

MESSAGE FROM THE PRESIDENT

The accompanying materials describe the results of the first full year of operations for Parex Resources Inc., which was formed in November 2009. The materials describe our Company's first reserves report and first production.

Our most significant achievement has been discovery and initial delineation of the Kona discovery on Block LLA-16 in Colombia. Following the discovery in June 2010, we were able to reconfigure our schedule of operations. We began drilling the confirmation well at Kona-2 during the third quarter and commenced the delineation well at Kona-3 during the fourth quarter. On the basis of results from Kona 1 and 2 our independent reserves evaluator assessed Kona reserves at 5.9 million barrels of light oil, net to Parex's 50% working interest, on a proved plus probable basis; and at 10.4 million barrels on a proved plus probable plus possible basis. First production was achieved in late November from the Mirador formation at Kona 1 and the well has been produced on natural flow at rates up to 2,900 barrels of light oil per day with minimal water.

The complexity involved in running simultaneous drilling, completion and production operations often gets lost in a simple paragraph. All this was achieved while operating through the worst "wet season" in decades. I've included the photo below to illustrate the tremendous effort involved in changing a rice field to an oil field in 10 months.



Description: In the foreground we have the Petrex rig drilling K4, in the middle of the picture we have Rig 118 deepening our K2 well and Rig 109 drilling a well on our K3 Pad, and in the background our Kona 5 location. The road exiting to the left hand of the picture is towards our loading facility and the orientation of the photo is facing north.

Elsewhere on Block 16, we are preparing to commence production from the Supremo-1 well, which encountered the primary objective, the Mirador Formation on the flank of the structure and we are preparing to test the Kopi-1 well.



In Trinidad, we tested oil and associated gas at sustained rates in excess of 500 bopd gross from the Snowcap-1 well on the Moruga Block. The test has demonstrated that reservoir quality in the Herrera sands is significantly better than we anticipated, but we are waiting on test analysis to help determine a minimum indication of reservoir size before deciding on next steps at Snowcap. In the meantime, we are rigging up to deepen the Firecrown-1 well to the earning depth and proceed to test the Herrera reservoirs at that location during the second quarter of 2011.

Trinidad brings a different operational challenge: the photo below shows our operation in its proximity to community infrastructure behind the oil tanker. As in Colombia, community relations and strong health, safety and environmental performance are critical aspects of being allowed to operate and to be deemed a welcome participant.



Hopefully, these simple illustrations will help you with context as you read through our financial statements, Management's Discussion and Analysis and the Annual Information Form.

On behalf of the Board of Directors and management of the Company, I'd like to thank you for your support over our first year of operations and I hope that you can join us for our Annual General Meeting in Calgary on May 26, 2011.

A handwritten signature in black ink, appearing to read 'Wayne Foo'.

Wayne Foo
President & CEO

March 9, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Parex Resources Inc. ("Parex" or the "Company") is dated March 9, 2011 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2010 and 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Company was incorporated as 1485196 Alberta Ltd. on August 17, 2009, pursuant to the Business Corporations Act (Alberta). On September 29, 2009 the Company filed Articles of Amendment to change its name to Parex Resources Inc. The Company was incorporated for the purpose of completing a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta) with Pluspetrol Resources Corporation N.V., its wholly owned subsidiary, 1462627 Alberta Ltd. (together "Pluspetrol") and Petro Andina Resources Inc. ("Petro Andina").

In connection with the Arrangement, through a series of transactions, Parex acquired from Petro Andina all of the issued and outstanding shares of Petro Andina (Barbados) Ltd. (now Parex Resources (Barbados) Ltd.) ("Parex Barbados"), Petro Andina (Colombia) Ltd. (now Parex Resources (Colombia) Ltd.) ("Parex Colombia") and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. (now Parex Resources (Trinidad) Ltd.) ("Parex Trinidad"), as well as inter-company loans and other receivables from Parex Barbados, Parex Trinidad and Parex Colombia, working capital and other miscellaneous assets. As the shareholders of Petro Andina ultimately continued to hold their respective interests in Parex, there was no resulting change of control of Parex Barbados and Parex Colombia. Therefore, the acquisition was accounted for using continuity-of-interests accounting under the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee Abstract 89 "Exchanges of Ownership Interests between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries" ("EIC-89"). Under EIC-89 no fair value adjustments were made for the assets acquired.

The audited consolidated financial statements of Parex for the year ended December 31, 2010 and the disclosures throughout the MD&A reflect the assets and liabilities of Parex Barbados and Parex Colombia. In addition, the comparative consolidated financial statements of Parex were restated to reflect the financial position and results of operations as if Parex, Parex Barbados and Parex Colombia had been combined since their inception. As a result, references to Parex in the MD&A incorporate the activities of Parex and its subsidiaries from their inception.

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

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 future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "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, possible future transactions 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 performance characteristics of the Company's oil properties; supply and demand for oil; financial and business prospects and financial outlook; results of drilling and testing; drilling plans; activities to be undertaken in various areas including the fulfillment of exploration commitments; timing of drilling; planned capital expenditures, the timing thereof and the method of funding; the use of certain technologies and materials; treatment under governmental regulatory regimes; tax laws and associated tax horizons; results of operations; and future costs. In addition, statements relating to "reserves" or "resources" are by their nature forward-



looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves or resources described can be profitably produced in the future

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; 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, Colombia and Trinidad & Tobago; 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; outcome of pending sales of partners; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; the risks that any estimate of potential net oil pay is not based upon an estimate prepared or audited by an independent reserves evaluator; that there is no certainty that any portion of the hydrocarbon resources will be discovered, or if discovered that it will be commercially viable to produce any portion thereof; 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; 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 is 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: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; the Company's ability to add production and reserves through exploration and development activities; 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; royalty rates; future operating costs; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves.

Management has included the above summary of assumptions and risks related to forward-looking information provided 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 therefrom. 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.

Non-GAAP Terms

Funds flow used in, or from operations, working capital and operating netback per barrel may from time to time be used by the Company, but do not have any standardized meaning under GAAP and may not be comparable to similar measures presented by other companies. Funds flow used in, or from operations includes all cash generated from operating activities and is calculated before changes in non-cash working capital. Funds flow used in operations is reconciled with net earnings in the Consolidated Statements of Cash Flows. Funds flow per share is calculated by dividing funds flow used in, or from operations by the weighted average number of shares outstanding. Working capital includes current assets less current liabilities. Operating netback per barrel equals sales revenue, less royalties, production expense and transportation expense, divided by total equivalent sales volume. Management uses these non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future growth expenditures.



Highlights

- As at December 31, 2010 the Company had established proved light oil reserves of 1.07 mmbbl and proved plus probable reserves of 5.85 mmbbl of oil in relation to its Kona discovery in Colombia;
- During 2010 Parex drilled 4 gross wells (2 net) in Colombia and 2 gross wells (1 net) in Trinidad & Tobago, with an overall success rate of 83%;
- Light oil production from the Kona-1 well on Block LLA-16 in Colombia commenced in late November, 2010 at an initial test rate of 500 bbl/d of oil and was increased to a gross rate of up to 2,900 bbl/d of oil with a water cut of approximately 1 percent on natural flow;
- Construction of a 7-kilometre oil flowline and treatment facility was completed in November, 2010 to allow for transport and treatment of up to 8,000 bbls of fluid per day to be produced from the Kona prospect in Colombia. Construction has commenced to expand the facility's capacity to 25,000 bbls of fluid per day;
- In Trinidad & Tobago testing of the second exploration well, Snowcap-1, began in the fourth quarter of 2010. Subsequent to December 31, 2010, Snowcap-1 testing resulted in a final four-day gross rate average of 580 bbl/d of 35° API oil and 5.4 million standard cubic feet per day ("mmscf/d") of natural gas from the primary Herrera zone on natural flow;
- The Company closed a Cdn\$75.4 million bought-deal equity financing on November 16, 2010 raising net proceeds of Cdn\$71.2 million; and
- Parex maintained a strong balance sheet with cash and cash equivalents of \$123.5 million and working capital of \$115.3 million at December 31, 2010.

| For the year ended December 31, | 2010 | 2009 ⁽¹⁾ |
|---|-----------|---------------------|
| Average daily sales | | |
| Oil (bbl/d) | 77 | - |
| Natural gas (boe/d) ⁽²⁾ | 9 | 1 |
| Total (boe/d) | 86 | 1 |
| Realized sales price (\$/boe) | \$ 83.51 | \$ 25.93 |
| Financial (\$000s except per share amounts) | | |
| Oil and natural gas revenue | 2,621 | 14 |
| Net loss | (13,385) | (4,729) |
| Per share – basic | \$ (0.20) | \$ (0.09) |
| Per share – diluted | \$ (0.20) | \$ (0.09) |
| Funds flow used in operations | (7,643) | (3,926) |
| Per share – basic | \$ (0.12) | \$ (0.08) |
| Per share – diluted | \$ (0.12) | \$ (0.08) |
| Total assets (end of period) | 210,500 | 133,485 |
| Working capital (end of period) | 115,326 | 95,704 |
| Long-term debt (end of period) | - | - |
| Weighted average shares outstanding (000s) | | |
| Basic | 65,516 | 51,055 |
| Diluted | 65,516 | 51,055 |
| Outstanding shares (end of period) (000s) | | |
| Basic | 76,968 | 63,870 |
| Diluted | 82,608 | 67,345 |

⁽¹⁾ Determined using continuity-of-interest accounting (EIC-89).

⁽²⁾ Natural gas sales were attributed to minor Canadian non-operated oil and natural gas properties which were sold in October 2010.



Description of Business

Strategy

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

Principal Properties

As at December 31, 2010, the Company's principal land holdings and exploration blocks were as follows:

| | Working Interest | Gross Acres | Net Acres |
|--|------------------|-------------|-----------|
| Colombia | | | |
| Llanos Basin Blocks LLA-16, 20, 29 & 30 ^{(1) (4)} | 50% | 489,133 | 244,567 |
| Trinidad & Tobago | | | |
| Central Range Blocks ⁽²⁾ | 50% | 211,478 | 105,739 |
| Moruga Block ⁽³⁾ | 50% | 11,970 | 5,985 |
| Total | | 712,581 | 356,291 |

⁽¹⁾ The initial exploration phase under the Company's exploration and production ("E&P") contracts is 36 months. Subsequent to this period, the Company has the option to enter into a second 36-month exploration phase. The effective date of the Colombian contracts is April 20, 2009 for Blocks LLA-16 and LLA-20, and October 20, 2009 for Blocks LLA-29 and LLA-30. Exploration property deemed non-commercial will be released in due course.

⁽²⁾ Working interests noted are for the exploration phase of the Production Sharing Contracts ("PSCs"). The Petroleum Company of Trinidad & Tobago ("Petrotrin") has the right to participate at a 35 percent working interest in any development on the Central Range Shallow Block and at a 20 percent interest in any development on the Central Range Deep Block. The initial exploration phase under the Company's PSCs was 48 months. However, on August 9, 2010, the Ministry of Energy and Energy Affairs ("MEEA") approved an extension of the first exploration phase to 60 months. The effective date of both Trinidad & Tobago Central Range Block PSCs is September 18, 2008. Exploration property deemed non-commercial will be released in due course.

⁽³⁾ The Moruga Block is an exploration block with farm-in commitments ongoing. The working interest noted is post-completion of farm-in earning.

⁽⁴⁾ Excludes Llanos Basin Block LLA-57 for which an E&P contract was signed on February 11, 2011.

All of the Company's properties in Colombia and Trinidad & Tobago are subject to exploration commitments for seismic and drilling activities as described below.

a) Llanos Basin (LLA) Blocks (Colombia)

Parex holds a 50 percent working interest in the following exploration blocks in the Llanos Basin of Colombia: Block LLA-16, Block LLA-20, Block LLA-29 and Block LLA-30. The Company is party to a joint venture agreement with Columbus Energy Sucursal Colombia ("Columbus"), a wholly owned subsidiary of Remora Energy International, L.P., under which Parex and Columbus each own a 50 percent working interest in the blocks. The Company is the operator of Blocks LLA-16 and LLA-20; Blocks LLA-29 and LLA-30 are operated by Columbus. The E&P contracts consist of an initial exploration phase of 36 months with the option for the parties to enter into a second 36 month exploration phase. The exploration work commitments for the initial exploration phase, before reduction for the work incurred to date, total \$46 million to the Company representing 19 gross wells and 900 square kilometres ("km²") of three-dimensional ("3D") seismic (Parex 50 percent working interest, respectively), of which the 3D seismic commitment has been completed.

During the fourth quarter of 2010, Parex received final confirmation from the ANH that the Company has been awarded Block LLA-57 (100 percent working interest) in the Llanos Basin. Block LLA-57 covers 104,532 acres and lies immediately north of the Parex-operated Block LLA-20. The exploration contract with the ANH was signed on February 11, 2011. The Company's bid terms for Block LLA-57 were a Phase 1 work program of \$10.1 million and a supplemental royalty (x-factor) of 1 percent over the base ANH royalty (see section "Colombian Royalties" on page 8). The block has a six-year exploration term divided into two 36-month exploration phases. With Block LLA-57, Parex' total gross acreage in Colombia's Llanos Basin increases from approximately 489,000 acres (245,000 net acres) to 594,000 acres (349,000 net acres).

Subsequent to year-end, the Kona-3 well was spud on Block LLA-16. Kona-3 was designed to evaluate the northern extent of the field and programmed to drill to a depth of 13,058 feet. The bottom hole location for the Mirador Formation was 445 meters north of Kona-1 and approximately 865 meters north of Kona-2. Kona-3 penetrated multiple oil objectives as programmed and encountered shows of hydrocarbons during drilling from the C7 and Mirador



formations. The Kopi-1 well was spud on January 19, 2011. This well was drilled to a depth of 10,993 feet and was located 18 kilometres south of the Kona discovery on the same fault trend. The well has been cased to total depth and is awaiting testing. Along a new fault trend in Block LLA-16, the Supremo-1 well was drilled to a depth of 12,035 feet and recently tested. The well produced on pump approximately 2,500 bbls of fluid per day from the Mirador Formation of 500 bbl/d of 31° API oil. The Supremo-1 well is currently suspended. Along the same fault trend as Supremo-1, the Goroka-1 well was drilled to a depth of 12,037 feet. Goroka-1 was cased and tested wet, and has been completed as a water disposal well. On March 1, 2011 the Kona-4 well was spud. Kona-4, located approximately 420 meters south of Kona-2, is programmed to drill to a total measured depth of 12,800 feet and evaluate the C7, Mirador, Gacheta and Une formations.

On Block LLA-20 in Colombia, the Conoto-1 well was drilled to a depth of 8,100 feet. Wire line and mud gas logs from the Conoto-1 well identified reservoir quality sand in the C7 and Mirador formations. Conoto-1 tested and flowed non-commercial rates of 18° API oil and was subsequently suspended. The Zocay-1 well was spud in the fourth quarter of 2010 and was rig released and abandoned in January 2011 without testing.

The following table summarizes the Company's 2010 activities in Colombia:

| | LLA-16 | LLA-20 | LLA-29 | LLA-30 | Total |
|--|--------|--------|--------|--------|-------|
| Km ² of 3D seismic acquired | 319 | 254 | 195 | 180 | 948 |
| Wells drilled | 3 | 1 | - | - | 4 |
| Wells in progress at year-end | 1 | 1 | - | - | 2 |

Light oil production from the first exploratory well, Kona-1, began in November, 2010 at rates of up to 2,900 bbl/d gross (1,450 bbl/d net Company working interest). An independent reserve evaluation by GLJ Petroleum Consultants Ltd. was commissioned for the Kona discovery. As at December 31, 2010 estimated proved plus probable reserves were 5.85 million bbls of light oil.

b) Central Range Blocks (Trinidad & Tobago)

Parex holds working interests in the Central Range Shallow and Central Range Deep Blocks located onshore Trinidad & Tobago. The blocks are subject to PSCs that were signed on September 18, 2008. The Company is party to a joint venture agreement with Niko Resources Ltd. (formerly Voyager Energy Ltd.) ("Niko"), and is the operator of the blocks. During the exploration phase of the PSCs, Parex and Niko will each hold a 50 percent working interest. Petrotrin has the right to participate at a 35 percent working interest in any development on the Central Range Shallow Block and at a 20 percent working interest in any development on the Central Range Deep Block. The PSCs provide for an initial exploration phase of 48 months. On August 9, 2010, the MEEA approved an extension of the first exploration phase to 60 months.

The PSCs have minimum work commitments during the initial 60-month exploration phase of the contracts. The work commitments total 100 kilometres of two-dimensional ("2D") seismic, 168 km² of 3D seismic, one deep well to be drilled to a minimum depth of 12,000 feet and two shallow wells to be drilled to a maximum depth of 4,500 feet. Under the terms of the joint venture agreement with Niko, Parex will pay 100 percent of the first \$10 million of seismic acquisition costs during the exploration phase, of which approximately \$8.5 million was incurred as at December 31, 2010. Petrotrin is carried through the minimum work commitments of the contracts.

There was minimal work completed on the Central Range Blocks in 2010 as the focus was on the Moruga Block and in obtaining regulatory approvals for the Central Range Blocks exploration drilling.

The Company currently has no oil and natural gas production or published oil and natural gas reserves for the Central Range Blocks.

c) Moruga Block (Trinidad & Tobago)

On September 16, 2009, Parex Trinidad entered into an agreement with Primera Oil and Gas Limited and Primera Energy Resources Ltd. (together, "Primera") (the "Farm-In") to farm-in to the interests of these companies in the Moruga Block Exploration and Production Licence located in South Central Trinidad & Tobago (the "Moruga Block"). The terms of the Farm-In require Parex Trinidad to drill one exploratory well to a depth of 8,600 feet or the top of the Cretaceous, whichever occurs first, and one exploratory well to 10,500 feet. In connection with the Farm-In, an application has been made for Parex Trinidad to become the operator of the Moruga Block. The Farm-In and transfer of operatorship are subject to approval by the MEEA and the Ministry of



Finance of the Republic of Trinidad & Tobago. Parex Trinidad will earn a 50 percent working interest in the Moruga Block by paying 95 percent of all costs, to a maximum of \$13.3 million for drilling and evaluating these two exploration wells. The Moruga Block encompasses 11,970 gross acres and targets oil-prone prospects.

The Company drilled two exploration wells in the Moruga Block in 2010. The first well, Firecrown-1, was drilled to a depth of 8,701 feet and cased for future testing. The second well, Snowcap-1, was drilled to a depth of 8,600 feet. A Certificate of Environmental Clearance for the completion and testing approvals for the Snowcap-1 well was received on November 11, 2010. The Snowcap-1 well tested the primary Herrera zone in a multi-point test. The final four day gross rate of the test averaged 580 bbl/d of 35° API oil and 5.4 mmscf/d of natural gas under natural flow. The well is currently shut-in to record down-hole pressure build-up for analysis of the test. In addition, a deep Eocene zone and a deeper member of the Herrera zone tested wet or flowed non-commercial rates of hydrocarbon.

The Firecrown-1 well is scheduled to be deepened to the earning objective of 10,500 ft in the first half of 2011 after which the well will be completed to test the primary objectives that were encountered in the shallower section of the well along with any additional zones of interest encountered in the deepening.

The Company currently has no published oil and natural gas reserves for the Moruga Block.

2010 Outlook – Comparison to Actual Results

Total capital expenditures for the year ended December 31, 2010 were \$42.8 million, with \$29.0 million spent in Colombia and \$13.8 million spent in Trinidad & Tobago, compared to the Company’s projected capital expenditures of approximately \$45 million for 2010, with \$32 million allocated to Colombia and \$13 million to Trinidad & Tobago. The variance is mainly due to the delay in commencing drilling operations on the last two wells of the 2010 Colombia program.

Net G&A expenses for the year ended December 31, 2010 were \$11.7 million which were substantially in line with a projection of \$12.0 million.

2011 Outlook

Parex’ Board of Directors has approved a 2011 capital and operating budget that is expected to drive the Company’s continued growth and to capitalize on 2010 exploration success. Capital expenditures are planned to increase from \$42.8 million in 2010 to approximately \$70-\$88 million in Colombia and \$23-\$32 million in Trinidad & Tobago in 2011. A summary of the 2011 capital plan is provided below:

| (Net \$ millions) | Colombia | Trinidad & Tobago | Total |
|--------------------------------------|-------------------|-------------------|--------------------|
| Exploratory and development drilling | \$ 55 - 70 | \$ 11 - 18 | \$ 66 - 88 |
| Well equipment and facilities | 10 - 13 | 3 - 5 | 13 - 18 |
| Geological and geophysical | 5 | 9 | 14 |
| Total | \$ 70 - 88 | \$ 23 - 32 | \$ 93 - 120 |

Colombia

Parex plans to drill 16-20 gross (8-10 net) wells targeting oil in 2011. Two wells were in progress as at December 31 2010, Goroka-1 and Zocay-1. Subsequent to year-end, Kona-3 and Kopi-1 were spud and have been cased and are awaiting testing. On Block LLA-16 and Block LLA-20 the Company plans to drill 14-16 gross (7-8 net) wells and expects 2-4 gross (1-2 net) wells on Block LLA-29 and Block LLA-30. On the Company’s operated blocks, the average drilling depth is expected to be in excess of 11,300 feet.

In 2011, a key area of focus for the Company will be the development of the Kona light-oil discovery. Parex’ capital plans include drilling 6 gross (3 net) development appraisal wells and expanding the oil treatment facilities and terminal capacity from 8,000 bbls of fluid per day to 25,000 bbls of fluid per day with the capability to further increase capacity as warranted.



Geological and geophysical activity for the Company in 2011 includes a 165 km² 3D seismic program for Block LLA-57, a 70 km² 3D seismic program for Block LLA-16 and a 100 km² 3D seismic program for Block LLA-20.

Trinidad & Tobago

Parex plans to drill 3-5 gross (1.5-2.5 net) wells in 2011. The Company will be focused on fulfilling its Central Range Block commitments, particularly through the drilling of 2 gross (1 net) wells on the Central Range Shallow Block and 1 gross (0.5 net) well on the Central Range Deep Block. Additionally, Parex plans to drill 2 gross (1 net) wells targeting oil in 2011 on the Moruga Block. The Company is currently examining drilling rig alternatives for its Central Range and Moruga deep prospects.

Key assumptions underlining the 2011 outlook are as follows:

- World oil prices remain stable;
- There is no material adverse change to the current fiscal regimes in Colombia or Trinidad & Tobago;
- Drilling and testing results are within the Company's expectations; and
- Regulatory approvals are obtained at a similar pace to that experienced in 2010 in Colombia and on a timely basis in Trinidad & Tobago.

The 2011 capital budget is expected to be fully funded from available working capital and augmented by estimated 2011 funds flow from operations. Guidance on funds flow from operations will not be provided at this time as the Company only recently commenced production and sales in Colombia. The Company does expect 2011 net exit rate production to be in the range of 7,000 - 9,000 bbl/d, before royalties. Parex' current Trinidad & Tobago portfolio is in the early stages of execution. Upon the evaluation of the exploration results and the determination of marketing arrangements, the Company will be better positioned to provide a 2011 production estimate for this program.

Financial and Operational Results

Consolidated Results of Operations

Parex' operations are carried out in Colombia, Trinidad & Tobago and Canada which are the Company's reportable segments.

| | 2010 | 2009 |
|------------------------------|----------|----------|
| Average daily sales | | |
| Colombia – oil (bbl/d) | 77 | - |
| Canada – natural gas (boe/d) | 9 | 1 |
| Total (boe/d) | 86 | 1 |
| Operating netback (\$000s) | | |
| Oil and natural gas revenue | \$ 2,621 | \$ 14 |
| Royalties | (175) | - |
| Net revenue | 2,446 | 14 |
| Production expense | (349) | (6) |
| Transportation expense | (526) | - |
| Operating netback | \$ 1,571 | \$ 8 |
| Operating netback (per boe) | | |
| Oil and natural gas revenue | \$ 83.51 | \$ 25.93 |
| Royalties | (5.57) | - |
| Net revenue | 77.94 | 25.93 |
| Production expense | (11.11) | (11.71) |
| Transportation expense | (16.75) | - |
| Operating netback | \$ 50.08 | \$ 14.22 |

The Company's operating netback for 2010 was \$50.08/boe. After adjusting for the sale of the minor non-operated Canadian properties the Colombian operating netback was \$54.63/bbl. Realized sales price in Colombia was \$89.24/bbl for the period with royalty charges of \$6.36/bbl calculated on production which came on-stream in the latter part of 2010. Royalties are calculated by deducting transportation costs from realized sales and applying an appropriate royalty percentage. Production expense for the Company was \$11.11/boe during the year, however its Colombian operating cost was lower at \$9.54/bbl.



Parex expects its Colombian operating costs on a per barrel basis to decline given the amortization of fixed operating costs over larger production volumes. Colombia production is currently on natural flow rates, without pumps. Transportation and marketing alternatives continue to be examined by the Company in an effort to maximize the net proceeds from monetizing production in Colombia. Canadian operations relate to minor non-operated properties which were not significant to the Company's current and future operations and were sold in October 2010.

Colombian Oil Revenue

| | 2010 | 2009 |
|-------------------------------|----------|------|
| Oil revenue (\$000s) | \$ 2,508 | \$ - |
| Realized sales price (\$/bbl) | \$ 89.24 | \$ - |

Oil sales started in late November 2010 as a result of the Company commencing production from its Colombian Kona field in Block LLA-16.

(a) Colombian Sales Volumes

| | 2010 | 2009 |
|---------------------------------|------|------|
| Average daily oil sales (bbl/d) | | |
| Kona | 77 | - |

Production from the first exploratory well, Kona-1, in Block LLA-16 started in November, 2010 at rates of up to 2,900 bbl/d gross (1,450 bbl/d net company working interest). Oil sales have been interrupted at times due to seasonal delays in December and current transportation and offloading capacity limitations being experienced in the Llanos Basin. During the first half of February 2011, as trucking restrictions have been lifted, the Kona-1 well has produced at a gross average rate of 2,771 bbl/d gross (1,386 bbl/d net). A total of 56,210 bbls gross (28,105 bbls net) were sold as at December 31, 2010.

(b) Colombian Commodity Prices

| | 2010 | 2009 |
|-------------------------------|----------------------|------|
| WTI (\$/bbl) | 89.15 ⁽¹⁾ | - |
| Vasconia (\$/bbl) | 80.51 ⁽²⁾ | - |
| Realized sales price (\$/bbl) | 89.24 | - |

⁽¹⁾ Average WTI price for December 2010.

⁽²⁾ Average Vasconia price for November 2010. Vasconia is a 28.4° API crude oil.

Oil sales commenced in November 2010 and were based upon two different marketing contracts. The initial contract was a spot marketing agreement based upon an average November 2010 Vasconia price plus a quality adjustment factor ("QAF"). The QAF was calculated based on the difference between Vasconia's and Kona's oil quality. The realized sales price for November was in-line with WTI given the 35°-37° API oil produced from Kona. The second and current oil sale contract was priced to WTI in the corresponding month of sale. The Company's average realized oil sales price was \$89.24/bbl during the last two months of 2010.

Colombian Royalties

| | 2010 | 2009 |
|--------------------------------------|---------|------|
| Royalties (\$000s) | \$ 179 | \$ - |
| Per unit (\$/bbl) | \$ 6.36 | \$ - |
| Percentage of revenue ⁽¹⁾ | 9% | - |

⁽¹⁾ Net of transportation costs

The Company's Colombian government royalties are comprised of a fixed rate of 8 percent, supplemented with a 1 percent x-factor based upon the E&P contract terms signed with the ANH. Royalties may be paid in kind or by cash at the realized sales price less transportation expenses incurred in order to achieve payment. The Company expects payment to be made in cash to the ANH. Should monthly average daily production rates exceed 5,000 bbl/d, the Company's royalty rates will increase by 1 percent for each incremental 10,000 bbl/d of production per field. In addition, as accumulated production of any



production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices are exceeded by pricing determined in the contract, the Company's royalty percentage will increase to approximately 29 percent given current WTI prices.

Royalty expense increased in 2010 as a result of the Company commencing production in the fourth quarter of 2010.

Colombian Production Expense

| | 2010 | 2009 |
|-----------------------------|---------|------|
| Production expense (\$000s) | \$ 268 | \$ - |
| Per unit (\$/bbl) | \$ 9.54 | \$ - |

Production expense includes the cost of activities in the field to operate wells and facilities, lift to surface, gather, process, treat and store production. The fourth quarter cost per barrel of \$9.54/bbl reflects the operating cost associated with having only one producing well in the Kona field. As additional wells commence production, Parex expects a reduction in the cost per barrel as many of the production costs are fixed and as the costs for facilities and infrastructure are shared over a larger production base.

Production expense increased in 2010 as a result of the Company commencing production in the fourth quarter of 2010.

Colombian Transportation Expense

| | 2010 | 2009 |
|---------------------------------|----------|------|
| Transportation expense (\$000s) | \$ 526 | \$ - |
| Per unit (\$/bbl) | \$ 18.71 | \$ - |

The Company's current Colombian oil sales contracts include an oil transportation tariff charged from delivery point at the Company's off-load facility in the Kona field to the buyer's facility. As at December 31, 2010, under the current marketing agreement, a total of 54,203 bbls were transported 620km to the buyer's facility at a cost of \$19/bbl. Transportation expense increased in 2010 as a result of the Company commencing sales in Colombia in the fourth quarter of 2010.

General and Administrative Expense ("G&A")

| (\$000s) | 2010 | 2009 |
|-----------------|-----------|----------|
| Gross G&A | \$ 16,878 | \$ 4,085 |
| G&A recoveries | (3,137) | (141) |
| Capitalized G&A | (2,006) | (115) |
| Net G&A expense | \$ 11,735 | \$ 3,829 |

Net G&A was \$11.7 million and \$3.8 million for the years ended December 31, 2010 and 2009 respectively. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expenses. The increase is mainly attributable to salaries and benefits for the additional staff hired during 2010 to support the increased activity given the start-up nature of the Company's operations. The Company engages local in-country staff at the earliest opportunity and engages local professional services to improve execution and manage costs. A total of 68 full-time-equivalents in three locations were working for Parex as at December 31, 2010. As capital and operating activities increase it is expected that G&A will also increase primarily in Colombia and Trinidad & Tobago. For the year ended December 31, 2010, gross G&A was mainly comprised of \$12.3 million relating to staff, consultants and professional services, \$1.9 million relating to office costs, \$1.1 million relating to legal matters of a non-recurring nature, and various other expenses totaling \$1.4 million.

Stock-Based Compensation Expense

| (\$000s) | 2010 | 2009 |
|----------------------------------|----------|--------|
| Stock options | \$ 3,359 | \$ 571 |
| Share appreciation rights | 599 | - |
| Stock-based compensation expense | \$ 3,958 | \$ 571 |

The Company has a stock option plan for employees, officers, directors and consultants. The Company calculates stock option expense using graded vesting. Parex' stock options typically vest over a three-year period and expire five years from the date of grant. The determination of fair value for recording stock option expense is based upon assumptions including stock volatility, a risk-free interest rate, an expected dividend rate and expected life of the options. The



Company uses Black-Scholes valuation methodology to value the stock options at the date of award for accounting purposes. The maximum number of stock options reserved for issuance under the plan may not exceed 10 percent of the number of common shares issued and outstanding. As at December 31, 2010, 5,639,339 stock options or 7 percent of the number of common shares outstanding are outstanding. The increase in the stock option expense from 2009 to 2010 was the result of the initiation of a stock option plan for the Company in late 2009. For options granted during the year ended December 31, 2010, the weighted average fair value at the grant date was Cdn\$3.08 per option (year ended December 31, 2009 – Cdn\$1.33 per option).

During the second quarter of 2010, Parex Trinidad and Parex Colombia initiated a share appreciation rights (“SARs”) plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company’s common shares at the time of exercise over the grant price. At any time, if the current market price of the Company’s common shares exceeds four times the grant price, Parex has the option to require the holders to exercise all vested SARs. SARs typically vest over a three-year period and expire five years from the date of grant. The SARs liability cannot be settled by the issuance of common shares. As at December 31, 2010, 745,833 SARs had been awarded, all to employees in Colombia and Trinidad & Tobago. As at December 31, 2010, the weighted average exercise price of SARs outstanding was Cdn\$6.34. The increase in SARs expense from 2009 to 2010 was the result of the initiation of a SARs plan for the Company during the second quarter of 2010.

Interest Expense and Income

| (\$000s) | 2010 | 2009 |
|--------------------------------|----------|--------|
| Related-party interest expense | \$ - | \$ 558 |
| Interest income | (379) | (59) |
| Net interest (income) expense | \$ (379) | \$ 499 |

In 2009, prior to the Arrangement, interest expense was charged from Petro Andina to Parex Trinidad and Parex Colombia and accordingly, interest expense was not eliminated upon consolidation as Petro Andina was not part of the Parex consolidated group. Subsequent to November 6, 2009, the related intercompany loans were transferred to Parex and intercompany interest charges were eliminated in the consolidated financial statements for the year ended December 31, 2010. Interest income was earned on cash balances held during the period.

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

| (\$000s) | 2010 | 2009 |
|----------|----------|--------|
| DD&A | \$ 1,713 | \$ 292 |

During the fourth quarter of 2010, as production commenced from the Kona field in Colombia, the Company began depleting its oil assets associated with the Kona field. Depletion was calculated on a unit of production basis using proved reserves providing for a total of \$424,000 (\$15.00/bbl) as at December 31, 2010. The remaining DD&A relates to seismic equipment and office equipment which are depreciated over the assets estimated useful lives.

Foreign Exchange Gain

| (\$000s) | 2010 | 2009 |
|-----------------------|----------|--------|
| Foreign exchange gain | \$ 3,160 | \$ 454 |

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars, Colombian pesos and Trinidad & Tobago dollars as the Company’s functional currency is the US dollar. The Company also has exposure in Canada, Colombia and Trinidad & Tobago on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The Company holds Canadian dollars and Canadian dollar-denominated short-term deposits to meet head-office general and administrative expenditures. All cash balances in Colombia must be held in Colombian pesos due to local currency exchange requirements. During the year ended December 31, 2010, the total foreign exchange gain was \$3.2 million (\$1.0 million unrealized) due primarily to the appreciation of the Colombian peso and the Canadian dollar versus the US dollar. The Trinidad & Tobago dollar was relatively stable against the US dollar during 2010. Foreign exchange gains and losses may be reversed as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of operations. The Company does not hedge against fluctuations in exchange rates, but reviews its exposure to foreign currency fluctuations on an ongoing basis and maintains Canadian, Colombian and US-denominated deposits.



Income and Equity Tax Expense

| (\$000s) | 2010 | 2009 |
|---------------------------------------|-----------------|-------------|
| Colombia – future income tax recovery | \$ (1,114) | \$ - |
| Colombia – equity tax | 2,203 | - |
| Trinidad & Tobago | - | - |
| Canada and other foreign subsidiaries | - | - |
| Income and equity tax expense | \$ 1,089 | \$ - |

The Canadian parent company and the foreign subsidiaries incurred losses for both accounting and tax purposes. As at December 31, 2010, the Company recorded a tax asset of \$4.3 million associated with its Colombian subsidiary's tax losses. Of this \$4.3 million, \$1.1 million was recorded in the 2010 Income Statement and \$3.2 million reduced the carrying value of property, plant and equipment. Colombian production is expected to generate the necessary taxable income to offset these tax losses in future periods. The Company does not recognize any benefit for its Canadian tax losses nor its Trinidad & Tobago losses at this time.

Parex' Colombian subsidiary is subject to a one-time tax which is calculated based on the subsidiary's net tax equity as at January 1, 2011 at a rate of 6 percent. Equity tax is payable over four years (1.5 percent per year) starting in 2011. As at December 31, 2010, \$2.2 million of equity tax expense had been accrued, which represented the estimated total amount of the tax.

Capital Expenditures

| (\$000s) | 2010 | 2009 |
|------------------------------------|------------------|------------------|
| Geological and geophysical | \$ 6,813 | \$ 17,229 |
| Acquisition of unproved properties | 1,885 | 3,912 |
| Drilling and completion | 31,320 | 469 |
| Well equipment and facilities | 2,341 | - |
| Other | 463 | 773 |
| | \$ 42,822 | \$ 22,383 |
| Colombia | 29,025 | 10,197 |
| Trinidad & Tobago | 13,768 | 12,123 |
| Canada | 29 | 63 |
| | \$ 42,822 | \$ 22,383 |

During the year ended December 31, 2010, the Company incurred \$42.8 million of capital expenditures compared to \$22.4 million in 2009. Increased capital spending is integral to the Company's growth strategy. The activity by country is described below:

Colombia

During 2010, in Block LLA-16, the Company drilled 3 gross (1.5 net) wells and spud 1 gross (0.5 net) well. In Block LLA-20, Parex drilled 1 gross (0.5 net) well and spud 1 gross (0.5 net) well. Parex also processed and evaluated 254 km² of 3D seismic on Block LLA-20 and through its joint venture partner acquired, processed and evaluated 195 km² in Block LLA-29 and 180 km² in Block LLA-30. The Company also completed the construction of a flow line and a loading facility at the Kona prospect on Block LLA-16 and initiated the construction of two new drilling locations on Block LLA-16. Drilling and completions expenditures totaled \$21.0 million. Well equipment, facilities and other fixed assets accounted for \$1.5 million of expenditures. Land costs amounted to \$0.3 million and \$6.2 million was incurred on seismic.

Capital expenditures for the year ended December 31, 2009 were primarily 3D seismic expenditures on blocks LLA-16 and LLA-20.

Trinidad & Tobago

During 2010, the Company drilled two exploratory wells on the Moruga Block and commenced the testing program on the second farm-in exploratory well, Snowcap-1. Drilling and completions expenditures totaled \$10.3 million, while expenditures on well equipment, facilities and other fixed assets were \$1.2 million. Capital expenditures relating to the Central Range Block in 2010 included \$1.6 million of acreage and other associated PSC costs as well as \$594,000 in seismic processing and interpretation costs.



Capital expenditures in 2009 primarily related to acquiring and processing 216 kilometres of 2D seismic on the Central Range Block. There were no significant capital expenditures incurred on the Central Range Block in the fourth quarter of 2010.

Summary of Quarterly Results (Unaudited)

| Three months ended | Dec. 31, 2010 | Sept. 30, 2010 | June 30, 2010 | March 31, 2010 |
|---|------------------|-------------------|------------------|-------------------|
| Average daily sales (boe/d) | 306 | 11 | 11 | 13 |
| Realized sales price (\$/boe) | 89.69 | 25.00 | 29.00 | 32.00 |
| Financial (\$000s except per share amounts) | | | | |
| Net loss | (1,285) | (4,140) | (4,389) | (3,571) |
| Per share – basic | \$ (0.02) | \$ (0.06) | \$ (0.07) | \$ (0.06) |
| Per share – diluted | \$ (0.02) | \$ (0.06) | \$ (0.07) | \$ (0.06) |
| Funds flow from (used in) operations | 1,854 | (3,555) | (2,617) | (3,325) |
| Per share – basic | \$ 0.03 | \$ (0.06) | \$ (0.04) | \$ (0.05) |
| Per share – diluted | \$ 0.03 | \$ (0.06) | \$ (0.04) | \$ (0.05) |
| Total assets (end of period) | 210,500 | 128,897 | 128,183 | 128,558 |
| Working capital (end of period) | 115,326 | 57,408 | 72,945 | 86,487 |
| Long-term debt (end of period) | - | - | - | - |

| Three months ended ⁽¹⁾ | Dec. 31, 2009 | Sept. 30, 2009 | June 30, 2009 | March 31, 2009 |
|--|------------------|-------------------|------------------|-------------------|
| Average daily sales (boe/d) ⁽²⁾ | 6 | - | - | - |
| Realized sales price (\$/boe) ⁽²⁾ | 25.93 | - | - | - |
| Financial (\$000s except per share amounts) | | | | |
| Net loss | (2,316) | (1,445) | (624) | (344) |
| Per share – basic | \$ (0.04) | \$ (0.03) | \$ (0.01) | \$ (0.01) |
| Per share – diluted | \$ (0.04) | \$ (0.03) | \$ (0.01) | \$ (0.01) |
| Funds flow used in operations | (1,569) | (1,393) | (620) | (344) |
| Per share – basic | \$ (0.03) | \$ (0.03) | \$ (0.01) | \$ (0.01) |
| Per share – diluted | \$ (0.03) | \$ (0.03) | \$ (0.01) | \$ (0.01) |
| Total assets (end of period) | 133,485 | 46,147 | 13,428 | 12,740 |
| Working capital (end of period) | 95,704 | 15,986 | (5,429) | (1,992) |
| Long-term debt (end of period) | - | - | - | - |

⁽¹⁾ Determined by using continuity-of-interests accounting (EIC-89) for the periods pre-December 31, 2009.

⁽²⁾ Sales were generated by the minor non-operated Canadian properties that were transferred from Petro Andina to Parex through the Arrangement on November 6, 2009 and were sold in October, 2010



Fourth Quarter Results (Unaudited)

In the three months ended December 31, 2010, Parex commenced production and sales from its Colombian operation, assessed proved plus probable reserves of 5.85 million bbls of oil (net company working interest) and closed a bought-deal equity financing raising gross proceeds of Cdn\$75.4 million (Cdn\$71.2 million net). As at December 31, 2010 Parex had \$123.5 million of cash on hand with working capital of \$115.3 million, with no long-term debt.

| For the three months ended December 31, | 2010 | 2009 |
|---|------------------|-----------------|
| Average daily sales | | |
| Colombia – oil (bbls/d) | 306 | - |
| Canada – natural gas (boe/d) | - | 6 |
| Total (boe/d) | 306 | 6 |
| Capital expenditures (\$000s) | | |
| Colombia | \$ 11,299 | \$ 7,202 |
| Trinidad & Tobago | 1,802 | 2,214 |
| Canada | (26) | 63 |
| Total | \$ 13,075 | \$ 9,479 |
| Operating netback (\$000s) | | |
| Oil and natural gas revenue | \$ 2,521 | \$ 14 |
| Royalties | (175) | - |
| Net revenue | 2,346 | 14 |
| Production expense | (285) | (6) |
| Transportation expense | (526) | - |
| Operating netback | \$ 1,535 | \$ 8 |
| Operating netback (per boe) | | |
| Oil and natural gas revenue | \$ 89.69 | \$ 25.93 |
| Royalties | (6.21) | - |
| Net revenue | 83.48 | 25.93 |
| Production expense | (10.14) | (11.71) |
| Transportation expense | (18.71) | - |
| Operating netback | \$ 54.63 | \$ 14.22 |

Revenue in the fourth quarter of 2010 was \$2.5 million compared to \$14,000 in the same period of 2009. This resulted from the Company commencing production and sales from the Kona field in Block LLA-16 in Colombia. This also generated an increase in royalties, production expense and transportation expense.

Capital expenditures during the fourth quarter of 2010 were \$13.1 million compared to \$9.7 million for the same period in 2009. Increased expenditures were mainly due to additional drilling activity and the construction of a treatment facility in Colombia.

During the fourth quarter of 2010, on Block LLA-16 in Colombia, the Company drilled the Supremo-1 well and spud the Goroka-1 well. On Block LLA-20, the Company spud the Zocay-1 well and during October, 2010 the Conoto-1 well was rig released. Parex processed and evaluated 195 km² of 3D seismic on Block LLA-29 through its joint venture partner in the quarter. The Company also completed the construction of a flow line and treatment facility at the Kona prospect on Block LLA-16. Construction of two new drilling locations on Block LLA-16 was also completed during the latter part of 2010. Drilling and completions expenditures totaled \$8.8 million, well equipment and facilities were \$1 million and \$1.3 million was incurred on seismic.

In Trinidad & Tobago during the fourth quarter of 2010, the Company commenced testing of the second farm-in exploratory well on the Moruga Block, Snowcap-1. Drilling and completion costs totaled \$1.0 million and well equipment and facilities costs amounted to \$397,000 at Snowcap. Parex also incurred \$262,000 of acreage charges and other associated PSC fees during the quarter.



A summarized unaudited income statement for the fourth quarter is set out below:

| For the three months ended December 31, | 2010 | 2009 |
|---|------------|------------|
| (\$000s) | | |
| Operating netback (as above) | \$ 1,535 | \$ 8 |
| Less: | | |
| G&A | 2,640 | 1,825 |
| Stock-based compensation | 1,458 | 571 |
| Net interest expense (income) | (170) | 112 |
| DD&A | 588 | 243 |
| Foreign exchange gain | (1,960) | (427) |
| Loss before taxes | (1,021) | (2,316) |
| Income and equity tax expense | 264 | - |
| Net loss | \$ (1,285) | \$ (2,316) |

G&A was \$2.6 million during the fourth quarter of 2010 compared to \$1.8 million for the same period of 2009. The increase is mainly attributable to salaries and benefits for the additional staff hired during 2010 to support the increased activity given the start-up nature of the Company's operations. A total of 68 full-time-equivalents in three locations were working at Parex as at December 31, 2010 compared to 46 as at December 31, 2009.

Fourth quarter DD&A rose year-over-year from \$243,000 in 2009 to \$588,000 in 2010 mainly due to the Company beginning the depletion of the oil assets associated with the Kona field as production commenced. All of the 2009 DD&A relates to seismic equipment, office equipment and the minor non-operated Canadian properties.

Liquidity and Capital Resources

As at December 31, 2010 Parex had \$123.5 million of cash on hand, compared to \$101.3 million at December 31, 2009. The Company's cash balances reside in current accounts and term deposits, the majority of which are held on account in Canada.

As at December 31, 2010 working capital was \$115.3 million, with no long-term debt. Parex currently has no credit facility, but has signed a general security agreement with Export Development Canada ("EDC") to secure the guarantees provided by EDC to support the letters of credit issued to the ANH in connection with the initial exploration work commitments associated with its Colombian properties.

On November 16, 2010 Parex closed a bought-deal equity financing with a syndicate of underwriters to issue 11,650,000 common shares at Cdn\$5.80 raising gross proceeds of Cdn\$67.6 million (Cdn\$63.8 million net). The underwriters were also granted an over-allotment option to purchase up to an additional 1,350,000 common shares at the same offering price. This option was fully exercised bringing additional gross proceeds of Cdn\$7.8 million (Cdn\$7.4 million net). Total equity proceeds amounted to Cdn\$75.4 million gross (Cdn\$71.2 million net). Parex accessed the additional financial resources to fund all of its existing work commitments, fund expedited development and provide financial flexibility to potentially pursue business development opportunities.

Parex has estimated exploration and other commitments over the next two years of approximately \$18.4 million in Trinidad & Tobago and approximately \$19.2 million in Colombia. Parex has sufficient financial resources to fund all of its work commitments and other discretionary future capital costs based upon the Company's current working capital position.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at December 31, 2010 the Company had 76,968,285 common shares outstanding.

The Company has a stock option plan. The plan provides for the issuance of options to the Company's directors, officers, employees and consultants to acquire common shares. The maximum number of options reserved for issuance under the stock option plan may not exceed 10 percent of the number of common shares issued and outstanding.



As at March 9, 2011 Parex has the following securities outstanding:

| | Number | % |
|---------------|------------|-----|
| Common shares | 77,155,368 | 93 |
| Stock options | 5,452,256 | 7 |
| Fully diluted | 82,607,624 | 100 |

As of the date of this MD&A, total stock options outstanding represent 7 percent of the total issued and outstanding common shares.

Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will impact 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. The Company's exploration commitments are described under "Description of Business – Principal Properties". These obligations and commitments are considered in assessing cash requirements in the discussion of future liquidity.

In Colombia, the Company has provided guarantees to the ANH totaling \$23 million related to its 50 percent share of the initial exploration work commitments. The guarantees have been provided in the form of letters of credit for 18-month terms which, upon expiration in January, 2011, were renewed for a second 18-month term. EDC has provided the Company's bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH have not yet been reduced for either the 3D seismic work performed in 2009 or the drilling activity and 3D seismic work costs that were incurred during 2010.

In connection with the recently signed exploration contract dated February 11, 2011 with ANH for Block LLA-57, the Company is required to place a guarantee of approximately \$3.85 million related to its initial exploration work.

In Trinidad & Tobago, the Company has purchased a performance bond and provided a guarantee to the underwriters of the bond in the amount of \$33 million to cover its and Niko's share of the financial guarantees required under the Central Range Block PSCs for the initial four-year exploration phase. In the event of default by Niko, the joint venture agreement provides that Niko's working interest shall vest in Parex. The obligations under the PSCs are to perform the exploration work commitments, irrespective of actual cost. Parex has no obligation to spend the actual amount guaranteed. The amount of the bond has not been reduced to reflect either the 2D seismic commitment work performed in 2009 or the drilling exploratory work that was performed during the year ended December 31, 2010.

The following table and footnotes summarize the Company's estimated commitments as at December 31, 2010:

| (\$000s) | Total | <1 year | 1-3 years | 3-4 years | >5 years |
|--|-----------|-----------|-----------|-----------|----------|
| Exploration ⁽¹⁾ | \$ 34,429 | \$ 19,804 | \$ 14,625 | \$ - | \$ - |
| Office and accommodations ⁽²⁾ | 2,775 | 707 | 1,283 | 785 | - |
| Other | 3,137 | 1,473 | 1,664 | - | - |
| Total | \$ 40,341 | \$ 21,984 | \$ 17,572 | \$ 785 | \$ - |

⁽¹⁾ Exploration commitments do not include production bonuses and other payments that will vary depending on production levels due to the uncertainty of their amount and timing.

⁽²⁾ Includes minimum lease payment obligations associated with leases for office space and accommodations.

The Company has entered into contracts for drilling rigs in Colombia and Trinidad & Tobago. Rig contracts in both countries included commitments to use the rigs for a minimum period on terms consistent with normal industry practice. The Company anticipates that, given its planned level of drilling activity to



meet exploration commitments in both countries, the rigs will be fully utilized for the duration of their contracts and no material additional charges will be incurred.

Business Environment and Risks

Parex is exposed to a variety of risks including, but not limited to, operational, financial, competitive, political and environmental risks.

As a participant in the oil and natural gas industry, Parex is exposed to operational risks such as: unsuccessful exploration and exploitation activities, the inability to find new reserves that are commercially and economically feasible, premature declines of reservoirs, blow-outs and other operating hazards, and lack of infrastructure or transportation to access markets and monetize reserves. The Company works to mitigate these risks by employing highly skilled personnel and utilizing available technology. The Company also maintains a corporate insurance program consistent with industry practices to protect against insurable losses.

The Company is exposed to normal financial risks inherent in the oil and natural gas industry including: commodity price risk, exchange rate risk, interest rate risk and credit risk. From time to time, the Company may have to raise additional funds to finance business development activities. However, depending on market conditions at the time, there can be no assurance that the Company will be able to arrange debt or equity financing on satisfactory terms. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in commodity prices, foreign currency rates and interest rates. Parex operates the majority of its properties and, therefore, has significant control over the timing, direction and costs related to exploration commitments and development opportunities.

The oil and natural gas industry is intensely competitive, with Parex competing against companies that may have greater technical and financial resources. There is competition for new exploration and development properties, for drilling and other specialized technical equipment and for experienced key human resources. To the extent possible, Parex seeks to enter into joint venture arrangements with large and/or experienced industry players in each country to improve its access to resources.

Parex is focused on international oil and natural gas activities, currently with interests in Colombia and Trinidad & Tobago. As such, the Company is subject to political risks such as: changes in policy environments related to changes in government, price controls, renegotiation of land tenure agreements, nationalization, amendments or changes to legal systems, complex regulatory regimes and foreign language risks. The Company focuses its foreign operations in countries where management has prior experience and/or engages local in-country staff as soon as possible. The Company engages local, Canadian and international legal, accounting and tax professionals. The Company may also, from time to time, arrange for insurance to mitigate specific risks.

The oil and natural gas industry is subject to extensive and varying environmental regulations imposed by governments in all countries in which Parex operates. The Company adopts prudent and industry-recommended field operating procedures in all of its operations, as well as maintaining a health, safety and environment program.

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 drilling by having drilling locations spread out among different exploration blocks and geological basins and by targeting multiple play-types.



Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements in the year ended December 31, 2010.

Financial Instruments and Other Instruments

The Company did not utilize financial instruments such as hedges or swaps in the year ended December 31, 2010.

Related-Party Transactions

The Company did not enter into any related-party transactions in the year ended December 31, 2010.

The comparative financial statements for the year ended December 31, 2009 were prepared under the continuity-of-interest accounting guidelines (EIC-89). Given this method of preparation, in the consolidated statements of cash flows for the year ended December 31, 2009 there is an increase in related-party receivables of \$36.1 million, which are amounts due from Parex Barbados, Parex Colombia and Parex Trinidad to Petro Andina through loan advances, interest and charges under technical service agreements. This receivable held by Petro Andina was transferred to Parex along with all the issued and outstanding shares of Parex Colombia, Parex Barbados and indirectly Parex Barbados's subsidiary Parex Trinidad, pursuant to the Arrangement, and was eliminated upon consolidation at December 31, 2009.

Similar to the related-party receivable noted above, included in the consolidated statement of operations, comprehensive loss and deficit for the year ended December 31, 2009 is \$558,000 of related-party interest expense. Interest was charged by Petro Andina to Parex Colombia and Parex Trinidad until November 6, 2009, on loan balances and technical service agreement invoices. However, after November 6, 2009, the intercompany interest expense was eliminated upon consolidation.

During the year ended December 31, 2009, \$1,494,000 relating to technical service agreements was charged by Petro Andina to Parex Colombia and Parex Trinidad. After the Arrangement, the charge relating to the technical service agreements was also eliminated upon consolidation.

Prior to November 6, 2009, interest on the intercompany loan advances and charges under the technical service agreements were not eliminated in the Company's financial statements as Petro Andina was not part of the Parex consolidated group consistent with continuity-of-interests accounting (EIC-89).

Critical Accounting Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make judgments, assumptions and estimates that affect the financial results of the Company. Management reviews its estimates regularly but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The Company believes the following are the most critical accounting estimates in preparing its consolidated financial statements.

Full cost accounting

The Company follows the full cost method of accounting for its oil and natural gas properties. Accordingly, all costs related to the acquisition, exploration and development of oil and natural gas reserves, whether successful or not, are capitalized. Costs related to oil and natural gas properties are depleted and depreciated using the unit-of-production method based on gross (before royalties) proved reserves of oil and natural gas as determined by independent engineers. In determining the cost base for depletion and depreciation, the Company includes estimated future capital costs associated with developing proved reserves and excludes costs of unproved properties, net of impairments.

The carrying amount of oil and natural gas properties may not exceed their recoverable amount (the ceiling test). The recoverable amount is calculated as the undiscounted net cash flow from the properties using proved reserves and expected future prices and costs. If the carrying amount of the properties exceeds their recoverable amount, an impairment loss is recognized in depletion equal to the amount by which the carrying amount of the properties exceeds their fair



value. Fair value is calculated as the net cash flow from those properties using proved plus probable reserves and expected future prices and costs, discounted at a risk-free interest rate. Properties excluded from the depletion and depreciation calculation are assessed periodically to ascertain whether impairment has occurred.

The alternative method of accounting for oil and natural gas properties is the successful efforts method. The major difference in applying the successful efforts method is that exploratory dry holes and geological and geophysical exploration costs are charged against net earnings in the year they are incurred rather than being capitalized. The use of the full cost method usually results in higher capitalized costs and higher DD&A rates than the successful efforts method. At December 31, 2010, the net recoverable amount of the Company's properties exceeded their carrying amount by an adequate margin.

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. In 2010, Parex' reserves were evaluated by GLJ Petroleum Consultants Ltd., who are a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The Company's Operations and Reserves Committee 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 earnings, as they are a key component in the calculation of DD&A and for determining potential asset impairment. For example, a revision to the reserve estimate would result in a higher or lower DD&A charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of oil and natural gas properties. For the year ended December 31, 2010, a decrease in reserves of 5 percent would have resulted in an increase in DD&A expense of approximately \$22,300. At December 31, 2010, if reserve values had decreased by 5 percent, the Company would not have required a write-down of its oil and natural gas properties.

The realized crude oil prices, net of transportation and differentials, used in the ceiling test at December 31, 2010 are listed below.

| | \$/bbl |
|--------------------|--------|
| 2011 | 69.55 |
| 2012 | 70.23 |
| 2013 | 70.91 |
| 2014 | 72.57 |
| 2015 | 75.41 |
| Average thereafter | 78.65 |

As previously discussed in the section headed Liquidity and Capital Resources, Parex anticipates no restrictions in its ability to fund the necessary capital expenditures to develop proved and undeveloped reserves.

Asset retirement obligation (ARO)

The Company is required to recognize a liability for future abandonment and site restoration 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 ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, 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 earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

The ARO is determined by using managements 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 ARO. 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 retirement costs based on current estimates adjusted for inflation and credit risk. These estimates for inflation and credit risk are also subject to management uncertainty.

Future income 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 future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are only recognized to the extent that it is more likely than not that sufficient future taxable income will be available in the applicable jurisdiction to allow the future income tax assets to be realized. Parex has not recognized any future income tax assets related to its loss carry-forwards in Canada or Trinidad & Tobago. As at December 31, 2010, the Company had a future income tax asset of \$4.3 million related to the Colombian tax losses. Of this \$4.3 million, \$1.1 million was recorded in the 2010 Income Statement and \$3.2 million reduced the carrying value of property, plant and equipment. The income tax rate in Colombia is 33 percent.

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 Colombian current income tax for interim periods are also subject to additional uncertainty, as annual tax-deductible depletion is calculated on a unit-of-production basis using year-end proved developed reserves and employed capital. These factors cannot be known until year-end and, therefore, estimates are used for interim period current tax provisions.

Stock-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 a 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.

Legal, environmental remediation and other contingent matters

In respect of these matters, the Company is required both to determine 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 earnings. Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to earnings when warranted by circumstances.



Conversion to International Financial Reporting Standards (“IFRS”)

On February 13, 2008, the CICA’s Accounting Standards Board confirmed that Canadian public companies will be required to adopt IFRS for fiscal years after January 1, 2011. Parex completed a diagnostic analysis of the differences between Canadian GAAP and IFRS. As a result of this analysis, management identified key differences based upon complexity and materiality in the consolidated financial statements.

The Company subsequently developed a conversion plan which is resourced and supported by technically competent personnel with IFRS knowledge and training. Critical milestones and expected completion dates from the conversion plan include:

| Key Activity/Milestone | Status |
|--|---|
| <i>Financial Information</i> | |
| <ul style="list-style-type: none"> Diagnostic analysis of key IFRS differences Revise accounting policies under IFRS Identify potential adjustment to initial IFRS financial statements | <ul style="list-style-type: none"> Diagnostic completed Ongoing completion of position paper evaluations for potential significant GAAP differences A draft of IFRS opening balance sheet as at December 31, 2009 is completed |
| <i>Training and Communication</i> | |
| <ul style="list-style-type: none"> Targeted training to employees and management Ensure internal and external stakeholders receive ongoing appropriate communications | <ul style="list-style-type: none"> Ongoing training Regular communication with senior management and the Finance and Audit Committee throughout the year |
| <i>Information Technology</i> | |
| <ul style="list-style-type: none"> Ensure systems are able to adequately support conversion to IFRS and ongoing financial reporting | <ul style="list-style-type: none"> Company’s information technology systems have the associated functionality that can meet IFRS needs |
| <i>Business process</i> | |
| <ul style="list-style-type: none"> Determine impact of IFRS on the control environment | <ul style="list-style-type: none"> Internal documentation to reflect accounting policies in accordance with IFRS is being updated |

The Company’s conversion plan recognizes that a variety of stakeholders will be impacted by the transition to IFRS. The Finance and Audit Committee of the Board of Directors and the Company’s auditors will provide support and guidance throughout the conversion. The Company will continue to ensure that adequate training is provided to staff and that the Company’s control environment is appropriately considered during conversion.

During the year ended December 31, 2010, the Company commenced preparation of a variety of position papers in support of its January 1, 2010 opening balance sheet and its 2010 interim financial statements. The Company has completed its January 1, 2010 IFRS opening balance sheet and its draft accounting policies. In addition, the Company is analyzing the IFRS adjustments up to December 31, 2010. The Company’s external auditors have carried out certain initial audit procedures on the IFRS opening balance sheet impact and are currently reviewing the IFRS impacts for 2010 interim financial statements.

A reconciliation of the Company’s 2010 Canadian GAAP financial statements to IFRS has not been finalized. Accordingly, the impact of adopting IFRS on the Company’s financial position and results of operations as at and for the year ended December 31, 2010 will be disclosed in the first quarter financial statements.

The following table summarizes the impact IFRS is expected to have on the Company’s opening Balance Sheet as at January 1, 2010:

| (\$000s) | Canadian GAAP | IFRS Adjustment (unaudited) | IFRS |
|------------------------------|-------------------|--------------------------------|-------------------|
| Current Assets | \$ 104,627 | \$ - | \$ 104,627 |
| Long-Term Assets | 28,858 | (394) | 28,464 |
| | \$ 133,485 | \$ (394) | \$ 133,091 |
| Current Liabilities | \$ 8,923 | \$ - | \$ 8,923 |
| Long-Term Liabilities | 52 | - | 52 |
| Equity | 124,510 | (394) | 124,116 |
| Total Liabilities and Equity | \$ 133,485 | \$ (394) | \$ 133,091 |



Expected Accounting Policy Impacts

The adoption of IFRS does not impact the underlying economics of Parex' operations or its cash flows. The most significant impacts will be from the application of new accounting policies that will restate the Company's financial statements including note disclosures. Based on work performed to date on Parex' opening balance sheet, the most significant differences relate to property, plant and equipment. Other areas impacted include asset retirement obligations and share based payments.

a) Property, plant and equipment

The Company believes that the implementation of IFRS 6 "Exploration for and Evaluation of Mineral Resources" will have the most significant impact on the Company's results of operations, financial position and disclosures. Given the stage and focus of the Company's business, conversion to IFRS 6 is expected to directly impact how the Company accounts for pre-exploration costs, exploration and evaluation ("E&E") costs and development costs.

Pre-exploration costs typically include acquisition of rights to explore, geological and geophysical studies, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources and exploratory drilling. Under IFRS 6, costs incurred by Parex prior to the acquisition of the legal rights to explore an area must be expensed. The Company has identified costs that have been capitalized in accordance with AcG-16 "Oil and Gas Accounting – Full Cost", and the Company expects that PP&E will decrease \$394,000 due to this adjustment.

E&E costs are those expenditures for an area for which technical feasibility and commercial viability have not yet been determined. Under IFRS, Parex will initially capitalize these costs as E&E assets on the balance sheet. When the area is determined to be technically feasible and commercially viable, the costs will be transferred to PP&E. Unrecoverable E&E costs associated with an area will be expensed.

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Under IFRS, Parex will continue to capitalize these costs within PP&E on the balance sheet. However, costs will be depleted on a unit-of-production basis for an area level (unit of account) instead of country cost centre which is currently necessitated under Canadian GAAP. This approach does not impact Parex' opening balance sheet as all oil and gas assets at January 1, 2010 were classified as E&E amounts and not subject to depletion.. Parex has drafted the areas and the inputs to be utilized in the unit of production depletion calculation. The Company is currently assessing the impact of this change in methodology as it relates to 2010.

Parex will adopt the IFRS 1 exemption, which allows the Company to deem its January 1, 2010 IFRS upstream asset costs to be equal to its Canadian GAAP historical upstream net book value. On January 1, 2010, the IFRS E&E assets were estimated to be \$25.3 million which is equal to the Canadian GAAP unproved properties balance.

b) Impairment of asset

Under Canadian GAAP, if indicators of potential impairment existed and carrying value exceeded future undiscounted cash flows, assets were impaired to the lower of fair value or cost. Under IFRS, there is no requirement to compare the carrying value with future undiscounted cash flows; instead, if there are indicators of potential impairment, the asset's carrying value is immediately compared to estimated fair value and carried at the lower of fair value or cost. As a result, the Company expects that asset impairments may occur more frequently under IFRS. Additionally, IFRS requires that previously recorded impairments for assets other than goodwill be reversed if the recoverable amount subsequently increases. There is no impact to the Company's opening balance sheet as at January 1, 2010. The IFRS impact relating to Parex' properties during 2010 is currently being assessed.

c) Asset Retirement Obligation

Under Canadian GAAP, ARO is measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Existing liabilities are not re-measured using current discount rates. Under IFRS, ARO is measured as the best estimate of the expenditure to be incurred and requires the use of current discount rates at each re-measurement date. There is no material impact to the Company's opening balance sheet as at January 1, 2010. The impact relating to 2010 is currently being assessed.



d) Share based payments

The Company's SARs plan is accounted for using the intrinsic value method under Canadian GAAP. Under IFRS, the Company will use a fair value method such as Black-Scholes to value the SARs liability under IFRS. This IFRS difference has no effect on the Company's opening balance sheet as the SARs plan was initiated in the second quarter of 2010.

e) Foreign Currency

Parex has also examined the impact that conversion to IFRS will have on foreign currency reporting. The Company's preliminary assessment would indicate that the functional currency of Parex would continue to be the US dollar.

Management recognizes that IFRS note disclosures are generally more detailed than current note disclosure.

Information technology system requirements and geographical specificities have also been considered in the conversion plan. Trinidad & Tobago and Colombia have robust information technology systems. The Company's accounts in Trinidad & Tobago are currently IFRS-compliant pursuant to Trinidad & Tobago's GAAP. The Company's information technology systems have the associated functionality that can meet the IFRS needs for the Parex Colombian entity. IFRS reporting and training needs have also been considered in the conversion plan.

At this time, Parex' management is in the process of finalizing its chosen IFRS accounting policies. The draft opening balance sheet as at January 1, 2010 is presented above with no material adjustments to date. The Company is currently assessing the impact of the above noted differences on the Company's 2010 financial statements and as such cannot wholly quantify the impact that the adoption of IFRS will have on the Company's future results of operations or financial position. Parex continues to monitor the development of new standards and any changes will be incorporated into the plan as required. Management will continue to develop IFRS-compliant statements and processes to allow the Company to have IFRS in place prior to reporting the first quarter of 2011.



MANAGEMENT'S REPORT

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

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

PricewaterhouseCoopers LLP were appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with Canadian generally accepted accounting principles.

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

A handwritten signature in black ink, appearing to read 'Wayne K. Foo'.

Wayne K. Foo
President, Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Kenneth G. Pinsky'.

Kenneth G. Pinsky
VP Finance, Chief Financial Officer

March 9, 2011



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Parex Resources Inc.

We have audited the accompanying consolidated financial statements of Parex Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parex Resources Inc. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants
Calgary, Alberta**

March 9, 2011



CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

| As at December 31 (thousands of United States dollars) | 2010 | 2009 (note 2) |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 123,539 | \$ 101,280 |
| Accounts receivable (note 4) | 14,877 | 2,997 |
| Prepays and other current assets | 744 | 350 |
| | 139,160 | 104,627 |
| Future tax asset (note 13) | 4,335 | - |
| Property, plant and equipment (note 5) | 67,005 | 28,858 |
| | \$ 210,500 | \$ 133,485 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 23,283 | \$ 8,923 |
| Current income and equity tax payable | 551 | - |
| | 23,834 | 8,923 |
| Other long term liabilities (note 6) | 1,925 | - |
| Asset retirement obligation (note 7) | 256 | 52 |
| | 26,015 | 8,975 |
| Shareholders' equity | | |
| Share capital (note 10) | 198,857 | 128,726 |
| Contributed surplus (note 12) | 4,000 | 771 |
| Deficit | (18,372) | (4,987) |
| | 184,485 | 124,510 |
| | \$ 210,500 | \$ 133,485 |

Commitments (note 18)

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board:

Paul Wright
Director

Ron Miller
Director



Consolidated Statements of Operations, Comprehensive Loss and Deficit

| For the year ended December 31 (thousands of United States dollars, except per share amounts) | 2010 | 2009 |
|--|--------------------|------------|
| Revenue | | |
| Oil and natural gas revenue | \$ 2,621 | \$ 14 |
| Royalties | (175) | - |
| | 2,446 | 14 |
| Interest income | 379 | 59 |
| | 2,825 | 73 |
| Expenses | | |
| Production | 349 | 6 |
| Transportation | 526 | - |
| General and administrative | 11,735 | 3,829 |
| Stock-based compensation (note 10) | 3,958 | 571 |
| Related party interest expense (note 8) | - | 558 |
| Interest | - | - |
| Depletion, depreciation and accretion | 1,713 | 292 |
| Foreign exchange loss (gain) | (3,160) | (454) |
| | 15,121 | 4,802 |
| Loss before taxes | (12,296) | (4,729) |
| Income tax expense (note 13) | | |
| Colombian equity tax | 2,203 | - |
| Future income tax recovery | (1,114) | - |
| | 1,089 | - |
| Loss for year | (13,385) | (4,729) |
| Deficit, beginning of year | (4,987) | (258) |
| Deficit, end of year | \$ (18,372) | \$ (4,987) |
| Basic net loss per common share | \$ (0.20) | \$ (0.09) |
| Diluted net loss per common share | \$ (0.20) | \$ (0.09) |

See accompanying Notes to the Consolidated Financial Statements



Consolidated Statements of Cash Flows

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

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Operating activities | | |
| Net loss | \$ (13,385) | \$ (4,729) |
| Add (deduct) non-cash items | | |
| Depletion, depreciation and accretion | 1,713 | 292 |
| Stock-based compensation | 3,958 | 571 |
| Future income tax recovery | (1,114) | - |
| Equity tax expense | 2,203 | - |
| Unrealized foreign exchange loss (gain) | (964) | (60) |
| Abandonment costs | (54) | - |
| Funds flow used in operations | (7,643) | (3,926) |
| Net change in non-cash working capital (note 14) | 1,398 | 182 |
| | (6,245) | (3,744) |
| Investing activities | | |
| Property, plant and equipment expenditures | (42,822) | (22,383) |
| Net change in non-cash working capital (note 14) | 2,678 | (1,316) |
| | (40,144) | (23,699) |
| Financing activities | | |
| Issue of common shares – plan of arrangement (note 9) | - | 52,479 |
| Increase in related party receivables (note 8) | - | 36,058 |
| Issue of common shares – management private placement (note 9) | - | 9,300 |
| Issue of common shares – subscription receipts (note 9) | - | 18,937 |
| Issue of common shares – exercise of warrants (note 9) | - | 13,271 |
| Issue of common shares (note 10) | 73,993 | 40 |
| Issue (redemption) of preferred shares | - | (3,000) |
| Share issue costs (note 10) | (3,992) | (3,836) |
| Net change in non-cash working capital (note 14) | (2,382) | 2,498 |
| | 67,619 | 125,747 |
| Increase (decrease) in cash and cash equivalents for year | 21,230 | 98,304 |
| Impact of foreign exchange on foreign currency-denominated cash balances | 1,029 | 146 |
| Cash and cash equivalents, beginning of year | 101,280 | 2,830 |
| Cash and cash equivalents, end of year | \$ 123,539 | \$ 101,280 |

Supplemental Disclosure of Cash Flow Information (note 14)

See accompanying Notes to the Consolidated Financial Statements



Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

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

1. Nature of Operations

The Company was incorporated as 1485196 Alberta Ltd. on August 17, 2009, pursuant to the Business Corporations Act (Alberta). On September 29, 2009 it filed Articles of Amendment to change its name to Parex Resources Inc. ("Parex" or the "Company"). The Company was incorporated for the purpose of completing a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta) with Pluspetrol Resources Corporation N.V., its wholly owned subsidiary, 1462627 Alberta Ltd., (together "Pluspetrol") and Petro Andina Resources Inc. ("Petro Andina"). See note 9 "Plan of Arrangement".

Under the terms of the Arrangement, Parex acquired from Petro Andina all of the issued and outstanding shares of Petro Andina (Barbados) Ltd. (now Parex Resources (Barbados) Ltd.) ("Parex Barbados"), Petro Andina (Colombia) Ltd. (now Parex Resources (Colombia) Ltd.) ("Parex Colombia") and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. (now Parex Resources (Trinidad) Ltd.) ("Parex Trinidad"); inter-company loans and other receivables from Parex Barbados, Parex Trinidad and Parex Colombia; working capital; and other miscellaneous assets in exchange for the issuance of 49,213,718 Parex common shares and 4,921,372 Parex common share purchase warrants to Petro Andina shareholders.

2. Summary of Significant Accounting Policies

a) Basis of presentation

The audited annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries.

b) Management estimates and measurement uncertainty

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

The recoverability of costs for undeveloped oil and natural gas properties is subject to the future discovery of reserves, future commodity prices and future costs required to develop and produce those reserves. Amounts recorded for depreciation and amortization are based on estimated useful lives and salvage values of the related assets. The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realizability of future tax assets. Provisions for contingent liabilities are subject to uncertainty regarding both the likelihood of their outcome and their recorded value.

c) Foreign currency translation

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at the monthly average exchange rate, except for depletion, depreciation and amortization which are translated at the same exchange rate as the related balance sheet items. Foreign currency gains and losses are included in income.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank, less outstanding cheques, and deposits with an original maturity of less than three months.



e) Property, plant and equipment

(i) Oil and natural gas properties

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs related to the acquisition, exploration and development of oil and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of undeveloped properties, costs of drilling both productive and non-productive wells, the cost of oil and natural gas production equipment and overhead charges directly related to exploration and development activities.

Costs related to oil and natural gas properties are depleted and depreciated using the unit-of-production method based on gross (before royalty) proved reserves of oil and natural gas as determined by independent engineers. In determining the cost base for depletion and depreciation, the Company includes estimated future capital costs associated with developing proved reserves and excludes costs of unproved properties, net of impairments. For purposes of these calculations, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

The Company reviews the carrying amount of its oil and natural gas properties (the “properties”) relative to their recoverable amount (the “ceiling test”) for each cost centre at each annual balance sheet date, or more frequently if circumstances or events indicate impairment may have occurred. The recoverable amount is calculated as the undiscounted net cash flow from the properties using proved reserves and expected future prices and costs. If the carrying amount of the properties exceeds their recoverable amount, an impairment loss is recognized in depletion equal to the amount by which the carrying amount of the properties exceeds their fair value. Fair value is calculated as the net cash flow from those properties using proved and probable reserves and expected future prices and costs, discounted at a risk-free interest rate. Properties excluded from the depletion calculation are assessed separately and periodically to ascertain whether impairment has occurred.

Proceeds from the disposition of oil and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss would be recorded.

(ii) Other capital assets

Office furniture and equipment are depreciated over their estimated useful lives at annual rates ranging from 10 percent to 100 percent.

f) Asset retirement obligation

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset, known as the asset retirement cost, 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 earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

g) Stock-based compensation

The Company has an incentive stock option plan for employees, officers, directors and consultants as described in note 10. 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 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.

Obligations for payments of cash under the SARs plan are accrued as compensation expense over the vesting period based on the amount by which the quoted market value of the Company’s shares exceeds the SARs exercise price, subject to appreciation limits specified in the plan. In accordance with the intrinsic value method, increases or decreases in the quoted market value of the Company’s shares between the date of grant and the measurement date result in a corresponding change in the recorded liability of the SARs. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.



h) Revenue recognition

Revenues associated with the sale of oil and natural gas owned by the Company are recognized when title passes from the Company to an external party. Revenue as reported represents the Company's share and is presented before royalty payments to the government and other mineral interest owners. Revenue net of royalties represents the Company's share after royalty payments to governments and other mineral interest owners.

i) Income taxes

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 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 future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are only recognized to the extent that it is more likely than not that sufficient future taxable income will be available in the applicable jurisdiction to allow the future income tax assets to be realized.

j) Joint ventures

Substantially all of the Company's exploration and development activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

k) Per share information

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the fiscal period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money stock options would be used to buy back common shares at the average market price for the period.

The Company calculated per share information for the years ending December 31, 2010 and 2009 as if the shares issued under the Arrangement were issued effective January 1, 2008 and considering subsequent issuances after the completion of the Arrangement on November 6, 2009.

l) Continuity-of-interests accounting

In connection with the Arrangement, through a series of transactions, Parex acquired from Petro Andina all of the outstanding shares of Parex Barbados and Parex Colombia. As the shareholders of Petro Andina ultimately continued to hold their respective interests in Parex, there was no resulting change of control of Parex Barbados and Parex Colombia. Therefore, the acquisition was accounted for using continuity-of-interests accounting under the Canadian Institute of Chartered Accountants Emerging Issues Committee Abstract 89 "Exchanges of Ownership Interests between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries" ("EIC-89"). Under EIC-89 no fair value adjustments were made for the assets acquired.

The consolidated financial statements of Parex reflect the assets and liabilities of Parex Barbados and Parex Colombia at their book value as reported in the financial statements of Parex Barbados and Parex Colombia. Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex include the operations of Parex Barbados and Parex Colombia for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of Parex were restated to reflect the financial position and results of operations as if Parex, Parex Barbados and Parex Colombia had been combined since their inception.

m) Comparative figures

Certain comparative figures from previous periods have been reclassified to conform to the current year's presentation.

3. Impact of New Accounting Pronouncements

The Company will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual reporting purposes beginning as of January 1, 2011.



4. Accounts Receivable

| | December 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------|
| Trade receivables | \$ 2,744 | \$ 950 |
| Colombia and Trinidad value added taxes (VAT) | 4,342 | 289 |
| Receivable from partners | 7,791 | 1,758 |
| | \$ 14,877 | \$ 2,997 |

Trade receivables consist primarily of Colombian receivables related to the Company's oil sales for November and December, 2010. VAT receivable in Colombia totalled \$2.7 million as at December 31, 2010 and is recoverable in 2011 as the Company's taxable oil sales are expected to exceed its taxable purchases. Accordingly, the balance is now classified as a current asset. In Trinidad & Tobago, the VAT receivable as at December 31, 2010 totalled \$1.6 million and has increased as capital activity has increased from 2009. Receivable from partners consists of cash call receivables outstanding from joint venture partners in Colombia and Trinidad to recover ongoing capital costs.

5. Property, Plant and Equipment

| As at December 31, 2010 | Cost | Accumulated depletion, depreciation and amortization | Net book value |
|--------------------------------|------------------|---|------------------|
| Oil and natural gas properties | \$ 65,288 | \$ 424 | \$ 64,864 |
| Office and other equipment | 3,353 | 1,212 | 2,141 |
| | \$ 68,641 | \$ 1,636 | \$ 67,005 |

| As at December 31, 2009 | Cost | Accumulated depletion, depreciation and amortization | Net book value |
|--------------------------------|------------------|---|------------------|
| Oil and natural gas properties | \$ 28,194 | \$ 87 | \$ 28,107 |
| Office and other equipment | 956 | 205 | 751 |
| | \$ 29,150 | \$ 292 | \$ 28,858 |

During the year ended December 31, 2010 the Company capitalized \$2.0 million (year ended December 31, 2009 – \$115,000) of general and administrative expenses related to exploration and development activities.

Included in oil and natural gas properties at December 31, 2010 is \$55.2 million (December 31, 2009 – \$25.9 million) in respect of unproved property that is not subject to depletion.

Future development costs on proved undeveloped reserves of \$4.5 million at December 31, 2010 (December 31, 2009 – nil) are included in the depletion calculation.

The Company performs a ceiling test and no write-down was required for the year ended December 31, 2010 based on expected future commodity prices.

The oil prices net of transportation and differentials used in the ceiling test at December 31, 2010 are listed below.

| | \$/barrel |
|--------------------|-----------|
| 2011 | 69.55 |
| 2012 | 70.23 |
| 2013 | 70.91 |
| 2014 | 72.57 |
| 2015 | 75.41 |
| Average thereafter | 78.65 |



6. Other Long Term Liabilities

Other long term liabilities are comprised of the following:

| For the year ended December 31, | 2010 | | 2009 | |
|---------------------------------|------|-------|------|---|
| Long term SARs payable | \$ | 272 | \$ | - |
| Long term equity tax payable | | 1,653 | | - |
| | \$ | 1,925 | \$ | - |

Obligations for payments of cash under the SARs plan are accrued as compensation expense over the vesting period based on the amount by which the quoted market value of the Company's shares exceeds the SARs exercise price, subject to appreciation limits specified in the plan. As at December 31, 2010, the total SARs liability accrued is \$599,000 of which \$272,000 is classified as long term in accordance with the 3 year vesting period. See note 10 – Share appreciation rights.

An equity tax provision of \$2.2 million has been accrued of which \$1.7 million is classified as long term due to the fact that equity tax is payable over four years starting in 2011. See note 13 – Income and equity tax.

7. Asset Retirement Obligation

| | | |
|--|----|------|
| Balance at December 31, 2009 | \$ | 52 |
| Liabilities incurred during period | | 255 |
| Settlements of obligations during the period | | (54) |
| Accretion expense | | 3 |
| Balance at December 31, 2010 | \$ | 256 |

The total asset retirement obligation is estimated based on the Company's net ownership in all wells, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately \$1.4 million as at December 31, 2010 (December 31, 2009 – \$76,000) with the majority of these costs anticipated to occur in 2030 or later. A credit-adjusted discount rate of 9 percent was used to calculate the fair value of the asset retirement obligation.

8. Related Parties

The comparative consolidated financial statements of Parex were presented to reflect the financial position and results of operations as if Parex, Parex Barbados and Parex Colombia had been combined since their inception. The following table summarizes related-party inter-company charges as they appear in the comparative period:

| For the year ended December 31, | 2010 | | 2009 | |
|--|------|---|------|--------|
| Parex Colombia and Parex Trinidad loan interest ⁽¹⁾ | \$ | - | \$ | 558 |
| Technical services agreement charges ⁽¹⁾⁽²⁾ | | - | | 1,494 |
| Increase in related-party receivables ⁽³⁾ | | - | | 36,058 |

⁽¹⁾Included in the Company's consolidated statements of operations, comprehensive loss and deficit.

⁽²⁾Included in the Company's consolidated balance sheets.

⁽³⁾Included in the Company's consolidated statements of cash flows.

There have been no related-party transactions in 2010.

In the consolidated statements of cash flows for the year ended December 31, 2009 there is an increase in related-party receivables of \$36.1 million, which are amounts due by Parex Barbados, Parex Colombia and Parex Trinidad to Petro Andina through loan advances, interest and charges under technical services agreements. At the time of the Arrangement, the accumulated amount of these types of loan advances, interest and charges under technical services agreements was \$36.1 million. This receivable held by Petro Andina was transferred to Parex along with all the issued and outstanding shares of Parex Colombia, Parex Barbados and indirectly Parex Barbados's subsidiary Parex Trinidad, pursuant to the Arrangement and eliminated upon consolidation at December 31, 2009. See note 9, "Plan of Arrangement".



Similar to the related-party payable noted above, included in the consolidated statement of operations, comprehensive loss and deficit for the year ended December 31, 2009 is \$558,000 of related-party interest expense. Interest was charged by Petro Andina to Parex Colombia and Parex Trinidad until November 6, 2009 on loan balances and technical services agreement invoices. However, after November 6, 2009 the inter-company interest expense was eliminated upon consolidation. During the year ended December 31, 2009 \$1,494,000 relating to technical services agreements was charged by Petro Andina to Parex Colombia and Parex Trinidad. After the Arrangement, the charge relating to the technical services agreements was eliminated upon consolidation. Prior to November 6, 2009, interest on the inter-company loan advances and charges under the technical services agreements were not eliminated in Parex' financial statements as Petro Andina was not part of the Parex consolidated group, consistent with continuity-of-interests accounting.

9. Plan of Arrangement

The Arrangement among Parex, Petro Andina and Pluspetrol closed on November 6, 2009. Pursuant to the Arrangement, in exchange for the issuance of 49,213,718 Parex common shares and 4,921,372 Parex common share purchase warrants, the Company acquired the following from Petro Andina:

- All of the issued and outstanding shares of Parex Barbados, Parex Colombia and indirectly all the issued and outstanding shares of Parex Trinidad;
- Inter-company loans and other receivables from Parex Barbados, Parex Trinidad and Parex Colombia; and
- Working capital and other miscellaneous assets, including seismic exploration equipment used in Trinidad & Tobago and Colombia, minor Canadian oil and natural properties and the Calgary head office lease obligation along with all associated furniture, fixtures, computer hardware, software and software licences.

The consolidated financial statements of Parex for the 2009 comparative period reflect the assets and liabilities of Parex Barbados and Parex Colombia at their book value as reported in the financial statements of Parex Barbados and Parex Colombia. Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex for the 2009 comparative period include the operations of Parex Barbados and Parex Colombia for the first nine months of the fiscal period in which the Arrangement took place.

As at November 6, 2009, immediately after closing of the Arrangement, Parex had the following assets, liabilities and shareholders' equity:

ASSETS

| | | |
|--|----|---------------|
| Current assets | | |
| Cash and cash equivalents ⁽¹⁾ | \$ | 60,497 |
| Accounts receivable | | 7,129 |
| Prepays and other current assets | | 284 |
| | | 67,910 |
| Property, plant and equipment | | 24,090 |
| | \$ | 92,000 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|----|---------------|
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ | 4,086 |
| Asset retirement obligation | | 52 |
| | | 4,138 |
| Shareholders' equity | | |
| Share capital | | 87,621 |
| Contributed surplus | | 3,755 |
| Retained earnings | | (3,514) |
| | | 87,862 |
| | \$ | 92,000 |

⁽¹⁾ As part of the working capital acquired under the Arrangement, Parex (non-consolidated) received \$52.5 million of cash through a series of transactions. This amount does not include the subsequent issuances of equity noted below.



Through the completion of the Arrangement and after a series of transactions, the resulting working capital of Parex amounted to Cdn\$68.6 (\$63.8 million, converted using the November 6, 2009 closing rate of Cdn\$/US\$ 0.93).

On September 29, 2009, the Company closed a bought-deal subscription receipt financing for 6,670,000 subscription receipts at a price of Cdn\$3.00 per receipt for gross proceeds of Cdn\$20 million (\$18.9 million) (the “Offering”). The proceeds from the Offering were deposited in escrow with the Company’s transfer agent pending the satisfaction of certain conditions. After closing of the Arrangement on November 6, 2009 the Company issued 6,670,000 common shares in exchange for the Subscription Receipts and received gross proceeds of Cdn\$20 million (\$18.9 million) and net of underwriters’ fees Cdn\$18.8 million (\$17.5 million). In addition, the Company issued 3,333,333 common shares at Cdn\$3.00 per share to directors, officers and employees (the “management private placement”) for gross proceeds of Cdn\$10 million (\$9.3 million).

Further, a total of 4,652,484 common share purchase warrants issued to the Petro Andina shareholders pursuant to the Arrangement were exercised at a price of Cdn\$3.00 per share by the December 6, 2009 expiry date for total proceeds of approximately Cdn\$14 million (\$13.3 million).

10. Share Capital

a) Issued and outstanding common shares

| | Number of shares | | Amount |
|---|-------------------|-----------|----------------|
| Issued – plan of arrangement (note 4) | 49,213,718 | \$ | 91,254 |
| Issued – subscription receipts (note 4) | 6,670,000 | | 18,937 |
| Issued – management private placement (note 4) | 3,333,333 | | 9,300 |
| Issued – exercise of warrants (note 4) | 4,652,484 | | 13,271 |
| Share issue costs | - | | (7,495) |
| Allocation of contributed surplus – exercise of warrants (note 9) | - | | 3,459 |
| Balance, December 31, 2009 | 63,869,535 | \$ | 128,726 |
| Issued for cash – bought deal | 13,000,000 | | 73,696 |
| Issued for cash – exercise of options | 98,750 | | 297 |
| Allocation of contributed surplus – exercise of options | - | | 130 |
| Share issue costs | - | | (3,992) |
| Balance, December 31, 2010 | 76,968,285 | \$ | 198,857 |

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

On November 16, 2010 Parex closed a bought-deal equity financing with a syndicate of underwriters to issue 11,650,000 common shares at Cdn\$5.80 raising gross proceeds of Cdn\$67.6 million (Cdn\$63.8 million net). The underwriters were also granted an over-allotment option to purchase up to an additional 1,350,000 common shares at the same offering price. This option was fully exercised bringing additional gross proceeds of Cdn\$7.8 million (Cdn\$7.4 million net). Total equity proceeds amounted to Cdn\$75.4 million gross (Cdn\$71.2 million net).

b) Stock options

The Company has a stock option plan (the “Option Plan”) which provides for the issuance of options to the Company’s directors, officers, employees and consultants to acquire common shares. The maximum number of options reserved for issuance under the Option Plan may not exceed 10 percent of the number of common shares issued and outstanding. The options typically vest over a three-year period and expire five years from the date of grant.

| | Number of options | | Weighted average exercise price Cdn\$ |
|-----------------------------------|-------------------|-----------|---------------------------------------|
| Balance, December 31, 2009 | 3,475,000 | \$ | 3.08 |
| Granted | 2,275,589 | \$ | 6.93 |
| Exercised | (98,750) | \$ | 3.04 |
| Forfeited | (12,500) | \$ | 3.04 |
| Balance, December 31, 2010 | 5,639,339 | \$ | 4.64 |



Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2010 are as follows:

| Exercise price Cdn\$ | Options outstanding | | | Options exercisable | | |
|----------------------|---------------------|---|---------------------------------------|---------------------|---|---------------------------------------|
| | Number | Weighted average remaining life (years) | Weighted average exercise price Cdn\$ | Number | Weighted average remaining life (years) | Weighted average exercise price Cdn\$ |
| \$3.04 - \$4.06 | 3,276,250 | 3.8 | \$ 3.05 | 1,022,079 | 3.8 | \$ 3.04 |
| \$4.30 - \$6.20 | 775,000 | 4.3 | \$ 4.95 | 37,500 | 3.9 | \$ 4.40 |
| \$7.75 - \$7.84 | 1,588,089 | 4.9 | \$ 7.76 | - | - | \$ - |
| | 5,639,339 | 4.2 | \$ 4.64 | 1,059,579 | 3.8 | \$ 3.09 |

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

| For the year ended December 31, | 2010 | 2009 |
|---------------------------------|------|------|
| Risk-free interest rate (%) | 1.97 | 2.08 |
| Expected life (years) | 3 | 3 |
| Expected volatility (%) | 65 | 64 |
| Expected dividends | - | - |

For options granted during the year ended December 31, 2010, the weighted average fair value at the grant date was Cdn\$3.08 per option (year ended December 31, 2009 – Cdn\$1.33 per option).

c) Share appreciation rights

During the second quarter of 2010, Parex Trinidad and Parex Colombia initiated a share appreciation rights (“SARs”) plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company’s common shares at the time of exercise over the grant price. At any time, if the current market price of the Company’s common shares exceeds four times the grant price, Parex has the option to require the holders to exercise all vested SARs. SARs typically vest over a three-year period and expire five years from the date of grant. The SARs liability cannot be settled by the issuance of common shares.

| | Number of SARs | Weighted average exercise price Cdn\$ |
|----------------------------|----------------|---------------------------------------|
| Balance, December 31, 2009 | - | \$ - |
| Granted | 745,833 | 6.34 |
| Balance, December 31, 2010 | 745,833 | \$ 6.34 |

As at December 31, 2010, no SARs were vested.

For the year ended December 31, 2010, Parex recorded \$599,000 of compensation costs related to the outstanding SARs (year ended December 31, 2009 – nil).

d) Per share amounts

The weighted average number of basic and diluted common shares outstanding for the year ended December 31, 2010 was 65,515,876 (year ended December 31, 2009 – 51,054,797).



11. Warrants

Pursuant to the Arrangement, the Company issued 4,921,372 common share purchase warrants on November 6, 2009 which expired 30 days later on December 6, 2009. Each common share purchase warrant was exercisable to purchase one common share of Parex until December 6, 2009 at an exercise price of Cdn\$3.00. On November 6, 2009, the issuance date of the warrants, the fair value calculated using the Black-Scholes option pricing model was \$0.74 per warrant. The following table summarizes the assumptions used:

| | |
|-----------------------------|------------|
| Risk-free interest rate (%) | 0.5 |
| Expected life (days) | 30 |
| Expected volatility (%) | 60 |
| Expected dividends | - |

The following table presents the continuity of warrants for the periods ended December 31, 2010 and December 31, 2009:

| | Number of Warrants | | Amount |
|--|--------------------|----|---------|
| Opening balance issued on November 6, 2009 | 4,921,372 | \$ | 3,659 |
| Exercised | (4,652,484) | | (3,459) |
| Expired | (268,888) | | (200) |
| Balance at December 31, 2009 and December 31, 2010 | - | \$ | - |

The total fair value of the issued warrants has been included in share issue costs. The fair value of the warrants that expired on December 6, 2009 has been included in Contributed Surplus. There are no warrants outstanding as of December 31, 2010.

12. Contributed Surplus

| For the year ended December 31, | 2010 | | 2009 |
|----------------------------------|----------|----|------|
| Balance, beginning of year | \$ 771 | \$ | - |
| Stock-based compensation expense | 3,359 | | 571 |
| Fair value of expired warrants | - | | 200 |
| Options exercised | (130) | | - |
| Balance, end of year | \$ 4,000 | \$ | 771 |

Contributed Surplus includes cumulative stock-based compensation costs and the fair value of the warrants that expired on December 6, 2009.

13. Income and Equity Tax

The provision for income tax expense for the year ended December 31 is as follows:

| For the year ended December 31, | 2010 | | 2009 |
|---------------------------------------|------------|----|------|
| Colombia - future income tax recovery | \$ (1,114) | \$ | - |
| Colombia - equity tax expense | 2,203 | | - |
| Trinidad & Tobago | - | | - |
| Canada and other foreign subsidiaries | - | | - |
| | \$ 1,089 | \$ | - |



The provision for income tax recovery is different from the amount computed by applying the combined Canadian federal and provincial income tax rates to loss before taxes. The reasons for the differences are as follows:

| For the year ended December 31, | 2010 | 2009 |
|---|-------------|------------|
| Loss before taxes | \$ (12,296) | \$ (4,729) |
| Canadian statutory income tax rate | 28.0% | 29.0% |
| Income tax at statutory rate | (3,443) | (1,371) |
| Effect on income taxes of: | | |
| Canadian statutory income tax rate change | (28) | (14) |
| Non-deductible costs | 1,173 | 744 |
| Foreign tax rate differential | (469) | (266) |
| Valuation allowance for losses not recognized | 1,653 | 907 |
| Colombian equity tax | 2,203 | - |
| | \$ 1,089 | \$ - |

The following table summarizes the differences that give rise to the Colombian future income tax asset as at December 31:

| For the year ended December 31, | 2010 | 2009 |
|-----------------------------------|----------|------|
| Loss carry forward ⁽¹⁾ | \$ 3,660 | - |
| Property, plant and equipment | 504 | - |
| Other | 171 | - |
| | \$ 4,335 | \$ - |

⁽¹⁾ A future tax asset generated by a taxable benefit of \$3.2 million was derived from qualifying eligible capital expenditures. The Company has reduced the carrying values of these expenditures accounting for the difference between the recorded future tax asset and future income tax recovery.

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value in Canada and Trinidad and Tobago. The benefit of these losses and deductions has not been recognized in the financial statements since their recoverability is uncertain. Losses can be carried forward for 20 years in Canada and indefinitely in Colombia and Trinidad & Tobago. Amounts denominated in foreign currency have been translated at the December 31, 2010 exchange rate. At December 31, 2010 the Company had non-capital losses of \$4.7 million in Canada and \$13.4 million in Trinidad and Tobago.

Colombian Equity Tax

Parex' Colombian subsidiary is subject to a one-time tax which is calculated based on the subsidiary's net taxable equity as at January 1, 2011 at a rate of 6 percent. The equity tax is payable over four years (1.5 percent per year) starting in 2011. An equity tax provision of \$2.2 million has been accrued.

14. Supplemental Disclosure of Cash Flow information

a) Net change in non-cash working capital

| For the year ended December 31, | 2010 | 2009 |
|--|-------------|------------|
| Accounts receivable | \$ (11,879) | \$ (2,500) |
| Prepays and other current assets | (393) | (346) |
| Accounts payable and accrued liabilities | 13,966 | 4,210 |
| Net change in non-cash working capital | \$ 1,694 | \$ 1,364 |
| Operating | \$ 1,398 | \$ 182 |
| Investing | \$ 2,678 | \$ (1,316) |
| Financing | \$ (2,382) | \$ 2,498 |
| Net change in non-cash working capital | \$ 1,694 | \$ 1,364 |

b) Interest and taxes paid

| For the year ended December 31, | 2010 | 2009 |
|---------------------------------|------|------|
| Cash interest paid | \$ - | \$ - |
| Cash income taxes paid | \$ - | \$ - |



15. Capital Management

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

The Company manages its capital to achieve the following:

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

The Company has not arranged a banking credit facility. However, the Company has provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to its 50 percent share of the initial exploration work commitments (see note 18 on commitments).

As at December 31, 2010, the Company's net working capital was \$115.3 million (December 31, 2009 – \$95.7 million), largely attributable to the November 16, 2010 bought-deal equity financing which raised gross proceeds of Cdn\$75.4 million from the issuance of 13,000,000 common shares at Cdn\$5.80 per share.

Parex has the ability to adjust its capital structure by issuing new equity and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company's working capital is in excess of its current commitments and it has no bank debt. The Company considers its capital structure to include common share capital, contributed surplus and deficits. As at December 31, 2010 common share capital was \$198.9 million (December 31, 2009 - \$128.7 million).

16. Financial Instruments and Risk Management

The Company's financial instruments recognized in the balance sheet include cash, accounts receivable and accounts payable. The fair values of these financial instruments approximate their carrying value due to their short-term maturity.

a) Credit risk

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money do not meet their underlying obligations. A substantial portion of the Company's accounts receivable is with joint venture partners in the countries in which the Company operates. The Company assesses the financial strength of its joint venture partners and marketing counterparties in its management of credit exposure.

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These strategies include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. As at December 31, 2010, the Company considers itself to be well-capitalized, with working capital in excess of current commitments and no debt.

c) Commodity price risk

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



The Company has negligible natural gas production and its strategy does not contemplate development of material natural gas production. As such it is not exposed to fluctuations in North American or international natural gas prices.

d) Foreign currency risk

The Company is exposed to foreign currency risk as a portion of its cash balances are held in Canadian dollars, Colombian pesos (COP\$) and Trinidad & Tobago dollars (TT\$) while its committed capital expenditures are expected to be primarily denominated in US dollars. The Company has not entered into any foreign currency hedges or swaps.

The table below summarizes the annualized sensitivities of the Company's net loss to changes in the fair value of financial instruments outstanding as at December 31, 2010, resulting from changes in the specified variable, with all other variables held constant. These sensitivities are limited to the impact of changes in a specified variable applied to financial instruments only and do not represent the impact of a change in the variable on the operating results of the Company taken as a whole.

The following depicts the impact to net loss for the period had the exchange rate changed by 1 cent:

| | | Impact on net loss |
|--------------------------------|----|--------------------|
| Foreign currency exchange rate | | |
| Cdn\$/US\$ | \$ | 755 |
| COP\$/US\$ | \$ | 15 |
| TT\$/US\$ | \$ | 2 |

17. Segmented Information

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

For the year ended December 31, 2010

| | Canada | Colombia | Trinidad & Tobago | Total |
|--|------------|------------|----------------------|-------------|
| Revenue | | | | |
| Oil and natural gas revenue | \$ 113 | \$ 2,508 | \$ - | \$ 2,621 |
| Royalties | 4 | (179) | - | (175) |
| | 117 | 2,329 | - | 2,446 |
| Interest income | 268 | 106 | 5 | 379 |
| | 385 | 2,435 | 5 | 2,825 |
| Expenses | | | | |
| Production | 81 | 268 | - | 349 |
| Transportation | - | 526 | - | 526 |
| General and administrative | 5,997 | 4,110 | 1,628 | 11,735 |
| Stock-based compensation | 3,190 | 526 | 242 | 3,958 |
| Depletion, depreciation and accretion | 771 | 886 | 56 | 1,713 |
| Foreign exchange gain | (2,716) | (442) | (2) | (3,160) |
| | 7,323 | 5,874 | 1,924 | 15,121 |
| Loss before taxes | (6,938) | (3,439) | (1,919) | (12,296) |
| Income tax expense | - | 1,089 | - | 1,089 |
| Net loss | \$ (6,938) | \$ (4,528) | \$ (1,919) | \$ (13,385) |
| Property, plant and equipment | | | | |
| Property, plant and equipment | \$ 1,237 | \$ 35,245 | \$ 30,523 | \$ 67,005 |
| Property, plant and equipment expenditures | \$ 29 | \$ 29,025 | \$ 13,768 | \$ 42,822 |
| Total assets | \$ 113,223 | \$ 60,622 | \$ 36,655 | \$ 210,500 |



For the year ended December 31, 2009

| | Canada | Trinidad & Tobago | Colombia | Total |
|--|------------|-------------------|------------|------------|
| Oil and natural gas revenue | \$ 14 | \$ - | \$ - | \$ 14 |
| Interest income | 30 | 5 | 24 | 59 |
| | 44 | 5 | 24 | 73 |
| Expenses | | | | |
| Production | 6 | - | - | 6 |
| General and administrative | 1,275 | 434 | 2,068 | 3,777 |
| Stock-based compensation | 571 | - | - | 571 |
| Related party interest expense | - | 455 | 103 | 558 |
| Bank taxes | - | - | 52 | 52 |
| Depletion, depreciation and accretion | 178 | 13 | 101 | 292 |
| Foreign exchange loss (gain) | (798) | 3 | 341 | (454) |
| | 1,232 | 905 | 2,665 | 4,802 |
| Loss before taxes | (1,188) | (900) | (2,641) | (4,729) |
| Income tax recovery | - | - | - | - |
| Net loss | \$ (1,188) | \$ (900) | \$ (2,641) | \$ (4,729) |
| Property, plant and equipment | \$ 1,977 | \$ 16,785 | \$ 10,096 | \$ 28,858 |
| Property, plant and equipment expenditures | \$ 63 | \$ 12,123 | \$ 10,197 | \$ 22,383 |
| Total assets | \$ 86,042 | \$ 27,639 | \$ 19,804 | \$ 133,485 |

18. Commitments

a) Llanos Basin (“LLA”) Blocks (Colombia)

Parex holds a 50 percent working interest in the following exploration blocks in the Llanos Basin of Colombia: Block LLA-16, Block LLA-20, Block LLA-29 and Block LLA-30. The exploration and production contracts in respect of the blocks were effective on April 20, 2009. The Company is party to a joint venture agreement with Columbus Energy Sucursal Colombia (“Columbus”), a wholly owned subsidiary of Remora Energy International, L.P., under which Parex and Columbus each own a 50 percent working interest in the blocks. The Company is the operator of Blocks LLA-16 and LLA-20; Blocks LLA-29 and LLA-30 are operated by Columbus. The exploration and production contracts consist of an initial exploration phase of 36 months with the option for the parties to enter into a second exploration phase of 36 months. The exploration work commitments for the initial exploration phase total 19 wells and 900 square kilometres of three-dimensional (“3D”) seismic.

In Colombia, the Company has provided guarantees to the ANH totaling \$23 million related to its 50 percent share of the initial exploration work commitments. The guarantees have been provided in the form of letters of credit for 18-month terms which, upon its expiration in January, 2011, were renewed for a second 18-month term. Export Development Canada (“EDC”) has provided the Company’s bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH have not yet been reduced for either the 3D seismic work performed in 2009 or the drilling activity and 3D seismic work costs that were incurred during 2010.

The Company’s share of exploration commitments remaining at December 31, 2010 in respect of the Llanos Basin blocks are estimated to be as follows:

| | | |
|------------|----|--------|
| 2011 | \$ | 4,540 |
| 2012 | | 14,625 |
| Thereafter | | - |
| | \$ | 19,165 |

Subsequent to December 31, 2010, Parex signed an exploration contract for Block LLA-57 (100% working interest) with the ANH. Block LLA-57 covers 104,532 acres and lies immediately north of the Parex-operated Block LLA-20. The Company’s bid terms for Block LLA-57 were a Phase 1 work program of \$10.1 million and a supplemental royalty (x-factor) of one percent over the base ANH royalty. The block has a six-year exploration term divided into two 36-month exploration phases. The exploration contract with the ANH was signed on February 11, 2011. With Block LLA-57, Parex’ total gross acreage in



Colombia's Llanos Basin increases from approximately 489,000 acres (245,000 net acres) to 594,000 acres (349,000 net acres). In 2011, Parex will be required to place a guarantee of approximately \$3.85 million with the ANH.

b) Central Range Blocks (Trinidad & Tobago)

Parex holds a working interest in the Central Range Shallow and Central Range Deep Blocks located onshore Trinidad & Tobago. The blocks are subject to Production Sharing Contracts ("PSCs") that were signed on September 18, 2008. The Company is party to a joint venture agreement with Niko Resources Ltd. (formerly Voyager Energy Ltd.) ("Niko"), and is operator of the blocks. During the exploration phase of the PSCs, Parex and Niko will each hold a 50 percent working interest. The Petroleum Company of Trinidad & Tobago ("Petrotrin") has the right to participate at a 35 percent working interest in any development on the Central Range Shallow Block and at a 20 percent working interest in any development on the Central Range Deep Block. The PSCs provide for an initial exploration phase of 48 months. On August 9, 2010, the Ministry of Energy and Energy Affairs ("MEEA") approved an extension of the first exploration phase to 60 months.

The PSCs have minimum work commitments in the initial 60-month exploration phase of the contracts. The work commitments total 100 kilometres of two-dimensional ("2D") seismic, 168 square kilometres of 3D seismic, one deep well drilled to a minimum depth of 12,000 feet and two shallow wells drilled to a maximum depth of 4,500 feet. Under the terms of the joint venture agreement with Niko, Parex will pay 100 percent of the first \$10 million of seismic acquisition costs during the exploration phase, of which approximately \$8.5 million had been incurred as at December 31, 2010. Petrotrin is carried through the minimum work commitments of the contracts.

The Company has purchased a performance bond and provided a guarantee to the underwriters of the bond in the amount of \$33 million to cover both its and Niko's share of the financial guarantees required under the PSCs for the initial four-year exploration phase. In the event of default by Niko, the joint venture agreement provides that Niko's working interest shall vest in Parex. The obligations under the PSCs are to perform the exploration work commitments, irrespective of actual cost. Parex has no obligation to spend the actual amount guaranteed. The amount of the bond has not been reduced to reflect either the 2D seismic commitment work performed in 2009 or the drilling exploratory work that was performed during the year ended December 31, 2010.

The Company's share of exploration and other commitments in respect of the Central Range Blocks remaining at December 31, 2010, including the remaining Niko carry, are estimated to be as follows:

| | Exploration | Other | Total |
|------------|-------------|----------|-----------|
| 2011 | \$ 13,157 | \$ 1,237 | \$ 14,394 |
| 2012 | - | 1,153 | 1,153 |
| Thereafter | - | - | - |
| | \$ 13,157 | \$ 2,390 | \$ 15,547 |

These amounts do not include production bonuses and other payments that will vary depending on production levels due to the uncertainty of their amount and timing.

c) Moruga Block (Trinidad & Tobago)

Parex has entered into a farm-in agreement with Primera Energy Resources Ltd. and Primera Oil and Gas Limited (together "Primera") to acquire a working interest in the Moruga Block Exploration and Production Licence ("Moruga Block"). The earning terms of the Moruga Block require Parex to drill one exploratory well to a depth of 8,600 feet or the top of the Cretaceous, whichever occurs first, and one exploratory well to 10,500 feet. Parex will earn a 50 percent working interest in the Moruga Block by paying 95 percent of all costs for drilling and evaluating these two exploration wells. The exploration term of the Moruga Block exploration licence expires on August 29, 2013.

The Company's share of exploration and other commitments in respect of the Moruga Block remaining at December 31, 2010 is estimated to be as follows:

| | Exploration | Other | Total |
|------------|-------------|--------|----------|
| 2011 | \$ 2,107 | \$ 236 | \$ 2,343 |
| 2012 | - | 249 | 249 |
| 2013 | - | 262 | 262 |
| Thereafter | - | - | - |
| | \$ 2,107 | \$ 747 | \$ 2,854 |



d) Operating leases

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

The existing minimum lease payment obligations associated with leases for office space and accommodations at December 31, 2010 are as follows:

| | Total | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------|----------|--------|--------|--------|--------|--------|
| Office and accommodations | \$ 2,775 | \$ 936 | \$ 660 | \$ 526 | \$ 522 | \$ 131 |

e) Drilling rig contracts

The Company has entered into contracts for drilling rigs in Colombia and Trinidad & Tobago. Rig contracts in both countries during the quarter included commitments to use the rigs for a minimum period on terms consistent with normal industry practice. The Company anticipates that, given its planned level of drilling activity to meet exploration commitments in both countries, the rigs will be fully utilized for the duration of their contracts and no material additional charges will be incurred.



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Abbreviations

| | |
|---------------|--|
| bbl | barrel |
| bbls | barrels |
| mbbls | thousand barrels |
| mbbls | million barrels |
| bbls/d | barrels per day |
| boe | barrels of oil equivalent * |
| boe/d | barrels of oil equivalent per day |
| mboe | thousand barrels of oil equivalent |
| mboe/d | thousand barrels of oil equivalent per day |
| mmboe | million barrels of oil equivalent |

| | |
|----------------|---|
| mmboe/d | million barrels of oil equivalent per day |
| NGL | natural gas liquids |
| mcf | thousand cubic feet |
| mmcf | million cubic feet |
| bcf | billion cubic feet |
| trcf | trillion cubic feet |
| mcf/d | one thousand cubic feet per day |
| mmcf/d | one million cubic feet per day |
| gj | gigajoules |
| gj/d | gigajoules per day |

* A barrel of oil equivalent (boe) is derived by converting natural gas to crude oil in the ratio of six thousand cubic feet of natural gas to one barrel of crude oil. This boe conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and is not intended to represent a value equivalency at the wellhead. Boe may be misleading, particularly if used in isolation.