

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended June 30, 2014 is dated August 5, 2014 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended June 30, 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 2,200,445 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 18 for the Advisory on Forward-Looking Statements and page 20 for Non-GAAP Terms used.

Three months ended June 30, 2014 ("second quarter or Q2") Highlights

- Achieved quarterly oil production of 19,876 barrels per day (bopd), an increase of 8 percent over the first quarter of 2014 and a 29 percent increase from the comparative period;
- Generated funds flow from operations of \$77.3 million (\$0.70 per share basic) as compared to \$76.7 million (\$0.70 per share basic) for the previous quarter and \$0.61 per share in the comparative period. Funds flow was in line with the prior quarter as the revenue increase from higher production volumes was offset by a temporary build in crude oil inventory of 1,374 bopd;
- Realized Brent referenced sales price of \$104.53 per barrel (\$/bbl) and an operating netback of \$61.65/bbl;
- Released an updated independently evaluated reserves assessment prepared in accordance with the Canadian Oil and Gas Evaluation Handbook by GLJ Petroleum Consultants Ltd. dated July 10, 2014 with an effective date of June 30, 2014; with proved plus probable reserves growth of 80 percent, increasing from 32.0 million barrels of oil at December 31, 2013 to 57.6 million barrels of oil (net company working interest) at June 30, 2014;
- Participated in drilling 13 gross wells (7.75 net) in Colombia, resulting in 4 oil wells, 2 disposal wells, 4 cased and untested and 3 dry and abandoned;
- Acquired Verano Energy Limited ("Verano") on June 25, 2014 for total net consideration of \$186.2 million, increasing working interest to 70% in Block LLA-32, 63% in Block LLA-17 and 55% in Block LLA-34;
- Increased land holdings by 255,693 net acres through corporate acquisitions and farm-in agreements.

Financial Summary

(Financial figures in 000s except per share amounts)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Average daily production (bopd)	19,876	15,463	19,153	14,934
Realized sales price (\$/bbl)	104.53	99.34	103.98	104.52
Operating netback (\$/bbl)	61.65	58.22	61.45	62.83
Oil and natural gas sales	\$ 182,996	\$ 147,585	\$ 362,790	\$ 312,575
Funds flow from operations ⁽¹⁾	\$ 77,331	\$ 65,638	\$ 154,077	\$ 125,864
Per share – basic	0.70	0.61	1.40	1.16
Per share – diluted ⁽⁵⁾	0.64	0.51	1.28	0.98
Adjusted net income ⁽¹⁾⁽²⁾	\$ 26,612	\$ 5,987	\$ 46,711	\$ 12,525
Per share – basic	0.24	0.06	0.42	0.12
Per share – diluted	0.22	0.05	0.38	0.10
Net Income	\$ 11,408	\$ 7,632	\$ 21,071	\$ 18,768
Per share – basic	0.10	0.07	0.19	0.17
Per share – diluted ⁽⁶⁾	0.10	0.04	0.19	0.08
Capital Expenditures, excluding corporate acquisitions	\$ 95,101	\$ 77,921	\$ 156,506	\$ 125,093
Total assets (end of period)	\$ 1,226,983	\$ 824,276	\$ 1,226,983	\$ 824,276
Working capital surplus (end of period) ⁽⁴⁾	31,189	8,630	31,189	8,630
Debenture (end of period) ⁽³⁾	68,375	64,338	68,375	64,338
Bank debt (end of period) ⁽⁷⁾	56,000	27,400	56,000	27,400
Weighted average shares outstanding (000s)				
Basic	111,163	108,416	110,135	108,469
Diluted	121,733	129,885	121,846	130,152
Outstanding shares (end of period (000s))	125,197	108,279	125,197	108,279

⁽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 and six months ended June 30, 2014 adjusted net income excludes a \$15.2 million and \$25.6 million loss upon revaluation of the derivative liability associated with the Company’s Debentures (three and six months ended June 30, 2013 excludes a \$1.6 million and \$6.2 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 \$69.0 million (June 30, 2013 - \$72.6 million) available under the syndicated bank credit facility.

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

⁽⁶⁾ Net income diluted has been adjusted for the IFRS accounting effects of changes in the Debentures. For the three and six months ended June 30, 2014 the effect of the debenture is anti-dilutive (three and six months ended June 30, 2013 is \$3.0 million and \$8.0 million reduction 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 \$100 million at June 30, 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 June 30, 2014, the Company's principal land holdings and interests in exploration and production blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
<i>Operated Properties</i>			
LLA-16, 20, 29 and 30	100%	489,137	489,137
LLA-57	100%	104,532	104,532
Los Ocarros	50%	110,436	55,218
LLA-17	63%	108,726	68,497
El Eden	60%	109,249	65,549
Cabretero	100%	29,562	29,562
LLA-40	50%	163,090	81,545
LLA-24 ⁽¹⁾	100%	147,100	147,100
LLA-26 ⁽¹⁾	100%	184,061	184,061
Cebucan ⁽¹⁾	100%	109,150	109,150
El Porton ⁽¹⁾⁽³⁾	50%	109,476	49,612
Cerrero ⁽¹⁾	65%	108,973	70,832
Capachos ⁽¹⁾	50%	64,175	32,088
<i>Non-Operated Properties</i>			
LLA-32	70%	100,325	70,228
LLA-34	55%	82,286	45,257
Balay	10%	4,500	450
Colombia Middle Magdalena Basin			
<i>Operated Properties</i>			
VMM-11 ⁽¹⁾	100%	116,826	116,826
Morpho ⁽¹⁾	100%	51,398	51,398
Trinidad & Tobago			
<i>Non-operated Properties</i>			
Cory Moruga ⁽²⁾	32.8%	7,443	2,441
Total		2,200,445	1,773,483

Exploration properties that are deemed non-commercial will be relinquished in due course. Accordingly, the gross and net acres described above may decrease over time as lands deemed non-commercial are relinquished. For a 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.

⁽³⁾ Net working interest excludes the Curiara area within the El Porton block.

2014 Guidance

Supported by the Company's exploration and appraisal drilling to date in 2014 and its recent acquisition of Verano, Parex has increased its 2014 full year production guidance to approximately 22,250 bopd, which is 40% higher than the prior year, and expects the 2014 exit production rate to be greater than 27,000 bopd.

Revised 2014 Production Guidance

Three months ended	Q3'14F	Q4'14F	FY'14F
Average daily production (bopd)	24,500-25,000	25,500-26,500	22,100-22,500
Increase from prior quarter	23%-26%	4%-6%	

2014 production growth is primarily driven by the appraisal drilling success at the Akira, Tigana and Tua fields, plus LLA-32 exploration success. The Company forecasts that the increased 2014 production guidance can be achieved with a capital expenditure budget of \$365 million, excluding the corporate acquisition costs, and is forecast to be funded entirely from cash flow. The increase in forecasted capital expenditures from the original \$280 million budget provided in November 2013 is primarily driven from working interest increases on blocks LLA-32, LLA-34, and the Cerrero block and the El Porton block farm-ins.

Forecasted cash flows are expected to materially increase for the second half of 2014. Applying the Q2 2014 after tax cash flow per barrel of approximately \$46/bbl on forecast Q3 2014 production, results in expected quarterly funds flow in excess of \$100 million as compared to Q2 2014 funds flow of approximately \$77 million (assuming all other variables including commodity prices stay constant). It is also expected that cash flow per barrel in 2014 will incrementally increase as a result of the utilization of Verano tax losses.

Updated 2014 Drilling Program Forecast (Wells Gross Number)

	H1' 14	H2' 14	FY 2014
Development/Appraisal	10	15	25
Exploration	13	7	20
Total 2014 Wells Drilled	23	22	45

The Company expects to drill up to a total of 45 wells in 2014. During the second half of 2014, development and appraisal drilling will be focused on blocks LLA-32, LLA-34 and Cabrestero.

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Average daily production				
Colombia – oil (bopd)	19,876	15,463	19,153	14,934
Total (bopd)	19,876	15,463	19,153	14,934
Average daily sales				
Colombia – produced oil (bopd)	18,502	16,145	18,769	14,768
Colombia – purchased oil (bopd)	740	180	497	1,755
Total (bopd)	19,242	16,325	19,266	16,523
Operating netback (\$000s)				
Oil and natural gas sales ⁽¹⁾	\$ 182,996	\$ 147,585	\$ 362,790	\$ 312,575
Royalties	(25,346)	(20,208)	(50,186)	(38,387)
Net revenue	157,650	127,377	312,604	274,188
Production expense	(19,200)	(13,608)	(35,784)	(26,536)
Transportation expense	(28,724)	(27,150)	(60,157)	(52,240)
Purchased oil	(5,905)	(489)	(7,777)	(30,336)
Operating netback	\$ 103,821	\$ 86,130	\$ 208,886	\$ 165,076
Operating netback (per bbl)				
Oil and natural gas sales ⁽¹⁾	\$ 104.53	\$ 99.34	\$ 103.98	\$ 104.52
Royalties	(15.06)	(13.65)	(14.76)	(14.32)
Net revenue	89.47	85.69	89.22	90.20
Production expense	(11.41)	(9.19)	(10.53)	(9.90)
Transportation expense	(16.41)	(18.28)	(17.24)	(17.47)
Operating netback	\$ 61.65	\$ 58.22	\$ 61.45	\$ 62.83

⁽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 and six months ended June 30, 2014 was \$61.65 and \$61.45 compared to \$61.20 for the first quarter of 2014 and \$58.22 and \$62.83 for the three and six month periods ended in 2013. The average realized sales price in Colombia for the three and six months ended June 30, 2014 was \$104.53/bbl and \$103.98/bbl compared to \$103.42/bbl for the first quarter of 2014.

Royalty charges for the three and six months ended June 30, 2014 were \$15.06/bbl and \$14.76/bbl in comparison to \$14.48/bbl for the first quarter of 2014.

Production expense for the three and six months ended June 30, 2014 was \$11.41/bbl and \$10.53/bbl compared to \$9.66/bbl for the first quarter of 2014 and \$9.19/bbl in the comparative three month period.

Transportation expense per barrel for the three and six months ended was \$16.41/bbl and \$17.24/bbl compared to \$18.08/bbl for the first quarter of 2014 and \$18.28/bbl in the comparative three month period. 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 Company's benchmark Brent price increased by \$1.52/bbl in the second quarter as compared to the first quarter of 2014, while the operating netback increased by \$0.45/bbl. This is mainly a result of increased operating costs partially offset by a decrease in transportation costs.

Colombian Oil Sales

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Block LLA-34 (Tigana, Tua, Tarotaro, Max and Aruco fields)	8,099	2,887	7,451	2,555
Block Los Ocarros (Las Maracas field)	6,096	4,854	6,145	4,533
Block LLA-16 (Kona, Sulawesi, Java and Malawi fields)	2,001	5,535	2,594	6,021
Block Cabrestero (Akira and Kitara fields)	1,770	380	1,204	365
Block LLA-32 (Maniceno, Bandola, Kananaskis fields)	1,099	904	717	657
Block El Eden (La Casona and Rumi fields)	221	-	220	-
Block LLA-20 (Cumbre field)	204	598	227	663
Block LLA-30 (Adalia field)	158	-	395	-
Other	228	305	200	140
Total Production	19,876	15,463	19,153	14,934
Inventory (build) draw	(1,374)	682	(384)	(166)
Colombia average daily oil sales of produced oil	18,502	16,145	18,769	14,768
Purchased oil	740	180	497	1,755
Sales Volumes	19,242	16,325	19,266	16,523

Production for the second quarter of the year averaged 19,876 bopd, an increase of approximately 29 percent from the second quarter of 2013. Production increased 8 percent from the first quarter average of 2014. The second quarter production increase as compared to the first quarter was a result of increased production attributable to blocks LLA-34 and LLA-32. During the three months ended June 30, 2013, inventory increased by an average of approximately 1,374 bopd mainly as a result of oil delivery timing and accordingly production volumes in the second quarter were in excess of sales volumes.

The increase in oil sales in the second quarter of 2014 to 19,242 bopd compared to oil sales of 16,325 bopd for the three months ended June 30, 2013 was primarily a result of drilling success at, Block LLA-34, Block LLA-32, Cabrestero and the Los Ocarros field along with changes in inventory levels.

b) Average Reference and Realized Prices

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Reference Prices				
WTI (\$/bbl)	103.35	94.05	101.05	94.18
Brent (\$/bbl)	109.69	102.56	108.93	107.34
Vasconia (\$/bbl)	103.57	99.28	102.41	103.35
Average Realized Prices				
Realized sales price (\$/bbl)	104.53	99.34	103.98	104.52
Realized oil hedging (loss) gain (\$/bbl)	(0.70)	2.41	(0.79)	0.82
Realized price after hedging (\$/bbl)	103.83	101.75	103.19	105.34
Realized price discount as percentage of Brent (%)	(5)	(3)	(5)	(3)
Realized price premium as percentage of WTI (%)	1	6	3	11

The Company's oil sales contracts during the period ended June 30, 2014 were referenced to a blend of Brent and Colombia Vasconia crude. The realized price discount to Brent was 5 percent in the second quarter compared to 3 percent in the comparative period and a 4 percent discount in the first quarter of 2014. The differential increased in the current quarter from the comparative periods 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.

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

Average price for the period	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Brent (\$/bbl)	109.69	108.17	109.21	110.22	102.56
Parex realized sales price (\$/bbl)	104.53	103.42	101.64	106.41	99.34
Parex realized price (discount) as percentage of Brent (%)	(4.7)	(4.4)	(6.9)	(3.5)	(3.1)

c) Oil Revenue

Second quarter 2014 oil revenue increased \$35.4 million or 24 percent as reconciled in the table below to the second quarter of 2013:

(\$000s)	
Oil revenue, three months ended June 30, 2013	\$ 147,585
Sales volume of produced oil, an increase of 2,357 bopd	21,307
Sales volume of purchased oil, an increase of 560 bopd	5,062
Sales price increase of 5%	9,042
Oil revenue, three months ended June 30, 2014	\$ 182,996

Oil sales increased in the three months ended June 30, 2014 compared to the same period in 2013 due to an increase in production, an increase in realized oil price and an increase in purchased oil sold. Produced oil sales for the three months ended June 30, 2014 was less than crude oil production due to a crude oil inventory increase of 121,875 bbls from the first quarter of 2014 (see "Colombian Crude Oil Inventory in Transit" below).

d) Colombian Crude Oil Inventory in Transit

As at June 30, (\$000s)	2014	2013
Crude oil in transit	\$ 9,382	\$ 9,607

As at June 30, 2014, the Company had 195,440 bbls of crude oil inventory in transit (134,600 bbls for the second quarter of 2013). The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately \$48/bbl (\$71/bbl for the second quarter of 2013 and \$68/bbl for the first quarter of 2014) 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 six months ended June 30, (mbbls)	2014	2013
Crude oil inventory in transit - beginning of the period	137.0	98.8
Oil production	3,463.8	2,703.1
Oil sales	(3,487.2)	(2,990.6)
Purchased oil	89.9	323.3
Company consumption	(8.1)	-
Crude oil inventory in transit - end of the period	195.4	134.6

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

For the periods ended (mbbls)	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
Crude oil inventory in transit - beginning of the period	73.6	137.0	146.6	134.6
Oil production	1,805.5	1,658.3	1,590.4	1,490.3
Oil sales	(1,745.7)	(1,741.5)	(1,642.7)	(1,475.8)
Company consumption	(5.3)	(2.8)	(2.4)	(2.5)
Purchased oil	67.3	22.6	45.1	-
Crude oil inventory in transit - end of the period	195.4	73.6	137.0	146.6

The Company is experiencing, on average, two-thirds of period ending crude oil inventory being sold within the following month.

Inventory increased in the second quarter of 2014 due to several factors including a onetime increase in the inventory in transit volumes due to a scheduled overhauling of the OCENSA and ODC pipeline which caused limited trucking capacity at stations; a temporary underlift on block LLA-34 from out of spec

crude inventory volumes that were not picked up at the Tarotaro field; and an increase in inventoried pipeline volumes. As of July 25, 2014, the Company had 160,475 bbls of crude oil inventory in transit.

e) Purchased Oil

(mmbbls)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Oil purchased	67.3	16.4	89.9	323.3
Purchased oil sales	(67.3)	(16.4)	(89.9)	(323.3)
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 June 30, 2014 the Company had no third party purchased oil in inventory.

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Purchased oil expense (\$000s)	\$ 5,905	\$ 489	\$ 7,777	\$ 30,336

Purchased oil expense for the three and six months ended June 30, 2014 was \$5.9 million and \$7.8 million compared to \$1.9 million for the first quarter of 2014 and \$0.5 million and \$30.3 million for the 2013 three and six month periods. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Colombian Royalties

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Royalties (\$000s)	\$ 25,346	\$ 20,208	\$ 50,186	\$ 38,387
Per unit (\$/bbl)	\$ 15.06	\$ 13.65	\$ 14.76	\$ 14.32
Percentage of sales ⁽¹⁾⁽²⁾	17%	17%	17%	17%

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

⁽²⁾ Net of transportation costs

In the three and six months ended June 30, 2014 royalties as a percentage of sales of 17% were consistent with both prior periods. In the prior year a large portion of the Company's production was from the Kona field which was subject to the High Price Share. Although Parex now has two fields subject to the High Price Share the production mix is more diversified. 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 Company expects that the overall royalty as a percentage of sales will remain flat or decrease in the second half of 2014 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. It is expected that the Tigana and Tua fields will become subject to the High Price share in the second quarter of 2015.

Colombian Production Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Production expense (\$000s)	\$ 19,200	\$ 13,608	\$ 35,784	\$ 26,536
Per unit (\$/bbl) ⁽¹⁾	\$ 11.41	\$ 9.19	\$ 10.53	\$ 9.90

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

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 June 30,			For the six months ended June 30,		
	2014	2013		2014	2013	
Per unit (\$/bbl) – based on sales volumes – operated ⁽¹⁾	\$ 10.86	\$ 7.32	\$	\$ 9.01	\$ 8.14	
Per unit (\$/bbl) – based on sales volumes – non-operated ⁽¹⁾	\$ 12.13	\$ 15.37	\$	\$ 13.28	\$ 17.11	

⁽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 second quarter on a per barrel basis of \$11.41 increased from the first quarter of 2014 of \$9.66/bbl. Operated properties production expense in the second quarter was \$10.86/bbl compared to \$7.57/bbl for the first quarter of 2014 and non-operated properties production expense was \$12.13/bbl for the second quarter of 2014 compared to \$14.99/bbl for the first quarter of 2014. The quarter over quarter and comparative period increase for operated properties mainly relates to one-time costs associated with workovers at the Kona field, facility start up costs associated with the Akira field and fixed costs being incurred on the Adalia field while shut-in due to social issues. The quarter over quarter and comparative period decrease for the non-operated properties production expense relates to higher production and thus greater fixed cost absorption on a per bbl basis.

Colombian Transportation Expense

	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013		2014	2013	
Transportation expense (\$000s)	\$ 28,724	\$ 27,150	\$	\$ 60,157	\$ 52,240	
Per unit (\$/bbl)	\$ 16.41	\$ 18.28	\$	\$ 17.24	\$ 17.47	

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 June 30, 2014, the cost of transportation on a per barrel basis has decreased to \$16.41/bbl from the first quarter of \$18.08/bbl and decreased from the comparative period of \$18.28/bbl. The decrease from the first quarter and the comparative periods relates to decreased trucking costs as less crude is being trucked to the coast for export and instead shipped via pipeline. For the balance of 2014, the Company expects trucking costs per barrel to stay in line with the current quarter as there will continue to be similar distribution and the anticipated increase in rate for trucking costs going forward will be offset by better direct export contracts which have resulted in lower marketing fees through the OCENSA and ODC pipelines. In addition, more pipeline capacity for direct exports is currently being negotiated.

General and Administrative Expense ("G&A")

(\$000s)	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013		2014	2013	
Gross G&A	\$ 9,932	\$ 9,467	\$	\$ 20,144	\$ 18,709	
G&A recoveries	(320)	(627)		(903)	(1,384)	
Capitalized G&A	(1,308)	(713)		(3,626)	(1,926)	
Net G&A expense	\$ 8,304	\$ 8,127	\$	\$ 15,615	\$ 15,399	
Per unit (\$/bbl) ⁽¹⁾	4.64	5.78		4.53	5.69	

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

Net G&A was \$15.6 million for the six months ended June 30, 2014 compared to \$15.4 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 second quarter of 2014 net G&A was mainly comprised of \$7.1 million relating to staff, consultants and professional services, \$1.0 million relating to office costs, and \$0.2 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 230 full-time-equivalents in three locations were working for Parex as at June 30, 2014 compared to 189 at June 30, 2013 and 215 at March 31, 2014.

Share-Based Compensation Expense

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Share-based compensation expense	\$ 1,529	\$ 1,019	\$ 2,964	\$ 2,097
Share appreciation rights expense	5,258	(366)	7,819	(914)
Restricted share units expense	612	194	1,202	369
Share-based compensation expense	\$ 7,399	\$ 847	\$ 11,985	\$ 1,552

Share-based compensation expense was \$1.5 million for the three months ended June 30, 2014 compared to \$1.0 million for the same period in 2013. As at June 30, 2014 stock options outstanding were 6,990,558 equaling six percent of the common shares outstanding at the end of the second quarter. A total of 1,782,305 options were exercised, 117,500 options were granted and 40,000 options were forfeited during the six months ended June 30, 2014. For the six month period ended June 30, 2014, the weighted average fair value upon grant date of the options granted based upon the Black Scholes option value methodology was Cdn\$3.09 per option (six months ended June 30, 2013 - Cdn\$1.82 per option).

Share appreciation rights ("SARs") expense was \$5.3 million expense for the three months ended June 30, 2014 compared to \$0.4 million recovery for the same period in 2013. The Company's share price increased from Cdn \$4.12 at June 30, 2013, Cdn \$6.58 at December 31, 2013 to Cdn \$12.55 at June 30, 2014. As at June 30, 2014, 2,395,853 SARs were outstanding all of which were granted to employees in Colombia and Trinidad & Tobago. The weighted average exercise price at June 30, 2014 of the SARs outstanding was Cdn \$6.02 per SAR (June 30, 2013 – Cdn \$6.23 per SAR).

As at June 30, 2014, the total SARs liability accrued is \$9.7 million (December 31, 2013 - \$3.2 million).

Restricted share unit expense was \$0.6 million for the three months ended June 30, 2014 compared to \$0.2 million for the same period in 2013. A total of 40,500 units were granted and 4,333 units were exercised during the six months ended June 30, 2014. For the six month period ended June 30, 2014 the fair value upon grant date of the units issued was Cdn \$8.32 per RSU (six months ended June 30, 2013 – Cdn \$4.74 per RSU).

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
DD&A expense (\$000s)	\$ 49,170	\$ 55,140	\$ 103,827	\$ 104,479
Per unit (\$/bbl) ⁽¹⁾	\$ 27.46	\$ 39.19	\$ 30.14	\$ 38.57

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

Second quarter 2014 DD&A expense of \$27.46/bbl is lower than second quarter 2013 rate of \$39.19/bbl due to an increase in the Company's crude oil reserves year over year. The six month period ended June 30, 2014 DD&A expense also decreased from \$38.57 in the 2013 period to \$30.14 for the current six month period. The decrease is also a result of drilling success and increased reserves as compared to the prior period.

Included in the depletion calculation were future development costs of \$415.6 million, compared to \$194.3 million in the first quarter of 2014. Second quarter 2014 depletion was \$48.9 million compared to \$54.8 million for the same period in 2013. The decrease in depletion expense is a result of increased reserves associated with the Company's independent reserve report dated June 30, 2014. The remaining DD&A relates to seismic equipment and office equipment which is depreciated over the assets estimated useful lives.

Foreign Exchange Gain

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Foreign exchange loss (gain) (\$000s)	\$ 1,563	\$ (3,899)	\$ (1,166)	\$ (6,130)
Foreign Exchange Rates				
CAD\$/USD\$	0.92	0.98	0.91	0.98
Colombian peso/USD\$	1,913	1,862	1,959	1,827

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 loss and gain recorded on the Consolidated Statements of Comprehensive Income are the revaluation of the Canadian dollar denominated Debenture and peso denominated income tax and accounts payable to USD at period end dates. During the three months ended June 30, 2014, the total foreign exchange loss was \$1.6 million and was a \$1.2 million gain for the six months ended. 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.

The Company has in 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 gains/losses are offset by the gains/losses reflected in the carrying amount of the Debenture.

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

Net Finance Expense (Income)

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Interest expense and bank charges	\$ 1,467	\$ 1,828	\$ 3,093	\$ 3,355
Accretion on convertible debentures	1,114	1,040	2,135	2,006
Accretion on decommissioning and environmental liabilities	260	143	480	266
Loss (gain) on derivative financial liability	15,204	(1,645)	25,640	(6,243)
Amortization of debt issuance costs	167	157	321	302
Loss (gain) on CCIRS contract	(3,314)	3,353	(62)	4,824
Loss on disposition of tangible assets	203	-	575	-
Interest and other income	(686)	15	(918)	(628)
Net finance expense	\$ 14,415	\$ 4,891	\$ 31,264	\$ 3,882

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Non cash finance expense	\$ 13,814	\$ 3,267	\$ 29,269	\$ 1,374
Cash finance expense	601	1,624	1,995	2,508
Net finance expense	\$ 14,415	\$ 4,891	\$ 31,264	\$ 3,882

Interest expense relates to the Debenture and interest on the credit facility. The interest expense on the Debentures for the three and six month ended June 30, 2014 was \$1.0 million and \$2.0 million (three and six months ended June 30, 2013 – \$1.1 million and \$2.2 million). The accretion expense for the debentures for the three and six months ended June 30, 2014 was \$1.1 million and \$2.1 million (three and six months ended June 30, 2013 – \$1.0 million and \$2.0 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.

Under IFRS, the conversion feature of the Debenture issued on June 29, 2011 is classified as a derivative financial liability given that, if redeemed, the Company has the option to deliver either common shares or cash equal to the market value. For the three and six months ended June 30, 2014, a \$15.2 million and \$25.6 million loss on the derivative financial liability was recognized (three and six months ended June 30, 2013 - a \$1.6 million and \$6.2 million gain was recognized) in comprehensive income. The loss is a result of fair valuing the derivative liability at June 30, 2014 and specifically the increase in the Company's stock price from Cdn \$6.58 at December 31, 2013 to Cdn \$12.55 at June 30, 2014. Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded in the 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' credit facility. The Company considers these derivative contracts to be an effective means to manage cash flow.

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

a) Risk Management Contracts - Brent Crude

The following is a summary of the ICE Brent priced crude oil risk management contracts in place for the six months period ended June 30, 2014:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
January 1, 2014 to June 30, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25
January 1, 2014 to June 30, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
April 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00
July 1, 2014 to September 1, 2014	ICE Brent	Put	3000 bbl/d	\$103.00
October 1, 2014 to December 31, 2014	ICE Brent	Put	6000 bbl/d	\$103.00

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Realized loss (gain) on commodity risk management contracts	\$ 1,267	\$ (2,168)	\$ 2,747	\$ (1,443)
Unrealized loss (gain) on commodity risk management contracts	\$ 1,403	\$ (399)	\$ (565)	\$ (346)
Total	\$ 2,670	\$ (2,567)	\$ 2,182	\$ (1,789)

The Company's net unrealized derivative gain on risk management contracts for the six months ended June 30, 2014 of \$0.6 million (six month period ended June 20, 2013 - gain of \$0.3 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 CCIRS in place for the six months period ended June 30, 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 losses (gains) on foreign currency risk management contracts:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Realized gain on foreign currency risk management contracts	\$ (180)	\$ (219)	\$ (180)	\$ (219)
Unrealized loss (gain) on foreign currency risk management contracts	(3,134)	3,572	118	5,043
Total	\$ (3,314)	\$ 3,353	\$ (62)	\$ 4,824

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 \$118,000 for the six months ended June 30, 2014 (six months ended June 30, 2013 - \$5.0 million loss) is primarily attributable to the decrease in the forward Cdn dollar exchange rate at June 30, 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 and six months ended June 30, 2014 and 2013 were as follows:

	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013		2014	2013	
Current tax expense	\$ 13,622	\$ 12,785	\$	\$ 31,164	\$ 22,169	
Deferred tax (recovery) expense	(5,381)	3,174		(7,707)	6,746	
Tax expense	\$ 8,241	\$ 15,959	\$	\$ 23,457	\$ 28,915	

The current and future tax expense relates to the Company's operations in Colombia. Current tax in the second quarter was \$13.6 million as compared to \$12.8 million in the comparative three month period. This increase is a function of an increase in Colombian operating cash flows over the comparative period. Deferred tax recovery in the second quarter of 2014 was \$5.4 million and \$7.7 million for the six month period in 2014 (\$3.2 million and \$6.7 million expense for the three and six months ended June 30, 2013), as a result of a narrowing of the book and tax basis in Colombian subsidiaries. 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 the year end producing reserves used in calculating depletion for tax purposes and the timing and number of dry hole write offs permissible for Colombian tax purposes. Accordingly estimating tax expense during the year is inherently difficult. The effective current tax rate for the six months ended June 30, 2014 on Colombian segmented operating cash flows was 16%.

As a result of the Verano acquisition the Company will have access to tax pools and carry forward tax losses that can be applied against the Verano Colombian entity's taxable income. For the remainder of 2014 the anticipated Verano taxable income is expected to be offset by the utilization of these carry forward losses which will result in little current tax accruing to the Verano assets acquired and a lowering of the full year 2014 Colombian effective tax rate to an expected 13% on Colombian segmented operating cash flows.

Capital Expenditures

For the three months ended June 30, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Acquisition of unproved properties	5,235	1,485	-	357	-	-	5,235	1,842
Geological and geophysical	1,788	6,404	-	439	-	-	1,788	6,843
Drilling and completion	78,195	48,484	-	(700)	-	-	78,195	47,784
Well equipment and facilities	9,478	7,886	-	616	-	-	9,478	8,502
Other	279	433	77	-	49	28	405	461
	\$ 94,975	\$ 64,692	\$ 77	\$ 712	\$ 49	\$ 28	\$ 95,101	\$ 65,432
Property acquisition costs	-	12,489	-	-	-	-	-	12,489
Total capital expenditures	\$ 94,975	\$ 77,181	\$ 77	\$ 712	\$ 49	\$ 28	\$ 95,101	\$ 77,921

⁽¹⁾ Excludes Verano and Sorgenia corporate acquisition costs.

For the six months ended June 30, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Acquisition of unproved properties	5,235	1,978	-	878	-	-	5,235	2,856
Geological and geophysical	3,479	7,550	-	2,280	-	-	3,479	9,830
Drilling and completion	130,459	89,274	-	(1,750)	-	-	130,459	87,524
Well equipment and facilities	16,763	10,994	-	851	-	-	16,763	11,845
Other	359	516	156	-	55	33	570	549
	\$ 156,295	\$ 110,312	\$ 156	\$ 2,259	\$ 55	\$ 33	\$ 156,506	\$ 112,604
Property acquisition costs	-	12,489	-	-	-	-	-	12,489
Total capital expenditures	\$ 156,295	\$ 122,801	\$ 156	\$ 2,259	\$ 55	\$ 33	\$ 156,506	\$ 125,093

⁽¹⁾ Excludes Verano and Sorgenia corporate acquisition costs.

Capital Expenditures Summary

During the six months June 30, 2013 the Company incurred \$156.5 million of capital expenditures compared to \$125.1 million in the same period of 2013. During Q2, 2014 the Company drilled 13 gross wells (7.75 net) wells, compared to 10 gross (6.75 net) wells in the comparative period.

During Q2, 2014, total drilling and completion costs were \$78.2 million of which the majority related to drilling, completion and capitalized workover costs in Colombia. The drilling and completion costs per well on a net basis was \$10.1 million in the second quarter of 2014 versus \$7.1 million in the comparative period. The increased drilling cost per net well is due to increased average drilling depth this quarter in comparison to Q2, 2013.

In the second quarter of 2014 the Company's Colombian operations utilized two drilling rigs and one service rig plus equipment utilized on non-operated blocks. Spending on well equipment and facilities was \$9.5 million all focused in Colombia primarily on Block LLA-30 and LLA-34.

During the six months ended June 30, 2014 capital expenditures of \$156.5 million, excluding the corporate acquisitions, were self funded from funds flow from operations of \$153.3 million. The Company has maintained its ability to fund growth from cash flow since 2012.

Corporate Acquisitions

a) Verano acquisition

On June 25, 2014, Parex acquired all of the outstanding shares of Verano Energy Limited ("Verano") which assets primarily consist of interests in three exploration blocks located in Colombia's Llanos Basin (the "Verano Acquisition"). The Company paid total net consideration of \$186.2 million. The Verano Acquisition gives the Company 70% working interest in Block LLA-32, 63% working interest in Block LLA-17 and 55% working interest in Block LLA-34, and added net production in excess of 4,000 bopd.

The consolidated statement of comprehensive income includes results of operation of Verano since the closing date of June 25, 2014 and expensed transaction costs associated with the Acquisition of \$0.5 million. Accordingly the effects of the Verano Acquisition on funds flows will begin to be recognized in the second half of 2014.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to equal the purchase price, no goodwill arose on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed ⁽¹⁾	
Working capital deficiency	\$ (19,336)
PP&E	247,617
E&E assets	9,864
Deferred tax liability	(50,059)
Decommissioning and environmental liabilities	(1,852)
	\$ 186,234

⁽¹⁾ The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Consideration for the acquisition

Issuance of common shares ⁽¹⁾	\$	169,333
Cash paid		75,415
Cash acquired		(53,115)
Settlement of pre-existing relationship		(5,399)
Total net consideration paid	\$	186,234

⁽¹⁾ Parex issued 14.7 million common shares at a deemed value of Cdn \$12.36 per share to Verano shareholders.

Included in the working capital deficiency of assets acquired are accounts receivable of \$9.1 million. The receivables are joint venture and trade receivables for which the fair value approximates carrying value.

The pro forma results for period ended June 30, 2014 are shown below, as if the Verano Acquisition had occurred on January 1, 2014. Pro forma results are not indicative of actual results or future performance.

Oil sales	\$	36,805
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The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. The consolidated statement of comprehensive income for the period ended June 30, 2014 includes \$1.8 million of oil sales attributable to the assets acquired since the Verano Acquisition. Net income for the period ended June 30, 2014 attributable to the assets acquired since the Verano Acquisition is considered impracticable to calculate.

b) Sorgenia Acquisition

On April 7, 2014, Parex, through a foreign subsidiary, acquired Sorgenia E&P Colombia BV (“Sorgenia”) which assets primarily consist of interests in four exploration blocks located in Colombia’s Llanos Basin (the “Sorgenia Acquisition”). The Sorgenia acquisition consolidates the Company’s interests in Blocks LLA-24 and LLA-26 to 100%. In addition, the Company acquired an additional 25% working interest in the Cerrero Block and 10% working interest in the Balay development area. Total net consideration paid was \$4.8 million in cash. There was some minimal production from the Balay development area associated with the Sorgenia Acquisition.

The consolidated statement of comprehensive income includes the results of operation of Sorgenia since the Acquisition closing date of April 7, 2014.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to equal the purchase price, no goodwill arose on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed⁽¹⁾

Working capital surplus	\$	7
E&E assets		5,218
Decommissioning and environmental liabilities		(394)
	\$	4,831

⁽¹⁾ The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Consideration for the acquisition

Cash paid	\$	5,000
Cash acquired		(169)
Total net consideration paid	\$	4,831

Included in the working capital surplus of assets acquired are accounts receivable of \$0.4 million. The receivables are joint venture and trade receivables for which the fair value approximates carrying value.

The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. Pro forma results are not indicative of actual results or future performance. The consolidated statement of comprehensive income for the period ended June 30, 2014 includes nil oil sales attributable to the assets acquired since the Sorgenia Acquisition. Net income for the period ended June 30, 2014 attributable to the assets acquired since the Sorgenia Acquisition is considered impracticable to calculate.

Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sep. 30, 2013
Average daily production volumes (bopd)	19,876	18,425	17,287	16,199
Realized sales price (\$/bbl)	104.53	103.42	101.64	106.41
Financial (000s except per share amounts)				
Oil Sales	\$ 182,996	\$ 179,794	\$ 166,959	\$ 157,043
Funds flow from operations ⁽¹⁾	\$ 77,331	\$ 76,746	\$ 75,818	\$ 68,241
Per share – basic	0.70	0.70	0.70	0.63
Per share – diluted	0.64	0.64	0.62	0.56
Adjusted net income (loss) ⁽³⁾	\$ 26,612	\$ 20,099	\$ 23,201	\$ (23,940)
Per share – basic	0.24	0.18	0.21	(0.22)
Per share – diluted	0.22	0.17	0.19	(0.22)
Net income (loss)	\$ 11,408	\$ 9,663	\$ 21,869	\$ (27,965)
Per share – basic	0.10	0.09	0.20	(0.26)
Per share – diluted	0.10	0.09	0.18	(0.26)
Capital Expenditures, excluding corporate acquisitions	95,101	61,405	58,817	49,962
Total assets (end of period)	\$ 1,226,983	\$ 882,306	\$ 854,808	\$ 820,827
Working capital surplus (deficit) (end of period) ⁽²⁾	\$ 31,189	\$ 36,957	\$ 24,005	\$ 18,801
Debentures (end of period) ⁽⁴⁾	\$ 68,375	\$ 64,728	\$ 66,060	\$ 66,898
Bank debt (end of period)	\$ 56,000	\$ 4,000	\$ 8,530	\$ 18,500

⁽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)	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sep. 30, 2012
Average daily production volumes (bopd)	15,463	14,440	12,743	10,874
Realized sales price (\$/bbl)	99.34	109.63	105.75	107.53
Financial (000s except per share amounts)				
Oil Sales	\$ 147,585	\$ 164,990	\$ 149,614	\$ 130,824
Funds flow from operations ⁽¹⁾	\$ 65,638	\$ 60,226	\$ 54,446	\$ 42,012
Per share – basic	0.61	0.56	0.50	0.39
Per share – diluted	0.51	0.48	0.50	0.39
Adjusted net income ⁽³⁾	\$ 5,987	\$ 6,538	\$ (13,450)	\$ 7,490
Per share – basic	0.06	0.06	(0.12)	0.07
Per share – diluted	0.05	0.05	(0.12)	0.07
Net income	\$ 7,632	\$ 11,136	\$ (15,840)	\$ 7,538
Per share – basic	0.07	0.10	(0.15)	0.07
Per share – diluted	0.04	0.05	(0.15)	0.07
Capital Expenditures, excluding corporate acquisitions	77,921	47,172	64,887	50,902
Total assets (end of period)	\$ 824,276	\$ 827,821	\$ 821,201	\$ 789,546
Working capital surplus (end of period) ⁽²⁾	\$ 8,630	\$ 16,972	\$ (12,640)	\$ (9,014)
Debentures (end of period) ⁽⁴⁾	\$ 64,338	\$ 65,402	\$ 65,657	\$ 65,251
Bank debt (end of period)	\$ 27,400	\$ 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 June 30, 2014 the Company had a working capital surplus of \$31.2 million, excluding amounts available under the credit facility, as compared to working capital surplus at December 31, 2013 of \$24.0 million. Bank debt is \$56.0 million compared to \$9.1 million at December 31, 2013. On a combined net basis, working capital less bank debt decreased from December 31, 2013 to June 30, 2014 by \$40.3 million mainly as result of funding the cash

component of the Verano Acquisition. The company has a \$125 million credit facility in place which has a two year term and was last renewed using the December 31, 2013 reserve report and currently does not reflect the increased reserves of the June 30, 2014 updated reserve report. At June 30, 2014, Parex held \$63.1 million of cash, compared to \$40.3 million at March 31, 2014 and \$56.5 million at December 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. On a fair market value basis the inventory on hand would have a value of approximately \$21.4 million or a fair value adjustment of approximately \$12.1 million.

Parex has a \$200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank, 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 June 30, 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 six months of 2014 (six months ended June 30, 2013 – 327,400 shares repurchased).

Debentures

The following table summarizes the accounting for the Debentures:

(\$000s)	Liability	Derivative financial liability	Total
Balance at 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 loss	(4,387)	(639)	(5,026)
Balance at December 31, 2013	\$ 66,060	\$ 8,375	\$ 74,435
Accretion	2,135	-	2,135
Amortization of debt issuance costs	321	-	321
Derivative loss	-	25,640	25,640
Foreign exchange gain ⁽¹⁾	(141)	(27)	(168)
Balance at June 30, 2014	\$ 68,375	33,988	102,363

⁽¹⁾ Offset by the unrealized foreign exchange loss recorded in the Statement of Comprehensive Income.

The company has entered into a "CCIRS" 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 "CCIRS" contract.

Parex may from time to time redeem the Debentures on or after July 1, 2014 and prior to June 30, 2016, in whole or in part, on notice as provided for in accordance with the terms of indenture governing the Debentures. The Debentures are redeemable at a price equal to the principal amount thereof plus accrued and unpaid interest thereon, provided that the Current Market Price on the date on which such notice of redemption is given exceeds 125% of the conversion price of the debentures of \$10.15 (\$12.69 Parex share price). The "Current Market Price" on any date is the volume-weighted average trading price of the common shares of Parex on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding such date.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at June 30, 2014 the Company had 125,196,863 common shares outstanding.

The Company has a stock option plan and a 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 August 5, 2014 Parex has the following securities outstanding:

	Number	%
Common shares	125,437,061	94%
Stock options	6,881,308	5%
Restricted share units	899,634	1%
	133,218,003	100%

As of the date of this MD&A, total stock options and RSU's outstanding represent approximately 6.2 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 June 30, 2014 was \$35.5 million (June 30, 2014 - \$31.4 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 approximately 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 June 30, 2014:

(\$000s)	Total	<1 year	1 – 3 years	3 – 4 years	>5 years
Exploration ⁽¹⁾⁽²⁾	\$ 61,074	25,200	27,774	8,100	-
Office and accommodations	8,127	2,647	3,023	2,025	432
Decommissioning and environmental expenditures	33,924	2,180	4,633	4,359	22,752
Total	\$ 103,125	30,027	35,430	14,484	23,184

⁽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 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		4,422		1,162	5,584
Corporate acquisitions – note 9		1,300		946	2,246
Settlements of obligations during the period		(488)		-	(488)
Loss on settlements of obligations during the period		147		-	147
Accretion expense		360		120	480
Foreign exchange loss		-		63	63
Balance, June 30, 2014	\$	19,534	\$	9,586	\$ 29,120
Current obligation		-		(2,243)	(2,243)
Long-term obligation	\$	19,534	\$	7,343	\$ 26,877

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 June 30, 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 \$23.0 million as at June 30, 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 rate used is 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 \$10.9 million as at June 30, 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 \$2.2 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, legislation and regulations;
- Construction of new facilities;
- Change in commodity price;
- Change in the estimate of oil reserves and the resulting amendment to the life of reserves; 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 Q3 and Q4 2014 and for the full year ended

- the Company's expected 2014 exit production rate;
- the Company's expected results from the Verano Acquisition, including effect on funds flow from operations;
- the Company's expected exploration program for 2014, including drilling plans, focus of drilling plans, anticipated number of wells to be drilled in 2014, utilization of cash flow, anticipated production, exploration prospects and exposure to new play concepts in Colombia;
- 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 as a percentage of sales and effect of changes in production and pricing on the Company's overall royalty as a percentage of sales;
- the Company's expectation that the Tigana and Tua fields will become subject to the High Price Share in the second quarter of 2015;
- expected transportation costs on a per barrel basis, and the effect of better direct export contracts on rates for trucking costs;
- anticipated effect of Verano loss carryforwards on Verano's taxable income and Parex' 2014 effective tax rate;
- 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; risk of failure to achieve the anticipated benefits associated with the acquisitions of Verano and Sorgenia; 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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Cash flow from operating activities (GAAP)	\$ 53,014	\$ 56,031	\$ 87,812	\$ 103,282
Changes in non-cash working capital including taxes and interest payable	24,317	9,607	66,265	22,582
Funds flow from operations (Non-GAAP)	\$ 77,331	\$ 65,638	\$ 154,077	\$ 125,864

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Funds flow from operations	\$		\$	
Funds flow from (used in) operations for the purpose of basic funds flow	77,331	65,638	154,077	125,864
Debt interest expense	1,019	1,090	2,034	2,196
Funds flow from operations for diluted funds flow	\$ 78,350	\$ 66,728	\$ 156,111	\$ 128,060
Weighted average number of shares for the purposes of basic funds flow (000s)	111,163	108,416	110,135	108,469
Dilutive effect of share options on potential common shares	2,309	805	3,264	1,019
Dilutive effect of Debentures on potential common shares	8,374	20,664	8,374	20,664
Weighted average number of shares for the purposes of diluted funds	121,846	129,885	121,773	130,152

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net income (GAAP)	\$ 11,408	\$ 7,632	\$ 21,071	\$ 18,768
Non cash (gain) loss on derivative financial liability	15,204	(1,645)	25,640	(6,243)
Adjusted net income (Non-GAAP)	\$ 26,612	\$ 5,987	\$ 46,711	\$ 12,525

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 six months ended June 30, 2014 to the risks and uncertainties identified in the Company's Annual Information Form dated March 19, 2014.

Internal Controls over Financial Reporting

Except as noted below, concerning the Company's corporate acquisition, there was no change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Limitation on Scope of Design – Corporate acquisition

In accordance section 3.3 (1)(b) of National Instrument 52-109, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period, the controls, policies and procedures of Verano Energy Limited (“Verano”), acquired by the Company effective June 25, 2014, have been excluded from the control design assessments discussed above. The scope limitation is based on the time required to document and assess the DC&P and ICFR of Verano in a manner consistent with the Company’s other operations. The Company’s management is currently in the process of integrating Verano into the existing internal controls and procedures of Parex. Verano constitutes 32% of net assets, 24% of total assets, 0.4% of net revenues, and 0.8% of income before income taxes of the consolidated financial statements amounts as at and for the six months ended June 30, 2014.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the three months ended June 30, 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.

In addition, due to the acquisition of Verano Energy Limited, Verano Energy Limited S.C. has been identified as an additional principle operating subsidiary. Verano Energy Limited S.C is incorporated in Barbados and its principle business activity is oil and natural gas exploration and development in Colombia. Parex has 100% ownership of this subsidiary.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	June 30, 2014	December 31, 2013
ASSETS			
Current assets			
Cash		\$ 63,074	\$ 56,492
Accounts receivable	5	164,275	121,969
Prepays and other current assets		7,251	4,880
Crude oil inventory	6	9,382	8,695
		243,982	192,036
Goodwill			
Exploration and evaluation	7	61,252	61,252
Property, plant and equipment	8	159,052	70,038
		762,697	531,482
		\$ 1,226,983	\$ 854,808
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 176,713	\$ 118,841
Current income and equity tax payable	16	33,837	47,548
Current portion of decommissioning and environmental liabilities	13	2,243	1,642
		212,793	168,031
Long-term debt			
Convertible debenture	11	56,000	8,530
Derivative financial liability	15	68,375	66,060
Other long-term liabilities	15	33,988	8,375
Decommissioning and environmental liabilities	12	9,464	7,081
Deferred tax liability	13	26,877	19,446
	16	134,576	92,222
		542,073	369,745
Shareholders' equity			
Share capital	14	591,130	414,176
Contributed surplus		23,514	21,692
Retained earnings		70,266	49,195
		684,910	485,063
		\$ 1,226,983	\$ 854,808

Commitments (note 22)

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Consolidated Statements of Comprehensive Income (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended June 30,		For the six months ended June 30,	
		2014	2013	2014	2013
Oil sales		\$ 182,996	\$ 147,585	\$ 362,790	\$ 312,575
Royalties		(25,346)	(20,208)	(50,186)	(38,387)
Revenue		157,650	127,377	312,604	274,188
Commodity risk management contracts		(2,670)	2,567	(2,182)	1,789
		154,980	129,944	310,422	275,977
Expenses					
Production		19,200	13,608	35,784	26,536
Transportation		28,724	27,150	60,157	52,240
Purchased oil		5,905	489	7,777	30,336
General and administrative		8,304	8,127	15,615	15,399
Transaction costs	9	504	-	504	-
Share-based compensation	14	7,399	847	11,985	1,552
Depletion, depreciation and amortization	8	49,170	55,140	103,827	104,479
Loss on settlement of decommissioning liabilities	13	147	-	147	-
Foreign exchange (gain) loss		1,563	(3,899)	(1,166)	(6,130)
		120,916	101,462	234,630	224,412
Finance income	10	(686)	(1,630)	(918)	(6,871)
Finance expense	10	15,101	6,521	32,182	10,753
Net finance expense		14,415	4,891	31,264	3,882
Net income before taxes		19,649	23,591	44,528	47,683
Income tax expense					
Current tax expense	16	13,622	12,785	31,164	22,169
Deferred tax (recovery) expense	16	(5,381)	3,174	(7,707)	6,746
		8,241	15,959	23,457	28,915
Net income and other comprehensive income for period		\$ 11,408	\$ 7,632	\$ 21,071	\$ 18,768
Basic net income per common share	17	\$ 0.10	\$ 0.07	\$ 0.19	\$ 0.17
Diluted net income per common share	17	\$ 0.10	\$ 0.04	\$ 0.19	\$ 0.08

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the six months ended June 30, (thousands of United States dollars)	2014		2013	
Share capital				
Balance, beginning of period	\$	414,176	\$	412,736
Issuance of common shares under option plans		7,801		693
Issued on the acquisition of Verano Energy Limited (“Verano”)		169,333		-
Share issue costs		(180)		-
Repurchase of shares		-		(1,286)
Balance, end of period	\$	591,130		412,143
Contributed surplus				
Balance, beginning of period	\$	21,692	\$	16,015
Share-based compensation		4,166		2,466
Options exercised		(2,344)		(207)
Balance, end of period	\$	23,514	\$	18,274
Retained earnings (deficit)				
Balance, beginning of period	\$	49,195	\$	36,645
Net income for the period		21,071		18,768
Repurchase of shares		-		(122)
Balance, end of period	\$	70,266	\$	55,291
	\$	684,910	\$	485,708

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	NOTE	For the three months ended June 30,		For the six months ended June 30,	
		2014	2013	2014	2013
Operating activities					
Net income		\$ 11,408	\$ 7,632	\$ 21,071	\$ 18,768
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	49,170	55,140	103,827	104,479
Non-cash finance expense	10	13,805	3,265	29,260	1,373
Share-based compensation	14	7,399	847	11,985	1,552
Deferred tax (recovery) expense	16	(5,381)	3,174	(7,707)	6,746
Unrealized foreign exchange (gain) loss		1,652	(3,158)	(1,282)	(5,844)
Unrealized (gain) loss on commodity risk management contracts	20	1,403	(397)	(565)	(345)
Abandonment costs paid		(488)	-	(488)	-
Equity tax paid		(728)	(865)	(728)	(865)
Stock appreciation rights paid	14	(909)	-	(1,296)	-
		77,331	65,638	154,077	125,864
Net change in non-cash working capital	18	(24,317)	(9,607)	(66,265)	(22,582)
		53,014	56,031	87,812	103,282
Investing activities					
Property, plant and equipment expenditures		(45,381)	(47,463)	(85,078)	(82,781)
Exploration and evaluation expenditures		(49,720)	(17,969)	(71,428)	(29,823)
Corporate acquisitions	9	(27,131)	(12,489)	(27,131)	(12,489)
Proceeds on the disposition of assets	8	27	-	719	-
Net change in non-cash working capital	18	37,059	34,244	48,715	18,351
		(85,146)	(43,677)	(134,203)	(106,742)
Financing activities					
Issuance of common shares under option plans	14	2,388	99	5,457	486
Common share repurchase	14	-	(1,136)	-	(1,408)
Share issue costs		(180)	-	(180)	-
Long-term debt issued	11	52,000	7,400	47,470	18,300
		54,208	6,363	52,747	17,378
Increase in cash for the period		22,076	18,717	6,356	13,918
Impact of foreign exchange on foreign currency-denominated cash balances		664	(604)	226	(914)
Cash, beginning of period		40,334	26,841	56,492	31,950
Cash, end of period		\$ 63,074	\$ 44,954	\$ 63,074	\$ 44,954

Supplemental Disclosure of Cash Flow Information (note 18)

See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended June 30, 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 August 5, 2014.

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

a) Statement of compliance

The condensed interim consolidated financial information for the three and six months ended June 30, 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 August 5, 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, except for the following pertaining to the corporate acquisitions that occurred during the six month period ended June 30, 2014:

The fair value of property, plant and equipment (“PPE”) recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The market value of E&E assets are estimated with reference to the market values of current arm’s length transactions in comparable locations. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to

assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment.

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.

In addition, due to the acquisition of Verano Energy Limited, as described in note 9, Verano Energy Limited S.C. has been identified as an additional principle operating subsidiary. Verano Energy Limited S.C is incorporated in Barbados and its principle business activity is oil and natural gas exploration and development in Colombia. Parex has 100% ownership of this subsidiary.

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

	June 30, 2014	December 31, 2013
Trade receivables	\$ 109,992	\$ 91,729
Colombia income taxes receivable	27,120	24,608
Receivables from partners	27,160	3,228
Value added taxes (VAT)	3	2,404
	\$ 164,275	\$ 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 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

	June 30, 2014	December 31, 2013
Crude oil inventory	\$ 9,382	\$ 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)
Changes 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		71,272		156	71,428
Disposition of tangible assets		-		(1,272)	(1,272)
Changes in decommissioning liability		3,776		-	3,776
Corporate acquisitions – note 9		15,082		-	15,082
Balance at June 30, 2014	\$	136,899	\$	22,153	\$ 159,052

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. Additions for the 6 months ended June 30, 2014 mainly relate to expenditures in Colombia on Cebucan Block, Block LLA-40 and Block LLA-57. For the six months ended June 30, 2014 no transfers from E&E to PP&E were made. E&E assets increased by \$15.1 million for the six month period ended June 30, 2014 relating to the fair value of the assets acquired in the corporate acquisitions as described in note 9.

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 June 30, 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		55		85,023		-	85,078
Changes in decommissioning liability		-		1,808		-	1,808
Verano acquisition – note 9 (a)		-		247,617		-	247,617
Dispositions		-		-		(22)	(22)
Balance at June 30, 2014	\$	4,836	\$	1,315,663	\$	296	\$ 1,320,795
Accumulated Depreciation, Depletion and Amortization							
Balance at December 31, 2012	\$	2,043	\$	238,217	\$	181	\$ 240,441
Depletion and depreciation for the year		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		102		103,715		10	103,827
DD&A included in crude oil inventory costing		-		(561)		-	(561)
Balance at June 30, 2014	\$	2,730	\$	555,139	\$	229	\$ 558,098
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 June 30, 2014	\$	2,106	\$	760,524	\$	67	\$ 762,697

In the six months ended June 30, 2014 property, plant and equipment (“PPE”) additions mainly relate to development and appraisal expenditures in Colombia at Block LLA-32 and Block LLA-34. In the three month period ended June 30, 2014 \$nil (three month period ended June 30, 2013 - \$30.6 million) was

transferred from E&E assets. PP&E increased by \$247.6 million for the six month period ended June 30, 2014 relating to the fair value of the assets acquired in the corporate acquisitions as described in note 9.

For the three month period ended June 30, 2014 future development costs of \$415.6 million (three months ended June 30, 2013 - \$178.5 million) were included in the depletion calculation for development and production assets. For the six months ended June 30, 2014 \$3.6 million of general and administrative costs (six months ended June 30, 2013 - \$1.9 million) have been capitalized in respect of development and production activities during the current period.

During the year ended 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. Corporate Acquisitions

a) Verano acquisition

On June 25, 2014, Parex acquired all of the outstanding shares of Verano Energy Limited (“Verano”) which assets primarily consist of interests in three exploration blocks located in Colombia’s Llanos Basin (the “Verano Acquisition”). The Company paid total net consideration of \$186.2 million. The Verano Acquisition increases the Company’s working interest in Block LLA-32 to 70%, 63% working interest in Block LLA-17 and 55% working interest in Block LLA-34.

The consolidated statement of comprehensive income includes results of operation of Verano since the closing date of June 25, 2014 and expensed transaction costs associated with the Verano Acquisition of \$0.5 million.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to equal the purchase price, no goodwill arose on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed⁽¹⁾	
Working capital deficiency	\$ (19,336)
PP&E	247,617
E&E assets	9,864
Deferred tax liability	(50,059)
Decommissioning and environmental liabilities	(1,852)
	\$ 186,234

⁽¹⁾ The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Consideration for the acquisition	
Issuance of common shares	\$ 169,333
Cash paid	75,415
Cash acquired	(53,115)
Settlement of pre-existing relationship	(5,399)
Total net consideration paid	\$ 186,234

Included in the working capital deficiency of assets acquired are accounts receivable of \$9.1 million. The receivables are joint venture and trade receivables for which the fair value approximates carrying value.

The pro forma results for period ended June 30, 2014 are shown below, as if the Verano Acquisition had occurred on January 1, 2014. Pro forma results are not indicative of actual results or future performance.

Oil sales	\$ 36,805
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The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. The consolidated statement of comprehensive income for the period ended June 30, 2014 includes \$1.8 million of oil sales attributable to the assets acquired since the

Verano Acquisition. Net income for the period ended June 30, 2014 attributable to the assets acquired since the Verano Acquisition is considered impracticable to calculate.

b) *Sorgenia Acquisition*

On April 7, 2014, Parex, through a foreign subsidiary, acquired Sorgenia E&P Colombia BV (“Sorgenia”) which assets primarily consist of interests in four exploration blocks located in Colombia’s Llanos Basin (the “Sorgenia Acquisition”). The Sorgenia acquisition consolidates the Company’s interests in Blocks LLA-24 and LLA-26 to 100%. In addition, the Company acquired an additional 25% working interest in the Cerrero Block and 10% working interest in the Balay development area. Total net consideration paid was \$4.8 million in cash.

The consolidated statement of comprehensive income includes the results of operation of Sorgenia since the closing date of April 7, 2014.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to equal the purchase price, no goodwill arose on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed⁽¹⁾	
Working capital surplus	\$ 7
E&E assets	5,218
Decommissioning and environmental liabilities	(394)
	\$ 4,831

⁽¹⁾ The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Consideration for the acquisition	
Cash paid	\$ 5,000
Cash acquired	(169)
Total net consideration paid	\$ 4,831

Included in the working capital surplus of assets acquired are accounts receivable of \$0.4 million. The receivables are joint venture and trade receivables for which the fair value approximates carrying value.

The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. Pro forma results are not indicative of actual results or future performance. The consolidated statement of comprehensive income for the period ended June 30, 2014 includes nil oil sales attributable to the assets acquired since the Sorgenia Acquisition. Net income for the period ended June 30, 2014 attributable to the assets acquired since the Sorgenia Acquisition is considered impracticable to calculate.

10. Net Finance Expense (Income)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Interest expense and bank charges	\$ 1,467	\$ 1,828	\$ 3,093	\$ 3,355
Accretion on convertible debentures - note 15	1,114	1,040	2,135	2,006
Accretion on decommissioning and environmental liabilities - note 13	260	143	480	266
Loss (gain) on derivative financial liability - note 15	15,204	(1,645)	25,640	(6,243)
Amortization of debt issuance costs - note 15	167	157	321	302
Loss (gain) on CCIRS contract - note 20	(3,314)	3,353	(62)	4,824
Loss on disposition of tangible assets	203	-	575	-
Interest and other income	(686)	15	(918)	(628)
Net finance expense	\$ 14,415	\$ 4,891	\$ 31,264	\$ 3,882

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Non-cash finance expense	\$ 13,805	\$ 3,265	\$ 29,260	\$ 1,373
Cash finance expense	610	1,626	2,004	2,509
Net finance expense	\$ 14,415	\$ 4,891	\$ 31,264	\$ 3,882

11. Long-Term Debt

	June 30, 2014	December 31, 2013
Long-term debt (syndicate credit facility)	\$ 56,000	\$ 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 June 30, 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, dependent 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 June 30, 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.

12. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	June 30, 2014	December 31, 2013
Long-term SARs payable	\$ 2,928	\$ 638
Financial derivative liability related to the cross currency interest rate swap (“CCIRS”) (note 20(d))	6,536	6,443
	\$ 9,464	\$ 7,081

13. 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		4,422		1,162	5,584
Corporate acquisitions – note 9		1,300		946	2,246
Settlements of obligations during the period		(488)		-	(488)
Loss on settlements of obligations during the period		147		-	147
Accretion expense		360		120	480
Foreign exchange loss		-		63	63
Balance, June 30, 2014	\$	19,534	\$	9,586	\$ 29,120
Current obligation		-		(2,243)	(2,243)
Long-term obligation	\$	19,534	\$	7,343	\$ 26,877

The total decommissioning liability is estimated based on the Company’s net ownership in wells drilled as at June 30, 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 \$23.0 million as at June 30, 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 rate used is 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 \$10.9 million as at June 30, 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 \$2.2 million (December 31, 2013 – \$1.6 million) that is classified as a current obligation.

14. 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	1,796,490		5,457
Issued in Verano Acquisition – note 9(a)	14,688,724		169,333
Share issue costs	-		(180)
Allocation of contributed surplus – exercise of options and RSUs	-		2,344
Balance, June 30, 2014	125,196,863	\$	591,130

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	117,500	8.31
Exercised	(1,782,305)	3.37
Forfeited	(40,000)	5.80
Balance, June 30, 2014	6,990,558	5.39

Stock options outstanding and the weighted average remaining life of the stock options at June 30, 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	927,334	0.39	3.32	917,334	0.35	3.31
\$4.44 - \$5.40	1,576,357	2.94	4.54	565,205	2.52	4.69
\$5.41 - \$6.06	185,750	3.19	5.76	60,000	1.16	5.51
\$6.07 - \$6.12	3,998,200	4.30	6.07	-	-	-
\$6.13 - \$11.74	302,917	3.12	7.05	116,665	1.78	6.22
	6,990,558	3.39	5.39	1,659,204	1.22	4.06

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 six months ended June 30,	2014	2013
Risk-free interest rate (%)	1.21	1.17
Expected life (years)	4	4
Expected volatility (%)	46	49
Expected dividends	-	-

The weighted average fair value at the grant date of options issued during the six months ended June 30, 2014 was Cdn\$3.09 per option (six months ended June 30, 2013 - Cdn\$1.82 per option). The weighted average share price on the exercise date for options exercised in the six months ended June 30, 2014 was Cdn\$9.08 (six months ended June 30, 2013 – Cdn\$5.42per option).

c) Share appreciation rights (“SARs”)

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	153,635	10.45
Exercised	(417,820)	5.55
Forfeited	(410,693)	6.01
Balance, June 30, 2014	2,395,853	\$ 6.02

As at June 30, 2014 314,786 SARs 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 six months ended June 30,	2014		2013	
Risk-free interest rate (%)		1.26		1.45
Expected life (years)		4		4
Expected volatility (%)		45		48
Share price	\$	12.55	\$	4.12
Expected dividends		-		-

As at June 30, 2014, the total SARs liability accrued was \$9.7 million (December 31, 2013 - \$3.2 million) of which \$2.9 million (December 31, 2013 - \$0.6 million) is classified as long-term in accordance with the three year vesting period. For the six months ended June 30, 2014, Parex recorded \$7.8 million of compensation cost related to the outstanding SARs (six months ended June 30, 2013 – \$0.9 million) and paid \$1.3 million (six months ended June 30, 2014 - \$nil) under the plan.

d) Restricted share units (“RSUs”)

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

	Number of RSU’s	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2013	868,800	0.01
Granted	40,500	0.01
Exercised	(4,333)	0.01
Balance, June 30, 2014	904,967	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 six months ended June 30, 2014 was Cdn\$8.32 per RSU (six months ended June 30, 2013– Cdn\$4.74 per RSU). For the six months ended June 30, 2014 a weighted average forfeiture rate of 3% was applied (six months ended June 30, 2013 – nil).

e) **Share-based compensation**

	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013		2014	2013	
Share-based compensation expense	\$ 2,141	\$ 1,213	\$	\$ 4,166	\$ 2,466	
SARs expense	5,258	(366)		7,819	(914)	
	\$ 7,399	\$ 847	\$	\$ 11,985	\$ 1,552	

15. 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. Parex can redeem the Debenture at par anytime after July 1, 2014 if the volume weighted average price of a common share of the Company is in excess of 125% of the conversion price.

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	2,135		-		2,135
Amortization of debt issuance costs	321		-		321
Derivative loss	-		25,640		25,640
Foreign exchange gain	(141)		(27)		(168)
Balance at June 30, 2014	\$ 68,375		33,988		102,363

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 \$64.6 million at June 30, 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 detailed 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 20 (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 June 30,	2014	2013
Risk-free interest rate (%)	1.26	1.45
Expected life (years)	2	3
Expected volatility (%)	45	49
Expected dividends	-	-

16. Income Tax

The components of tax expense for the three and six months ended June 30, 2014 and 2013 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Current tax expense	\$ 13,622	\$ 12,785	\$ 31,164	\$ 22,169
Deferred tax (recovery) expense	(5,381)	3,174	(7,707)	6,746
Tax expense	\$ 8,241	\$ 15,959	\$ 23,457	\$ 28,915

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 \$0.8 million is to be paid over the remaining installment which is due within one year.

17. Net Income per Share

a) Basic net income per share

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net income				
Net income for the purpose of basic net income per share	\$ 11,408	\$ 7,632	\$ 21,071	\$ 18,768
Weighted average number of shares for the purposes of basic net income per share (000s)	111,163	108,416	110,135	108,469
Basic net income per share	\$ 0.10	\$ 0.07	\$ 0.19	\$ 0.17

b) Diluted net income per share

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net income				
Net income for the purpose of basic net income per share	\$ 11,408	\$ 7,632	\$ 21,071	\$ 18,768
Elimination of interest and accretion expense and the gain on changes in fair value and foreign exchange, on the Debentures and derivative financial liability	-	(2,999)	-	(8,096)
Net income used to calculate diluted net income per share	\$ 11,408	4,633	\$ 21,071	\$ 10,672
Weighted average number of shares for the purposes of basic net income per share (000s)	111,163	108,416	110,135	108,469
Dilutive effect of share options on potential common shares	2,309	805	3,264	1,019
Dilutive effect of Debentures on potential common shares	-	20,664	-	20,664
Weighted average number of shares for the purposes of diluted net income per share	113,472	129,885	113,399	130,152
Diluted net income per share	\$ 0.10	\$ 0.04	\$ 0.19	\$ 0.08

At June 30, 2014, 30,000 (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 six months ended June 30, 2014 is anti dilutive and therefore excluded from the diluted earnings per share.

18. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Accounts receivable	\$ (6,592)	\$ 43,488	\$ (42,307)	\$ 38,870
Prepays and other current assets	236	1,104	(2,372)	(2,405)
Oil inventory	(4,385)	(5,551)	(688)	(2,133)
Accounts payable and accrued liabilities	41,379	(18,479)	47,614	(38,526)
Depletion related to oil inventory	1,433	4,075	(468)	(37)
Net non-cash working capital on corporate acquisitions - note 9	(19,329)	-	(19,329)	-
Net change in non-cash working capital	\$ 12,742	\$ 24,637	\$ (17,550)	\$ (4,231)
Operating	(24,317)	(9,607)	(66,265)	(22,582)
Investing	37,059	34,244	48,715	18,351
Financing	-	-	-	-
Net change in non-cash working capital	\$ 12,742	\$ 24,637	\$ (17,550)	\$ (4,231)

b) Interest and taxes paid

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Cash interest paid	\$ 320	\$ 2,139	\$ 376	\$ 2,560
Cash income and equity taxes paid	\$ 46,359	\$ 44,161	\$ 46,359	\$ 44,161

19. 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 11 - Long-Term Debt) which as at June 30, 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 June 30, 2014, \$56.0 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 22 - Commitments).

As at June 30, 2014 the Company's net working capital surplus is \$31.2 million (December 31, 2013 - \$24.0 million), of which \$63.1 million was cash. This excludes the undrawn amount available under the credit facility of \$69.0 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 June 30, 2014 shareholders' equity was \$684.9 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).

20. 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 six months ended June 30, 2014 had the majority of its oil sales to approximately ten counterparties. Accounts receivable balance as at June 30, 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 June 30, 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 June 30, 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 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 June 30, 2014:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 169,876	-	-	-	\$ 169,876
SARs payable	6,837	2,928	-	-	9,765
Current income and equity tax payable ⁽¹⁾	10,904	-	-	-	10,904
Credit Facility including interest ⁽²⁾	1,680	57,680	-	-	59,360
Debentures ⁽²⁾	-	85,686	-	-	85,686
Interest on Debentures ⁽²⁾	1,907	5,720	-	-	7,627
Total	\$ 191,204	152,014	-	-	\$ 343,218

⁽¹⁾ Net of withholding tax receivable in the amount of \$27.1 million.

⁽²⁾ Balances denominated in Canadian dollars have been translated at the June 30, 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 June 30, 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 six months period ended June 30, 2014:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
January 1, 2014 to June 30, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25
January 1, 2014 to June 30, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
April 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00
July 1, 2014 to September 1, 2014	ICE Brent	Put	3000 bbl/d	\$103.00
October 1, 2014 to December 31, 2014	ICE Brent	Put	6000 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 loss (gain) on the commodity risk management contracts:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Realized loss (gain) on commodity risk management contracts	\$ 1,267	\$ (2,168)	\$ 2,747	\$ (1,443)
Unrealized loss (gain) on commodity risk management contracts	1,403	(399)	(565)	(346)
Total	\$ 2,670	\$ (2,567)	\$ 2,182	\$ (1,789)

As shown in the table above, as at June 30, 2014, Parex had committed to the future sale of 1,012,000 barrels of oil with fixed price, puts and costless collars of \$103.00 and \$111.25. The following sensitivity shows the resulting unrealized loss (gain) and impact on income before tax for the oil hedged contracts if Brent oil price were to increase/decrease by \$10/bbl from the spot rate as at June 30, 2014:

Oil hedged contract	Brent Price	Impact on Income before tax for the six months ended June, 2014	
		Increase of 10/bbl	Decrease of 10/bbl
Period end		\$ 471	\$ (3,036)

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.

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 six months period ended June 30, 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 (gain) loss on the foreign currency risk management contracts:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Realized gain on foreign currency risk management contracts	\$ (180)	\$ (219)	\$ (180)	\$ (219)
Unrealized loss (gain) on foreign currency risk management contracts	(3,134)	3,572	118	5,043
Total	\$ (3,314)	\$ 3,353	\$ (62)	\$ 4,824

The fair value of the foreign exchange risk management contracts at June 30, 2014 is a \$6.5 million liability (December 31, 2013 - \$6.4 million liability) that is recorded in other long-term liabilities. The Company recorded a \$0.1 million gain on these contracts in the six months ended June 30, 2014 which is recorded in the financial statement line item "Finance expense" in the consolidated statements of comprehensive income (note 10).

The following sensitivity show the resulting unrealized (gain) loss and impact on income before tax for the CCIRS contract for the respective changes in the period end foreign exchange rates at June 30, 2014:

Exchange Rate Cdn/Usd	Impact on Income before tax for the six months ended June 30, 2014	
	Increase of 5 cents	Decrease of 5 cents
Total	\$ 3,844	\$ (4,091)

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 resulting (gain) loss on income before tax if the interest expense increased /decreased by 1% as at June 30, 2014:

Interest rate	Impact on Income before tax for the six months ended June 30, 2014	
	Increase of 1%	Decrease of 1%
Total	\$ 57	\$ (57)

21. Segmented Information

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

For the three months ended June 30, 2014 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	182,996	\$	-	\$ 182,996
Royalties		-		(25,346)		-	(25,346)
Revenue		-		157,650		-	157,650
Commodity risk management contracts		(201)		(2,469)		-	(2,670)
		(201)		155,181		-	154,980
Expenses							
Production		-		19,200		-	19,200
Transportation		-		28,724		-	28,724
Purchased oil		-		5,905		-	5,905
General and administrative		3,605		4,378		321	8,304
Share-based compensation		2,141		5,228		30	7,399
Depletion, depreciation and amortization		24		49,141		5	49,170
Transaction costs		504		-		-	504
Loss on settlement of decommissioning liabilities				147		-	147
Foreign exchange (gain) loss		2,853		(1,290)		-	1,563
		9,127		111,433		356	120,916
Finance income		(7)		(679)		-	(686)
Finance expense		14,501		395		205	15,101
Net finance (income) expense		14,494		(284)		205	14,415
Net income (loss) before taxes		(23,822)		44,032		(561)	19,649
Current tax expense		-		13,622		-	13,622
Deferred tax recovery		-		(5,381)		-	(5,381)
Net income (loss)	\$	(23,822)	\$	35,791	\$	(561)	\$ 11,408
Capital assets (end of period)	\$	2,106	\$	897,423	\$	22,220	\$ 921,749
Capital expenditures	\$	49	\$	94,975	\$	77	\$ 95,101
Total assets (end of period)	\$	6,953	\$	1,193,320	\$	26,710	\$ 1,226,983

For the three months ended June 30, 2013 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	147,585	\$	-	\$ 147,585
Royalties		-		(20,208)		-	(20,208)
Revenue		-		127,377		-	127,377
Commodity risk management contracts		2,567		-		-	2,567
		2,567		127,377		-	129,944
Expenses							
Production		-		13,608		-	13,608
Transportation		-		27,150		-	27,150
Purchased oil		-		489		-	489
General and administrative		3,182		4,671		274	8,127
Share-based compensation		1,213		(307)		(59)	847
Depletion, depreciation and amortization		195		54,928		17	55,140
Foreign exchange (gain) loss		(2,679)		(1,221)		1	(3,899)
		1,911		99,318		233	101,462
Finance income		(1,643)		12		1	(1,630)
Finance expense		6,377		138		6	6,521
Net finance (income) expense		4,734		150		7	4,891
Net income (loss) before taxes		(4,078)		27,909		(240)	23,591
Current tax expense		-		12,785		-	12,785
Deferred tax expense		-		3,174		-	3,174
Net income (loss)	\$	(4,078)	\$	11,950	\$	(240)	\$ 7,632
Capital assets (end of period)	\$	2,150	\$	569,974	\$	64,083	\$ 636,207
Capital expenditures	\$	28	\$	77,181	\$	712	\$ 77,921
Total assets (end of period)	\$	8,274	\$	742,598	\$	73,404	\$ 824,276

For the six months ended June 30, 2014 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	362,790	\$	-	\$ 362,790
Royalties		-		(50,186)		-	(50,186)
Revenue		-		312,604		-	312,604
Commodity risk management contracts		887		(3,069)		-	(2,182)
		887		309,535		-	310,422
Expenses							
Production		-		35,784		-	35,784
Transportation		-		60,157		-	60,157
Purchased oil		-		7,777		-	7,777
General and administrative		7,017		7,748		850	15,615
Share-based compensation		4,166		7,690		129	11,985
Depletion, depreciation and amortization		102		103,715		10	103,827
Transaction costs		504		-		-	504
Loss on settlement of decommissioning liabilities		-		147		-	147
Foreign exchange (gain) loss		(221)		(943)		(2)	(1,166)
		11,568		222,075		987	234,630
Finance income		(13)		(905)		-	(918)
Finance expense		30,989		612		581	32,182
Net finance (income) expense		30,976		(293)		581	31,264
Net income (loss) before taxes		(41,657)		87,753		(1,568)	44,528
Current tax expense		-		31,164		-	31,164
Deferred tax recovery		-		(7,707)		-	(7,707)
Net income (loss)	\$	(41,657)	\$	64,296	\$	(1,568)	\$ 21,071
Capital assets (end of period)	\$	2,106	\$	897,423	\$	22,220	\$ 921,749
Capital expenditures	\$	55	\$	156,295	\$	156	\$ 156,506
Total assets (end of period)	\$	6,953	\$	1,193,320	\$	26,710	\$ 1,226,983

For the six months ended June 30, 2013 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	312,575	\$	-	\$ 312,575
Royalties		-		(38,387)		-	(38,387)
Revenue		-		274,188		-	274,188
Commodity risk management contracts		1,789		-		-	1,789
		1,789		274,188		-	275,977
Expenses							
Production		-		26,536		-	26,536
Transportation		-		52,240		-	52,240
Purchased oil		-		30,336		-	30,336
General and administrative		6,398		8,290		711	15,399
Share-based compensation		2,466		(775)		(139)	1,552
Depletion, depreciation and amortization		392		104,054		33	104,479
Foreign exchange (gain) loss		(4,328)		(1,835)		33	(6,130)
		4,928		218,846		638	224,412
Finance income		(6,243)		(628)		-	(6,871)
Finance expense		10,486		254		13	10,753
Net finance (income) expense		4,243		(374)		13	3,882
Net income (loss) before taxes		(7,382)		55,716		(651)	47,683
Current tax expense		-		22,169		-	22,169
Deferred tax expense		-		6,746		-	6,746
Net income (loss)	\$	(7,382)	\$	26,801	\$	(651)	\$ 18,768
Capital assets (end of period)	\$	2,150	\$	569,974	\$	64,083	\$ 636,207
Capital expenditures	\$	33	\$	122,801	\$	2,259	\$ 125,093
Total assets (end of period)	\$	8,274	\$	742,598	\$	73,404	\$ 824,276

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.

22. Commitments

a) Colombia

At June 30, 2014 guarantees in place with ANH are in the form of issued letters of credit totaling \$35.5 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 approximately 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 June 30, 2014 in respect of the Colombia blocks are estimated to be as follows:

2014	\$	25,200
2015		27,774
Thereafter		8,100
	\$	61,074

b) Operating leases

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

The existing minimum lease payments for office space and accommodations at June 30, 2014 are as follows:

	Total	2014	2015	2016	2017	2018	Thereafter
Office and accommodations	\$ 8,127	1,469	2,211	1,458	1,038	1,012	939

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbls	barrels
mmbbls	one thousand barrels
mmmbbls	one million barrels
NGLs	natural gas liquids
bbls/d or bopd	barrels of oil per day
mmbbls/d	one thousand barrels per day

Other

WTI	West Texas Intermediate
Brent	Brent Ice