

## MESSAGE FROM THE PRESIDENT

Quite simply, Parex Resources is on track to execute its business plan with the resources that we have at hand.

Now for the details. We are currently drilling our initial wells in Trinidad & Tobago and in Colombia. We are operating both wells, demonstrating that we've put in place the key staff, processes and goodwill required to execute our own programs. We have partner and regulatory approvals and we're well into construction on the next locations to be drilled in both countries. Our "project pipeline" is moving along well to deliver subsequent drilling opportunities. Regulatory efficiency is a prerequisite for success as an operator, and to date we have not experienced material delays in that regard. In Colombia, we began drilling the Kona well on May 16, 2010 after moving the rig onto our initial drilling location during the rainy season.

Our balance sheet remains strong. We have the financial capacity and adequate coverage to meet our commitments and execute on accretive business development opportunities. We've always believed that the best entries into new ventures or acquisitions emerge in times of low prices, and we see the recent pullback in oil prices as signalling a time of opportunity. In Colombia, we've applied to qualify as an operator for the 2010 bid round and in Trinidad & Tobago we continue to look for strategic opportunities with a fit similar to that provided by the Cory Moruga farm-in in 2009.

Many of you will be aware of up-coming elections in Colombia and recent election results in Trinidad & Tobago. In Colombia, the presidential election scheduled for May 30, 2010 has developed into a two man race between Juan Manuel Santos of the ruling "U" or Union Party and Antanas Mockus of the Green Party. The two have traded the lead in polling conducted through the campaign, but both have developed platforms that support extending the favourable environment for foreign investment that was established under outgoing president Alvaro Uribe. In the Trinidad & Tobago May 24, 2010 general election, the People's Partnership coalition won 29 seats with the opposition United National Congress "UNC" party taking 21 seats, giving the UNC a simple majority in the 41-seat Parliament. Ms. Kamla Persad-Bissessar, UNC leader, will become prime minister. As in Colombia, there appears to be a general consensus of encouraging oil and gas development as a means of stimulating the national economy. We are optimistic that the positive fiscal and political environments in both countries will continue.

As we become fully operational as a company, I'd like to thank our staff and our shareholders for their diligence and patience during the start-up phase. It's often tempting to cut corners and sometimes difficult to take the time to do the right things the right way, however in our industry it's more important now than it ever has been. Because of that diligence and patience, we have developed and maintained good relationships with our regulators and other stakeholders, while moving at a pace that is best-in-class. We look forward to reporting the results of our initial wells over the coming weeks and months as we turn our attention from permitting and regulatory matters to drilling and operations.

On behalf of the Board of Directors of Parex Resources Inc,

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

**Wayne Foo**  
President & CEO

May 26, 2010



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Parex Resources Inc. ("Parex" or the "Company") is dated May 26, 2010 and should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2010 and the MD&A and audited consolidated financial statements for the year ended December 31, 2009. The unaudited 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 purposes 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. (PABL) (now Parex Resources (Barbados) Ltd.), Petro Andina (Colombia) Ltd. (PACL) (now Parex Resources (Colombia) Ltd.) and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. (PATL) (now Parex Resources (Trinidad) Ltd.), as well as an inter-company loan and other receivables from PABL, PATL and PACL, 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 PABL and PACL. 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 unaudited consolidated financial statements of Parex, and the disclosures throughout the MD&A reflect the assets and liabilities of PABL and PACL at their book value as reported in the financial statements of PABL and PACL for the period ended March 31, 2010. In addition, the comparative consolidated financial statements of Parex were restated to reflect the financial position and results of operations as if Parex, PABL and PACL 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.

The Company is currently in the development stage as defined in CICA's Accounting Guideline (AcG) -11. Since inception and as is typical for development stage companies, the Company has incurred losses from operations and negative cash flows from operating activities. The ability of the Company to successfully carry out its business plan beyond exploration 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 reserves.

Additional information related to Parex is available in the Annual Information Form dated March 31, 2010 on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com).

All 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 contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "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 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: financial and business prospects and financial outlook; 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.

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 partner approval; 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; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://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: availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies and other matters.

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 there from. These forward-looking statements are made as of the date of this MD&A and Parex disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

## **Non-GAAP Terms**

Funds flow from operations or funds flow used in operations may from time to time be used by the Company, but does not have any standardized meaning under GAAP and may not be comparable to similar measures presented by other companies. Funds flow from operations or funds flow used in 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 operations by the weighted average number of shares outstanding. Management uses non-GAAP measures for its own performance measurement and to provide shareholders and other investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future growth expenditures.



## Highlights

In the three months ended March 31, 2010:

- Lease preparation for drilling activity in Trinidad & Tobago related to the first of two committed exploratory wells on the Moruga Block was substantially completed. On April 16, 2010 Parex spud its first operated exploration well, Firecrown;
- The Company conducted civil works and mobilized and tested a new hydraulic drilling rig in preparation for the spud of its first operated exploration well in Colombia. The Kona well was subsequently spud on May 16, 2010;
- Parex processed 216 square kilometres of three-dimensional (3D) seismic on Block LLA-20 in Colombia and Parex's partner commenced the acquisition of 180 square kilometres of 3D seismic on Block LLA-30;
- Multiple exploration prospects were matured in Block LLA-16 in Colombia which are expected to enable continuous drilling on the Colombian exploration blocks through the remainder of 2010 (see "2010 Outlook" of this MD&A);
- Parex maintained a strong balance sheet with cash and cash equivalents of \$91.9 million and working capital of \$86.5 million at March 31, 2010 against commitments of approximately \$67.5 million; and
- The Company incurred capital expenditures of \$6.7 million, focused primarily on lease preparation and other pre-drilling activities and seismic data acquisition and processing.

For the three months ended March 31,	2010	2009 <sup>(1)</sup>
Financial (\$000s except per share amounts)		
Net loss	(3,571)	(344)
Per share – basic	\$ (0.06)	(0.01)
Per share – diluted	\$ (0.06)	(0.01)
Funds flow used in operations	(3,325)	(344)
Per share – basic	\$ (0.05)	(0.01)
Per share – diluted	\$ (0.05)	(0.01)
Total assets (end of period)	128,558	12,740
Working capital (end of period)	86,487	(1,992)
Long-term debt (end of period)	-	-
Weighted average shares outstanding (000s)		
Basic	63,870	49,214
Diluted	63,996	49,214
Outstanding shares (end of period) (000s)		
Basic	63,870	49,214
Diluted	67,607	49,214

<sup>(1)</sup> Determined using continuity-of-interest accounting (EIC-89)

## 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 Western Canada Sedimentary Basin technology in new basins with large oil-in-place potential. The Company will focus on short cycle time from discovery to on-stream and use a portfolio approach to manage subsurface and commercial risks.



## Principal Properties

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

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

### Note:

- <sup>(1)</sup> The initial exploration phase under the Company's exploration and production contracts is 36 months. Subsequent to this period, the Company has the option to enter into two consecutive exploration phases of 18 months each, subject to certain criteria spelled out by the Colombian National Hydrocarbon Agency. The effective date of the Colombian contracts is April 20, 2009. Exploration property deemed non-commercial will be released in due course.
- <sup>(2)</sup> Working interests noted are for the exploration phase of the Production Sharing Contracts (PSCs). The Petroleum Company of Trinidad & Tobago has the right to participate for a 35 percent working interest in any development on the Central Range Shallow Block and for a 20 percent interest in any development on the Central Range Deep Block. The initial exploration phase under the Company's PSCs is 48 months. Subsequent to this period, the Company has the option to enter into two consecutive exploration phases of 12 months each, subject to certain Ministry of Energy and Energy Industries' (MEEI) defined criteria. 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.
- <sup>(3)</sup> Exploration block with farm-in commitments still ongoing. The working interest noted is post-completion of farm-in earning. As at March 31, 2010, the Company's post-completion farm-in earning increased from 7,443 gross acres (3,721 net acres) relating to the Cory Moruga Block "E", to the entire Moruga Block Exploration and Production Licence.

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

The Company also holds minor non-operated properties in Canada which are not significant to the Company's current or future operations.

### 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 three years with the option for the parties to enter into two consecutive exploration phases of 18 months each. The exploration work commitments for the initial exploration phase total \$46 million representing 19 wells and 900 square kilometres of 3D seismic. The first phase of 3D seismic acquisition over Block LLA-16 commenced in August 2009 and was completed in early November 2009. Seismic acquisition over Block LLA-20 was completed in December 2009. In 2010, Parex acquired 180 square kilometres of 3D seismic coverage on Block LLA-30 through Columbus. On May 16, 2010, the Company's initial Colombian well, named Kona, was spud.

The Company currently has no oil and natural gas production or oil and natural gas reserves in Colombia.

### 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 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. 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 four years with the option for the parties to enter into two single-year exploration phases beyond the initial phase.



The PSCs have minimum work commitments in the initial four-year 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 million was incurred to March 31, 2010.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Central Range blocks.

### **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 terms of the agreement require Parex and its partners to drill two exploration wells to a minimum depth of 10,500 feet in 2010. Parex will earn a 50 percent working interest in the Moruga Block by paying 95 percent of costs to drill and evaluate these two exploration wells. The MEEI has provided an eight-week extension to drill the initial well, which was to spud on February 28, 2010 and reduced the minimum depth of the second well from 10,500 feet to 8,600 feet or intersection of the Cretaceous formation, whichever occurs first. On April 16, 2010 Parex started drilling the initial well, named Firecrown. The second commitment well must be spud within three months of rig-release of the first exploration well. In connection with the farm-in, application will be made for Parex to become the operator of the Moruga Block. The farm-in and transfer of operatorship are subject to approval by the MEEI and the Ministry of Finance of the Republic of Trinidad & Tobago.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Moruga Block.

## **Financial and Operational Results**

During the first quarter of 2010, the Company furthered exploration activity in Colombia and Trinidad & Tobago.

### **Net Operating Income**

Three months ended March 31, (\$000s)	2010	2009
Oil and natural gas revenue	\$ 36	\$ -
Production expense	(19)	-
<b>Net operating income</b>	<b>\$ 17</b>	<b>\$ -</b>

Through the Arrangement, the Company acquired minor non-operated properties in Canada from Petro Andina which are not significant to the Company’s current or future operations.

### **General and Administrative Expenses (G&A)**

Three months ended March 31, (\$000s)	2010	2009
Gross G&A	\$ 4,109	\$ 363
G&A recoveries	(362)	-
Capitalized G&A	(116)	(24)
<b>Net G&amp;A</b>	<b>\$ 3,631</b>	<b>\$ 339</b>

Gross G&A expenses were \$4.1 million and \$0.4 million for the first quarters of 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. Geographically, 70 percent of the Company’s G&A for the three months ended March 31, 2010 related to Canadian-based head-office activity, while 21 percent related to Colombia and the remainder to Trinidad & Tobago. As at March 31, 2010, G&A is mainly comprised of \$2.3 million relating to staff and consultants, \$0.8 million relating to legal matters of a non-recurring nature and \$0.5 million relating to office rent. Staff and consultant costs increased given the start-up nature of the Company’s operations and associated rising staff levels as the subsidiaries commenced exploration activity. The Company engages local in-country staff as soon as possible and engages local professional services to enhance execution and manage costs. A total of 57 full time equivalents were working at Parex as at March 31, 2010. As capital activity increases it is expected that G&A costs will also increase. The Company continues to maximize partner recoveries and reduce net G&A where possible.



### **Bank Taxes**

Three months ended March 31,	2010	2009
Bank taxes (\$000s)	\$ 26	\$ -

Colombian bank taxes are levied at a rate of 0.4 percent on the value of every payment and were incurred in the first quarter of 2010. All bank taxes relate to the Company's Colombian operations, and with the increasing capital activity in Colombia, are expected to increase in 2010.

### **Stock-Based Compensation Expense (SBC)**

Three months ended March 31,	2010	2009
Stock-based compensation expense (\$000s)	\$ 712	\$ -

SBC relates to the Company's stock option plan for employees, officers, directors and consultants. The Company records SBC using graded vesting. Parex options typically vest over a three-year period. The determination of fair value for recording SBC is based upon assumptions regarding stock volatility, risk-free interest rates, expected dividend rates and the expected life of the options. The Company uses Black-Scholes option valuation methodology to value the options at the date of award. The maximum number of options reserved for issuance under the plan may not exceed 10 percent of the number of common shares issued and outstanding. The increase in SBC from 2009 to 2010 was the result of the initiation of a stock option plan for the Company in late 2009. The majority of options outstanding as at March 31, 2010 were valued at Cdn\$1.33 at the time of grant.

### **Interest Expense and Income**

Three months ended March 31, (\$000s)	2010	2009
Related party interest expense	\$ -	\$ 6
Interest income	(72)	-
Net interest (income) expense	\$ (72)	\$ 6

In 2009, prior to the Arrangement, interest expense was charged from Petro Andina to PATL and PACL 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 inter-company loans were transferred to Parex and intercompany interest charges were eliminated in the consolidated financial statements for the three months ended March 31, 2010. Interest income was earned on cash balances held during the quarter.

### **Depletion, Depreciation and Accretion Expense (DD&A)**

Three months ended March 31,	2010	2009
DD&A (\$000s)	\$ 277	\$ -

The majority of DD&A relates to seismic and office equipment which are depreciated over their estimated useful lives. Through the Arrangement, the Company also acquired minor non-operated properties in Canada from Petro Andina and has recorded DD&A relating to these properties. However, these properties are not significant to the Company's current or future operations.

### **Foreign Exchange Gain**

Three months ended March 31,	2010	2009
Foreign exchange gain (\$000s)	\$ (986)	\$ (1)

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 reports in US dollars. 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 a balance of Canadian dollars in cash and short-term deposits to meet head office G&A costs. Due to local currency exchange requirements, all cash balances in Colombia must be held in Colombian pesos. These exchanges of currencies give rise to gains and losses. In the three months ended March 31, 2010, the total foreign exchange gain was \$986,000 (\$743,000 unrealized) due primarily to the appreciation of the Canadian dollar versus the US dollar. 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 given the



integrated nature of its operations. Currently, 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 Tax Expense

Three months ended March 31,	2010	2009
Income tax expense (\$000s)	\$ -	\$ -

The Canadian parent company and the foreign subsidiaries incurred losses for both accounting and tax purposes. No tax benefits were recorded for these losses since their recoverability is uncertain as at March 31, 2010. The Company has had no significant oil and natural gas reserves, significant oil and natural gas production, nor history of net income.

### Capital Expenditures

Three months ended March 31, (\$000s)	2010	2009
Land	\$ 82	\$ 190
Geological and geophysical	2,535	1,671
Pre-drilling	3,893	-
Office and other equipment	125	64
	\$ 6,635	\$ 1,925
Trinidad & Tobago	2,009	1,802
Colombia	4,608	123
Canada	18	-
	\$ 6,635	\$ 1,925

### Colombia

In Colombia, during the first quarter of 2010 the Company commenced civil work and lease construction at five drilling prospects on Block LLA-16. Parex also processed 216 square kilometres of 3D seismic on Block LLA-20 in Colombia and, through its joint venture partner, acquired 180 square kilometres of 3D seismic coverage on Block LLA-30. Recently acquired seismic data is being processed and evaluated. Parex signed a six-well drilling commitment with Petrex S.A. and a new hydraulic rig was moved to Colombia, rigged up, tested and mobilized to the Kona location, which was subsequently spud on May 16, 2010. As at May 26, 2010 the well was drilling at a depth of approximately 6,950 feet.

Capital expenditures in 2009 were capitalized start-up costs.

### Trinidad & Tobago

In Trinidad & Tobago, Parex completed the lease construction on the Moruga Block where the drilling of the Firecrown well commenced in April 2010. As at May 26, 2010 the well was drilling at a depth of approximately 7,000 feet. Capital expenditures in 2009 primarily relate to acquiring and processing 216 kilometres of 2D seismic on the Central Range Block.

### Summary of Quarterly Results (Unaudited)

	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
Three months ended <sup>(1)</sup>	2010	2009	2009	2009
Financial (\$000s except per share amounts)				
Net loss	(3,571)	(2,316)	(1,445)	(624)
Per share – basic	\$ (0.06)	\$ (0.04)	\$ (0.03)	\$ (0.01)
Per share – diluted	\$ (0.06)	\$ (0.04)	\$ (0.03)	\$ (0.01)
Funds flow used in operations	(3,325)	(1,569)	(1,393)	(620)
Per share – basic	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.01)
Per share – diluted	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.01)
Total assets (end of period)	128,558	133,485	46,147	13,428
Working capital (end of period)	86,487	95,704	15,773	(5,429)

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



Three months ended <sup>(1)</sup>	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008
Financial (\$000s except per share amounts)				
Net loss	(344)	(167)	(23)	(18)
Per share – basic	\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.00
Per share – diluted	\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.00
Funds flow used in operations	(344)	(167)	(23)	(18)
Per share – basic	\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.00
Per share – diluted	\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.00
Total assets (end of period)	12,740	7,993	3,924	124
Working capital (end of period)	(1,992)	(4,723)	(3,624)	(169)

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

## Liquidity and Capital Resources

At March 31, 2010 Parex had \$91.9 million of cash on hand, compared to \$101 million at December 31, 2009. The Company's cash balances reside in current accounts and term deposits. Of the current total, \$79.7 million of cash on hand was deposited with a large Canadian chartered bank at the end of the period. At the end of the quarter, the Company had cash on hand of \$3.8 million in Colombia and \$8.4 million in Trinidad & Tobago with significant international banking institutions.

As at March 31, 2010 working capital of the Company was approximately \$86.5 million, with no long-term debt.

The Company's 2010 work program continues to be over-funded. Parex anticipates that it will have access to sufficient financial resources to fund all of its existing work commitments as described in this MD&A, as current working capital is in excess of estimated exploration commitments. However, the Company is in the start-up phase and currently has no production or cash flow from operations to fund its capital activities or overhead. The ability of the Company to successfully carry out its business plan beyond exploration is primarily dependent upon the continued support of shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop reserves.

## 2010 Outlook

The Company estimates 2010 capital spending will be approximately \$49 million, with \$34 million allocated to Colombia and \$15 million allocated to Trinidad & Tobago. Key assumptions underlying the Company's capital expenditure plans include a West Texas Intermediate reference price of \$75/bbl and the continuity of current fiscal regimes in Colombia and Trinidad & Tobago. Facility costs contingent upon exploration success of \$9 million are also included in the capital budget. This plan is unchanged from the outlook provided previously in the MD&A dated March 29, 2010

Parex plans to drill eight wells targeting oil in Colombia in 2010. Four wells are planned to be drilled on Block LLA-16 and two on Block LLA-20, to depths ranging from 10,000 feet to 14,000 feet. The six wells on Blocks LLA-16 and LLA-20 are to be operated by Parex, with two wells, on Blocks LLA-29 and LLA-30, being operated by the Company's partner. Parex has signed a six-well rig contract, along with a subsequent six-month option. The new hydraulic rig is in Colombia where it was rigged up, tested and mobilized to the Kona well location. Lease construction for Kona, the first location on Block LLA-16, was completed in April. The Kona well was subsequently spud on May 16, 2010. Parex estimates that drilling the well to the target depth would take 25 days with completion and testing to follow. The Kona well has a targeted drilling depth of 13,250 feet and will be used to evaluate the Carbonera (C7), Mirador and Une formations. Subsequent drilling on the Colombian exploration blocks is expected to be conducted on a continuous basis for the remainder of 2010.

The Company has begun acquiring an additional 50 square kilometres and 40 square kilometres of 3D seismic coverage for Blocks LLA-16 and LLA-20, respectively. Parex through its joint venture partner has acquired 180 square kilometres of 3D seismic coverage on Block LLA-30, which is currently being processed and evaluated. Post-completion of the Company's 2010 Colombian seismic acquisition plan, the Company will have acquired 948 square kilometres of 3D seismic.



In Trinidad & Tobago, the Company plans to drill two wells on the Moruga Block and one well on the Central Range Deep Block. On April 16, 2010 drilling operations began at the Firecrown well location on the Moruga Block. Firecrown is the first exploration well of the Company's three well 2010 Trinidad exploration program. The Firecrown well is expected to reach total depth of 10,500 feet by the end of June 2010. Immediately after drilling Firecrown, the rig will remain on the Moruga Block and begin drilling the next Parex-operated exploration well, Snowcap, to a maximum depth of 8,600 feet. Lease construction for Snowcap is nearing completion. Both wells are designed to test the Herrera Formation. Parex will earn a 50 percent working interest on the Moruga Block by paying 95 percent of drilling costs to a maximum of \$13.3 million. Minor seismic costs on the Trinidad & Tobago blocks are also expected in 2010.

In addition to the capital program above, the Company has a budget for 2010 net G&A costs, after partner recoveries, of approximately \$11 million and for surface lease costs and value added taxes of \$7 million.

Parex will be actively evaluating opportunities to expand its capital programs in Colombia and Trinidad & Tobago.

A public release of a production and cash flow forecast is not planned until such time as initial exploration wells have been tested and marketing arrangements have been satisfactorily determined.

## Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at March 31, 2010 the Company had 63,869,535 outstanding common shares.

The Company has a stock option plan. It 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 May 26, 2010 Parex has the following securities outstanding:

	Number	%
Common shares	63,869,535	94
Stock options	4,025,000	6
Fully diluted	67,894,535	100

As of the date of this MD&A, total stock options outstanding represent 6 percent of the total issued and outstanding common shares.

## Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will 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 Colombian National Hydrocarbon Agency (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 begin to expire in January 2011. 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 ANH have not been reduced for either the 3D seismic work performed in 2009 or the first quarter pre-drilling activity and 3D seismic work that was incurred during 2010.



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 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 guarantee amount of the bond has not been reduced to reflect either the 2D seismic commitment work performed in 2009 or the first quarter pre-drilling exploratory work that was performed as at March 31, 2010.

The following table and footnotes summarizes the Company's commitments as at March 31, 2010:

(\$000s)	Total	<1 year	1-3 years	3-4 years	>5 years
Exploration <sup>(1)</sup>	\$ 61,216	\$ 40,574	\$ 20,642	\$ -	\$ -
Office and accommodations <sup>(2)</sup>	3,163	878	1,227	1,058	-
Other	3,158	1,534	1,624	-	-
Total	\$ 67,537	\$ 42,986	\$ 23,493	\$ 1,058	\$ -

- Note:**
- <sup>(1)</sup> 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.
  - <sup>(2)</sup> Includes minimum lease payment obligations associated with leases for office space and accommodations.

The Company has entered into contracts for a drilling rig in each of Colombia and Trinidad & Tobago. Both rig contracts include 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 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 to access markets. 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: 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 future proved reserves, to the extent discovered or acquired, will decline as reserves are produced from its properties unless the Company is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital-intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, Parex employs highly experienced geologists and geophysicists, uses technology such as 3D seismic as primary exploration tools 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.

Since inception and typical with development-stage companies as defined in CICA AcG-11, the Company has incurred losses from operations and negative cash flows from operating activities. The ability of the Company to carry out its business plan beyond exploration is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and obtaining financing to develop reserves.

### **Off-Balance-Sheet Arrangements**

The Company did not enter into any off-balance-sheet arrangements in the first quarter of 2010.

### **Financial Instruments and Other Instruments**

The Company did not utilize financial instruments such as hedges or swaps in the first quarter of 2010.

### **Related-Party Transactions**

The Company did not enter into any related-party transactions in the first quarter of 2010.

In the consolidated statements of cash flows for the three months ended March 31, 2009 there is an increase in related-party receivables of \$5 million, which are amounts due from PABL, PACL and PATL to Petro Andina through loan advances, interest and charges under technical service agreements. On November 6, 2009, the time of the Arrangement, the accumulated amount was \$36,058,000. This receivable held by Petro Andina was transferred to Parex along with all the issued and outstanding shares of PACL, PABL and indirectly PABL's subsidiary PATL, 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 three months ended March 31, 2009 is \$6,000 of related-party interest expense. Interest was charged by Petro Andina to PACL and PATL 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 three months ended March 31, 2009, \$165,000 relating to technical service agreements was charged by Petro Andina to PACL and PATL. After the Arrangement, the charge relating to the technical service agreements was also eliminated upon consolidation.

Prior to November 6, 2009, interest in 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 the Company's 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 changes in estimated amounts or actual results that differ materially from current estimates. For a discussion of the Company's critical accounting estimates and policies, please refer to the MD&A for the year ended December 31, 2009 which is available on the Canadian Securities Administrators' website, [www.sedar.com](http://www.sedar.com).

## Future Accounting Pronouncements

### 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 starting on or 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:

Milestone	Proposed Timing
Diagnostic analysis of key IFRS differences	Completed
Training of staff and Company personnel	Ongoing
Completion of a draft IFRS opening balance sheet as at December 31, 2009	Ongoing; expected completion May 31, 2010
Completion of position papers for potential significant GAAP differences	Ongoing; expected completion July 2010
Review of position paper evaluations by the Company's auditors	Expected completion July 2010
Review of opening balance sheet by the Company's auditors	Expected completion August 2010
Audit of the opening balance sheet by the Company's auditors	Audit opinion on January 1, 2010 balance sheet expected to be issued in March 2012 with the release of December 31, 2011 audited IFRS financial statements.
Determine impact of IFRS on the control environment and NI 52-109 certifications	Ongoing during NI 52-109 documentation and evaluations.

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.

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 as the Company is in the development stage. 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 and development costs. Exploration and evaluation (E&E) 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 may no longer be capitalized. The Company has identified costs that have been capitalized in accordance with Accounting Guideline – 16 "Oil and Gas Accounting – Full Cost", that may be treated differently under IFRS 6. Parex is conducting further analysis to support any potential opening balance sheet adjustment.

Parex conducts exploration activity in two key areas, Colombia and Trinidad & Tobago, and plans to examine the need for defining cash generating units (CGUs) below the cost center level in the coming year. The level of grouping of E&E assets for impairment testing purposes is based on how management makes decisions about continuing/disposing of assets and operations and the commercial terms associated with these assets and operations.

Parex has also examined the impact 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. The Company has also conducted a preliminary assessment of stock-based



compensation, asset retirement obligations and income taxes. However, despite the initial conclusion that no significant differences would exist, the Company believes in a complete and fulsome process including the completion of key position papers on critical account balances to be certain of this conclusion. 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, the Company cannot wholly quantify the impact that the adoption of IFRS will have on the 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 plans to develop IFRS-compliant statements and processes during 2010 to allow the Company to have IFRS in place prior to the first quarter of 2011.



## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	March 31, 2010 (note 2)	December 31, 2009 (note 2)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 91,939	\$ 101,280
Accounts receivable	974	2,997
Prepays and other current assets	425	350
	<b>93,338</b>	104,627
Property, plant and equipment (note 5)	<b>35,220</b>	28,858
	<b>\$ 128,558</b>	\$ 133,485
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,851	\$ 8,923
	<b>6,851</b>	8,923
Asset retirement obligation (note 7)	<b>56</b>	52
	<b>6,907</b>	8,975
Shareholders' equity		
Share capital (note 8)	128,726	128,726
Contributed surplus (note 11)	1,483	771
Deficit	(8,558)	(4,987)
	<b>121,651</b>	124,510
	<b>\$ 128,558</b>	\$ 133,485

Commitments and Contingency (notes 17 and 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 (unaudited)

For the three months ended March 31 (thousands of United States dollars, except per share amounts)	2010 (note 2)	2009 (note 2)
<b>Revenue</b>		
Oil and natural gas revenue	\$ 36	\$ -
Interest income	72	-
	<b>108</b>	
<b>Expenses</b>		
Production	19	-
General and administrative	3,631	339
Bank taxes	26	-
Stock-based compensation (note 10)	712	-
Related party interest expense (note 6)	-	6
Depletion, depreciation and accretion	277	-
Foreign exchange gain	(986)	(1)
	<b>3,679</b>	<b>344</b>
<b>Loss before taxes</b>	<b>(3,571)</b>	<b>(344)</b>
<b>Income tax expense</b> (note 12)		
Current	-	-
Future	-	-
	<b>-</b>	<b>-</b>
<b>Net loss and other comprehensive loss for period</b>	<b>(3,571)</b>	<b>(344)</b>
Deficit, beginning of period	(4,987)	(258)
<b>Deficit, end of period</b>	<b>\$ (8,558)</b>	<b>\$ (602)</b>
Basic net loss per common share	\$ (0.06)	\$ (0.01)
Diluted net loss per common share	\$ (0.06)	\$ (0.01)

See accompanying Notes to the Consolidated Financial Statements



## Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31 (thousands of United States dollars)	2010 (note 2)	2009 (note 2)
<b>Operating activities</b>		
Net loss	\$ (3,571)	\$ (344)
Add (deduct) non-cash items		-
Depletion, depreciation and accretion	277	-
Stock-based compensation	712	-
Unrealized foreign exchange gain	(743)	-
Funds flow used in operations	(3,325)	(344)
Net change in non-cash working capital (note 13)	813	342
	(2,512)	(2)
<b>Investing activities</b>		
Property, plant and equipment expenditures	(6,635)	(1,925)
Net change in non-cash working capital (note 13)	1,526	(802)
	(5,109)	(2,727)
<b>Financing activities</b>		
Increase in related party receivables (note 6)	-	5,000
Net change in non-cash working capital (note 13)	(2,498)	-
	(2,498)	5,000
<b>Increase (decrease) in cash and cash equivalents for period</b>	<b>(10,119)</b>	<b>2,271</b>
<b>Impact of foreign exchange on foreign currency-denominated cash balances</b>	<b>778</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>101,280</b>	<b>2,830</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 91,939</b>	<b>\$ 5,101</b>

Supplemental Disclosure of Cash Flow Information (note 13)

See accompanying Notes to the Consolidated Financial Statements



## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2010

(tabular amounts in thousands of 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 the Company filed Articles of Amendment to change its name to Parex Resources Inc. (“Parex” or the “Company”). The Company was incorporated for the purposes 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 4 “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. (PABL) (now Parex Resources (Barbados) Ltd.), Petro Andina (Colombia) Ltd. (PACL) (now Parex Resources (Colombia) Ltd.) and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. (PATL) (now Parex Resources (Trinidad) Ltd.), an intercompany loan and other receivables from PABL, PATL and PACL, working capital and other miscellaneous assets in exchange for the issue of 49,213,718 Parex common shares and 4,921,372 Parex common share purchase warrants to Petro Andina shareholders.

Since inception and typical with development stage companies, the Company has incurred losses from operations and negative cash flows from operating activities. The ability of the Company to successfully carry out its business plan beyond exploration 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 reserves.

### 2. Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries. They have been prepared following the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2009. The disclosures provided below are incremental to those included in the annual audited financial statements. They do not include all disclosures required under Generally Accepted Accounting Principles (GAAP) for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2009.

#### **a) 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 PABL and PACL. As the shareholders of Petro Andina ultimately continued to hold their respective interests in Parex, there was no resulting change of control of PABL and PACL. 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 PABL and PACL at their book value as reported in the financial statements of PABL and PACL. Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex include the operations of PABL and PACL 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, PABL and PACL had been combined since their inception.



#### **b) Accounting Guideline 11 – Enterprises in the development stage**

The Company is currently in the development stage and it has no proved or probable reserves to form the basis for an estimate of future net cash flow from the properties. The Company has considered the conditions in CICA Accounting Guideline 11 for impairment which include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, the Company's continued execution of its business plan is a key factor considered as part of the assessment of the recoverability of the carrying amount of the properties. Capitalized costs are written down to the estimated recoverable amount whenever events or changes in circumstances indicate that the carrying amount of a property in the development stage may be impaired.

### **3. Impact of New Accounting Pronouncements**

On February 13, 2008, the CICA Accounting Standards Board confirmed that Canadian public companies will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years starting on or after January 1, 2011. The Company has completed a diagnostic analysis of differences between Canadian GAAP and IFRS. At this time, the impact on the Company's financial position and results of operations is not reasonably determinable for any of the IFRS conversion impacts identified. In addition, certain standards under IFRS are expected to change prior to adoption in 2011, and the impact of these potential changes is not known. Management plans to develop IFRS compliant statements and processes during 2010, to allow the Company to have IFRS in place prior to the first quarter of 2011.

### **4. Plan of Arrangement**

The Arrangement between Parex, Petro Andina and Pluspetrol closed on November 6, 2009. Pursuant to the Arrangement, in exchange for the issue 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 PABL, PACL and indirectly all the issued and outstanding shares of PATL;
- intercompany loan and other receivables from PABL, PATL and PACL; 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 licenses.

The consolidated financial statements of Parex reflect the assets and liabilities of PABL and PACL at their book value as reported in the financial statements of PABL and PACL. Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex include the operations of PABL and PACL for the entire 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 <sup>(1)</sup>	\$	60,497
Accounts receivable		7,129
Prepays and other current assets		284
		<hr/>
		67,910
Property, plant and equipment		24,090
		<hr/>
	\$	92,000

#### LIABILITIES AND SHAREHOLDERS' EQUITY

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

**Note:**

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

Through the completion of the Arrangement and after a series of transactions, the resulting working capital of Parex amounted to \$63.8 million (Cdn\$68.6 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).



## 5. Property, Plant and Equipment

<b>March 31, 2010</b>	<b>Cost</b>	<b>Accumulated depletion, depreciation &amp; amortization</b>	<b>Net book value</b>
Oil and natural gas properties	\$ 34,693	\$ 297	\$ 34,396
Office and other equipment	1,095	271	824
	<b>\$ 35,788</b>	<b>\$ 568</b>	<b>\$ 35,220</b>

  

<b>December 31, 2009</b>	<b>Cost</b>	<b>Accumulated depletion, depreciation &amp; amortization</b>	<b>Net book value</b>
Oil and natural gas properties	\$ 28,194	\$ 87	\$ 28,107
Office and other equipment	956	205	751
	<b>\$ 29,150</b>	<b>\$ 292</b>	<b>\$ 28,858</b>

During the three months ended March 31, 2010 the Company capitalized \$116,000 (three months ended March 31, 2009 – \$24,000) of general and administrative expenses related to exploration and development activities.

Included in oil and natural gas properties at March 31, 2010 are \$32,265,000 (three months ended March 31, 2009 – \$6,600,000) of unproved properties that are not subject to depletion as they represent costs incurred related to properties that are considered to be in the development stage. As the Company currently has no proved or probable reserves to form the basis for an estimate of future net cash flow from the properties, no ceiling test has been performed.

## 6. Related Parties

The comparative consolidated financial statements of Parex were presented to reflect the financial position and results of operations as if Parex, PABL and PACL had been combined since their inception. See note 2, “Basis of Presentation”.

In the consolidated statements of cash flows for the three months ended March 31, 2009 there is an increase in related party receivables of \$5 million, which are amounts due by PABL, PACL and PATL 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 amounted to \$36,058,000. This receivable held by Petro Andina, was transferred to Parex along with all the issued and outstanding shares of PACL, PABL and indirectly PABL’s subsidiary PATL, pursuant to the Arrangement and eliminated upon consolidation at December 31, 2009. See note 4, “Plan of Arrangement”.

Similar to the related party receivable noted above, included in the consolidated statement of operation, comprehensive loss and deficit for the three months ended March 31, 2009 is \$6,000 of related party interest expense. Interest was charged by Petro Andina to PACL and PATL until November 6, 2009, on outstanding loan balances and technical service agreement invoices. However, after November 6, 2009 the intercompany interest expense was eliminated upon consolidation.

During the three months ended March 31, 2009 \$165,000 relating to technical service agreements was charged by Petro Andina to PACL and PATL. After the Arrangement, the charge relating to the technical service agreements was 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 Parex’ financial statements as Petro Andina was not part of the Parex consolidated group consistent with continuity-of-interests accounting.



The following table summarizes related party intercompany charges as they appear in the comparative period:

For the three months ended	March 31, 2010	March 31, 2009
PACL and PATL loan interest <sup>(1)</sup>	\$ -	\$ 6
Technical service agreement charges <sup>(1) (2)</sup>	-	165
Increase in related party receivables <sup>(3)</sup>	-	5,000

**Note:**

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

<sup>(2)</sup>Included in the Company's consolidated balance sheet.

<sup>(3)</sup>Included in the Company's consolidated statements of cash flows.

## 7. Asset Retirement Obligation

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 52	\$ -
Liabilities incurred during period	-	52
Settlements of obligations during the period	3	-
Accretion expense	1	-
Balance, end of period	\$ 56	\$ 52

The ARO liability relates to minor non-operated properties in Canada which are not significant to the Company's current or future operations.

## 8. Share Capital

### a) Parex Resources Inc.

#### (i) Authorized share capital

An unlimited number of voting common shares without nominal or par value.

#### (ii) 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 11)	-	3,459
Balance, December 31, 2009 and March 31, 2010	63,869,535	\$ 128,726

### b) Per share amounts

The weighted average number of common shares outstanding for the three months ended March 31, 2010 was 69,869,535 (for the year ended December 31, 2009 – 51,054,797). The weighted average number of diluted common shares outstanding for the three months ended March 31, 2010 was 69,996,311 (for the year ended December 31, 2009 – 48,178,423).

## 9. Warrants

Pursuant to the Arrangement, the Company issued 4,921,372 common share purchase warrants on November 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 issue date of the warrants, the Black-Scholes calculated fair value was \$0.7435 per warrant. The following table summarizes the assumptions used:

For the year ended December 31, 2009	
Risk-free interest rate (%)	0.5
Expected life (days)	30
Expected volatility (%)	60
Expected dividends	-



The following table presents the valuation of warrants for the year ended 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 March 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 March 31, 2010.

## 10. 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
Balance, December 31, 2009	3,475,000	\$	3.08
Granted	262,500	\$	4.34
Balance, March 31, 2010	3,737,500	\$	3.17

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

Exercise price	Options outstanding		
	Number	Weighted average remaining life (years)	Weighted average exercise price
\$3.04	3,362,500	4.54	\$ 3.04
\$4.30	150,000	4.86	\$ 4.30
\$4.40	225,000	4.78	\$ 4.40
	3,737,500	4.57	\$ 3.17

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

For the three months ended March 31	2010	2009
Risk-free interest rate (%)	1.73	-
Expected life (years)	3	-
Expected volatility (%)	62	-
Expected dividends	-	-

For options granted during the three months ended March 31, 2010, the weighted average fair value at the grant date was \$1.84 per option (year ended December 31, 2009 - \$1.33 per option).

## 11. Contributed Surplus

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 771	\$ -
Stock-based compensation expense	712	571
Fair value of expired warrants	-	200
Balance, end of period	\$ 1,483	\$ 771



## 12. Income Tax

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 three months ended March 31	2010	2009
Loss before taxes	\$ (3,571)	\$ (344)
Canadian statutory income tax rate	29.0%	29.0%
Income tax at statutory rate	\$ (1,036)	\$ (100)
Effect on income taxes of:		
Canadian statutory income tax rate change	21	-
Non-deductible costs	491	-
Foreign tax rate differential	(124)	(25)
Valuation allowance for losses not recognized	648	125
	\$ -	\$ -

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value. The income tax benefit of these losses and deductions has not been recognized in the financial statements since their recoverability is uncertain at this time. 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 March 31, 2010 exchange rate. At March 31, 2010 the Company had non-capital losses carried forward of \$2 million in Canada, \$2.1 million in Colombia and \$3.1 million in Trinidad & Tobago.

## 13. Supplemental Disclosure of Cash Flow Information

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

For the three months ended March 31	2010	2009
Accounts receivable	\$ 2,024	\$ (534)
Prepays and other current assets	(75)	(17)
Accounts payable and accrued liabilities	(2,108)	(491)
Due to related party	-	582
Net change in non-cash working capital	\$ (159)	\$ (460)
Operating	\$ 813	\$ 342
Investing	1,526	(802)
Financing	(2,498)	-
Net change in non-cash working capital	\$ (159)	\$ (460)

### b) Interest and taxes paid

For the three months ended March 31	2010	2009
Cash interest paid	\$ -	\$ -
Cash income taxes paid	\$ -	\$ -

## 14. Capital Management

The Company's capital structure is described in note 8.

The Company manages its capital to achieve the following:

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



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 present commitments.

## 15. 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 will not perform their underlying obligations. A substantial portion of the Company's accounts receivables are with joint venture partners in the countries in which the Company operates. The Company assesses financial strength of its joint venture partners and manages exposure to individual joint venture partners.

### 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. After closing of the Arrangement and equity financings as described in note 4, the Company considers itself to be well capitalized with working capital in excess of current commitments and no debt.

### c) *Foreign currency risk*

The Company is exposed to foreign currency risk as a portion of its cash balances are held in Canadian dollars (Cdn\$), 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.

### d) *Interest rate risk and commodity price risk*

The Company is not currently exposed to interest rate or commodity price risk as it has no debt and it has no significant production at this time.

### e) *Financial instrument sensitivities*

The following summarizes the annualized sensitivities of the Company's net income to changes in the fair value of financial instruments outstanding as at March 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 table below 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 risk		
Cdn\$/ US\$	\$	147
COP\$/ US\$	\$	19
TT\$/ US\$	\$	5



## 16. Segmented Information

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

### For the three months ended March 31, 2010

	Canada	Trinidad & Tobago	Colombia	Total
Oil and natural gas revenue	\$ 36	\$ -	\$ -	\$ 36
Interest income	50	2	20	72
	86	2	20	108
Expenses				
Production	19	-	-	19
General and administrative	2,540	341	750	3,631
Stock-based compensation	712	-	-	712
Bank taxes	-	-	26	26
Depletion, depreciation and accretion	226	5	46	277
Foreign exchange loss (gain)	(632)	7	(361)	(986)
	2,865	353	461	3,679
Loss before taxes	(2,779)	(351)	(441)	(3,571)
Income tax expense	-	-	-	-
Net loss	\$ (2,779)	\$ (351)	\$ (441)	\$ (3,571)
Property, plant and equipment	\$ 1,774	\$ 18,788	\$ 14,658	\$ 35,220
Property, plant and equipment expenditures	\$ 18	\$ 2,009	\$ 4,608	\$ 6,635
Total assets	\$ 81,476	\$ 28,066	\$ 19,016	\$ 128,558

### For the three months ended March 31, 2009

	Canada	Trinidad & Tobago	Colombia	Total
Expenses				
General and administrative	\$ -	\$ 156	\$ 183	\$ 339
Related party interest expense	-	6	-	6
Foreign exchange loss (gain)	-	(1)	-	(1)
	-	161	183	344
Loss before taxes	-	(161)	(183)	(344)
Income tax expense	-	-	-	-
Net loss	\$ -	\$ (161)	\$ (183)	\$ (344)
Property, plant and equipment	\$ -	\$ 6,477	\$ 123	\$ 6,600
Property, plant and equipment expenditures	\$ -	\$ 1,802	\$ 123	\$ 1,925
Total assets	\$ -	\$ 12,617	\$ 123	\$ 12,740



## 17. Commitments

### a) *Llanos Basin (LLA) Blocks (Colombia)*

Parex holds a 50 percent working interest in the following exploration blocks in the Llanos Basin of Columbia: 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 three years with the option for the parties to enter into two consecutive exploration phases of 18 months each. The exploration work commitments for the initial exploration phase total 19 wells and 900 square kilometers of three-dimensional (“3D”) seismic.

The Company currently has no oil and natural gas production or oil and natural gas reserves in Colombia.

The Company has provided guarantees to the Colombian National Hydrocarbon Agency (“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 an 18 month term, which begin to expire in January 2011. 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 ANH have not been reduced to reflect either the 3D seismic commitment work performed in 2009 or the pre-drilling activity and 3D seismic work that was incurred during the first quarter of 2010.

The Company’s share of exploration commitments remaining at March 31, 2010 were estimated to be as follows:

2010	18,409
2011	20,642
	\$ 39,051

### 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 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 four years with the option for the parties to enter into two single-year exploration phases beyond the initial phase.

The PSCs have minimum work commitments in the initial four-year 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 million has been incurred to March 31, 2010.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Central Range blocks.

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 guarantee amount of the bond has not been reduced to reflect either the 2D seismic commitment work performed in 2009 or the first quarter pre-drilling exploratory work that was performed as at March 31, 2010.



The Company's share of exploration commitments remaining at March 31, 2010, including the remaining Niko carry, which were estimated to be as follows:

	Exploration	Other	Total
2010	13,165	1,534	14,699
2011	-	1,624	1,624
	\$ 13,165	\$ 3,158	\$ 16,323

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 terms of the agreement require Parex and its partners to drill two exploration wells to a minimum depth of 10,500 feet in 2010. 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 Ministry of Energy and Energy Industries ("MEEI") has provided an eight-week extension to drill the initial well, which was to spud on February 28, 2010 and reduced the minimum depth of the second well from 10,500 feet to 8,600 feet or intersection of the Cretaceous formation, whichever occurs first.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Moruga Block.

The Company estimates that its costs to meet the commitment will be approximately \$10 million, of which approximately \$1 million has been incurred to March 31, 2010.

**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 March 31, 2010 are as follows:

	Total	2010	2011	2012	2013	2014	Thereafter
Office and accommodations	\$ 3,163	\$ 696	\$ 710	\$ 567	\$ 529	\$ 529	\$ 132

**e) Drilling rig contracts**

The Company has entered into contracts for a drilling rig in each of Colombia and Trinidad & Tobago. Both rig contracts include 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 and the minimum commitments will be incurred by December 31, 2010.

**18. Contingency**

In May 2008, a former optionholder of Petro Andina filed a claim to exercise Petro Andina options which had been issued in 2004. Since the optionholder had ceased to be either an employee or consultant to Petro Andina in 2005, Petro Andina's position was that the right to exercise such options had expired. In November 2008, a motion filed by Petro Andina for summary judgment was partially successful and part of the claim was dismissed. This partial summary judgment order was set aside in July 2009 and the action is now proceeding to trial. Under the terms of the Arrangement, instead of negotiating an expected value to be deducted from the sale proceeds, Parex agreed to indemnify Petro Andina against any liabilities related to the claim and has been added as a defendant to the action. The claim is for specific performance of the plaintiff's right to exercise the Petro Andina options, or in the alternative, damages before any awarded costs estimated at Cdn\$1.4 million.



## DIRECTORS

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*Chairman of the Board*

**Curtis D. Bartlett**

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**W. A. (Alf) Peneycad**

**Paul D. Wright**

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*President, Chief Executive Officer*

**Barry B. Larson**  
*VP Operations, Chief Operating Officer*

**Kenneth G. Pinsky**  
*VP Finance, Chief Financial Officer*

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### Abbreviations

<b>bbl</b>	barrel
<b>bbbls</b>	barrels
<b>mbbls</b>	thousand barrels
<b>mmbbls</b>	million barrels
<b>bbbls/d</b>	barrels per day
<b>boe</b>	barrels of oil equivalent *
<b>boe/d</b>	barrels of oil equivalent per day
<b>mboe</b>	thousand barrels of oil equivalent
<b>mboe/d</b>	thousand barrels of oil equivalent per day
<b>mmboc</b>	million barrels of oil equivalent

<b>mmboc/d</b>	million barrels of oil equivalent per day
<b>NGL</b>	natural gas liquids
<b>mcf</b>	thousand cubic feet
<b>mmcf</b>	million cubic feet
<b>bcf</b>	billion cubic feet
<b>tcf</b>	trillion cubic feet
<b>mcf/d</b>	one thousand cubic feet per day
<b>mmcf/d</b>	one million cubic feet per day
<b>gj</b>	gigajoules
<b>gj/d</b>	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.