

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the three months ended March 31, 2014 is dated May 12, 2014 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2014, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2013. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex and factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 19, 2014, and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

Parex is an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks totaling approximately 2,131,770 gross acres. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT. The Company's 5.25 percent convertible unsecured subordinated Debentures (the "Debentures") trade on the TSX under the symbol PXT.DB.

Abbreviations

Refer to the end of the MD&A for commonly used abbreviations in the document. Refer to page 17 for the Advisory on Forward-Looking Statements and page 18 for Non-GAAP Terms used.

Three months ended March 31, 2014 ("first quarter or Q1") Highlights

- Achieved quarterly oil production of 18,425 bopd, an increase of 28 percent over the comparative period;
- Generated funds flow from operations of \$76.7 million (\$0.70 per share basic as compared to \$0.56 per share for the comparative period). Funds flow has remained strong due to continued strong operating netbacks and oil production growth;
- Funds flow from operations in the quarter of \$76.7 million exceeded capital expenditures of \$61.4 million, resulting in an increase in working capital of \$19.3 million over the comparative period;
- Realized Brent referenced sales price of \$103.42 per barrel ("bbl") and an operating netback of \$61.20/bbl;
- Reduced operating and transportation combined unit costs by approximately 5 percent compared to the previous quarter;
- Participated in drilling 10 gross wells (6.15 net) in Colombia, resulting in 3 oil wells, 2 disposal wells, 4 untested wells and 1 dry and abandoned;
- Increased the syndicated bank credit facility to a current borrowing base of \$125 million from the borrowing base of \$100 million at December 31, 2013.

Financial Summary

For the three months ended March 31 (Financial figures in 000s except per share amounts)	2014	2013
Average daily oil production (bopd)	18,425	14,440
Realized sales price (\$/bbl) ⁽⁸⁾	\$ 103.42	\$ 109.63
Operating netback (\$/bbl)	\$ 61.20	\$ 67.03
Oil sales (including purchased oil sales)	\$ 179,794	\$ 164,990
Funds flow from operations ⁽¹⁾	\$ 76,746	\$ 60,226
Per share – basic	0.70	0.56
Per share – diluted ⁽⁵⁾	0.64	0.48
Adjusted net income ⁽¹⁾⁽²⁾	\$ 20,099	\$ 6,538
Per share – basic	0.18	0.06
Per share – diluted	0.17	0.05
Net income	\$ 9,663	\$ 11,136
Per share – basic	0.09	0.10
Per share – diluted ⁽⁶⁾	0.09	0.05
Capital expenditures	\$ 61,405	\$ 47,172
Total assets (end of period)	\$ 882,306	\$ 827,821
Working capital surplus (end of period) ⁽⁴⁾	\$ 36,957	\$ 16,972
Debentures (end of period) ⁽³⁾	\$ 64,728	\$ 65,402
Bank debt (end of period) ⁽⁷⁾	\$ 4,000	\$ 20,000
Weighted average shares outstanding (000s)		
Basic	109,095	108,523
Diluted ⁽⁶⁾	111,393	128,694
Outstanding shares (end of period) (000s)	109,783	108,514

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

⁽²⁾ Adjusted net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three months March 31, 2014 adjusted net income excludes a \$10.4 million loss upon revaluation of the derivative liability associated with the Company’s Debentures (three months ended March 31, 2013 excludes a \$4.6 million gain upon revaluation of the derivative liability).

⁽³⁾ Debentures will accrete up to the face value amount of Cdn \$85.0 million over the remaining term to June 30, 2016.

⁽⁴⁾ Working capital calculation does not take into consideration the undrawn \$121.0 million (March 31, 2013 - \$55 million) available under the syndicated bank credit facility.

⁽⁵⁾ Includes adjustment of debenture cash interest in the funds flow from operations balance.

⁽⁶⁾ Net income diluted has been adjusted for the IFRS accounting effects of changes in the Debentures. For the three months ended March 31, 2014 the effect of the debenture is anti dilutive (three month ended March 31, 2013 is \$5.1 million reduction relating to accretion, interest, foreign exchange and gain upon revaluation of the derivative liability).

⁽⁷⁾ Syndicated bank credit facility currently has a borrowing base of \$125 million, an increase from the borrowing base of \$75 million at March 31, 2013.

⁽⁸⁾ Brent crude price averaged \$108.17 for the three months ended March 31, 2014 versus \$112.44 for the three months ended March 31, 2013.

Strategy

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

Principal Properties

As at March 31, 2014, the Company's principal land holdings and interests in exploration blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
<u>Operated Properties</u>			
Blocks LLA-16, 20, 29 and 30	100%	489,137	489,137
Block LLA-57	100%	104,532	104,532
Block Los Ocarros	50%	110,436	55,218
Block LLA-17	40%	108,726	43,490
Block El Eden	60%	109,249	65,549
Block Cabretero	100%	29,562	29,562
Block LLA-40	50%	163,090	81,545
Block LLA-24 ⁽¹⁾	70%	147,100	102,970
Block LLA-26 ⁽¹⁾	80%	184,061	147,249
Block Cebucan ⁽¹⁾	100%	109,150	109,150
Block El Porton ⁽¹⁾	50%	109,476	54,738
Block Cerrero ⁽¹⁾	40%	108,973	43,589
<u>Non-Operated Properties</u>			
Block LLA-32	30%	100,325	30,097
Block LLA-34	45%	82,286	37,029
Colombia Middle Magdalena Basin			
<u>Operated Properties</u>			
Block VMM-11 ⁽¹⁾	60%	116,826	70,096
Morpho ⁽¹⁾	100%	51,398	51,398
Trinidad & Tobago			
<u>Non-operated Properties</u>			
Cory Moruga Block ⁽²⁾	32.8%	7,443	2,441
Total		2,131,770	1,517,790

Exploration properties that are deemed non-commercial will be released in due course. Accordingly, the gross and net acres described above may decrease over time as lands deemed non-commercial are released. For a complete description of each blocks phase, commitments and letters of credit refer to the Annual Information Form dated March 19, 2014.

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

⁽²⁾ Cory Moruga Block subject to a farm-out agreement whereby Parex will reduce its working interest to 32.8% upon completion of drilling two wells on the Snowcap discovery and recompleting the Snowcap well by the farmee.

2014 Guidance

To date in 2014, Parex has experienced strong appraisal and exploration drilling results. The Company currently has 4 operated and 6 non-operated wells that have either been tested and temporarily suspended, or are cased with favorable log results and awaiting testing. Q2 2014 production is projected to be 19,000-19,500 bopd and continued quarterly production growth is anticipated during 2014. At the end of Q2 2014 after assessing the initial production results of its current inventory of 10 non-producing wells, Parex expects to:

- update and increase its full year production guidance;
- revise its full year capital program in line with year to date exploration success, production growth, strong netbacks and addition of new properties; and
- release a mid-year independent reserve evaluation.

Financial and Operational Results

Consolidated Results of Operations

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

For the three months ended March 31,	2014	2013
Average daily production		
Colombia – oil (bopd)	18,425	14,440
Average daily sales of produced oil		
Colombia – oil (bopd) ⁽¹⁾	19,099	13,328
Operating netback (000s) ⁽¹⁾		
Oil and natural gas sales	\$ 179,794	\$ 164,990
Royalties	(24,840)	(18,179)
Net revenue	154,954	146,811
Production expense	(16,584)	(12,928)
Transportation expense	(31,433)	(25,090)
Purchased oil expense	(1,872)	(29,847)
Operating netback	\$ 105,065	\$ 78,946
Operating netback (per bbl) ⁽¹⁾		
Oil and natural gas sales	\$ 103.42	\$ 109.63
Royalties	(14.48)	(15.15)
Net revenue	88.94	94.48
Production expense	(9.66)	(10.78)
Transportation expense	(18.08)	(16.67)
Operating netback	\$ 61.20	\$ 67.03

⁽¹⁾ Average daily sales and the operating netback calculation includes the Company's working interest sales volumes and excludes purchased oil sales volumes.

The Company's operating netback on a per barrel basis for the three months ended March 31, 2014 was \$61.20 compared to \$67.03/bbl in the comparative period and \$60.78 for the fourth quarter of 2013. The average realized sales price in Colombia for the three months ended was \$103.42/bbl compared to \$109.63/bbl in the comparative period and \$101.64/bbl for the fourth quarter of 2013.

Royalty charges for the three months ended March 31, 2014 were \$14.48/bbl in comparison to \$15.15/bbl in the comparative period and \$11.73/bbl for the fourth quarter of 2013. Royalty charge per barrel is calculated by applying the royalty percentage on produced oil sold and is valued at the realized price net of transportation costs. The increase in royalty expense per bbl from the fourth quarter of 2013 is a result of the Company now paying the High Price Share royalty on the Las Maracas field as the 5 million barrel cumulative threshold for the field was reached in January 2014 (see Colombian Royalties for further discussion on the High Price Share royalty).

Production expense for the three months ended March 31, 2014 was \$9.66/bbl compared to \$10.78/bbl in the comparative period and \$9.94/bbl for the fourth quarter of 2013. Transportation expense per barrel for the three months ended was \$18.08/bbl compared to \$16.67/bbl in the comparative period and \$19.19/bbl for the fourth quarter of 2013. Transportation and marketing alternatives continue to be examined by the Company in an effort to maximize the net proceeds from production in Colombia.

Overall the price of the Company's benchmark Brent oil price decreased by \$1.04/bbl in the first quarter as compared to the fourth quarter of 2013 while the operating netback increased by \$0.42/bbl in the same period, mainly a result of a higher realized price and decreased transportation costs on a per barrel basis, partially offset by increased royalties due to an increase in the royalty rate for the Las Maracas field.

Colombian Oil Sales

a) Average Daily Crude Oil Production and Sales Volumes (bopd)

For the three months ended March 31,	2014	2013
Block LLA-34 (Tua, Tarotaro, Tigana and Max fields)	6,799	2,219
Block Los Ocarros (Las Maracas field)	6,195	4,207
Block LLA-16 (Kona, Sulawesi, Java and Malawi fields)	3,194	6,319
Block LLA-30 (Adalia field)	634	-
Block Cabrestero (Akira and Kitaro fields)	630	363
Block LLA-32 (Maniceno and Bandola fields)	330	408
Block LLA-20 (Cumbre field)	250	729
Block El Eden (La Casona and Rumi field)	218	-
Other	175	195
Total Production	18,425	14,440
Inventory changes	674	(1,112)
Colombia average daily oil sales of produced oil	19,099	13,328
Purchased oil	251	3,410
Sales Volumes	19,350	16,738

Production for the first quarter of the year averaged 18,425 bopd, an increase of approximately 28 percent from the first quarter of 2013. The increase in oil sales in the first quarter of 2014 compared to the reported Colombian oil sales of 13,328 bopd for the three months ended March 31, 2013 was primarily a result of drilling success at Las Maracas, Block 34, and Cabrestero along with a change in oil inventory levels. Production increased 7 percent from the fourth quarter average of 2013. Production in the first quarter includes increased production attributable to Block LLA-34 and Cabrestero blocks partially offset by a decrease in production in Block LLA-16. In addition, on March 14, 2014, the Adalia field production of approximately 900 bopd and related activities were temporarily suspended in order to resolve community demands related to the regional oil industry. During the three months ended March 31, 2013, inventory in transit decreased by an average of approximately 674 bopd as a result of oil delivery timing and marketing efforts.

b) Average Reference and Realized Prices

For the three months ended March 31,	2014	2013
Reference Prices		
WTI (\$/bbl)	98.74	94.33
Brent (\$/bbl)	108.17	112.44
Vasconia (\$/bbl)	101.44	107.24
Average Realized Prices		
Realized sales price (\$/bbl)	103.42	109.63
Realized oil hedging loss (\$/bbl)	(0.89)	(0.48)
Realized price after hedging (\$/bbl)	102.53	109.15
Realized price (discount) as percentage of Brent (%)	(4)	(3)
Realized price premium as percentage of WTI (%)	5	14

The Company's oil sales contracts during the period ended March 31, 2014 were referenced to a blend of Brent and Colombia Vasconia crude. The realized price discount to Brent was 4 percent in the first quarter compared to a 3 percent in the comparative period and a 7 percent discount in the fourth quarter of 2013. The differential increased in the current quarter from the comparative period as a result of an increase in heavy oil production, leading to increased differentials, however the majority of this impact is offset by the Company's crude blending operations.

The differential to Brent in the first quarter decreased from the fourth quarter of 2013 as a result of a decrease in differential between Brent and the Colombia Vasconia crude reference prices and the Company increasing heavy oil blending operations which has reduced the volume of heavy crude priced sales and thereby narrowed the average crude differential.

The table below provides a quarter-by-quarter view of Parex' historical pricing in Colombia:

Average price for the period	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Brent (\$/bbl)	108.17	109.21	110.22	102.56	112.44
Parex realized sales price (\$/bbl)	103.42	101.64	106.41	99.34	109.63
Parex realized price (discount) as percentage of Brent (%)	(4.4)	(6.9)	(3.5)	(3.1)	(2.8)

c) Oil Revenue

First quarter 2014 oil revenue increased \$14.8 million or 9 percent as reconciled in the table below to the first quarter of 2013:

(000s)		
Oil revenue, three months ended March 31, 2013	\$	164,990
Sales volume of produced oil, an increase of 43% (5,771 bopd)		56,941
Sales volume of purchased oil, a decrease of 1,258% (3,159 bopd)		(31,169)
Sales price decrease of 6%		(10,968)
Oil revenue, three months ended March 31, 2014	\$	179,794

Oil sales increased in the three months ended March 31, 2014 compared to the same period in 2013 due an increase in production volumes partially offset by the reduction of the Company purchasing and selling third party oil. Oil sales for the three months ended March 31, 2014 were more than crude oil production due to crude oil inventory decrease of 63,462 bbls from the fourth quarter of 2013, see “Colombian Crude Oil Inventory in Transit” below.

d) Colombian Crude Oil Inventory in Transit

For the three months ended March 31,

(000s)		2014		2013
Crude oil in transit	\$	4,998	\$	15,159

As at March 31, 2014, the Company had 73,565 bbls of crude oil inventory in transit (196,689 bbls for the first quarter of 2013), which was injected into the Colombian Ocesa and ODC pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately \$68/bbl (\$77/bbl for the first quarter of 2013 and \$63/bbl for the fourth quarter of 2013) incurred in bringing the crude oil to its existing condition and location. A reconciliation of the crude oil inventory in transit volumes is provided below:

For the three months ended March 31,

(mmbbls)	2014	2013
Crude oil inventory in transit - beginning of the period	137.0	98.8
Oil production	1,658.3	1,296.0
Oil sales	(1,741.5)	(1,503.5)
Purchased oil	22.6	305.4
Company consumption	(2.8)	-
Crude oil inventory in transit— end of the period	73.6	196.7

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

For the periods ended (mmbbls)	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013
Crude oil inventory in transit - beginning of the period	137.0	146.6	134.6	196.7
Oil production	1,658.3	1,590.4	1,490.3	1,407.1
Oil sales	(1,741.5)	(1,642.7)	(1,475.8)	(1,485.6)
Company consumption	(2.8)	(2.4)	(2.5)	-
Purchased oil	22.6	45.1	-	16.4
Crude oil inventory in transit— end of the period	73.6	137.0	146.6	134.6

The Company is experiencing, on average, two-thirds of period ending crude oil inventory being sold within the following month, however build and draw down of crude oil inventory from period to period are subject to factors that the Company does not control such as timing of the number of shipments from storage to export.

e) Purchased Oil

For the three months ended March 31,
(mmbbls)

	2014	2013
Oil purchased	22.6	305.4
Purchased oil sales	(22.6)	(305.4)
Purchased oil net change in inventory	-	-

From time to time the Company will purchase crude oil from partners. The table above shows the effect of purchased oil on ending crude oil inventory balances. At March 31, 2014 and March 31, 2013 the Company did not have any third party purchased oil in inventory.

For the three months ended March 31,		2014		2013
Purchased oil expense (000s)	\$	1,872	\$	29,847

Purchased oil expense for the three months ended March 31, 2014 was \$1.9 million compared to \$29.8 million for the comparative period and \$3.3 million for the fourth quarter of 2013. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Colombian Royalties

For the three months ended March 31,		2014		2013
Royalties (000s)	\$	24,840	\$	18,179
Per unit (\$/bbl)		14.48		15.15
Percentage of sales ⁽¹⁾⁽²⁾		17%		13%

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

⁽²⁾ Net of transportation costs

In the three months ended March 31, 2014 royalties as a percentage of sales of 17% increased from the comparative period of 2013 percentage of 13% and the previous quarter percentage of 14%. This is due to the Company being subjected to the High Price Royalty Share for both the Las Maracas field and the Kona field. The high price royalty share comes into effect when accumulated production of any production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices exceed pricing determined in the contract. The increase from the previous quarter and the prior year comparative quarter was a result of the Las Maracas field being subject to the high price share royalty as of mid January 2014.

The Company expects that the overall royalty as a percentage of sales will decrease in subsequent 2014 quarters as production from new discoveries is brought online and production from fields subject to the High Price Share decreases as a percentage of total production.

Colombian Production Expense

For the three months ended March 31,		2014		2013
Production expense (000s)	\$	16,584	\$	12,928
Per unit (\$/bbl)		9.66		10.78

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

For the three months ended March 31,		2014		2013
Per unit (\$/bbl) – based on sales volumes – operated ⁽¹⁾		7.57		9.06
Per unit (\$/bbl) – based on sales volumes – non-operated ⁽¹⁾		14.99		20.39

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

Production expense includes the cost of activities in the field to operate wells and facilities, lift to surface, gather, process, treat and store production. Production expense for the three months ended March 31, 2014 on a per barrel basis was \$9.66/bbl in comparison to \$10.78/bbl for the three months ended March 31, 2013. The decrease is primarily due to an improvement of fixed cost absorption due to higher production volumes on the non-operated blocks and the majority of operated production coming from low production costs fields. Production expense for the first quarter on a per barrel basis of \$9.66/bbl is in line with the fourth quarter of 2013 of \$9.94/bbl.

Operated properties production expense in the first quarter was \$7.57/bbl compared to \$8.14/bbl for the fourth quarter of 2013, and non-operated properties production expense was \$14.99/bbl for the first quarter compared to \$14.11/bbl for the fourth quarter of 2013.

Colombian Transportation Expense

For the three months ended March 31,		2014	2013
Transportation expense (000s)	\$	31,433	\$ 25,090
Per unit (\$/bbl)		18.08	16.67

Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and in some instances an oil transportation tariff from delivery point to the buyer's facility. For the three months ended March 31, 2014, the cost of transportation on a per barrel basis increased to \$18.08/bbl from \$16.67/bbl in the comparative period as a result of increased trucking costs and a shift in delivery points.

As compared to the fourth quarter of 2013 transportation expense decreased to \$18.08/bbl from \$19.19/bbl. The main reasons for the decrease from the fourth quarter of 2013 relates to the increased availability of pipeline capacity which in turn reduced the amount of Company oil being trucked for export which comes at a higher cost per barrel than pipeline tariff fees and the depreciation of the Colombian peso. On a long term basis the Company expects transportation cost to be between \$16-\$18 per bbl with variability depending on the marketing mix and their delivery points.

General and Administrative Expense ("G&A")

For the three months ended March 31, (000s)		2014	2013
Gross G&A	\$	10,212	\$ 9,242
G&A recoveries		(583)	(757)
Capitalized G&A		(2,318)	(1,213)
Net G&A expense	\$	7,311	\$ 7,272
Per unit (\$/bbl) ⁽¹⁾		4.42	5.67

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

Net G&A was \$7.3 million for the three months ended March 31, 2014 compared to \$7.3 million for the same period in 2013. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expense and employee costs. For the first quarter of 2014 net G&A was mainly comprised of \$6.0 million relating to staff, consultants and professional services, \$1.0 million relating to office costs, and \$0.3 million relating to various other expenses. The Company engages local in-country staff at the earliest opportunity and local professional services to improve execution and manage costs. A total of 215 full-time-equivalents in three locations were working for Parex as at March 31, 2014 compared to 189 and 206 employees for three months period ended March 31, 2013 and December 31, 2013 respectively.

Share-Based Compensation Expense

For the three months ended March 31, (000s)		2014	2013
Share-based compensation expense	\$	1,435	\$ 1,078
Share appreciation rights expense		2,561	(548)
Restricted share units expense		590	175
	\$	4,586	\$ 705

Share-based compensation expense was \$1.5 million for the three months ended March 31, 2014 compared to \$1.1 million for the same period in 2013. As at March 31, 2014 stock options outstanding were 7,673,088 equaling seven percent of the common shares outstanding at the end of the first quarter. A total of 1,069,775 options were exercised, 87,500 options were granted and 40,000 options were forfeited during the three months ended March 31, 2014. For the three month period ended March 31, 2014, the weighted average fair value upon grant date of the options granted based upon the Black Scholes option value methodology was Cdn\$2.67 per option (three month period ended March 31, 2013 – Cdn\$1.91 per option).

Share appreciation rights ("SARs") expense was \$2.6 million expense for the three months ended March 31, 2014 compared to \$0.5 million recovery for the same period in 2013. The Company's share price increased from Cdn \$4.63 at March 31, 2013, Cdn \$6.58 at December 31, 2013 to Cdn \$9.50 at March 31, 2014. As at March 31, 2014, 2,629,452 SARs were outstanding all of which were granted to employees in Colombia and Trinidad & Tobago. The weighted average exercise price at March 31, 2014 of the SARs outstanding was Cdn\$5.76 per SAR (March 31, 2013 – Cdn\$6.26 per SAR).

As at March 31, 2014, the total SARs liability accrued is \$5.8 million (December 31, 2013 - \$3.2 million).

Restricted share unit expense was \$0.6 million for the three months ended March 31, 2014 compared to \$0.2 million for the same period in 2013. A total of 30,000 units were granted and 2,000 units were exercised during the three months ended March 31, 2014. For the three month period ended March 31, 2014 the fair value upon grant date of the units issued was \$7.13 per unit (three month period ended March 31, 2012 –\$4.99 per unit).

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

For the three months ended March 31,		2014		2013
DD&A (000s)	\$	54,657	\$	49,339
Per unit (\$/bbl) ⁽¹⁾		33.03		38.46

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

DD&A is primarily associated with production assets in Colombia and also includes the depreciation and amortization of corporate assets such as computer equipment, office furniture and leasehold improvements. The net carrying value of production assets are depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves, while also taking into account estimated future development costs necessary to bring those reserves into production.

For the first quarter, future development costs of \$194.3 million (three months ended March 31 2013- \$88.1 million) were included in the depletion calculation. First quarter 2014 depletion was \$32.84/bbl compared to \$38.19/bbl in the comparative period. This decrease is the result of an increase in proved plus probable reserves and a change in the CGU production mix from the prior period. The remaining DD&A relates to seismic equipment and office equipment which is depreciated over the assets’ estimated useful lives.

First quarter 2014 depletion of \$32.84/bbl is lower than fourth quarter 2013 rate of \$34.61/bbl due to changes in the CGU production mix.

Foreign Exchange Gain

For the three months ended March 31,		2014		2013
Foreign exchange gain (000s)	\$	(2,729)	\$	(2,231)
Foreign Exchange Rates				
CAD\$/USD\$		0.91		0.99
Colombian peso/USD\$		2,004		1,792

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos, as the Company’s functional currency is the US dollar. The Company has exposure in Colombia and Canada on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The main drivers of foreign exchange (gains) losses are the revaluation of the Canadian dollar based Debenture and peso denominated income tax and accounts payable to USD at period end dates. During the three months ended March 31, 2014, the total foreign exchange gain was \$2.7 million (three months ended March 31, 2013 – gain of \$2.2 million) due to both the Canadian dollar and Colombian peso depreciating in value against the US dollar from the exchange rates at December 31, 2013. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of comprehensive income. For the three months ended March 31, 2014, \$0.2 million foreign exchange loss is realized and \$2.9 million foreign exchange gain is unrealized.

As of December 30, 2012 the Company put into place a cross currency interest rate swap (“CCIRS”) for the principal balance of Cdn \$85.0 million relating to the Debenture in order to minimize the monetary exposure to the fluctuations in US/CDN dollar exchange rates and to capitalize on fixed USD denominated interest rates being lower than comparable CDN denominated interest rates. Effectively the Company hedged the CDN dollar denominated debenture to USD to source a lower interest rate and fix the cost of the debenture to the currency the Company is paid its oil revenues. See Cross Currency Interest Rate Swap (“CCIRS”) below. The losses on the CCIRS are presented in financial statement line item “finance expense” in the consolidated statement of comprehensive income. These losses (gains) are offset by the (gains) losses reflected in the carrying amount of the Debenture.

On November 12, 2013 the Company entered into two foreign currency costless collars with the purpose of hedging our 2014 Colombian cash tax payments. Both contracts have principal amounts of \$10 million each with terms ending April 10, 2014 and June 10, 2014, with prices from 1,900 - 1,997 and 1,900 - 2,022 Colombian pesos.

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

Net Finance Expense (Income)

For the three months ended March 31, (000s)		2014		2013
Interest expense and bank charges	\$	1,626	\$	1,527
Accretion on convertible debentures		1,021		966
Accretion on decommissioning and environmental liabilities		220		123
Loss (gain) on derivative financial liability		10,436		(4,598)
Amortization of debt issuance costs		154		145
Unrealized loss on CCIRS contract		3,252		1,471
Loss on disposition of tangible assets		372		-
Interest and other income		(232)		(643)
Net finance expense (income)	\$	16,849	\$	(1,009)

For the three months ended March 31, (000s)		2014		2013
Non-cash finance expense (income)	\$	15,455	\$	(1,893)
Cash finance expense		1,394		884
Net finance expense (income)	\$	16,849	\$	(1,009)

Interest expense relates to the Debenture and interest on the credit facility. Interest expense on Debentures for the three months ended March 31, 2014 was \$1.0 million (three months ended March 31, 2013 -\$1.1 million). The interest expense relates to the annual 5.25 percent coupon on the outstanding Debentures. The accretion expense for the debentures for the three months ended March 31, 2014 was \$1.0 million (three months ended March 31, 2013 – \$1.0 million). The accretion is related to the Debenture liability portion being accreted under the effective interest rate method. The liability portion of the Debentures is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method. The resulting accretion is charged to finance expense in the consolidated statement of comprehensive income. The liability portion of the Debentures is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method.

Under IFRS, the conversion feature of the Debenture issued on June 29, 2011 is classified as a derivative financial liability given that, if converted, the Company has the option to deliver either common shares or cash equal to the market value. In the three months ended March 31, 2014, a \$10.4 million loss on the derivative financial liability was recognized (three months ended December 31, 2013- loss of \$1.3 million). An equivalent non-cash derivative gain/loss was recorded in comprehensive income. The loss is a result of fair valuing the derivative liability at March 31, 2014 and specifically the increase in the Company's stock price from Cdn \$6.58 at December 31, 2013 to Cdn \$9.50 at March 31, 2014 offset by other changes in variables in the Black-Scholes model calculation. Derivatives are carried at fair value on the consolidated balance sheet, with any changes in fair value being recorded to the consolidated statement of comprehensive income.

Risk Management

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

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

a) Risk Management Contracts - Brent Crude

The following is a summary of the ICE Brent priced crude oil risk management contracts in place for the three months period ended March 31, 2014:

Period Hedged	Reference	Type	Volume bbl/d	Price/bbl
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$109.01
January 1, 2014 to June 30, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$105.00
January 1, 2014 to June 30, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
January 1, 2014 to March 31, 2014	ICE Brent	Put	1000 bbl/d	\$103.00
April 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00

Subsequent to March 31, 2014 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
July 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00

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

For the three months ended March 31, (000s)	2014	2013
Realized loss on commodity risk management contracts	\$ 1,480	\$ 725
Unrealized loss (gain) on commodity risk management contracts	(1,968)	53
Total loss (gain)	\$ (488)	\$ 778

The Company's net unrealized derivative gain on risk management contracts for the period ended March 31, 2014 of \$2.0 million (period ended March 31, 2013 - loss of \$0.1 million) is primarily attributable to the Company's derivative contracts being in excess of Brent forward benchmark price.

b) Risk Management Contracts – Foreign Exchange

The following is a summary of the foreign currency risk management contracts in place as at March 31, 2014:

Period Hedged	Reference	Type	Amount USD	Price (COP)
November 12, 2013 to April 10, 2014	Colombian Peso	Collar	\$10 million	1,900 - 1,997
November 12, 2013 to June 10, 2014	Colombian Peso	Collar	\$10 million	1,900 - 2,022

In the fourth quarter of 2013 the Company put in place two Colombian peso collars with the purpose of hedging a portion of the 2013 current income tax payable denominated in Colombian pesos due in April and June 2014. The Company is of the view that it's prudent to hedge a portion of the Colombian tax accrual as its revenues are primarily denominated in US dollars.

The following is a summary of the CCIRS in place for the three months period ended March 31, 2014:

Type	Receive Notional Principal (Cdn\$)	Fixed annual rate (Cdn%)	Pay Notional Principal (US\$)	Fixed annual rate (US%)
December 30, 2012 – June 30, 2016	Swap	85,000,000	85,685,565	4.45%

The table below summarizes the losses on foreign currency risk management contracts:

For the three months ended March 31, (000s)	2014	2013
Realized loss (gain) on foreign currency risk management contracts	\$ -	\$ -
Unrealized loss on foreign currency risk management contracts	3,252	1,471
Total loss on foreign currency risk management contracts	\$ 3,252	\$ 1,471

The realized loss (gain) represents the foreign currency risk management contracts and the CCIRS interest payments settled during the period. The unrealized loss (gain) represents the fair value change of the underlying foreign currency risk management contracts and CCIRS as at the balance sheet date to be settled in the future.

The unrealized CCIRS loss of \$3.3 million for the three months ended March 31, 2014 (three months ended March 31, 2013 - \$1.5 million loss) is primarily attributable to the decrease in the forward Cdn dollar exchange rate at March 31, 2014 versus the US dollar. The unrealized loss on the CCIRS contract is offset against the unrealized foreign exchange gain on the Cdn denominated debenture.

Income Tax

The components of tax expense for the three months ended March 31, 2014 and 2013 were as follows:

For the three months ended March 31, (000s)	2014		2013	
Current tax expense	\$	17,542	\$	9,384
Deferred tax (recovery) expense		(2,326)		3,572
Total tax expense	\$	15,216	\$	12,956
Effective Tax Rate		61%		54%

The current and future tax expense relates to the Company's operations in Colombia. Current tax in the first quarter was \$17.5 million as compared to \$9.4 million in the comparative period. The increase in the current tax expense from the prior period is a result of increased taxable income in Colombia and the exhaustion of loss carry forwards in Q4 2013.

The effective tax rate (total tax expense as a percentage of net income before income tax) was 61% in the first quarter of 2014, compared to 54% for the same quarter of 2013. The income tax rate in Colombia is 34% at March 31, 2014 (March 31, 2013 – 34%). The Company's effective tax rate differs from the Colombian statutory rate mainly because of the following:

- Expenses recognized in Canada and Trinidad that result in tax loss carry forwards, but for which no deferred tax assets and deferred tax recovery have been recognized. When the Company has a reasonable expectation to utilize those losses in the future, deferred tax assets and a corresponding deferred tax recovery may be recognized;
- Expenses that are not deductible for tax purposes (such as share-based compensation, foreign exchange gains or losses, and other non-deductible expenditures in Canada and Colombia); and
- Foreign exchange effect on the deferred tax determined on the Colombian peso denominated assets and liabilities. The Company's assets are primarily located in Colombia, and as a result the tax base and deferred tax balances of these assets are subject to fluctuations in the USD/COP exchange rate.

Deferred tax in the first quarter of 2014 was a recovery of \$2.3 million (\$3.6 million expense for the three months ended March 31, 2013). The calculation of current and deferred income tax in Colombia is based on a number of variables which can cause swings in current and deferred income tax. These variables include but are not limited to the yearend producing reserves used in calculating depletion for tax purposes, the timing and number of dry hole write offs permissible for Colombian tax purposes and currency fluctuations. Accordingly estimating tax expense during the year is inherently difficult. The effective current tax rate for the three months ended March 31, 2014 on Colombian segmented operating cash flows was 17%.

Capital Expenditures

For the three months ended March 31, (000s)	Colombia		Trinidad & Tobago		Canada		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Geological and geophysical	1,691	1,146	-	1,841	-	-	1,691	2,987
Acquisition of unproved properties	-	493	-	521	-	-	-	1,014
Drilling and completion	52,264	40,790	-	(1,050)	-	-	52,264	39,740
Well equipment and facilities	7,285	3,108	-	235	-	-	7,285	3,343
Other	80	83	79	-	6	5	165	88
	\$ 61,320	\$ 45,620	\$ 79	\$ 1,547	\$ 6	\$ 5	\$ 61,405	\$ 47,172

a) Capital Expenditures Summary

During the three months ended March 31, 2014 the Company incurred \$61.4 million of capital expenditures compared to \$47.2 million in the same period of 2013. During Q1, 2014 the Company drilled 10 gross (6.15 net) wells, compared to 12 gross (8.5 net) wells. Drilling and completion costs during the first quarter totaled \$52.3 million, all of which related to drilling and completion and capitalized workover costs in Colombia, versus \$40.8 million in the comparative period. The cost of drilling and completions on a per net well basis was greater in 2014 versus 2013 due to more exploratory wells being drilled on new Blocks where there has been no drilling previously done. Spending on well equipment and facilities was \$7.3 million in the quarter, all focused in Colombia.

In the first quarter of 2014 the Company's Colombian operations primarily utilized 3 drilling rigs and 2 service rigs. The level of activity remained consistent in the first quarter of 2014 from the fourth quarter of 2013 as Parex invested \$61.4 million in the first quarter as compared to \$59.1 million in the previous fourth quarter of 2013.

Parex Trinidad entered into a farm-out agreement for the onshore Cory Moruga Block in 2013. Under the terms of the farm-out agreement, the farmee earned a 20% participating interest in the block after providing a \$2 million payment. An additional 31% interest will be earned with the drilling and completion of two exploration wells and work over of the Snowcap-1 well.

Summary of Quarterly Results (Unaudited)

Three months ended (000s)	March 31, 2014	Dec. 31, 2013	Sep. 30, 2013	June 30, 2013
Average daily production volumes (bopd)	18,425	17,287	16,199	15,463
Realized sales price volumes (\$/bbl)	\$ 103.42	\$ 101.64	\$ 106.41	\$ 99.34
Financial (000s except per share amounts)				
Oil Sales (including purchased oil)	\$ 179,794	\$ 166,959	\$ 157,043	\$ 147,585
Funds flow from operations ⁽¹⁾	\$ 76,746	\$ 75,818	\$ 68,241	\$ 65,638
Per share – basic	0.70	0.70	0.63	0.61
Per share – diluted	0.64	0.62	0.56	0.51
Adjusted net income (loss) ⁽³⁾	\$ 20,099	\$ 23,201	\$ (23,940)	\$ 5,987
Per share – basic	0.18	0.21	(0.22)	0.06
Per share – diluted	0.17	0.19	(0.22)	0.05
Net income (loss)	\$ 9,663	\$ 21,869	\$ (27,965)	\$ 7,632
Per share – basic	0.09	0.20	(0.26)	0.07
Per share – diluted	0.09	0.18	(0.26)	0.04
Capital Expenditures	\$ 61,405	\$ 58,817	\$ 49,962	\$ 77,921
Total assets (end of period)	\$ 882,306	\$ 854,808	\$ 820,827	\$ 824,276
Working capital surplus (deficit) (end of period) ⁽²⁾	\$ 36,957	\$ 24,005	\$ 18,801	\$ 8,630
Debentures (end of period) ⁽⁴⁾	\$ 64,728	\$ 66,060	\$ 66,898	\$ 64,338
Bank debt (end of period)	\$ 4,000	\$ 8,530	\$ 18,500	\$ 27,400

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

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

⁽³⁾ Net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability.

⁽⁴⁾ Debentures will accrete up to the face value amount of Cdn \$85.0 million over the remaining term of the Debenture to June 30, 2016

Three months ended (000s)	March 31, 2013		Dec. 31, 2012		Sep. 30, 2012		June 30, 2012	
Average daily production volumes (bopd)		14,440		12,743		10,874		10,389
Realized sales price volumes (\$/bbl)	\$	109.63	\$	105.75	\$	107.53	\$	107.54
Financial (000s except per share amounts)								
Oil Sales (including purchased oil)	\$	164,990	\$	149,614	\$	130,824	\$	113,087
Funds flow from operations ⁽¹⁾	\$	60,226	\$	54,446	\$	42,012	\$	61,357
Per share – basic		0.56		0.50		0.39		0.57
Per share – diluted		0.48		0.50		0.39		0.53
Adjusted net income (loss) ⁽³⁾	\$	6,538	\$	(13,450)	\$	7,490	\$	11,654
Per share – basic		0.06		(0.12)		0.07		0.11
Per share – diluted		0.05		(0.12)		0.07		0.10
Net income (loss)	\$	11,136	\$	(15,840)	\$	7,538	\$	20,920
Per share – basic		0.10		(0.15)		0.07		0.19
Per share – diluted		0.05		(0.15)		0.07		0.09
Capital Expenditures	\$	47,172	\$	64,887	\$	50,902	\$	92,514
Total assets (end of period)	\$	827,821	\$	821,201	\$	789,546	\$	768,498
Working capital surplus (deficit) (end of period) ⁽²⁾	\$	16,972	\$	(12,640)	\$	(9,014)	\$	(555)
Debentures (end of period) ⁽⁴⁾	\$	65,402	\$	65,657	\$	65,251	\$	61,940
Bank debt (end of period)	\$	20,000	\$	9,100	\$	-	\$	-

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

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

⁽³⁾ Net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability.

⁽⁴⁾ Debentures will accrete up to the face value amount of Cdn \$85.0 million over the remaining term of the Debenture to June 30, 2016.

Liquidity and Capital Resources

As at March 31, 2014 the Company had a working capital surplus of \$37.0 million, excluding amounts available under the credit facility, as compared to working capital surplus at December 31, 2013 of \$24.0 million and a working capital surplus of \$17.0 million in the comparative period. Bank debt was \$4.0 million compared to \$8.5 million at December 31, 2013 and \$20.0 million in the comparative period. The credit facility has a current borrowing base of \$125.0 million. Combined working capital net of bank debt has increased from March 31, 2013 to March 31, 2014 by \$36.0 million which is mainly a function of operating cash flows being higher than capital expenditures in the period notwithstanding that the Company has increased production from 14,400 to 18,425 bopd. At March 31, 2014 Parex held \$40.3 million of cash, compared to \$56.5 million at December 31, 2013 and \$26.8 million at March 31, 2013. The Company’s cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados.

The Company values its crude oil inventory on hand using weighted average cost for the inventoried barrels. At March 31, 2014, on a fair market value basis the inventory on hand would have a value of approximately \$8.0 million or a positive fair value adjustment of approximately \$3.0 million (December 31, 2013 - value of \$15.0 million or a fair value adjustment of \$6.3 million).

Parex entered into a \$200 million senior secured credit facility (“credit facility”) with a syndicate of banks led by a major Canadian bank during 2012, with a current borrowing base of \$125 million. Key covenants include a current ratio test of 1:1 adjusted for undrawn amounts on the facility plus the fair value of inventoried oil, and a rolling four quarters total funded debt to EBITDA test of 3:50:1, and other standard business operating covenants. As at March 31, 2014, the Company is in compliance with all covenants.

On March 18, 2013, Parex commenced a normal course issuer bid (the “NCIB”) to purchase, from time to time, as it considers advisable, up to a maximum of 8,818,165 common shares of the Company. The price that Parex will pay for any common shares under the NCIB will be the prevailing market price on the TSX at the time of such purchase. Common shares acquired under the NCIB will be cancelled. There were no shares repurchased pursuant to the NCIB in the first quarter of 2014 (three months ended March 31, 2013 – 60,500 shares repurchased).

Debentures

On June 29, 2011, Parex issued Cdn\$85.0 million of Debentures with an annual coupon of 5.25 percent maturing on June 30, 2016. The Debentures have a face value of \$1,000 per Debenture and are convertible into common shares at the holder’s option at a conversion price of Cdn\$10.15 per share, representing a conversion rate of approximately 98.52 common shares per Debenture. The Debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. In the event that a holder of Debentures exercises the conversion feature, such holder shall be entitled to receive accrued and unpaid interest, in

addition to the applicable number of common shares to be received on conversion, for the period from the latest interest payment date to the date of conversion.

The following table summarizes the accounting for the Debentures:

(000s)	Liability		Derivative financial liability		Total
Balance, December 31, 2012	\$	65,657	\$	9,899	\$ 75,556
Accretion		4,163		-	4,163
Amortization of debt issuance costs		627		-	627
Derivative gain		-		(885)	(885)
Foreign exchange gain		(4,387)		(639)	(5,026)
Balance, December 31, 2013	\$	66,060	\$	8,375	\$ 74,435
Accretion		1,021		-	1,021
Amortization of debt issuance costs		154		-	154
Derivative loss		-		10,436	10,436
Foreign exchange gain		(2,507)		(318)	(2,825)
Balance at March 31, 2014	\$	64,728	\$	18,493	\$ 83,221

The company has entered into a “CCRIS” contract in order to reduce the risk exposure relating to the fluctuation in the US/Cdn dollar exchange rate relating to the Debenture. Refer to the derivative section of the document for details on the “CCRIS” contract.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at March 31, 2014 the Company had 109,783,424 common shares outstanding.

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

As at May 12, 2014 Parex has the following securities outstanding:

	Number	%
Common shares	110,394,454	93
Stock options ⁽¹⁾	7,062,058	6
Restricted share units	896,800	1
	118,353,312	100

⁽¹⁾ Stock option plan is subject to shareholder re-approval at the Annual Shareholders’ Meeting.

As of the date of this MD&A, total stock options and RSU’s outstanding represent approximately 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 affect the Company’s future operations and liquidity. These commitments primarily relate to exploration work commitments including seismic and drilling activities. The Company has discretion regarding the timing of capital spending for exploration work commitments, provided that the work is completed by the end of the exploration periods specified in the contracts or the Company can negotiate extensions of the exploration periods. The Company’s exploration commitments are described in the Company’s AIF dated March 19, 2014. 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 energy regulator (“ANH”) which on March 31, 2014 was \$33.1 million (March 31, 2013 - \$43.9 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada (“EDC”) has provided performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated commitments as at March 31, 2014:

(000s)	Total		<1 year		1 – 3 years		3 – 5 years		>5 years	
Exploration ⁽¹⁾	\$	64,623	\$	22,080	\$	34,443	\$	8,100	\$	-
Office and accommodations ⁽²⁾		1,821		1,507		314		-		-
Other provisions		29,166		1,782		3,838		3,564		19,982
Other		321		321		-		-		-
Total	\$	95,931	\$	25,690	\$	38,595	\$	11,664	\$	19,982

⁽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.

Decommissioning and Environmental Liabilities

(000s)	Decommissioning		Environmental		Total	
Balance, December 31, 2012	\$	12,079	\$	-	\$	12,079
Additions		5,140		3,017		8,157
Property acquisition		809		-		809
Settlements of obligations during the period		(1,400)		-		(1,400)
Gain on settlements of obligations during the period		(712)		-		(712)
Change in estimates		(2,570)		4,144		1,574
Accretion expense		447		134		581
Balance, December 31, 2013	\$	13,793	\$	7,295	\$	21,088
Additions		1,058		388		1,446
Accretion expense		165		55		220
Foreign exchange gain		-		(143)		(143)
Balance, March 31, 2014	\$	15,016	\$	7,595	\$	22,611
Current obligation		-		(1,752)		(1,752)
Long-term obligation	\$	15,016	\$	5,843	\$	20,859

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

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at March 31, 2014, 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 the Company's decommissioning liability is approximately \$20.3 million as at March 31, 2014 (December 31, 2013 – \$19.4 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad and 2020 or later in Colombia. A risk-free discount rate of 5% and an inflation rate of 2% were used in the valuation of the liabilities (December 31, 2013 – 5% percent risk-free discount rate and a 2% percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$8.9 million as at March 31, 2014 (December 31, 2013 – \$8.4 million) with the majority of these costs anticipated to occur in 2014 or later in Colombia. A risk-free discount rate of 6% and an inflation rate of 3% were used in the valuation of the liabilities (December 31, 2013 – 6% percent risk-free discount rate and a 3% percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$1.8 million (December 31, 2013 – \$1.6 million) that is classified as a current obligation.

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

- Changes in laws and legislation;
- Construction of new facilities;
- Change in commodity price;
- Change in the estimate of oil reserves and the resulting amendment to the life of reserves; and,
- Changes in technology.

Advisory on Forward-Looking Statements

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

- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- the Company's exploration blocks subject to farm-in and earning requirements;
- activities to be undertaken in various areas including the fulfillment of exploration commitments and farm-in obligations;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- the Company's planned capital expenditures for 2014 along with the focus and timing thereof and the method of funding;
- the Company's forecast average production range for 2014;
- the Company's expected exploration program for 2014, including drilling plans, utilization of cash flow, anticipated production, exploration prospects and exposure to new play concepts in Colombia;
- the Company's expectations that its exploration program could increase the Company's full year average production, including the anticipated amount of such increase;
- the status of the Company's review of transportation and marketing alternatives in an effort to maximize the net proceeds from production in Colombia;
- expected royalty rates and effect of changes in production and pricing on the Company's overall royalty as a percentage of sales;
- expected transportation costs on a per barrel basis;
- terms of stock based compensation plans, including option plan, restricted share unit plan, and share appreciation rights;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy, terms of the Company's risk management contracts and the anticipated effect of derivative contracts on managing cash flow;
- estimated income tax expense and expected effective Colombian corporate income tax rate for the three months ended March 31, 2014;
- terms of the Company's credit facility;
- terms of the Company's NCIB;
- terms of the Company's Debentures;
- terms of the Company's exploration and other contractual commitments;
- the anticipated sources of funding for the Company's environmental, decommissioning and restoration obligations;
- drilling plans and timing of drilling, completion and tie-in of wells;
- impact of new and revised accounting pronouncements and critical accounting estimates; and
- effect of business and environmental risks on the Company.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, 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; 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; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risks related to the lawsuit brought in Texas against Parex and certain foreign subsidiaries; failure of counterparties to perform under the terms of their contracts; the risks discussed under “Risk Factors” in the Company’s Annual Information Form dated March 19, 2014 and under “Business Environment and Risks” in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company’s operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to areas of the Company’s operations and infrastructure; future exchange rates; the price of oil; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of reserves and future production rates; royalty rates; future operating costs; foreign exchange rates; the status of litigation; timing of drilling and completion of wells; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company’s conduct and results of operations will be consistent with its expectations; that the Company will have the ability to develop the Company’s oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the estimates of the Company’s reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that the Company will be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves.

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

Management has included 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

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

***Funds flow from operations** is a non-GAAP term that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. Management uses funds from (used in) operations to analyze operating performance and monitor financial leverage, and considers funds from (used in) operations to be a key measure as it demonstrates the Company’s ability to generate cash necessary to fund future capital investments. Funds*

flow from operations is reconciled with net (loss) income in the consolidated statements of cash flows. The following table reconciles funds flow from operations to cash flow from operations:

(000s)	For the three months ended March 31,	
	2014	2013
Cash flow from operating activities (GAAP)	\$ 34,798	\$ 47,251
Changes in non-cash working capital including taxes and interest payable	41,948	12,975
Funds flow from operations (Non-GAAP)	\$ 76,746	\$ 60,226

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

(000s)	For the three months ended March 31,	
	2014	2013
Funds flow from operations		
Funds flow from (used in) operations for the purpose of basic funds flow	\$ 76,746	\$ 60,226
Debt interest expense	1,015	1,106
Funds flow from operations for diluted funds flow	\$ 77,761	\$ 61,332
Weighted average number of shares for the purposes of basic funds flow (\$000s)	109,095	108,523
Dilutive effect of share options on potential common shares	2,298	1,215
Dilutive effect of Debentures on potential common shares	9,800	18,956
Weighted average number of shares for the purposes of diluted funds	121,193	128,694

Adjusted net (loss) income is determined by adding back any unrealized losses or deducting any unrealized gains associated with the Company's derivative financial liability which fluctuates due to changes in the period end price per share. The company considers adjusted net income a key measure as it helps evaluate the Company's operating performance. The following table reconciles net (loss) income to adjusted net (loss) income:

(000s)	For the three months ended March 31,	
	2014	2013
Net income (GAAP)	\$ 9,663	\$ 11,136
Non cash (gain) loss on derivative financial liability	10,436	(4,598)
Adjusted net income (Non-GAAP)	\$ 20,099	\$ 6,538

Operating netback per barrel is determined by sales revenue, less royalties, production expense and transportation expense, divided by total equivalent sales volume excluding purchased oil volumes. The Company considers operating netbacks to be a key measure as they demonstrate Parex' profitability relative to current commodity prices.

Working capital and Net Debt is used to assess efficiency, liquidity and the Company's general financial strength. No IFRS measure is reasonably comparable to working capital and Net Debt.

Working capital is determined by current assets less current liabilities but may not include changes in non-cash working capital from one period to the next and does not include any undrawn syndicated bank credit facility amount.

Net debt is determined by working capital less bank debt.

Business Environment and Risks

There have been no significant changes during the three ended March 31, 2014 to the risks and uncertainties identified in the Company's Annual Information Form dated March 19, 2014.

Internal Controls over Financial Reporting

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

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the three months ended March 31, 2014.

Financial Instruments and Other Instruments

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

Accounting Policies and Estimates

In preparing this Management Discussion and Analysis, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013, except for the retrospective adoption of the following interpretation effective January 1, 2014:

International Financial Reporting Interpretation Committee 21 Levies clarified that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact to the Company's condensed interim consolidated financial statements.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	March 31, 2014	December 31, 2013
ASSETS			
Current assets			
Cash		\$ 40,334	\$ 56,492
Accounts receivable	5	157,683	121,969
Prepays and other current assets		7,488	4,880
Crude oil inventory	6	4,998	8,695
		210,503	192,036
Goodwill			
Exploration and evaluation	7	61,252	61,252
Property, plant and equipment	8	90,949	70,038
		519,602	531,482
		\$ 882,306	\$ 854,808
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 106,744	\$ 118,841
Current income and equity tax payable	15	65,050	47,548
Current portion of decommissioning and environmental liabilities	12	1,752	1,642
		173,546	168,031
Long-term debt			
Convertible debenture	10	4,000	8,530
Derivative financial liability	14	64,728	66,060
Other long-term liabilities	14	18,493	8,375
Decommissioning and environmental liabilities	11	10,964	7,081
Deferred tax liability	12	20,859	19,446
	15	89,896	92,222
		382,486	369,745
Shareholders' equity			
Share capital	13	418,573	414,176
Contributed surplus		22,389	21,692
Retained earnings		58,858	49,195
		499,820	485,063
		\$ 882,306	\$ 854,808

Commitments (note 21)

See accompanying Notes to the Interim Consolidated Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Interim Consolidated Statements of Comprehensive Income (unaudited)

For the three months ended March 31,

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

	NOTE	2014	2013
Oil sales		\$ 179,794	\$ 164,990
Royalties		(24,840)	(18,179)
Revenue		154,954	146,811
Commodity risk management contracts		488	(778)
		155,442	146,033
Expenses			
Production		16,584	12,928
Transportation		31,433	25,090
Purchased oil		1,872	29,847
General and administrative		7,311	7,272
Share-based compensation	13	4,586	705
Depletion, depreciation and amortization	8	54,657	49,339
Foreign exchange gain		(2,729)	(2,231)
		113,714	122,950
Finance income	9	(232)	(5,241)
Finance expense	9	17,081	4,232
Net finance expense		16,849	(1,009)
Net income before taxes		24,879	24,092
Income tax expense			
Current income tax expense	15	17,542	9,384
Deferred income tax (recovery) expense	15	(2,326)	3,572
		15,216	12,956
Net income and comprehensive income for the period		\$ 9,663	\$ 11,136
Basic net income per common share	16	\$ 0.09	\$ 0.10
Diluted net income per common share	16	\$ 0.09	\$ 0.05

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the three months ended March 31,
(thousands of United States dollars)

		2014		2013
Share Capital				
Balance, beginning of period	\$	414,176	\$	412,736
Issuance of common shares under option plans		4,397		552
Repurchase of shares		-		(240)
Balance, end of period	\$	418,573	\$	413,048
Contributed Surplus				
Balance, beginning of period	\$	21,692	\$	16,015
Share-based compensation		2,025		1,253
Options exercised		(1,328)		(165)
Balance, end of period	\$	22,389	\$	17,103
Retained earnings				
Balance, beginning of period	\$	49,195	\$	36,645
Net income for the period		9,663		11,136
Repurchase of shares		-		(32)
Balance, end of period	\$	58,858	\$	47,749
Total Equity	\$	499,820	\$	477,900

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31,
(thousands of United States dollars)

	NOTE	2014	2013
Operating activities			
Net income		\$ 9,663	\$ 11,136
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	54,657	49,339
Non-cash finance (income) loss	9	15,455	(1,893)
Share-based compensation	13	4,586	705
Deferred tax expense	15	(2,326)	3,572
Unrealized foreign exchange gain		(2,934)	(2,686)
Unrealized (gain) loss on commodity risk management contracts	19	(1,968)	53
Stock appreciation rights paid		(387)	-
		76,746	60,226
Net change in non-cash working capital	17	(41,948)	(12,975)
		34,798	47,251
Investing activities			
Property, plant and equipment expenditures		(39,697)	(33,978)
Exploration and evaluation expenditures		(21,708)	(13,194)
Proceeds on the disposition of assets		692	-
Net change in non-cash working capital	17	11,656	(15,893)
		(49,057)	(63,065)
Financing activities			
Issuance of common shares under option plans	13	3,069	387
Common share repurchase	13	-	(272)
Long-term debt (repaid) issued	10	(4,530)	10,900
		(1,461)	11,015
Decrease in cash for the period		(15,720)	(4,799)
Impact of foreign exchange on foreign currency-denominated cash balances		(438)	(310)
Cash, beginning of period		56,492	31,950
Cash, end of period		\$ 40,334	\$ 26,841

Supplemental Disclosure of Cash Flow Information (note 17)

See accompanying Notes to the Interim Consolidated Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2014

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

1. Corporate Information

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

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

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 12, 2014.

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

a) Statement of compliance

The condensed consolidated interim financial information for the three months ended March 31, 2014 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 12, 2014, the date of approval by the Board of Directors.

b) Basis of measurement

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

c) Use of management estimates, judgments and measurement uncertainty

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013.

3. Summary of Significant Accounting Policies

There is no impact on the condensed interim consolidated financial statements for the adoption of new accounting standards effective January 1, 2014. The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company’s consolidated financial statements for the year ended December 31, 2013, except for the retrospective adoption of the following interpretation effective January 1, 2014:

International Financial Reporting Interpretation Committee 21 Levies clarified that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact to the Company’s condensed interim consolidated financial statements.

4. Determination of Fair Values

The methods used in the determination of fair value, for financial and non-financial assets and liabilities have not changed from the previous financial year. Refer to note 4 of the December 31, 2013 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	March 31, 2014		December 31, 2013	
Trade receivables	\$	122,482	\$	91,729
Colombia income taxes receivable		35,201		24,608
Receivables from partners		-		3,228
Value added taxes (VAT)		-		2,404
	\$	157,683	\$	121,969

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. Colombia income tax receivable is a result of withholding tax incurred on Colombia oil sales. The balance can either be received in cash or applied to Colombian cash income tax payable. Receivables from partners consist of cash calls outstanding from joint venture partners in Colombia and in Trinidad & Tobago to recover ongoing capital costs and operating costs, or overhead recoveries outstanding from joint venture partners. All accounts receivable are expected to be received in 2014 and are thus recognized as current assets.

6. Inventory

	March 31, 2014		December 31, 2013	
Crude oil inventory	\$	4,998	\$	8,695

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

7. Exploration and Evaluation Assets

	Colombia		Trinidad & Tobago		Total	
Cost						
Balance at December 31, 2012	\$	83,452	\$	61,720	\$	145,172
Additions		60,931		2,121		63,052
Transfers to PP&E		(96,666)		-		(96,666)
Change in decommissioning liability		(948)		(267)		(1,215)
Farm-out proceeds		-		(2,000)		(2,000)
Exploration and evaluation impairment		-		(38,305)		(38,305)
Balance at December 31, 2013	\$	46,769	\$	23,269	\$	70,038
Additions		21,629		79		21,708
Disposition of tangible assets		-		(1,042)		(1,042)
Changes in decommissioning liability		245		-		245
Balance at March 31, 2014	\$	68,643	\$	22,306	\$	90,949

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions represent the Company's share of costs incurred on E&E assets during the period. For the three months ended March 31, 2014 no transfers from E&E to PP&E were made. In the year ended December 31, 2013 an amount of \$96.7 million was transferred from E&E to PP&E for costs associated with Block LLA-30, Block LLA-17 and El Eden Block. At March 31, 2014 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

		Canada		Colombia		Trinidad &Tobago		Total
Cost								
Balance at December 31, 2012	\$	4,653	\$	702,102	\$	318	\$	707,073
Additions		128		158,203		-		158,331
Transfer from E&E assets		-		96,666		-		96,666
Changes in decommissioning liability		-		10,946		-		10,946
Property acquisition		-		13,298		-		13,298
Balance at December 31, 2013	\$	4,781	\$	981,215	\$	318	\$	986,314
Additions		6		39,691		-		39,697
Changes in decommissioning liability		-		1,201		-		1,201
Dispositions		-		-		(22)		(22)
Balance at March 31, 2014	\$	4,787	\$	1,022,107	\$	296	\$	1,027,190
Accumulated Depreciation, Depletion and Amortization								
Balance at December 31, 2012	\$	2,043	\$	238,217	\$	181	\$	240,441
Depletion and depreciation for the period		585		213,508		38		214,131
DD&A transferred to crude oil inventory costing		-		260		-		260
Balance at December 31, 2013	\$	2,628	\$	451,985	\$	219	\$	454,832
Depletion and depreciation for the period		78		54,574		5		54,657
DD&A included in crude oil inventory costing		-		(1,901)		-		(1,901)
Balance at March 31, 2014	\$	2,706	\$	504,658	\$	224	\$	507,588
Net book value:								
At December 31, 2012	\$	2,610	\$	463,885	\$	137	\$	466,632
At December 31, 2013	\$	2,153	\$	529,230	\$	99	\$	531,482
At March 31, 2014	\$	2,081	\$	517,449	\$	72	\$	519,602

In the three months ended March 31, 2014 additions mainly relate to development expenditures in Colombia at Block LLA-34 and the Akira fields. There were no transfers from E&E for the period ended March 31, 2014.

For the first quarter of 2014, future development costs of \$194.3 million (three months ended March 31, 2013 - \$88.1 million) were included in the depletion calculation for development and production assets. For the three months ended March 31, 2014 \$2.3 million of general and administrative costs (three months ended March 31, 2013 - \$1.2 million) have been capitalized in respect of development and production activities during the current period.

During 2013, additions mainly related to development expenditures in the amount of \$158.2 million in Colombia at the Las Maracas, Tua, Tarotaro and Tigana fields. Amounts transferred from E&E were \$96.7 million for the year ended December 31, 2013. PP&E increased by \$13.3 million for the year ended December 31, 2013 relating to the fair values of the assets acquired in the property acquisition.

9. Net Finance Expense (Income)

For the three months ended March 31,				2014		2013
Interest expense and bank charges		\$		1,626	\$	1,527
Accretion on convertible debentures (note 14)				1,021		966
Accretion on decommissioning and environmental liabilities (note 12)				220		123
Loss (gain) on derivative financial liability (note 14)				10,436		(4,598)
Amortization of debt issuance costs (note 14)				154		145
Unrealized loss on CCIRS contract (note 19)				3,252		1,471
Loss on disposition of tangible assets				372		-
Interest and other income				(232)		(643)
Net finance expense (income)		\$		16,849	\$	(1,009)
For the three months ended March 31,				2014		2013
Non-cash finance expense (income)		\$		15,455	\$	(1,893)
Cash finance expense				1,394		884
Net finance expense (income)		\$		16,849	\$	(1,009)

10. Long-term debt

		March 31, 2014		December 31, 2013
Long-term debt (syndicate credit facility)	\$	4,000	\$	8,530

On May 23, 2012, Parex entered into a \$200 million senior secured credit facility (“credit facility”) with a syndicate of banks led by a major Canadian bank. At March 31, 2014 the credit facility consists of a reserve-based revolving facility of \$125 million including an operating line of \$10 million. The revolving facility is a rolling facility maturing on May 22, 2016, and may be extended for an additional 365 days after attaining syndicate approval. The credit facility is subject to re-determination of the borrowing base semi-annually on November 30 and May 31 of each year. The borrowing base is determined based on, among other things, the Company’s current reserve report, results of operations, the lenders view of the current and forecasted commodity prices and the current economic environment. US base rate and LIBOR base rate loan advances under the revolving facility bear interest at rates ranging from US base rate or LIBOR plus 2.75% - 3.50% per annum, depending on utilization. Canadian prime rate loan advances, drawn on the operating line only, bear interest at rates ranging from Canadian prime plus 1.75% - 2.50% per annum, dependent on utilization. Undrawn amounts under the revolving facility bear a commitment fee ranging from 0.5% to 0.75% per annum, dependent on utilization.

Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. Key covenants include a current ratio test of 1:1 adjusted for undrawn amounts on the credit facility plus fair value of inventoried oil, a rolling four quarter total funded debt to EBITDA test of 3:50: 1, and other standard business operating covenants. The authorized borrowing amount is subject to an interim review as discussed above. As at March 31, 2014, the Company is in compliance with all covenants. Security is provided for by a first fixed and floating charge debenture over all assets of Parex Resources Inc., a pledge of the shares of material subsidiaries and general assignment of book debts.

11. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

		March 31, 2014		December 31, 2013
Long-term SARs payable	\$	1,551	\$	638
Financial derivative liability related to the cross currency interest rate swap (“CCIRS”)		9,413		6,443
	\$	10,964	\$	7,081

12. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2012	\$	12,079	\$	-	\$ 12,079
Additions		5,140		3,017	8,157
Property acquisition		809		-	809
Settlements of obligations during the period		(1,400)		-	(1,400)
Gain on settlements of obligations during the period		(712)		-	(712)
Change in estimates		(2,570)		4,144	1,574
Accretion expense		447		134	581
Balance, December 31, 2013	\$	13,793	\$	7,295	\$ 21,088
Additions		1,058		388	1,446
Accretion expense		165		55	220
Foreign exchange gain		-		(143)	(143)
Balance, March 31, 2014	\$	15,016	\$	7,595	\$ 22,611
Current obligation		-		(1,752)	(1,752)
Long-term obligation	\$	15,016	\$	5,843	\$ 20,859

The total decommissioning liability is estimated based on the Company’s net ownership in wells drilled as at March 31, 2014, 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 the Company’s decommissioning liability is approximately \$20.3 million as at March 31, 2014 (December 31, 2013 – \$19.4 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad and 2020 or later in Colombia. A risk-free discount rate of 5% and an inflation rate of 2% were used in the valuation of the liabilities (December 31, 2013 – 5% percent risk-free discount rate and a 2% percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company’s environmental liability is approximately \$8.9 million as at March 31, 2014 (December 31, 2013 – \$8.4 million) with the majority of these costs anticipated to occur in 2014 or later in Colombia. A risk-free discount rate of 6% and an

inflation rate of 3% were used in the valuation of the liabilities (December 31, 2013 – 6% percent risk-free discount rate and a 3% percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$1.8 million (December 31, 2013 – \$1.6 million) that is classified as a current obligation.

13. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2012	108,476,451	\$ 412,736
Issued for cash – exercise of options and RSUs	587,598	1,971
Allocation of contributed surplus – exercise of options and RSUs	-	853
Repurchase of shares	(352,400)	(1,384)
Balance, December 31, 2013	108,711,649	\$ 414,176
Issued for cash – exercise of options and RSUs	1,071,775	3,069
Allocation of contributed surplus – exercise of options and RSUs	-	1,328
Balance, March 31, 2014	109,783,424	\$ 418,573

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

b) Stock options

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

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2013	8,695,363	4.94
Granted	87,500	7.14
Exercised	(1,069,775)	3.16
Forfeited	(40,000)	5.80
Balance, March 31, 2014	7,673,088	5.21

Stock options outstanding and the weighted average remaining life of the stock options at March 31, 2014 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$3.04 - \$4.43	1,467,584	0.62	3.25	1,452,584	0.58	3.24
\$4.44 - \$5.00	1,474,304	3.43	4.46	446,486	3.40	4.45
\$5.01 - \$6.06	401,750	2.17	5.52	276,000	1.16	5.36
\$6.07 - \$6.12	3,998,200	4.54	6.07	-	-	-
\$6.13 - \$7.31	331,250	2.97	6.49	174,998	2.01	6.24
	7,673,088	3.39	5.21	2,350,068	1.29	3.94

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 three months ended March 31,	2014	2013
Risk-free interest rate (%)	1.22	1.16
Expected life (years)	4	4
Expected volatility (%)	47	49
Forfeiture rate (%)	3	-
Expected dividends	-	-

The weighted average fair value at the grant date for the three months ended March 31, 2014 was Cdn\$2.67 per option (three months ended March 31, 2013 – Cdn\$1.91 per option). The weighted average share price on the exercise date for options exercised in the three months ended March 31, 2014 was Cdn\$8.36 (three months ended March 31, 2013 – Cdn\$5.70 per option).

c) Share appreciation rights

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

	Number of SARs	Weighted average exercise price Cdn\$/SAR
Balance, December 31, 2013	3,070,731	5.77
Granted	40,635	8.10
Exercised	(212,029)	6.21
Forfeited	(269,885)	5.42
Balance, March 31, 2014	2,629,452	5.76

As at March 31, 2014 of the 2,629,452 SARs outstanding, 502,655 were vested (December 31, 2013 – 769,754).

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

For the three months ended March 31,	2014	2013
Risk-free interest rate (%)	1.28	1.12
Expected life (years)	4	4
Expected volatility (%)	46	49
Share price	9.50	4.63
Expected dividends	-	-

As at March 31, 2014, the total SARs liability accrued was \$5.8 million (December 31, 2013 - \$3.2 million) of which \$1.6 million (December 31, 2013 - \$0.6 million) is classified as long-term in accordance with the three year vesting period. For the three months ended March 31, 2014, Parex recorded \$2.6 million of compensation cost related to the outstanding SARs (three months ended March 31, 2013 – \$0.5 million)

d) Restricted Share Units

On October 19, 2012, the Company put into place a restricted share unit plan pursuant to which the Company may grant restricted shares to directors and certain employees. The restricted shares vest at 33 percent on each of the first, second and third anniversaries of the grant date and expire five years from date of grant.

	Number of RSU's	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2013	868,800	0.01
Granted	30,000	0.01
Exercised	(2,000)	0.01
Balance, March 31, 2014	896,800	0.01

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the three months ended March 31, 2014 was Cdn\$7.13 per RSU (three months ended March 31, 2013– Cdn\$4.99 per RSU). For the three months ended March 31, 2014 a weighted average forfeiture rate of 3% was applied (three months ended March 31, 2013 – nil).

e) Share-based compensation

For the three months ended March 31,	2014	2013
Share-based compensation expense	\$ 2,025	\$ 1,253
SARs expense	2,561	(548)
	\$ 4,586	\$ 705

14. Convertible Debenture

Parex has outstanding Cdn\$85.0 million of convertible unsecured subordinated debentures (the “Debentures”) with an annual coupon of 5.25 percent maturing on June 30, 2016. The Debentures have a face value of \$1,000 per debenture, are convertible into common shares at the option of the holder at a conversion price of Cdn\$10.15 per share and represent a conversion rate of approximately 98.52 common shares per Debenture. The Debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. In the event that a holder of Debentures exercises the conversion feature, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of common shares to be received on conversion, for the period from the latest interest payment date to the date of conversion.

The following table summarizes the accounting for the debentures:

	Liability	Derivative financial liability	Total
Balance, December 31, 2012	\$ 65,657	\$ 9,899	\$ 75,556
Accretion	4,163	-	4,163
Amortization of debt issuance costs	627	-	627
Derivative gain	-	(885)	(885)
Foreign exchange gain	(4,387)	(639)	(5,026)
Balance, December 31, 2013	\$ 66,060	\$ 8,375	\$ 74,435
Accretion	1,021	-	1,021
Amortization of Debenture issuance costs	154	-	154
Derivative loss	-	10,436	10,436
Foreign exchange gain	(2,507)	(318)	(2,825)
Balance at March 31, 2014	\$ 64,728	\$ 18,493	\$ 83,221

The liability portion is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method. The accretion, interest paid and amortization of Debenture issuance costs are charged to finance expense in the consolidated statement of comprehensive income. The derivative financial liability is measured at fair value through profit or loss, with changes to the fair value being recorded in finance expense.

The fair value of the liability portion of the Debenture is \$68.4 million at March 31, 2014 (December 31, 2013 – \$73.9 million). The fair value was estimated using the trading data of the Debentures on the measurement dates, which is a level 1 input, less the fair value of the debenture conversion feature, which is estimated using the Black-Scholes valuation model, as explained below.

The foreign exchange gain is offset by a corresponding loss on the Cross Currency Interest Rate Swap the Company entered into on December 30, 2012. (Refer to note 19 (d)).

The fair value of the derivative financial liability is determined using the Black-Scholes valuation model and the following level 2 assumptions were used:

For the period ended March 31,	2014	2013
Risk-free interest rate (%)	1.28	1.12
Expected life (years)	2.25	3.25
Expected volatility (%)	46	49
Expected dividends	-	-

15. Income Tax

The components of tax expense for the three months ended March 31, 2014 and 2013 were as follows:

For the three months ended March 31,	2014	2013
Current tax expense	\$ 17,542	\$ 9,384
Deferred tax (recovery) expense	(2,326)	3,572
Total tax expense	\$ 15,216	\$ 12,956

Colombian Equity Tax

Parex’ Colombian subsidiaries were subject to a tax which was 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) in eight equal installments every May and September starting in 2011. The outstanding amount of \$1.5 million is to be paid over the remaining two installments both of which are due within one year.

16. Net Income per Share

a) Basic net income per share

For the three months ended March 31,	2014	2013
Net income		
Net income for the purpose of basic net income per share	\$ 9,663	11,136
Weighted average number of shares for the purposes of basic net income per share (000s)	109,095	108,523
Basic net income per share	\$ 0.09	\$ 0.10

b) Adjusted diluted net income per share

For the three months ended March 31,	2014	2013
Net income		
Net income for the purpose of basic net income per share	\$ 9,663	\$ 11,136
Elimination of interest and accretion expense and the (gain) loss on changes in fair value and foreign exchange on the Debentures and derivative financial liability	-	(5,097)
Net income used to calculate diluted net income per share	\$ 9,663	\$ 6,039
Weighted average number of shares for the purposes of basic net income per share (000s)	109,095	108,523
Dilutive effect of share options and RSUs on potential common shares	2,298	1,215
Dilutive effect of Debentures on potential common shares	-	18,956
Weighted average number of shares for the purposes of diluted net income per share	111,393	128,694
Diluted net income per share	\$ 0.09	\$ 0.05

At March 31, 2014, 106,250 (December 31, 2013 - 4,509,325) share options had an exercise price in excess of the average market value of the shares from the option grant date to the end of the period. As a result, these share options are excluded from the calculation of diluted earnings per share. The effect of the Debenture for the three months ended March 31, 2014 is anti dilutive and therefore excluded from the diluted earnings per share.

17. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the three months ended March 31,	2014	2013
Accounts receivable	\$ (35,715)	\$ (4,618)
Prepays and other current assets	(2,608)	(3,509)
Oil inventory	3,697	(7,685)
Accounts payable and accrued liabilities	6,235	(9,019)
Depletion related to oil inventory	(1,901)	(4,037)
Net change in non-cash working capital	\$ (30,292)	\$ (28,868)
Operating	\$ (41,948)	\$ (12,975)
Investing	11,656	(15,893)
Financing	-	-
Net change in non-cash working capital	\$ (30,292)	\$ (28,868)

b) Interest and taxes paid

For the three months ended March 31,	2014	2013
Cash interest paid	\$ 56	\$ 421
Cash income and equity taxes paid	\$ -	\$ -

18. Capital Management

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

The Company manages its capital to achieve the following:

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

Parex has a senior secured credit facility (see note 10- long-term debt) which as at March 31, 2014 had a borrowing base in the amount of \$125.0 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at March 31, 2014, \$4.0 million (December 31, 2013 - \$8.5 million) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the exploration work commitments on its Colombian concessions (see note 21 - Commitments).

As at March 31, 2014 the Company's net working capital surplus is \$37.0 million (December 31, 2013 - \$24.0 million), of which \$40.3 million was cash. This excludes the undrawn amount available under the credit facility of \$121.0 million (December 31, 2013 - \$91.5 million).

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity plus Debentures (excluding the associated derivative financial liability) and the credit facility. As at March 31, 2014 shareholders' equity was \$499.8 million (December 31, 2013 - \$485.1 million) and the Debentures' face value balance was Cdn\$85.0 million (December 31, 2013 - Cdn\$85.0 million).

19. Financial Instruments and Risk Management

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

The conversion feature associated with Debentures is a derivative financial liability. Derivative financial liabilities are recorded upon recognition and subsequently at each balance sheet date at fair value, with changes in fair value being recognized in the statement of comprehensive income.

a) Credit risk

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

The Company, for the three months ended March 31, 2014 had the majority of its oil sales to approximately ten counterparties. Accounts receivable balance as at March 31, 2014 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At March 31, 2014 there are \$1.2 million of accounts receivable past due, all of which are considered collectible (December 31, 2013 - \$1.2 million) given that the Company holds joint interest tangible assets against the receivable balance. None of the Company's receivables are impaired at March 31, 2014. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. In the current year the Company has maintained a robust capital program funded from a portion of funds flow from operations. The Company's Debentures are unsecured and subordinated with expiry on June 30, 2016.

The following are the contractual maturities of financial liabilities at March 31, 2014:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 102,493	-	-	-	\$ 102,493
SARs payable	4,251	1,551	-	-	5,802
Current income and equity tax payable ⁽¹⁾	29,849	-	-	-	29,849
Credit Facility including interest ⁽²⁾	120	4,120	-	-	4,240
Debentures ⁽²⁾	-	85,686	-	-	85,686
Interest on Debentures ⁽²⁾	3,813	5,720	-	-	9,533
Total	\$ 140,526	97,077	-	-	\$ 237,603

⁽¹⁾ Net of withholding tax receivable in the amount of \$35.2 million.

⁽²⁾ Balances denominated in Canadian dollars have been translated at the March 31, 2014 exchange rate, except for the Debenture which is denominated in its USD hedged amount.

The following are the contractual maturities of financial liabilities at December 31, 2013:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 116,238	-	-	-	\$ 116,238
SARs payable	2,603	638	-	-	3,241
Current income and equity tax payable ⁽¹⁾	22,940	-	-	-	22,940
Credit Facility including interest ⁽²⁾	282	8,812	-	-	9,094
Debentures ⁽²⁾	-	85,686	-	-	85,686
Interest on Debentures ⁽²⁾	3,813	5,720	-	-	9,533
Total	\$ 145,876	100,856	-	-	\$ 246,732

⁽¹⁾ Net of withholding tax receivable in the amount of \$24.6 million.

⁽²⁾ Balances denominated in Canadian dollars have been translated at the December 31, 2013 exchange rate, except for the Debenture which is denominated in its USD hedged amount.

c) Commodity price risk

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

As at March 31, 2014, the Company had outstanding fixed and swap contracts which are used to manage its exposure to fluctuations in the price of crude oil.

The following is a summary of the ICE Brent priced crude oil risk management contracts in place for the three months period ended March 31, 2014:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$109.01
January 1, 2014 to June 30, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$105.00
January 1, 2014 to June 30, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
January 1, 2014 to March 31, 2014	ICE Brent	Put	1000 bbl/d	\$103.00
April 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00

The fair value of the ICE Brent priced crude oil risk management contracts is recorded in accounts payable and accrued liabilities.

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

For the three months ended March 31,	2014	2013
Realized loss on commodity risk management contracts	\$ 1,480	\$ 725
Unrealized loss (gain) on commodity risk management contracts	(1,968)	53
Total	\$ (488)	\$ 778

As shown in the table above, as at March 31, 2014, Parex had committed to the future sale of 732,000 barrels of oil with fixed price, puts and costless collars of \$103.00 and \$111.25. The following sensitivity shows the resulting unrealized (gain) loss and impact on income before tax for the oil hedged contract if Brent oil price were to increase/decrease by \$10/bbl from the spot rate as at March 31, 2014.

	Brent Price	Impact on Income before tax for the three months ended March 31, 2014	
		Increase of 10/bbl	Decrease of 10/bbl
Oil hedged contract	Period end	\$ 1,921	\$ (3,162)
Total		\$ 1,921	\$ (3,162)

Subsequent to March 31, 2014 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
July 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00

d) Foreign currency risk

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

The following is a summary of the foreign currency risk management contracts in place as at March 31, 2014:

Period Hedged	Reference	Type	Amount USD	Price (COP)
November 12, 2013 to April 10, 2014	Colombian Peso	Collar	\$10 million	1,900 - 1,997
November 12, 2013 to June 10, 2014	Colombian Peso	Collar	\$10 million	1,900 - 2,022

Associated with the Cdn\$85.0 million of Debentures, on December 30, 2012 the Company entered into a Cross Currency Interest Rate Swap (“CCIRS”) with two financial institutions who are members of the Company’s credit facility. Under the terms of the CCIRS, the US dollar amount of the Debenture was fixed for purposes of interest and principal repayment at a notional amount of \$85.7 million.

The following is a summary of the CCIRS contract in place for the three months period ended March 31, 2014:

	Type	Receive Notional Principal (Cdn\$)	Fixed annual rate (Cdn%)	Pay Notional Principal (US\$)	Fixed annual rate (US%)
December 30, 2012 – June 30, 2016	Swap	85,000,000	5.25%	85,685,565	4.45%

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

For the three months ended March 31,	2014	2013
Realized loss (gain) on foreign currency risk management contracts	\$ -	-
Unrealized loss on foreign currency risk management contracts	3,252	1,471
Total	\$ 3,252	\$ 1,471

The fair value of the foreign exchange risk management contracts at March 31, 2014 is a \$9.4 million liability (December 31, 2013 - \$6.4 million liability) that is recorded in other long-term liabilities. The Company recorded a \$3.3 million loss on these contracts in the three months ended March 31, 2014 which is recorded in the financial statement line item “Finance expense” in the consolidated statements of comprehensive income (note 9).

The following sensitivity show the resulting unrealized (gain) loss and impact on income before tax for the CCIRS contract and the Colombian foreign exchange collars for the respective changes in the period end foreign exchange rates at March 31, 2014:

Exchange Rate Cdn/Usd	Impact on Income before tax for the three months ended year March 31, 2014	
	Increase of 5 cents	Decrease of 5 cents
	\$ 3,779	\$ (4,004)
Total	\$ 3,779	\$ (4,004)

e) Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its credit facility. Currently the Company has not entered into any agreements to manage this risk. The following sensitivity shows the effect on income before tax if the interest expense increased /decreased by 1% as at March 31, 2014:

Interest rate	Impact on Income before tax for the three months ended March 31, 2014			
		Increase of 1%		Decrease of 1%
	\$	17	\$	(17)
Total	\$	17	\$	(17)

20. Segmented Information

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

For the three months ended March 31, 2014

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	\$ -	\$ 179,794	\$ -	\$ 179,794
Royalties	-	(24,840)	-	(24,840)
Revenue	-	154,954	-	154,954
Risk management contracts	1,088	(600)	-	488
	1,088	154,354	-	155,442
Expenses				
Production	-	16,584	-	16,584
Transportation	-	31,433	-	31,433
Purchased oil	-	1,872	-	1,872
General and administrative	3,412	3,370	529	7,311
Share-based compensation	2,025	2,462	99	4,586
Depletion, depreciation and amortization	78	54,574	5	54,657
Foreign exchange gain	(3,074)	347	(2)	(2,729)
	2,441	110,642	631	113,714
Finance income	(6)	(226)	-	(232)
Finance expense	16,488	217	376	17,081
Net finance expense	16,482	(9)	376	16,849
Net income (loss) before taxes	(17,835)	43,721	(1,007)	24,879
Current tax expense	-	17,542	-	17,542
Deferred tax recovery	-	(2,326)	-	(2,326)
Net income (loss)	\$ (17,835)	\$ 28,505	\$ (1,007)	\$ 9,663
Capital assets (end of period)	\$ 2,081	\$ 586,092	\$ 22,378	\$ 610,551
Capital expenditures, excluding corporate acquisitions	\$ 6	\$ 61,320	\$ 79	\$ 61,405
Total assets (end of period)	\$ 8,696	\$ 844,695	\$ 28,915	\$ 882,306

For the three months ended March 31, 2013

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	164,990	\$	-	\$ 164,990
Royalties		-		(18,179)		-	(18,179)
Revenue		-		146,811		-	146,811
Risk management contracts		(778)		-		-	(778)
		(778)		146,811		-	146,033
Expenses							
Production		-		12,928		-	12,928
Transportation		-		25,090		-	25,090
Purchased oil		-		29,847		-	29,847
General and administrative		3,216		3,619		437	7,272
Share-based compensation		1,253		(468)		(80)	705
Depletion, depreciation and amortization		197		49,126		16	49,339
Foreign exchange loss (gain)		(1,649)		(614)		32	(2,231)
		3,017		119,528		405	122,950
Finance income		(4,600)		(640)		(1)	(5,241)
Finance (income) expense		4,109		116		7	4,232
Net finance (income) expense		(491)		(524)		6	(1009)
Net income (loss) before taxes		(3,304)		27,807		(411)	24,092
Current tax and equity tax expense		-		9,384		-	9,384
Deferred tax expense		-		3,572		-	3,572
Net income (loss)	\$	(3,304)	\$	14,851	\$	(411)	\$ 11,136
Capital assets (end of period)	\$	2,417	\$	540,952	\$	64,352	\$ 607,721
Capital expenditures	\$	5	\$	45,620	\$	1,547	\$ 47,172
Total assets (end of period)	\$	5,897	\$	746,775	\$	75,149	\$ 827,821

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

21. Commitments

a) Colombia

At March 31, 2014 guarantees in place with ANH are in the form of issued letters of credit totaling \$33.1 million (December 31, 2013 - \$32.7 million) to support the exploration work commitments in respect of the 20 blocks in Colombia.

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 are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at March 31, 2014 in respect of the Colombia blocks are estimated to be as follows:

2014	\$	22,080
2015		34,443
Thereafter		8,100
	\$	64,623

b) Cory Moruga Block (Trinidad & Tobago)

The value of the Company's annual financial obligations in the Cory Moruga block remaining at March 31, 2014 is estimated to be as follows:

2014	\$	321
Thereafter		-
	\$	321

These amounts do not include production bonuses and other payments due to the uncertainty of their amount and timing.

c) Operating leases

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

The existing minimum lease payments for office space and accommodations at March 31, 2014 are as follows:

		Total	2014	2015	2016	2017	2018	Thereafter
Office and accommodations	\$	1,821	1,251	555	15	-	-	-

DIRECTORS

Norman F. McIntyre
Chairman of the Board

Curtis D. Bartlett

John F. Bechtold

Robert J. Engbloom

Wayne K. Foo

Ron D. Miller

W. A. (Alf) Peneycad

Paul D. Wright

OFFICERS & SENIOR EXECUTIVES

Wayne K. Foo
President, Chief Executive Officer

David R. Taylor
Executive VP Exploration & Business Development

Stu R. Davie
VP Human Resources & Administration

Barry B. Larson
Chief Operating Officer

Kenneth G. Pinsky
Chief Financial Officer

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbls
mbbls
mmbbls
NGLs
bbls/d or bopd
mbbls/d

barrels
one thousand barrels
one million barrels
natural gas liquids
barrels of oil per day
one thousand barrels per day

Other

WTI
Brent

West Texas Intermediate
Brent Ice