	**109,107**	120,716	**113,572**	125,210	138,356
Diluted	**109,140**	121,136	**113,661**	125,599	139,619
Outstanding shares (end of period) (000s)	**109,112**	120,266	**109,112**	120,266	130,873

(1) Reference to crude oil or natural gas production in the above table and elsewhere in this MD&A refers to the light and medium crude oil and heavy crude oil and conventional natural gas, respectively, product types as defined in NI 51-101.

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

(3) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(4) Per share amounts (with the exception of dividends) are based on weighted average common shares. Dividends paid per share are based on the number of common shares outstanding at each dividend record date.
(5) Working capital calculation does not take into consideration the undrawn amount available under the syndicated bank credit facility.
(6) Syndicated bank credit facility borrowing base of $200.0 million as at December 31, 2022 and December 31, 2021. See "Liquidity and Capital Resources".
(7) Supplementary Financial Measure (as defined in NI 52-112). See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.
(8) Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory". For the year ended December 31, 2022 funds flow provided by operations includes a $100.0 million ($0.92 per share basic) increased current tax expense as a result of a voluntary, internal corporate restructuring, refer to the "Income Tax" section.

2022 Guidance vs Actuals

The table below is a summary of Parex' original annual guidance for 2022 and a review of 2022 actual results:

	2022 Guidance (as released November 2021)	**2022 Actuals**	**% variance from 2022 Guidance**
Brent crude average price ($/bbl)	70	**99**	41
Production (average for period) (boe/d)	52,000-54,000	**52,049**	—
Total Capital Expenditures ($ millions)(1)	400-450	**512**	20
Funds flow provided by operations(3) ($ millions)	600-650	**725**	16
Operating netback ($/boe)(2)	41	**59**	44
Funds Flow provided by operations netback(2) ($/boe)	32	**38**	19
Current tax effective rate on FFO (%)(4)	19%	**32%**	68

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory". For the year ended December 31, 2022 funds flow provided by operations includes a $100.0 million ($0.92 per share basic) charge for a voluntary, corporate restructuring, refer to the "Income Tax" section.
(3) Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory". For the year ended December 31, 2022 funds flow provided by operations includes a $100.0 million ($0.92 per share basic) increased current tax expense as a result of a voluntary, internal corporate restructuring, refer to the "Income Tax" section.
(4) Supplementary Financial Measure. See "Non-GAAP and Other Financial Measures Advisory".

In 2022 Brent crude prices were substantially higher than Parex' forecasted guidance. As Parex is unhedged, higher oil prices resulted in higher funds flow provided by operations, free funds flow, operating netback, funds flow provided by operations netback, and the current effective tax rate on FFO. Because of these strong Brent crude prices, Parex increased its Capex program to $512 million excluding long lead inventory build. This increase in Capex was directed to support Parex' second half 2022 and full year 2023 production with the majority of capital directed towards operated activities. Funds flow provided by operations (FFO), FFO netback, and the current tax effective rate on FFO were impacted by the voluntary restructuring as described below.

Voluntary Restructuring

In late 2022 Parex completed a voluntary, internal corporate entity restructuring that consolidated certain assets in the Southern Llanos basin into one corporate entity for operational and administrative optimization. The financial impact of this restructuring is that the Company will incur Colombia capital gains taxes in Q4 2022, while gaining an expected incremental increase of $325 million to the Company's deferred tax asset balance as at year-end December 31, 2022, which is anticipated to provide benefits over the 2023-2027 fiscal year period. The restructuring had a cost, in the form of an increased current tax expense for Q4 2022, of $100 million. The Company's Q4 2022 current tax expense was $163.1 million, compared to the Company's original internal forecast of approximately $75 million. Additionally, the Company's full-year 2022 net income incrementally increased by approximately $225 million due to a deferred tax recovery, offset by the incremental Q4 2022 current tax expense of approximately $100 million.

Return of Capital to Shareholders

Parex looks to provide a significant return of capital to shareholders through dividends and share repurchases, while investing in the Company's assets to provide a total shareholder return. In 2022 Parex bought back 10% of its outstanding shares under the Company's NCIB, as it intended, however due to Parex' share price being higher than forecasted under a $70/bbl crude scenario, the cost of the program was higher than anticipated. To further increase shareholder returns in 2022 the Company increased its dividend from Cdn$0.125 per share in the fourth quarter of 2021 to Cdn$0.25 per share in the fourth quarter of 2022 which delivered $75.5 million to its shareholders through dividends in 2022.

As previously disclosed, on February 2, 2023, Parex' Board of Directors declared a first quarter 2023 regular dividend of Cdn$0.375 per share to be paid on March 31, 2023 to shareholders of record on March 15, 2023, representing a 50% dividend increase from the prior quarter dividend, and a threefold increase from the inaugural dividend paid in Q3 2021. This Q1 2023 dividend payment to shareholders is designated as an "eligible dividend" for the purposes of the Income Tax Act (Canada).

2023 Guidance

- For the period of January 1, 2023, to February 28, 2023, estimated average production was approximately 50,700 boe/d; production was affected by the current suspension of operations in the Northern Llanos, specifically Capachos (approximately 6,500 boe/d net impact), less than expected production from LLA-34 (55% W.I.), as well as delays in the start of rig activity at VIM-1 (50% W.I.) and LLA-26 (100% W.I.).
- In March 2023, excluding the Northern Llanos (Arauca and Capachos Blocks) area, the Company expects to bring 3,000 to 5,000 boe/d of incremental net production on stream from LLA-26 (100% W.I.), VIM-1 (50% W.I.), and LLA-34 (55% W.I.).
- Parex' average production guidance of 57,000 to 63,000 boe/d for FY 2023 had been widened relative to previous years in order to better account for above ground factors that can at times impact Colombian operations.
- Parex' 2023 activity plan continues to progress strongly and thus the Company expects to be within its 2023 annual average production guidance range in Q2 2023 and for the FY 2023, assuming a timely resolution at Northern Llanos.

Category	**2023 Guidance** (As released on February 2, 2023)
Brent Crude Average Price ($/bbl)	$80
Effective Tax Rate Estimate (%)(1)	25%
Funds Flow Provided by Operations Netback ($/bbl)(2)	$34
Production Average (boe/d)	57,000-63,000
Capital Expenditures ($ millions)(3)	$425-475
Funds Flow Provided by Operations ($ millions)(4)	$705-780
Free Funds Flow ($ millions; midpoint)(3)	$295

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".
(3) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(4) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".

Financial and Operational Results

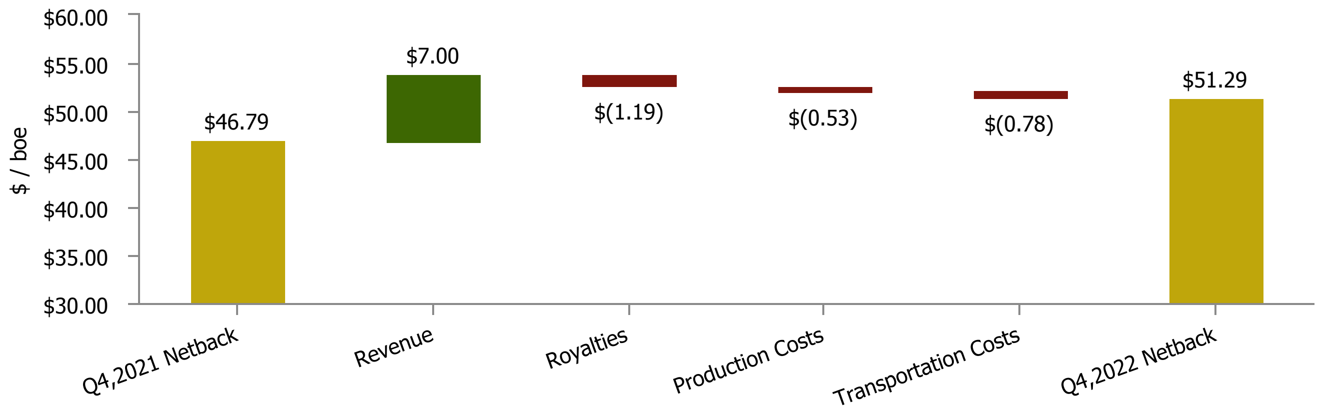
Consolidated Results of Operations

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

	For the three months ended December 31, 2022	2021	For the year ended December 31, 2022	2021
Average daily production				
Light Crude and Medium Crude Oil (bbl/d)	**10,511**	6,376	**7,471**	6,831
Heavy Crude Oil (bbl/d)	**42,746**	41,534	**43,008**	38,449
Crude oil (bbl/d)	**53,257**	47,910	**50,479**	45,280
Conventional Natural Gas (mcf/d)	**6,000**	11,214	**9,420**	10,308
Total (boe/d)	**54,257**	49,779	**52,049**	46,998
Production split (% crude oil production)	**98**	96	**97**	96
Average daily sales of oil and natural gas				
Produced crude oil (bbl/d)	**53,406**	48,365	**50,213**	45,425
Purchased crude oil (bbl/d)	**279**	311	**245**	366
Produced natural gas (mcf/d)	**6,000**	11,214	**9,420**	10,308
Total (boe/d)	**54,685**	50,545	**52,028**	47,509
Operating netback (000s)(1)				
Oil and natural gas sales	**$ 376,347**	$ 315,327	**$ 1,643,589**	$ 1,057,184
Royalties	**(64,445)**	(54,037)	**(332,895)**	(156,985)
Net revenue	**311,902**	261,290	**1,310,694**	900,199
Production expense	**(35,740)**	(30,541)	**(129,980)**	(108,282)
Transportation expense	**(17,629)**	(12,651)	**(61,229)**	(52,469)
Purchased oil expense	**(2,207)**	(2,500)	**(9,936)**	(10,880)
Operating netback	**$ 256,326**	$ 215,598	**$ 1,109,549**	$ 728,568
Operating netback (per boe) (3)				
Oil and natural gas sales(2)	**$ 74.81**	$ 67.81	**$ 86.88**	$ 60.97
Royalties(2)	**(12.88)**	(11.69)	**(17.68)**	(9.12)
Net revenue	**61.93**	56.12	**69.20**	51.85
Production expense(2)	**(7.14)**	(6.61)	**(6.90)**	(6.29)
Transportation expense(2)	**(3.50)**	(2.72)	**(3.24)**	(3.03)
Operating netback(3)	**$ 51.29**	$ 46.79	**$ 59.06**	$ 42.53

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

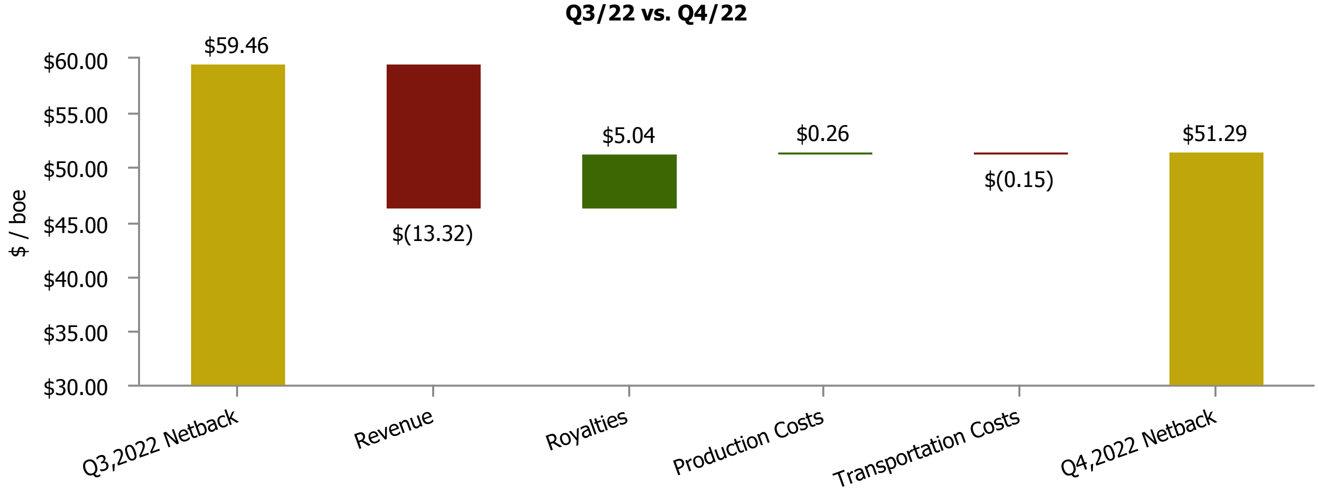
Change in Operating Netback by Component
Q4/21 vs. Q4/22



In the fourth quarter of 2022, the Company's benchmark Brent price increased by $8.97/bbl, while revenue increased by $7.00/boe as compared to the fourth quarter of 2021. The increase in revenue relative to the higher Brent crude benchmark increase was mainly a result of weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in the quarter as compared to the comparative period in 2021. Royalties increased by $1.19/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by $0.53/boe mainly as a result of increased well workovers and maintenance in the current quarter on Block LLA-34. Transportation costs in the quarter increased by $0.78/boe as a result of decreased wellhead sales as compared to the comparative period.

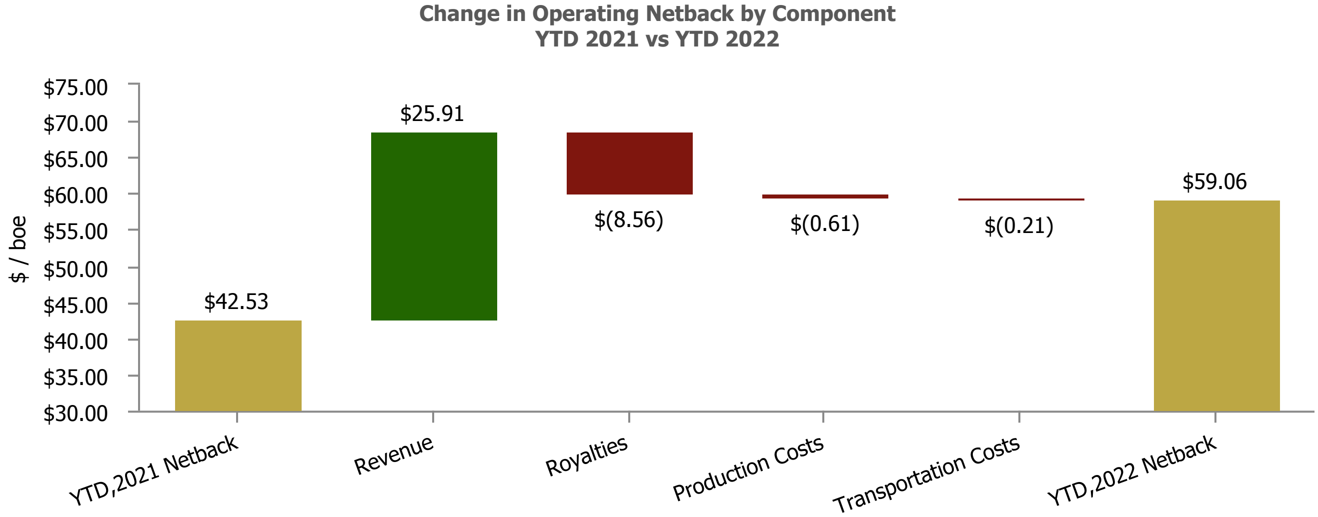
Overall, the operating netback increased by $4.50/boe vs a Brent benchmark crude price increase of $8.97/bbl.

Change in Operating Netback by Component
Q3/22 vs. Q4/22



In the fourth quarter of 2022, the Company's benchmark Brent oil price decreased by $9.07/bbl, while revenue decreased by $13.32/boe as compared to the third quarter of 2022. The decrease in revenue relative to the lower Brent crude oil benchmark decrease is mainly a result of continued weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in the quarter as compared to the comparative period. Royalties decreased by $5.04/boe as a result of lower crude oil benchmark prices in the quarter. Production costs decreased by $0.26/boe as a result of decreased well workovers and maintenance in the fourth quarter of 2022 on Block LLA-34. Transportation costs increased by $0.15/boe as a result of decreased wellhead sales as compared to the third quarter of 2022.

Overall, the operating netback decreased by $8.17/boe vs a Brent benchmark crude price decrease of $9.07/bbl.



In 2022, the Company's benchmark Brent price increased by $28.09/bbl, while revenue increased by $25.91/boe as compared to 2021. The increase in revenue relative to the higher Brent crude benchmark increase was mainly a result of weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in 2022 as compared to 2021. Royalties increased by $8.56/boe as a result of higher crude oil benchmark prices in 2022. Production costs in 2022 increased by $0.61/boe mainly as a result of increased well workovers and maintenance in on Block LLA-34. Transportation costs in 2022 increased by $0.21/boe as a result of decreased wellhead sales in 2022 as compared to 2021.

Overall, the operating netback increased by $16.53/boe vs a Brent benchmark crude price increase of $28.09/bbl.

Oil and Natural Gas Sales

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

	For the three months ended December 31,		For the year ended December 31,	
	2022	2021	**2022**	2021
Block LLA-34	**30,035**	32,049	**31,359**	30,784
Southern Llanos Basin	**18,158**	11,002	**14,893**	9,653
Northern Llano Basin	**3,510**	4,068	**2,982**	4,085
Magdalena Basin	**1,554**	791	**1,245**	758
Total Crude Oil Production	**53,257**	47,910	**50,479**	45,280
Natural gas production	**1,000**	1,869	**1,570**	1,718
Total crude oil and natural gas production	**54,257**	49,779	**52,049**	46,998
Crude oil inventory draw (build)	**149**	455	**(266)**	145
Average daily sales of produced oil and natural gas	**54,406**	50,234	**51,783**	47,143
Purchased oil	**279**	311	**245**	366
Sales Volumes	**54,685**	50,545	**52,028**	47,509

Crude oil and natural gas production for the fourth quarter of 2022 averaged 54,257 boe/d, an increase of approximately 9% from the fourth quarter of 2021 production of 49,779 boe/d and an increase of approximately 6% from the third quarter of 2022 production of 51,091 boe/d (consisting of 6,903 bbls/d light crude oil and medium crude oil, 43,063 bbls/d of heavy crude oil and 6,750 mcf/d of conventional natural gas).

The increase in oil and natural gas production in the fourth quarter of 2022 compared to the fourth quarter of 2021 is mainly the result of development on the Cabrestero and VIM-1 blocks, partially offset by localized blockades at Blocks LLA-32 & LLA-34. Production at the Capachos Block in the fourth quarter of 2022 was interrupted by proactive shut-ins in the Capachos Block due to security concerns.

The increase in oil and natural gas production in the fourth quarter of 2022 compared to the third quarter of 2022 is mainly the result of production from additional wells drilled during the quarter on the Cabrestero Block, partially offset by proactive shut-ins in the Capachos Block due to temporary security concerns. Production in the third quarter of 2022 was negatively affected primarily due to delays from the unplanned testing of new zones, operational and weather-related setbacks, as well as localized blockades.

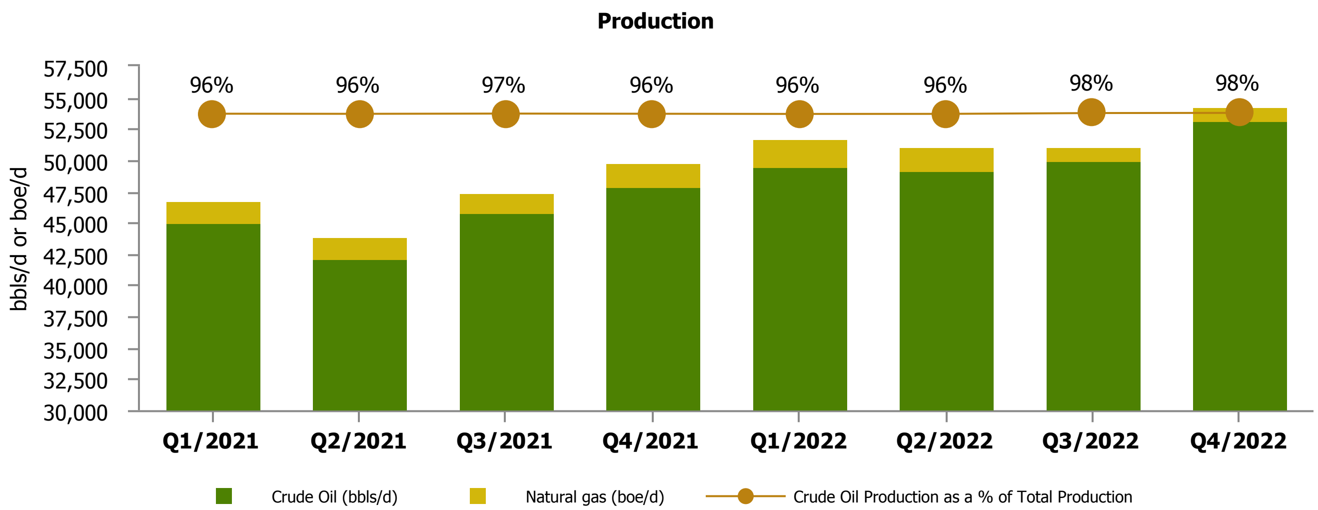
Block LLA-34 oil production in 2022 was approximately 2% higher than the comparative period in 2021. This increase is mainly due to well service and drilling activity.

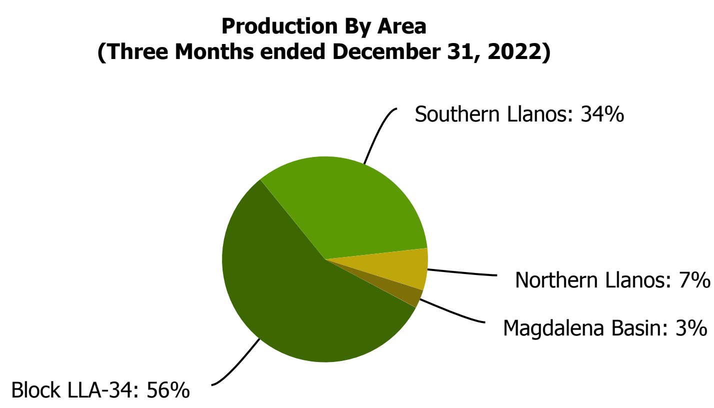
Northern Llanos basin production in 2022 was approximately 27% less than the prior year comparative period as third quarter production was impacted by temporary localized blockades and fourth quarter proactive shut-ins in the Capachos Block due to temporary security concerns.

Parex has been able to offset the Capachos Block production disruption in 2022 by the successful drilling campaign on the Cabrestero and LLA-40 blocks increasing the Southern Llanos basin production by approximately 54% in 2022 compared to the prior year comparative period.

Oil and natural gas sales in the fourth quarter of 2022 were 54,685 boe/d compared to 50,545 boe/d for the fourth quarter of 2021. The increase in oil sales volumes was a result of the increase in oil production, partially offset by decreased purchased oil purchases/sales over the comparative period.

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





b) Crude Oil Reference and Realized Prices

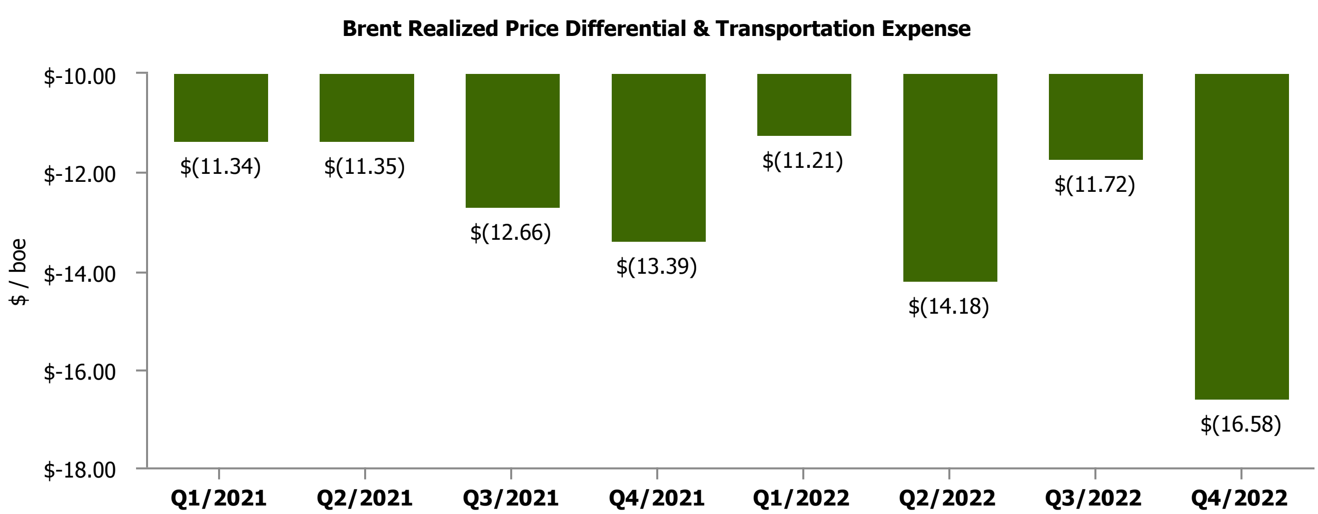
Average price for the period	**Q4 2022**	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Brent ($/bbl)	**88.63**	97.70	111.98	97.90	79.66
Vasconia ($/bbl)	**81.07**	94.05	106.69	93.78	75.05
Brent/Vasconia crude (differential) ($/bbl)	**(7.56)**	(3.65)	(5.29)	(4.12)	(4.61)
Parex quality differential ($/bbl)	**(0.07)**	0.30	0.06	0.19	(0.04)
Parex wellhead sales discount ($/bbl)	**(5.45)**	(5.02)	(5.92)	(4.29)	(6.02)
Parex realized oil sales price ($/boe)(2)	**75.55**	89.33	100.83	89.68	68.99
Parex realized price (differential) to Brent crude ($/boe)	**(13.08)**	(8.37)	(11.15)	(8.22)	(10.67)
Parex transportation expense ($/boe)(1)(2)	**(3.50)**	(3.35)	(3.03)	(2.99)	(2.72)
Parex price differential and transportation expense ($/boe)	**(16.58)**	(11.72)	(14.18)	(11.21)	(13.39)

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

During the fourth quarter of 2022, the differential between Brent reference pricing and the Company's realized oil sale price was $13.08/boe. The differential to Brent crude during the fourth quarter of 2022 increased by $4.71/boe compared to the third quarter of 2022 where the differential was $8.37/boe. This was primarily the result of the Brent/Vasconia differential increasing to $7.56/bbl from $3.65/bbl. Parex' Colombian oil production is fully exposed to swings in the Vasconia (Colombia crude blend) differential to Brent (see below). Vasconia crude differential increased along with the general increase experienced with other heavy oil differentials at the time.

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

Parex realized price differential to Brent and Vasconia crudes can fluctuate period over period due to, among other factors, the type of sales contract and the accounting treatment for oil sold at the wellhead versus a direct export sales contracts.



c) Natural Gas Revenue and Realized Prices

	For the three months ended December 31,		For the year ended December 31,	
	2022	2021	**2022**	2021
Natural gas revenue ($000s)(1)	**$ 3,195**	6,368	**$20,882**	22,996
Realized sales price ($/Mcf)(1)	**5.79**	6.17	**6.07**	6.11

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

Parex natural gas revenues were $3.2 million and $20.9 million for the three months and year ended December 31, 2022 compared to $6.4 million and $23.0 million in the same periods of 2021. The decrease in natural gas sales from the prior periods is related to decreased natural gas volumes sold from Block LLA-32 as sales to Block LLA-34 for power generation have been reduced due to the tie-in of Block LLA-34 to the national electricity grid, partially offset by increased volumes sold from the VIM-1 Block.

d) Oil and Natural Gas Revenue

In 2022 oil and natural gas revenue increased by $586.4 million or 55% as reconciled in the table below to 2021:

($000s)		
Oil and natural gas revenue, year ended December 31, 2021	**$**	**1,057,184**
Sales volume of produced oil, an increase of 11% (4,788 bbl/d)		**103,703**
Sales volume of purchased oil, a decrease of 33% (121 bbl/d)		**(2,723)**
Sales price increase of 43%		**487,539**
Sales volume and price change of produced natural gas		**(2,114)**
Oil and natural gas revenue, year ended December 31, 2022	**$**	**1,643,589**

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

e) Crude Oil Inventory in Transit

As at December 31, ($000s) ($000s)		**2022**		2021
Crude oil in transit	**$**	**4,633**	$	1,385

As at December 31, 2022, the Company had 143.8 mbbls (December 31, 2021 - 46.7 mbbls) of crude oil inventory in transit, which was injected into Colombian pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, transportation costs, depletion expense and royalty expense) at approximately $32/bbl ($30/bbl - 2021) incurred in bringing the crude oil to its existing condition and location.

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

For the periods ended (mbbls)	**Dec. 31, 2022**	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022
Crude oil inventory in transit - beginning of the period	**157.5**	36.6	(71.9)	46.6
Oil production	**4,899.6**	4,596.9	4,468.8	4,459.7
Oil sales	**(4,939.0)**	(4,496.0)	(4,378.7)	(4,603.7)
Purchased oil	**25.7**	20.0	18.4	25.5
Crude oil inventory in transit (overlift) - end of the period	**143.8**	157.5	36.6	(71.9)
% of period production	**2.9**	3.4	0.8	(1.6)

Crude oil inventory build and (draw) from period to period are subject to factors that the Company does not control such as timing of the number of shipments from storage to export. The Company expects crude oil inventory in future periods to be in line with normal historic levels of below 5% of period production.

f) Purchased Oil

	For the three months ended December 31,		For the year ended December 31,	
	2022	2021	**2022**	2021
Purchased oil expense ($000s)	**$ 2,207**	$ 2,500	**$ 9,936**	$ 10,880

Purchased oil expense for the three months and year ended December 31, 2022 was $2.2 million and $9.9 million compared to $2.5 million and $10.9 million for the 2021 comparative periods and $2.1 million in the third quarter of 2022. Purchased oil expense has decreased compared to the same periods of 2021 as a result of a decrease in oil blending operations and a decrease in purchases of partner crude from the Capachos Block. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Royalties

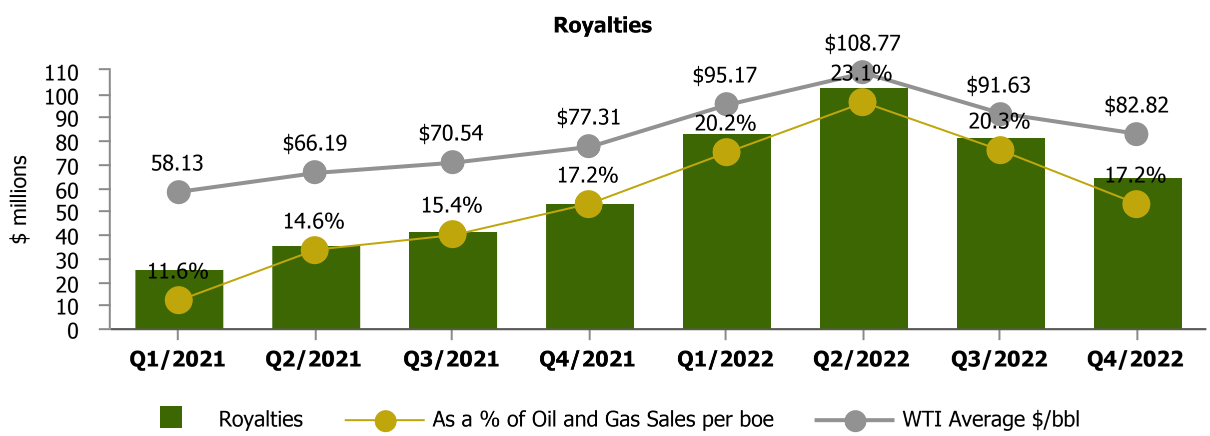
	For the three months ended December 31,		For the year ended December 31,	
	2022	2021	**2022**	2021
Royalties ($000s)	**$ 64,445**	$ 54,037	**$ 332,895**	$ 156,985
Per unit ($/boe)(1)	**12.88**	11.69	**17.68**	9.12
Percentage of sales(1)	**17.2**	17.2	**20.4**	15.0

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

For the three months and year ended December 31, 2022 royalties as a percentage of sales were 17.2% and 20.4% compared to 17.2% and 15.0% for the 2021 comparative periods. The third quarter of 2022 royalties as a percentage of sales was 20.3%. The increase in royalties as a percentage of oil sales compared to the prior year is a result of higher benchmark WTI prices which are used in the high price share royalty ("HPR") calculation. Compared to the third quarter of 2022 and the average for 2022, the benchmark WTI price in the fourth quarter of 2022 was lower resulting in a decrease in royalties as a percentage of sales. Benchmark WTI prices for the three months and year ended December 31, 2022 were $82.82 and $94.57 compared to $77.31 and $68.09 for the 2021 comparative periods and $91.63 in the third quarter of 2022.

The increase in royalty expense to $64.4 million and $332.9 million in the three months and year ended December 31, 2022, respectively, compared to $54.0 million and $157.0 million for the 2021 comparative prior year periods is a result of higher benchmark WTI prices used in the calculation of high price share royalties in 2022 vs 2021 and increased oil and natural gas production and sales over the prior period. As realized oil prices increase, the high price share royalties as a percentage of oil sales will also increase.

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



Production Expense

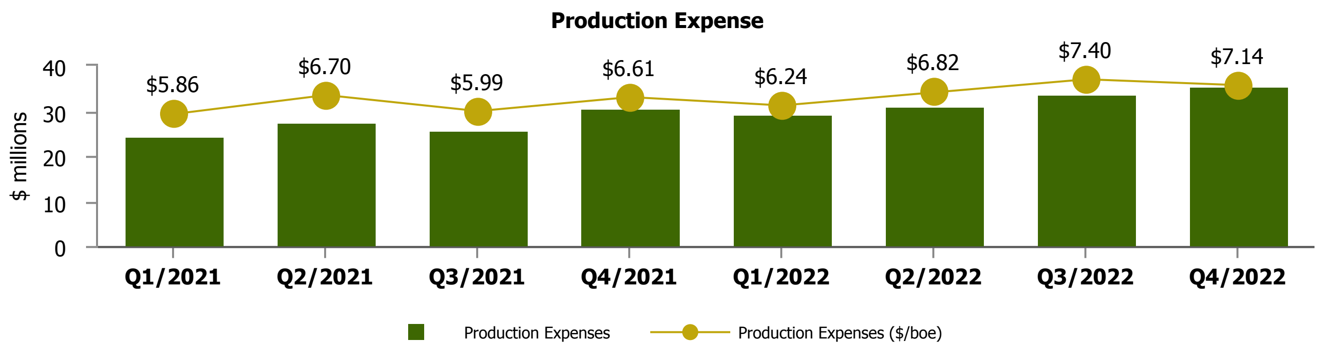
		For the three months ended December 31,			For the year ended December 31,	
		2022		2021		**2022**		2021
Production expense ($000s)	**$**	**35,740**	$	30,541	**$**	**129,980**	$	108,282
Per unit ($/boe)(1)		**7.14**		6.61		**6.90**		6.29

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

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

Production expense for the three months and year ended December 31, 2022 was $7.14/boe and $6.90/boe compared to $6.61/boe and $6.29/boe for the three months and year ended December 31, 2021. Production expense for the third quarter of 2022 was $7.40/boe.

The increase in production expense for the year ended December 31, 2022 over the 2021 comparative period is mainly the result of increased well workovers and maintenance on Block LLA-34 and the Capachos Block compared to the prior period.



Transportation Expense

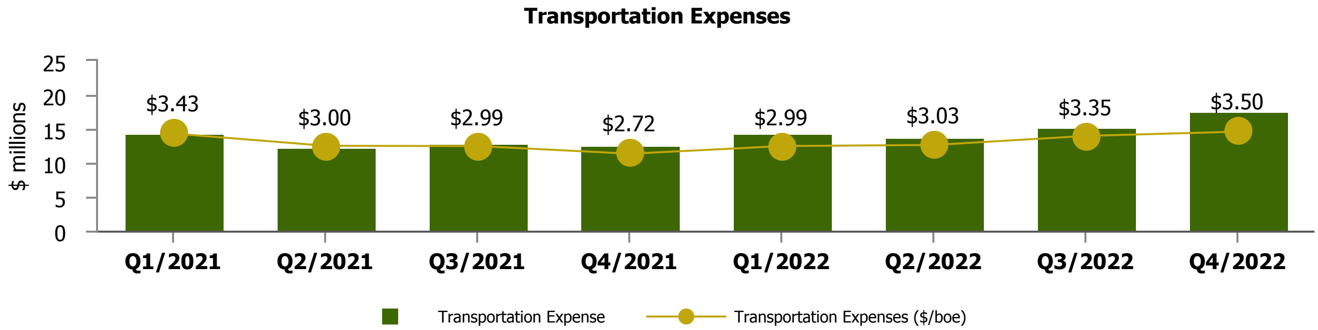
		For the three months ended December 31,			For the year ended December 31,			
		2022		2021		**2022**		2021
Transportation expense ($000s)	**$**	**17,629**	$	12,651	**$**	**61,229**	$	52,469
Per unit ($/boe)(1)		**3.50**		2.72		**3.24**		3.03

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

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

For the three months ended December 31, 2022, transportation expense increased to $3.50/boe compared to $3.35/boe for the third quarter of 2022 and $2.72/boe for the comparative period in 2021. On a year to date basis transportation expense has increased to $3.24/boe from $3.03/boe in the comparative period in 2021. Transportation expense will fluctuate period over period due the mix of sales contracts types in force during the period.

The combined transportation expense and price differential from Brent, on a per boe basis, has increased from the fourth quarter of 2021 and third quarter of 2022. See "Crude Oil Reference and Realized Prices".



General and Administrative Expense ("G&A")

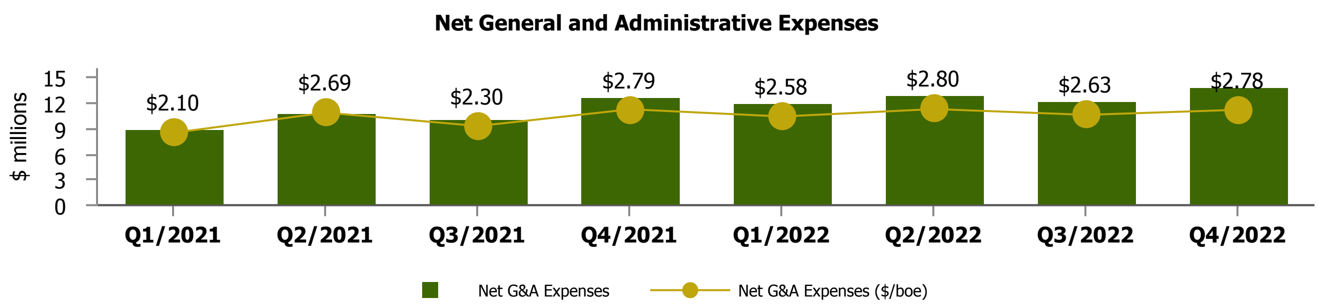
($000s)	For the three months ended December 31, 2022	2021	For the year ended December 31, 2022	2021
Gross G&A	**$ 17,708**	$ 15,792	**$ 63,634**	$ 53,402
G&A recoveries	**(1,066)**	(453)	**(2,841)**	(2,154)
Capitalized G&A	**(2,783)**	(2,556)	**(9,571)**	(8,820)
Net G&A expense	**$ 13,859**	$ 12,783	**$ 51,222**	$ 42,428
Per unit ($/boe) (1)	**2.78**	2.79	**2.70**	2.47

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

Net G&A was $13.9 million and $51.2 million for the three months and year ended December 31, 2022 compared to $12.8 million and $42.4 million for the same periods in 2021. Gross G&A was $17.7 million and $63.6 million for the three months and year ended December 31, 2022 (three months and year ended December 31, 2021 - $15.8 million and $53.4 million). Gross and net G&A has increased mainly as a result of an increase in head count in the current year to manage the increased capital expenditure program.

On a per boe basis net G&A in 2022 increased by 9% from 2021 mainly as result of increased staffing levels as noted above.

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



Share-Based Compensation

($000s)		For the three months ended December 31, 2022		2021		For the year ended December 31, 2022		2021
Equity settled share-based compensation expense	**$**	**309**	$	287	**$**	**1,228**	$	1,721
Cash settled share-based compensation expense		**4,792**		6,468		**17,900**		25,961
Total share-based compensation expense	**$**	**5,101**	$	6,755	**$**	**19,128**	$	27,682

Share-based compensation expense was $19.1 million for the year ended December 31, 2022 compared to $27.7 million for the same period in 2021. The decrease is primarily due to the decrease in the Company's share price and its impact on cash settled share-based compensation expense as explained below.

Equity settled share-based compensation expense was $0.3 million and $1.2 million for the three months and year ended December 31, 2022 compared to $0.3 million and $1.7 million for the same periods in 2021. Equity settled share-based compensation includes the Company's stock option plan and the restricted share unit ("RSU") plan pursuant to which have been awarded up until 2018. The decrease in the equity settled plan expense from the prior year is mainly related to the decrease in the awards remaining to be amortized under these plans as compared to the prior year.

Cash settled share-based compensation relates to the Company's cash settled incentive plans and includes cash settled restricted share units ("CRSUs"), cash or share settled restricted share units ("CosRSUs"), cash or share settled performance share units ("CosPSUs") and deferred share units ("DSUs"). The CRSU plan has replaced the previous share appreciation rights plan for the Colombian employees. For the year ended December 31, 2022 there was an expense of $17.9 million related to cash settled incentive plans compared to $26.0 million for the same period in 2021. This decrease in expense is mainly attributable to the decrease in Parex' share price partially offset by an increase in awards issued under the CosRSU and CosPSU incentive plans. Parex share price decreased to Cdn$20.15 at December 31, 2022 from Cdn$21.61 at December 31, 2021.

Obligations for payments of cash under the Company's cash settled incentive plans are accrued as expense over the vesting period based on the fair value of the units as described in note 17 - Cash Settled Incentive Plans of the audited consolidated financial statements. As at December 31, 2022, the total cash settled incentive plans liability accrued was $28.4 million (December 31, 2021 - $36.0 million).

Cash payments to settle cash settled share-based compensation in the three months and year ended December 31, 2022 were $13.5 million and $28.7 million, respectively (three months and year ended December 31, 2021 - $1.0 million and $16.1 million). The increase is mainly related to the first settlement of the CosPSUs vested in the first quarter of 2022.

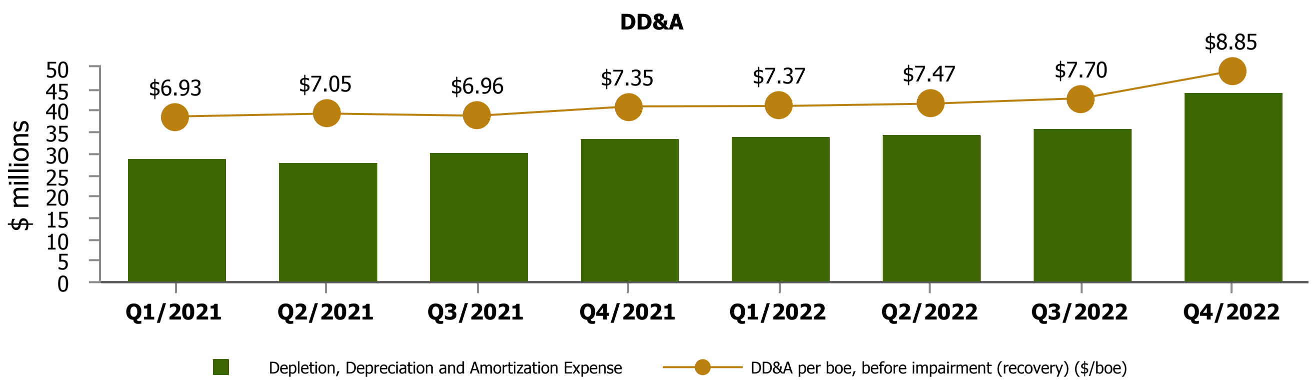
Depletion, Depreciation and Amortization Expense ("DD&A")

		For the three months ended December 31, 2022		2021		For the year ended December 31, 2022		2021
DD&A ($000s) total	**$**	**44,167**	$	33,667	**$**	**149,351**	$	121,396
Per unit ($/boe)[1]		**8.85**		7.35		**7.86**		7.08

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

Fourth quarter 2022 DD&A was $44.2 million ($8.85/boe) compared to $33.7 million ($7.35/boe) for the same period in 2021. For the year ended December 31, 2022 DD&A was $149.4 million ($7.86/boe) as compared to $121.4 million ($7.08/boe) for the prior year.

For the fourth quarter of 2022, future development costs of $524.7 million (three months ended December 31, 2021 - $470.3 million) were included in the depletion calculation. Fourth quarter 2022 DD&A of $8.85/boe increased from the comparative period of $7.35/boe due to adding to our depletable capital base through capital expenditures made during the period, along with an increase in the depletion rate over the previous comparative period.



Foreign Exchange

($000s)		For the three months ended December 31, 2022		2021		For the year ended December 31, 2022		2021
Foreign exchange (gain) loss	**$**	**(3,020)**	$	3,719	**$**	**(18,212)**	$	(2,293)
Foreign currency risk management contracts loss		**288**		471		**807**		471
Total foreign exchange (gain) loss	**$**	**(2,732)**	$	4,190	**$**	**(17,405)**	$	(1,822)
Average foreign exchange rates								
USD$/CAD$		**1.36**		1.26		**1.30**		1.25
USD$/Colombian peso		**4,808**		3,880		**4,255**		3,743

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

For the three months and year ended December 31, 2022, a total foreign exchange gain of $2.7 million and $17.4 million was recorded compared to a loss of $4.2 million and a gain of $1.8 million in the respective prior year periods. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statements of comprehensive income.

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

Foreign Exchange Sensitivity Analysis

Cost component	Estimated percent of cost denominated in local currency	$/boe Impact of change in local currency/ $USD exchange rate: 10% appreciation of local currency	10% depreciation of local currency
Production expense	80 %	$ 0.57	$ (0.57)
Transportation expense	80 %	$ 0.28	$ (0.28)
G&A expense	100 %	$ 0.28	$ (0.28)

The table above displays the estimated per boe impact of a change in Parex' local currencies and the effect on Parex' key cost components. The component impact in $/boe terms uses Q4 2022 per boe costs. This analysis ignores all other factors impacting cost structure including efficiencies, cost reduction strategies, etc.

Net Finance Expense

	For the three months ended December 31,		For the year ended December 31,	
	2022	2021	**2022**	2021
Bank charges and credit facility fees	**$ 841**	$ 569	**$ 3,875**	$ 2,716
Accretion on decommissioning and environmental liabilities	**1,489**	427	**5,807**	3,624
Interest and other income	**(4,724)**	(560)	**(9,015)**	(1,608)
Right of use asset interest	**46**	2	**80**	7
Loss on settlement of decommissioning liabilities	**(529)**	903	**532**	1,136
Loss on disposition of tangible assets	**—**	138	**—**	138
Expected credit loss (recovery) provision	**(342)**	(434)	**(557)**	323
Other	**37**	449	**(29)**	1,733
Net finance expense (income)	**$ (3,182)**	$ 1,494	**$ 693**	$ 8,069

	For the three months ended December 31,		For the year ended December 31,	
	2022	2021	**2022**	2021
Non-cash finance expense	**$ 482**	$ 1,034	**$ 5,580**	$ 6,505
Cash finance (income) expense	**(3,664)**	460	**(4,887)**	1,564
Net finance expense (income)	**$ (3,182)**	$ 1,494	**$ 693**	$ 8,069

Bank taxes and credit facility fees relate to bank taxes paid in Colombia and the standby fees related to the Company's undrawn credit facility. The non-cash components of net finance expense include the accretion on decommissioning and environmental liabilities, loss on settlement of decommissioning liabilities, loss on disposition of tangible assets, other and the expected credit loss provision (recovery) which has decreased in the fourth quarter of 2022 and 2021 due to the improvement in credit markets and ratings.

Risk Management

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

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

a) Risk Management Contracts – Brent Crude

At December 31, 2022 the Company had no crude oil risk management contracts in place and still has no crude oil risk management obligations as of the date of this MD&A. Parex has no outstanding draw on its credit facility or significant commitments due in the next 12 months and as such it is considered appropriate not to have any commodity derivative contracts in place at this time and thereby avoid the costs associated with these types of contracts.

As at December 31, 2022 the Company had no outstanding commodity price risk management contracts.

The Company has no commodity risk management contracts in place for 2023 and is therefore fully exposed to fluctuations in oil prices.

b) Risk Management Contracts – Foreign Exchange

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

The following is a summary of the foreign currency risk management contracts in place as at December 31, 2022:

Period Hedged	Reference	Currency Option Type	Amount USD	Strike Price COP
September 2, 2022 to April 26, 2023	COP	Costless Collar	$15,000,000	4,000-5,000
September 2, 2022 to June 30, 2023	COP	Costless Collar	$15,000,000	4,000-5,100

The following is a summary of the foreign currency risk management contracts put in place since December 31, 2022:

Period Hedged	Reference	Currency Option Type	Amount USD	Strike Price COP
February 16, 2023 to June 15, 2023	COP	Costless Collar	$60,000,000	4,500-5,740

The table below summarizes the loss on the foreign currency risk management contracts that were in place during the three months and years ended December 31, 2022 and 2021:

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2022**	2021	**2022**	2021
Unrealized loss on foreign currency risk management contracts	**288**	471	**807**	471
Total	**$ 288**	$ 471	**$ 807**	$ 471

As at December 31, 2022, with other variables unchanged, the impact on the Company's financial instruments of a 10% strengthening (weakening) of the Canadian dollar and COP against the U.S. dollar would have decreased (increased) net income by approximately $4.9 million.

Income Tax

The components of tax expense (recovery) for the three months and year ended December 31, 2022 and 2021 were as follows:

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2022**	2021	**2022**	2021
Current tax expense	**$ 163,107**	$ 35,046	**$ 346,037**	$ 110,068
Deferred tax expense (recovery)	**(240,446)**	18,222	**(154,239)**	90,642
Total tax expense (recovery)	**$ (77,339)**	$ 53,268	**$ 191,798**	$ 200,710

Current tax expense in the fourth quarter of 2022 was $163.1 million as compared to $35.0 million in the comparative three month period. For the full year 2022 the Company recorded $346.0 million of current tax expense as compared to $110.1 million in 2021. This increase is mainly a result of an increase in cash flows from the prior period primarily as a result of the increase in Brent crude oil prices in 2022 plus the voluntary restructuring (see below) which incrementally added approximately $100.0 million of current tax expense in the fourth quarter of 2022.

Voluntary Restructuring

In late 2022 Parex has completed a voluntary, internal corporate entity restructuring to consolidate certain assets in the Southern Llanos basin into one corporate entity for operational and administrative optimization. The financial impact of this restructuring is that the Company will incur Colombia capital gains taxes in Q4 2022, while gaining an expected incremental increase of $325.0 million to the Company's deferred tax asset balance as at year-end December 31, 2022, which is anticipated to provide benefits over the 2023-2027 fiscal year period. The restructuring had a cost, in the form of an increased current tax expense for Q4 2022, of $100.0 million.

As a result of the restructuring, the Company expects a lower effective tax rate over the 2023-2027 fiscal year period. At the previously budgeted $80 per barrel Brent oil price assumption and existing Colombian tax regulations, the expected benefits of the lower effective tax rate in 2023, which are higher funds flow provided by operations and free funds flow, are reflected in the updated 2023 guidance. Refer to "2023 Guidance" .

2023 Tax Reform

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

For the three months and year ended December 31, 2022 deferred tax was a recovery of $240.4 million and $154.2 million (expenses of $18.2 million and $90.6 million for the three months and year ended December 31, 2021). The deferred tax recovery in the current year periods is a result of the voluntary corporate restructuring completed in Q4 2022 resulting in recording a deferred tax asset of $110.9 million, partially offset by the depreciation of the COP at the period end date, and the unwinding of deferred tax assets.

Capital Expenditures

For the year ended December 31, ($000s)	Colombia 2022	Colombia 2021	Canada 2022	Canada 2021	Total 2022	Total 2021
Acquisition of unproved properties	**$ 5,686**	$ 1,356	**$ —**	$ —	**$ 5,686**	$ 1,356
Geological and geophysical	**15,463**	11,465	**—**	—	**15,463**	11,465
Drilling and completion	**426,695**	216,596	**—**	—	**426,695**	216,596
Well equipment and facilities	**61,754**	42,025	**—**	—	**61,754**	42,025
Other	**576**	321	**2,078**	471	**2,654**	792
Total capital expenditures and acquisitions[1]	**$ 510,174**	$ 271,763	**$ 2,078**	$ 471	**$ 512,252**	$ 272,234

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

For the three months ended December 31, ($000s)	Colombia 2022	Colombia 2021	Canada 2022	Canada 2021	Total 2022	Total 2021
Acquisition of unproved properties	**$ (2,248)**	$ 419	**$ —**	$ —	**$ (2,248)**	$ 419
Geological and geophysical	**2,575**	9,173	**—**	—	**2,575**	9,173
Drilling and completion	**135,183**	84,237	**—**	—	**135,183**	84,237
Well equipment and facilities	**11,964**	20,068	**—**	—	**11,964**	20,068
Other	**237**	45	**35**	326	**272**	371
Total capital expenditures and acquisitions[1]	**$ 147,711**	$ 113,942	**$ 35**	$ 326	**$ 147,746**	$ 114,268

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

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

($000s)	For the three months ended December 31, 2022	2021	For the year ended December 31, 2022	2021
Block LLA-34	**$ 29,309**	$ 27,062	**$ 102,777**	$ 87,372
Southern Llanos	**66,657**	38,611	**198,899**	87,948
Northern Llanos	**26,242**	5,275	**63,934**	7,377
Magdalena Basin	**25,266**	42,949	**143,988**	88,745
Canada - Corporate	**272**	371	**2,654**	792
Total capital expenditures	**$ 147,746**	$ 114,268	**$ 512,252**	$ 272,234

During the year ended December 31, 2022 the Company incurred $512.3 million of capital expenditures compared to $272.2 million in the same period of 2021. During 2022 the Company drilled 66 gross (48.90 net) wells, compared to 49 gross (33.60 net) wells in 2021.

During the year ended December 31, 2022 the Company's capital expenditures of $512.3 million were self-funded from funds flow provided by operations of $724.9 million. Funds flow provided by operations is a Capital Management Measure, see "Non-GAAP and other Financial Measures Advisory" in this MD&A. The Company has maintained its ability to fund growth from cash flow since 2012, excluding the cost of a corporate acquisition completed in 2014.

In the fourth quarter of 2022 the Company drilled 20 gross (14.35 net) wells in Colombia compared to 15 gross (11.40 net) wells in the comparative period in 2021. Drilling and completion costs during the fourth quarter of 2022 totaled $135.2 million mainly related to drilling and completion costs in Colombia at Blocks LLA-34, LLA-40, the Cabrestero Block, the Capachos Block and Block VIM-1.

Other Long-Term Assets

The Company has other long-term assets in the form of long-lead material and equipment inventory with the majority of this material and equipment planned to be put into use with the 2023 capital program. With the current strong demand for material and equipment used in oil and gas operations the Company took an active, first mover approach to securing material and equipment ahead of the 2023 capital program.

Cost		
Balance at December 31, 2020	**$**	**20,004**
Additions		20,369
Transfers to E&E and PP&E assets		(15,368)
Balance at December 31, 2021	**$**	**25,005**
Additions		186,080
Transfers to E&E and PP&E assets		(45,814)
Balance at December 31, 2022	**$**	**165,271**

The below table represents the other long-term asset expenditures for the three months and years ended December 31, 2022 and 2021:

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2022**	2021	**2022**	2021
Additions	**$ 81,407**	$ 11,819	**$ 186,080**	$ 20,369
Transfers to D&P and E&E assets	**(24,992)**	(7,580)	**(45,814)**	(15,368)
Total other long-term asset expenditures	**$ 56,415**	$ 4,239	**$ 140,266**	$ 5,001

Non-cash Impairment Charges

	For the three months ended December 31,		For the year ended December 31,	
($000s)	**2022**	2021	**2022**	2021
Impairment of E&E assets	**$ 26,494**	$ 7,400	**$ 103,394**	$ 27,000
Total non-cash impairment charges before deferred income tax recoveries	**$ 26,494**	$ 7,400	**$ 103,394**	$ 27,000

2022 Impairments

The Company recorded impairments of E&E assets during the three months and year ended December 31, 2022 of $26.5 million and $103.4 million, respectively. It was determined that the carrying amount of certain E&E assets wouldn't be recovered, primarily associated with the Fortuna block costs related to exploration wells which indicated non-economic results and the CPO-11 block costs related to exploration wells which indicated non-economic results and the Company has plans to relinquish the block. The impairment review compared the carrying value of the assets to the fair value less cost of disposal (level 3 input) to determine the recoverable amount which was determined to be $nil for these assets. The net book value of costs on these blocks has been impaired to $nil.

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

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

At December 31, 2022 and 2021 there were no indicators of impairment noted for PP&E, or indicators requiring a reversal of previously recorded impairments.

2021 Impairments

The Company recorded impairments of E&E assets during the three months and year ended December 31, 2021 of $7.4 million and $27.0 million, respectively. It was determined that the carrying amount of certain E&E assets, primarily associated with the De Mares, Merecure and Midas blocks would not be recovered as the Company had plans to relinquish the blocks. The impairment review compared the carrying value of the assets to the fair value less cost of disposal (level 3 input) to determine the recoverable amount which was determined to be $nil for these assets. The net book value of costs on these blocks has been impaired to $nil.

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

	2022	2023	2024	2025	2026	Thereafter
Brent ($US/bbl)	76.00	72.51	71.24	72.66	74.12	2% increase per year
WTI ($US/bbl)	73.00	69.01	67.24	68.58	69.96	2% increase per year

For further information regarding the impairment charges for the years ended December 31, 2022 and 2021, refer to note 7 - Exploration and Evaluation Assets and note 8 - Property, Plant and Equipment in the audited consolidated financial statements.

Impairment Test of Goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3 - Summary of Significant Accounting Policies of the audited consolidated financial statements. The Company has allocated goodwill to the Colombia operating segment. The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded. For additional information refer to note 11 - Goodwill in the audited consolidated financial statements.

Summary of Quarterly Results (unaudited)

Three months ended ($000s) (except per share amounts)	**Dec. 31, 2022**	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022
Average daily oil and natural gas production (boe/d)	**54,257**	51,091	51,143	51,688
Realized sales price - oil ($/boe)(6)	**75.55**	89.33	100.83	89.68
Financial (000s except per share amounts)				
Oil and natural gas sales	**$ 376,347**	$ 405,371	$ 448,255	$ 413,616
Funds flow provided by operations(5)	**$ 85,194**	$ 206,412	$ 227,796	$ 205,488
Per share – basic(2)	**0.78**	1.85	1.98	1.73
Per share – diluted(2)	**0.78**	1.85	1.98	1.73
Net income	**$ 249,958**	$ 65,632	$ 143,128	$ 152,650
Per share – basic	**2.29**	0.59	1.24	1.29
Per share – diluted	**2.29**	0.59	1.24	1.29
Dividends paid	**20,108**	20,042	22,226	13,115
Per share – Cdn$(4)(6)	**0.250**	0.250	0.250	0.140
Capital Expenditures(1)(7)	**$ 147,746**	$ 127,353	$ 126,240	$ 110,913
Other long-term asset expenditures	**$ 56,415**	$ 65,725	$ 6,541	$ 11,585
Total assets (end of period)	**$ 2,314,373**	$ 2,089,253	$ 2,086,407	$ 1,923,836
Outstanding shares (end of period) (000s)	**109,112**	109,323	113,810	116,413
Working capital surplus (end of period)(3)(5)	**$ 84,988**	$ 229,763	$ 311,496	$ 286,684

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".
(3) Working capital does not include the undrawn amount available on the credit facility.
(4) Dividends paid per share are based on the number of common shares outstanding at each dividend record date.
(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory". For the year ended December 31, 2022 funds flow provided by operations includes a $100.0 million ($0.92 per share basic) increased current tax expense as a result of a voluntary internal corporate restructuring, refer to the "Income Tax" section.
(6) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(7) In Q3 2022, the Company changed how it presents exploration and evaluation expenditures included in total capital expenditures. Amounts have been restated for prior periods to conform to the current year's presentation.

Three months ended ($000s) (except per share amounts)	Dec. 31, 2021	Sep. 30, 2021	Jun. 30, 2021	Mar. 31, 2021
Average daily oil and natural gas production (boe/d)	49,779	47,496	43,900	46,779
Realized sales price - oil ($/boe)(6)	68.99	63.56	60.73	53.41
Financial				
Oil and natural gas sales	$ 315,327	$ 272,481	$ 247,318	$ 222,058
Funds flow provided by operations(5)	$ 168,261	$ 152,713	$ 131,602	$ 124,969
Per share – basic(2)	1.39	1.24	1.03	0.96
Per share – diluted(2)	1.39	1.23	1.03	0.96
Net income (loss)	$ 96,041	$ 67,942	$ 91,662	$ 47,460
Per share – basic	0.80	0.55	0.72	0.37
Per share – diluted	0.79	0.55	0.72	0.36
Dividends	35,610	12,021	—	—
Per share – Cdn$(4)(6)	0.375	0.125	—	—
Capital Expenditures(1)(7)	$ 114,268	$ 72,560	$ 46,476	$ 38,930
Other long-term asset expenditures	$ 4,239	$ 1,729	$ (1,629)	$ 662
Total assets (end of period)	$ 1,784,221	$ 1,669,243	$ 1,598,310	$ 1,550,441
Outstanding shares (end of period) (000s)	120,266	121,415	124,938	128,589
Working capital surplus (end of period)(3)(5)	$ 325,780	$ 349,694	$ 352,188	$ 341,686

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".
(3) Working capital does not include the undrawn amount available on the credit facility.
(4) Dividends paid per share are based on the number of common shares outstanding at each dividend record date.
(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".
(6) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".
(7) In Q3 2022, the Company changed how it presents exploration and evaluation expenditures included in total capital expenditures. Amounts have been restated for prior periods to conform to the current year's presentation.

Factors that Caused Variations Quarter Over Quarter

During the fourth quarter of 2022, production of 54,257 boe/d (consisting of 10,511 bbls/d light crude oil and medium crude oil, 42,746 bbls/d of heavy crude oil and 6,000 mcf/d of conventional natural gas) increased by 6% over the previous quarter ended September 30, 2022. Revenue and funds flow provided by operations were lower than the previous quarter due to a decrease in realized prices and the voluntary restructuring completed in the fourth quarter of 2022. For the three months ended December 31, 2022 funds flow provided by operations includes approximately $100.0 million* ($0.92 per share basic**) related to increased current tax expense as a result of a voluntary internal corporate restructuring. Working capital decreased to $85.0 million* from $229.8 million* at September 30, 2022. Dividends paid on common shares for the quarter were $20.1 million (Cdn$0.25 per common share***). Purchases of long-lead inventory for capital projects were $56.4 million for the quarter.

During the third quarter of 2022, production of 51,091 boe/d (consisting of 6,903 bbls/d light crude oil and medium crude oil, 43,063 bbls/d of heavy crude oil and 6,750 mcf/d of conventional natural gas) was comparable to the previous quarter ended June 30, 2022. Revenue and funds flow provided by operations were lower than the previous quarter due to decrease in realized prices. Working capital decreased to $229.8 million* from $311.5 million* at June 30, 2022. Dividends paid on common shares for the quarter were $20.0 million (Cdn$0.25 per common share***). Purchases of long-lead inventory for capital projects were $65.7 million for the quarter. The repurchase of common shares under the NCIB was accelerated during the quarter for a total cost of $72.4 million.

During the second quarter of 2022, production of 51,143 boe/d (consisting of 6,734 bbls/d light crude oil and medium crude oil, 42,373 bbls/d of heavy crude oil and 12,216 mcf/d of conventional natural gas) decreased by 1% over the previous quarter ended March 31, 2022. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices. Working capital increased to $311.5 million* from $286.7 million* at March 31, 2022. Dividends paid on common shares for the quarter were $22.2 million (Cdn$0.25 per common share***).

During the first quarter of 2022, production of 51,688 boe/d (consisting of 5,687 bbls/d light crude oil and medium crude oil, 43,865 bbls/d of heavy crude oil and 12,816 mcf/d of conventional natural gas) was an increase of 4% over the previous quarter ended December 31, 2021. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in volumes sold and realized prices. Working capital decreased to $286.7 million* from $325.8 million* at December 31, 2021. Dividends paid on common shares for the quarter were $13.1 million (Cdn$0.14 per common share***).

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

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

* Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory".
** Non-GAAP ratio". See "Non-GAAP and Other Financial Measures Advisory".
*** Supplementary Financial measure". See "Non-GAAP and Other Financial Measures Advisory".

Fourth Quarter Results

Consolidated Statements of Comprehensive Income for the three months ended December 31, 2022 and 2021:

($000s) For the three month period ended December 31,		2022		2021
Oil and natural gas sales	**$**	**376,347**	$	315,327
Royalties		**(64,445)**		(54,037)
Revenue		**311,902**		261,290
Expenses				
Production		**35,740**		30,541
Transportation		**17,629**		12,651
Purchased oil		**2,207**		2,500
General and administrative		**13,859**		12,783
Impairment of exploration and evaluation assets		**26,494**		7,400
Equity settled share-based compensation expense		**309**		287
Cash settled share-based compensation expense		**4,792**		6,468
Depletion, depreciation and amortization		**44,167**		33,667
Foreign exchange (gain) loss		**(2,732)**		4,190
		142,465		110,487
Finance (income)		**(4,724)**		(560)
Finance expense		**1,542**		2,054
Net finance (income) expense		**(3,182)**		1,494
Income before income taxes		**172,619**		149,309
Income tax (recovery) expense				
Current tax expense		**163,107**		35,046
Deferred tax (recovery) expense		**(240,446)**		18,222
		(77,339)		53,268
Net income and comprehensive income for the period	**$**	**249,958**	$	96,041

Liquidity and Capital Resources

As at December 31, 2022 the Company had a working capital surplus of $85.0 million*, excluding amounts available under the Company's credit facility, as compared to working capital surplus of $325.8 million* at December 31, 2021. Bank debt was $nil at December 31, 2022 and December 31, 2021. The credit facility has a current borrowing base of $200.0 million and is subject to a borrowing base redetermination to be completed by the end of May 2023. At December 31, 2022 Parex held $419.0 million of cash, compared to $353.0 million at September 30, 2022 and $378.3 million at December 31, 2021. The Company’s cash balances reside primarily in current accounts with chartered financial institutions, the majority of which are held on account in Canada, Switzerland and Colombia in U.S. dollars.

Parex' senior secured credit facility ("credit facility") with a syndicate of banks has a current borrowing base of $200.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is $nil balance drawn on the facility as at December 31, 2022, the Company is in compliance with all covenants. The next annual review is scheduled to occur in May 2023. As the Company currently has $nil bank debt and no plans in 2023 to utilize the credit facility, the next re-determination is not expected to impact the Company's current or future operations or reduce the 2023 outlook.

Refer to note 25 - Commitments and Contingencies of the audited consolidated financial statements for a description of the performance guarantee facility with Export Development Canada as well as the unsecured letters of credit.

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

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at December 31, 2022 the Company had 109,112,290 common shares outstanding compared to 120,265,664 at December 31, 2021, a decrease of 9%. At March 8, 2023 the common shares outstanding has been reduced to 107,714,540 due to the Company's 2023 NCIB.

The Company has a stock option plan that provides for the issuance of stock options to the Company’s officers, executives and certain employees to acquire common shares. All remaining restricted share units expire in 2023. In 2019, Parex created a CosRSU and CosPSU plan. Under this new plan any employee who chooses share settlement will receive common shares of the Company purchased on the open market, hence there will be no new issuance of common shares from treasury under this new plan. Going forward, it is expected that only the grants under the Company's stock option plan will result in common shares issued from treasury.

As at March 8, 2023 Parex had the following securities outstanding:

	Number	%
Common shares	107,714,540	99
Stock options	802,598	1
Restricted share units	3,825	—
	108,520,963	100

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

Contractual Obligations, Commitments and Guarantees

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

In Colombia, the Company has provided guarantees to the Colombian National Hydrocarbon Agency ("ANH") which on December 31, 2022 were $129.1 million (December 31, 2021 - $47.9 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada has provided performance security guarantees under the Company's $150.0 million (December 31, 2021 - $150.0 million) performance guarantee facility to support approximately $9.4 million (December 31, 2021 - $11.6 million) of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks. At December 31, 2022, there were an additional $119.7 million (December 31, 2021 - $36.3 million) letters of credit that were provided by select Latin American banks on an unsecured basis.

The following table summarizes the Company’s estimated undiscounted commitments as at December 31, 2022:

($000s)	**Total**	**<1 year**	**1 – 3 years**	**3 – 5 years**	**>5 years**
Exploration	$ 436,491	$ 15,577	$ 255,324	$ 165,590	$ —
Office and accommodations[1]	7,252	1,656	1,998	1,588	2,010
Decommissioning and Environmental Obligations	167,114	6,720	—	—	160,394
Total	**$ 610,857**	**$ 23,953**	**$ 257,322**	**$ 167,178**	**$ 162,404**

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

Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2020	$ 38,210	$ 12,901	$ 51,111
Additions	3,353	3,776	7,129
Settlements of obligations during the year	(8,311)	(1,183)	(9,494)
Loss on settlement of obligations	1,136	—	1,136
Accretion expense	2,279	1,345	3,624
Change in estimate - inflation and discount rates	(1,345)	2,754	1,409
Change in estimate - costs	6,068	580	6,648
Foreign exchange (gain)	(4,660)	(1,949)	(6,609)
Balance, December 31, 2021	$ 36,730	$ 18,224	$ 54,954
Additions	5,330	3,266	8,596
Settlements of obligations during the year	(2,871)	(822)	(3,693)
Loss on settlement of obligations	532	—	532
Accretion expense	3,663	2,144	5,807
Change in estimate - inflation and discount rates	(12,504)	(5,233)	(17,737)
Change in estimate - costs	13,733	162	13,895
Foreign exchange (gain)	(5,795)	(3,267)	(9,062)
Balance, December 31, 2022	**38,818**	**14,474**	**53,292**
Current obligation	(5,471)	(1,249)	(6,720)
Long-term obligation	**$ 33,347**	**$ 13,225**	**$ 46,572**

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2022, 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 $147.6 million as at December 31, 2022 (December 31, 2021 - $88.0 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 14.0% and an inflation rate of 3.5% were used in the valuation of the liabilities (December 31, 2021 - 9.3% risk-free discount rate and a 5.0% inflation rate). The risk-free discount rate and the inflation rate used in 2022 and 2021 are based on forecast Colombia rates.

Included in the decommissioning liability is $5.5 million (December 31, 2021 - $5.7 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately $19.5 million as at December 31, 2022 (December 31, 2021 - $25.9 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 14.0% and an inflation rate of 3.5% were used in the valuation of the liabilities (December 31, 2021 - 9.3% risk-free discount rate and a 5.0% inflation rate). The risk-free discount rate and the inflation rate used in 2022 and 2021 are based on forecast Colombia rates.

Included in the environmental liability is $1.2 million (December 31, 2021 - $1.0 million) that is classified as a current obligation.

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

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

Subsequent Event

On January 4, 2023, the Company commenced an NCIB to purchase for cancellation, from time to time, as it considers advisable up to a maximum of 10,675,555 Common Shares on the open market through the facilities of the TSX and/or alternative trading systems. The NCIB will terminate on January 3, 2024 and Parex expects that it will, at the applicable time submit a notice of intention to make an NCIB to the TSX for calendar 2024. The Company also entered into an automatic share purchase plan with a broker to facilitate repurchases of Common Shares pursuant to the Company's NCIB. Under the Company's automatic share purchase plan, the Company's broker may repurchase Common Shares under the NCIB during the Company's self-imposed blackout periods. The Company has repurchased approximately 1.6 million shares to date in 2023 at an average price of Cdn$22.35 per share, for total consideration of Cdn$36.0 million under the current normal course issuer bid.

Advisory on Forward-Looking Statements

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

- the Company's operational strategy, plans, priorities and focus;
- Parex' expectation to provide a significant return of capital through dividends, including its regular quarterly dividend, and share repurchases, while investing in the Company's assets to provide an appealing total shareholder return;
- Parex' expectations that it will execute on its capital investment plan and the anticipated benefits to be derived therefrom;
- Parex' plans to return certain percentages of FFO to its shareholders in 2023, including through dividends and share repurchases, and the anticipated percentages thereof, and Parex' plans for the remaining FFO in 2023;
- Parex' expectations as to debt levels and hedging activities;
- Parex' anticipated growth in production and production per share;
- Parex' expectations that its average production in Q1 2023 will be below its 2023 annual average production guidance range and that it will be within its 2023 annual average production guidance range in Q2 2023 and for full year 2023;
- Parex' 2023 guidance, including its anticipated funds flow provided by operations netback, capital expenditures; funds flow provided by operations and free funds flow;
- the anticipated terms of the dividends payable on March 31, 2023;
- Parex' expectation that crude oil inventory in future periods will be in line with normal historic levels;
- Parex' plans to relinquish certain blocks;
- the 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 2023 outlook;
- that the Company has no plans to utilize the credit facility in 2023;
- the Company's expectation that only the grants under the Company's stock option plan will result in common shares issued from treasury;
- estimated amounts, timing and the anticipated sources of funding for the Company's exploration, office and accommodations, environmental, decommissioning and restoration obligations;
- the anticipated total undiscounted cash flows required to settle the Company's decommissioning and environmental liability cost, the anticipated timing thereof, and the internal resources available to the Company at the time of settlement;
- Parex' plans to reduce operational Scope 1 and 2 GHG and the anticipated timing thereof;
- Parex' ESG targets of eliminating flaring and reducing operational emissions;
- Parex' target board representation of women and the anticipated timing thereof;
- the Company's expectations regarding the per boe and G&A expense impact caused by appreciation and depreciation of the Colombian peso;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the fluctuation of earnings based on strip prices;
- the Company's estimated effective tax rate for 2023;
- the Company's forecast voluntary corporate restructuring benefits and the anticipated costs and timing thereof;

- Parex' expectations that the majority of its long-lead material and equipment inventory will be put into use with the 2023 capital program;
- terms of certain contractual obligations;
- Parex' plan to monitor and disclose key metrics surrounding the environmental impacts of its operations;
- Parex' expectations that peace negotiations will further institutional strengthening and development in Colombia;
- Parex' expectations that it will be successful in attracting and retaining qualified successors to its Chief Executive Officer and other senior officers in the event of departure;
- the statements set forth under "Accounting Policies and Estimates" in this MD&A; and
- Parex' expectation that it will submit a notice of intention to make an NCIB to the TSX for calendar 2024.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; impact of the COVID-19 pandemic and the ability of the Company carry on its operations as currently contemplated in light of the COVID-19 pandemic; determination by OPEC and other country as to production levels; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility in market prices for oil; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; risk of failure to achieve the perceived benefits from the voluntary corporate restructuring when anticipated, or at all; failure of counterparties to perform under the terms of their contracts; changes to pipeline capacity; risk that Parex' evaluation of its existing portfolio of development and exploration opportunities is not consistent with its expectations; failure to meet expected production targets; risk that Parex will not have sufficient financial resources in the future to pay a divided; risk that the Board does not declare dividends in the future, there is no base dividend growth or that Parex' dividend policy changes; the risk that the amount of FFO to be returned to shareholders is less than anticipated; the risk that Parex' risk management strategy may not be an effective means of managing and forecasting cash flow; the risk that anticipated capital expenditures, growth in production and production per share may be less than anticipated; the risk that the Company may not execute on its capital investment plan; the risk that the Company may not meet its ESG targets of eliminating flaring and reducing emissions; the risk that Parex' long-lead material and equipment inventory may not be put into use with the 2023 capital program; the risk that Parex may not be successful in attracting and retaining qualified successors to its Chief Executive Officer and other senior officers in the event of departure; the risks discussed under "Risk Factors" and under "Decommissioning and Environmental Liabilities" in this MD&A; the risk that Parex may not submit a notice of intention to make an NCIB to TSX for calendar 2024; and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

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

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

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

This MD&A contains information that may be considered a financial outlook under applicable securities laws about the Company's potential financial position, including, but not limited to: Parex' 2023 guidance, including its anticipated funds flow provided by operations netback, capital expenditures, funds flow provided by operations, and free funds flow; the percentages of FFO to be returned to shareholders in 2023; anticipated debt in 2023; estimated amounts and the anticipated sources of funding for the Company's exploration, office and accommodations, environmental, decommissioning and restoration obligations; the anticipated total undiscounted cash flows required to settle the Company's decommissioning and environmental liability costs and the internal resources available to the Company at the time of settlement; and the Company's estimated effective tax rate for 2023; all of which are subject to numerous assumptions, risk factors, limitations and qualifications, including those set forth in the above paragraphs. The actual results of operations of the Company and the resulting financial results will vary from the amounts set forth in this MD&A and such variations may be material. This information has been provided for illustration only and with respect to future periods are based on budgets and forecasts that are speculative and are subject to a variety of contingencies and may not be appropriate for other purposes. Accordingly, these estimates are not to be relied upon as indicative of future results. Except as required by applicable securities laws, the Company undertakes no obligation to update such financial outlook. The financial outlook contained in this MD&A was made as of the date of this MD&A and was provided for the purpose of providing further information about the Company's potential future business operations. Readers are cautioned that the financial outlook contained in this MD&A is not conclusive and is subject to change.

Distribution Advisory

The Company's future shareholder distributions, including but not limited to the payment of dividends and the acquisition by the Company of its shares pursuant to its NCIB, if any, and the level thereof is uncertain. Any decision to pay further dividends on the common shares (including the actual amount, the declaration date, the record date and the payment date in connection therewith and any special dividends) or acquire shares of the Company will be subject to the discretion of the Board of Directors of Parex and may depend on a variety of factors, including, without limitation the Company's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on the Company under applicable corporate law. Further, the actual amount, the declaration date, the record date and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that the Company will pay dividends or repurchase any shares of the Company in the future.

Oil & Gas Matters Advisory

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

Non-GAAP and Other Financial Measures Advisory

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

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

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

Non-GAAP Financial Measures

Capital expenditures, *is a non-GAAP financial measure which the Company uses to describe its capital costs associated with oil and gas expenditures. The measure considers both property, plant and equipment expenditures and exploration and evaluation asset expenditures which are items in the Company's statement of cash flows for the period. In Q3 2022, the Company changed how it presents exploration and evaluation expenditures. Amounts have been restated for prior periods to conform to the current year's presentation, refer to note 2 of the Company's audited consolidated financial statements.*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2022**	2021	**2022**	2021	2020
Property, plant and equipment expenditures	**$ 111,512**	$ 76,454	**$ 389,979**	$ 212,153	$ 116,915
Exploration and evaluation expenditures	**36,234**	37,814	**122,273**	60,081	28,072
Capital expenditures	**$ 147,746**	$ 114,268	**$ 512,252**	$ 272,234	$ 144,987

Free funds flow, *is a non-GAAP financial measure that is determined by funds flow provided by operations less capital expenditures. Amounts have been restated for prior periods to conform to the current year's presentation, refer to note 2 of the Company's audited consolidated financial statements. The Company considers free funds flow or free cash flow to be a key measure as it demonstrates Parex' ability to fund returns of capital, such as the NCIB and dividends, without accessing outside funds and is calculated as follows:*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2022**	2021	**2022**	2021	2020
Cash provided by operating activities	**$ 297,569**	$ 176,003	**$ 983,602**	$ 534,301	$ 290,018
Net change in non-cash working capital	**(212,375)**	(7,742)	**(258,712)**	43,244	7,023
Funds flow provided by operations	**85,194**	168,261	**724,890**	577,545	297,041
Capital expenditures, excluding corporate acquisitions	**147,746**	114,268	**512,252**	272,234	144,987
Free funds flow	**$ (62,552)**	$ 53,993	**$ 212,638**	$ 305,311	$ 152,054

Operating netback, *is a non-GAAP financial measure that the Company considers to be a key measure as it demonstrates Parex' profitability relative to current commodity prices. Parex calculates operating netback as oil and natural gas sales from production less royalties, operating, and transportation expense.*

Non-GAAP Financial Ratios

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

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

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

Basic and diluted adjusted funds flow provided by operations *is calculated by dividing adjusted funds flow provided by operations by the weighted average number of basic and diluted shares outstanding. Parex presents basic and diluted adjusted funds flow provided by operations excluding increased current tax expense per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share. The Company considers basic and diluted adjusted funds flow provided by operations excluding increased current tax expense per share to be a key measure as it demonstrates Parex' profitability after all cash costs relative to current commodity prices after adjustment for the increased current tax expense incurred as a result of the voluntary, internal corporate entity restructuring relative to the weighted average number of basic and diluted shares outstanding.*

Capital Management Measures

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

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2022**	2021	**2022**	2021	2020
Cash provided by operating activities	**$ 297,569**	$ 176,003	**$ 983,602**	$ 534,301	$ 290,018
Net change in non-cash working capital	**(212,375)**	(7,742)	**(258,712)**	43,244	7,023
Funds flow provided by operations	**$ 85,194**	$ 168,261	**$ 724,890**	$ 577,545	$ 297,041

Adjusted funds flow provided by operations, *is a capital management measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital and by adding the increased current tax expense incurred as a result of the voluntary, internal corporate entity restructuring. The Company considers adjusted funds flow provided by operations excluding increased current tax expense to be a key measure as it demonstrates Parex' profitability after all cash costs relative to current commodity prices after adjustment for the increased current tax expense incurred as a result of the voluntary, internal corporate entity restructuring. A reconciliation from cash provided by operating activities to adjusted funds flow provided by operations excluding increased current tax expense is as follows:*

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2022**	2021	**2022**	2021	2020
Cash provided by operating activities	**$ 297,569**	$ 176,003	**$ 983,602**	$ 534,301	$ 290,018
Net change in non-cash working capital	**(212,375)**	(7,742)	**(258,712)**	43,244	7,023
Funds flow provided by operations	**85,194**	168,261	**724,890**	577,545	297,041
Increased current tax cost related to the voluntary, internal corporate entity restructuring	**100,000**	—	**100,000**	—	—
Adjusted funds flow provided by operations	**$ 185,194**	**$ 168,261**	**$ 824,890**	**$ 577,545**	**$ 297,041**

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

	For the three months ended December 31,		For the year ended December 31,		
($000s)	**2022**	2021	**2022**	2021	2020
Current assets	**$ 593,602**	$ 574,038	**$ 593,602**	$ 574,038	$ 442,636
Current liabilities	**508,614**	248,258	**508,614**	248,258	122,481
Working capital surplus	**$ 84,988**	$ 325,780	**$ 84,988**	$ 325,780	$ 320,155

Supplementary Financial Measures

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

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

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

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

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

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

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

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

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

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

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

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

Environmental Initiatives Impacting Parex

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

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

Business Environment and Risks

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

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

Risk Governance

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

Risk Factors

Colombia

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

Guerrilla Activity in Colombia

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

On September 26, 2016, the Colombian government and the Revolutionary Armed Forces of Colombia ("FARC") signed a peace agreement (the "Peace Agreement") and, on November 30, 2016, the Peace Agreement was ratified by the Colombian government. Pursuant to the Peace Agreement, the FARC agreed to demobilize its troops and urban militia members and hand over its weapons to a United Nations mission within 180 days. The FARC then became a legal political party. Under the Peace Agreement, the FARC was guaranteed at least five seats in the Senate and another five seats in the House of Representatives in the 2018 congressional elections. In 2022, the Colombian government has also announced peace negotiations will take place with the Ejército de Liberación Nacional ("ELN") but at this time no agreement has been reached with the ELN.

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

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

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

As at the date of this MD&A, work and production has been suspended on the Capachos and Arauca blocks and it is uncertain as this time when operations will resume in the Arauca and Capachos area. In recent years, the ELN have stepped up their activities against the Colombian government in other areas where they have a presence.

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

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

Climate Change Transition Risks

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

Climate Change Related Litigation

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

Technology

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

Demand and Commodity Prices

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

Access to Capital and Insurance

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

Changing Investor Sentiment

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

Shareholder Activism

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

Climate Change – Physical Risks

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

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

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

Environmental Regulation and Risks

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

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

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

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

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

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

Abandonment and Reclamation Cost Risk

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

Parex ESG Targets and Ambitions

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

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

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

Climate and GHG Emissions Targets and Ambitions

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

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

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

The War in Ukraine

Uncertainty regarding the duration and ultimate effects of the Russia - Ukraine war may result in major disruptions in oil and natural gas supply and continuing commodity price volatility. Further, Canada, the U.S. and other countries have imposed significant sanctions on Russia and many Russian officials, agencies, NGOs, companies and individuals some of whom are involved in the energy business or are significant buyers of crude oil or other hydrocarbons. Parex does not conduct business with sanctioned entities or persons and has no operations or significant business in Russia, Ukraine or other regions affected by these sanctions. Consequently, these sanctions have not had a material impact on Parex or the business. However, the scope and impact of the war, and any related international action, including any future sanctions, cannot be accurately predicted and may have a material adverse impact on the Company's business, prospects, financial condition, results of operations, cash flows, and reputation.

Diversity and Inclusion Target

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

Pandemic Risk

The COVID-19 pandemic remains a risk for the Company. While restrictions have ended or been relaxed in many parts of the world, other jurisdictions continue to impose measures to combat the virus. The COVID-19 pandemic (including the emergence of variant strains of COVID-19) and measures taken in response by governments and health authorities around the world have created ongoing uncertainty that has resulted in and may continue to result in restrictions on movement and businesses being maintained, re-imposed or imposed on a stricter basis, which could negatively impact the Company's business, results of operations and financial condition.

The COVID-19 pandemic, or other pandemics, endemics or outbreaks, may increase the Company's exposure to, and the magnitude of, each of the risks identified in this Risk Factors section of this MD&A and identified in other documents filed with securities regulators from time to time. The duration or extent of the impacts of the COVID-19 pandemic on the Company's business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict with any degree of precision, and include but are not limited to: the severity, duration, spread or resurgence of COVID-19 or its variants; the timing, extent and effectiveness of actions taken to contain or treat COVID-19 or its variants, including the availability, distribution rate, effectiveness and public uptake of any vaccines or boosters; and the speed at which, and extent to which, normal economic and operating conditions resume.

There are no comparable recent events that provide guidance as to the effect the COVID-19 pandemic may have, and, as a result, the ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. The COVID-19 pandemic and the corresponding measures the Company takes to protect the health and safety of its staff and the continuity of its business may result in new legal challenges and disputes, including, but not limited to, litigation involving contract parties or employees and class action claims.

United States Relations with Colombia

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

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

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

Canada relations with Colombia

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

Liabilities under Anti-Bribery Laws

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

Commodity Prices, Markets and Marketing

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

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

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

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

Social Disruptions and Instability

The oil and natural gas exploration, development and operating activities conducted by the Company may, at times, be subject to disruption. Parex operates in Colombia. In Colombia companies operating in the oil and gas industry have experienced interruptions to their operations and production curtailments as a result of social instability and labour disruptions. For example, there were a series of protests across Colombia during May 2021 and again in spring 2022 which resulted in transportation blockades that restricted the production and marketing of Parex' crude oil which resulted in a temporary decrease to Parex production at that time. Additionally, the transportation blockades impeded the supply of materials required for capital expenditure activities, including drilling and completions. The blockades were not directly related to Parex' activities or those of its industry partners. In Colombia labor disruptions can be local or nationwide.

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

Reserves Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exploration, Development and Production Risks

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

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

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

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

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

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

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

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

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

Political Uncertainty

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

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

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

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

Corruption

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

Risks Associated with Geographically Concentrated Operations
The majority of the Company's production comes from one block in the Llanos Basin in Colombia. For the year ended December 31, 2022, the Tigana, Jacana and Tigui and Tua Fields located in Block LLA-34 collectively generated approximately 59% of the Company's production and at December 31, 2022, Block LLA-34 accounted for 56% of its proved oil and gas reserves. As a result of this concentration, the Company may be disproportionately exposed to the impact of, among other things, regional supply and demand factors including limitations on its ability to most profitably sell or market its oil and gas to a smaller pool of potential buyers, delays or interruptions of production from wells in these areas caused by governmental regulation, community protests, guerrilla activities, processing or transportation capacity constraints, continued authorization by the government to explore and drill in these areas, severe weather events and the availability of drilling rigs and related equipment, facilities, personnel or services. Due to the concentrated nature of the Company's portfolio of properties, a number of the Company's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on its results of operations than it might have on other companies that have a more diversified portfolio of properties.

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

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

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

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

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

Foreign Subsidiaries

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

Information Technology Systems and Cyber-Security

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

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

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

Risks of Foreign Operations

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

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

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

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

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

Security and Insurance

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

Legal Systems

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

Potential Conflicts of Interest

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

Regulatory

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

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

Issuance of Debt

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

Availability of Drilling Equipment and Access

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

Title to Assets

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

Dilution

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

Market Price of Common Shares

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

Cost of New Technologies

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

Risk Management of Commodity Prices or Currency

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

Litigation

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

Breach of Confidentiality

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

Income Taxes

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

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

Diversification

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

Expansion into New Activities

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

Earnings of the Company

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

Accounting Adjustments

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

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

Cash from Subsidiaries

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

Dependence on Management

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

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

Ability to Attract and Retain Qualified Personnel

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

Credit Facilities

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

Internal Controls

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

Reputational Risk Associated with the Company's Operations

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

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

Purchase of Securities under the NCIB

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

Dividends

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

Forward-Looking Statements May Prove Inaccurate

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

Inflation and Cost Management

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

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

Internal Controls over Financial Reporting

Disclosure controls and procedures (“DC&P”), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation authorities is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Parex evaluated the effectiveness of the design and operation of the Company’s DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded Parex DC&P were effective as at December 31, 2022.

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

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

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining ICFR for Parex. They have, as at the financial year ended December 31, 2022, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Parex officers used to design the Company's ICFR is the 2013 Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Parex conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2022 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2022, Parex maintained effective ICFR. It should be noted that while Parex officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Parex' ICFR during the year ended December 31, 2022 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the twelve months ended December 31, 2022 other than normal course guarantees entered into in the form of letters of credit to support the exploration work commitments on its blocks. For further information refer to "Contractual Obligations, Commitments and Guarantees" section above and note 25 - Commitments and Contingencies in the audited consolidated financial statements.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized in the consolidated balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value. The fair values of the current financial instruments approximate their carrying value due to their short-term maturity.

Related Party Transactions

Compensation of Key Management Personnel

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

	2022	2021
Salaries, directors' fees and other benefits	**$ 4,972**	$ 6,365
Equity settled share-based compensation	**709**	1,075
Cash settled share-based compensation	**7,984**	2,424
	$ 13,665	$ 9,864

Other related party transactions

The Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2022 and 2021.

Significant Accounting Policies

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

Significant Accounting Estimates

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

Oil and natural gas reserves

The Company retains qualified independent reserves evaluators to evaluate the Company's proved and probable oil and natural gas reserves. As at December 31, 2022 and in prior periods, Parex' reserves were evaluated by GLJ Ltd., who are a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with the COGE handbook and NI 51-101. The Operations and Reserves Committee of the Company's Board of Directors is comprised of independent directors whose mandate is to steward the reserves evaluation process.

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

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

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

Decommissioning and Environmental Liabilities

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

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

Current and Deferred tax

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

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

Share-Based Compensation

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

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

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

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

PSUs may be granted with certain performance measures, specified at the grant date as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor of between 0-2x is applied to PSUs eligible to vest at the end of the performance period. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor.

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

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date.

Goodwill

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

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

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

Derivative liabilities

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

Legal, Environmental Remediation and other Contingent Matters

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

DIRECTORS

Wayne Foo
Chairman of the Board

Lynn Azar

Lisa Colnett

Sigmund Cornelius

Robert Engbloom

Bob MacDougall

Glenn McNamara

Imad Mohsen

Carmen Sylvain

Paul Wright

OFFICERS & SENIOR EXECUTIVES

Imad Mohsen
President and Chief Executive Officer

Eric Furlan
Chief Operating Officer

Kenneth G. Pinsky
Chief Financial Officer & Corporate Secretary

Katie Bernard
Vice *President, New Ventures*

Daniel Ferreiro
President, Parex Colombia & Country Manager

Ryan Fowler
Sr. Vice President, Exploration & Business Development

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

Joshua Share
Sr. *Vice President, Corporate Services*

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ABBREVIATIONS

Oil and Natural Gas Liquids

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

Other

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

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.