

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Company Profile

Parex is an oil and gas exploration and production company active in Colombia. Headquartered in Calgary, Canada, Parex through its foreign subsidiaries holds interests in onshore exploration and production blocks totaling approximately 1,913,321 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.

Three months ended September 30, 2013 ("third quarter or Q3") Highlights

- Achieved quarterly oil production of 16,199 bopd, an increase of 5 percent over the second quarter of 2013 and a 49 percent increase from the comparative period;
- Generated funds flow from operations of \$68.2 million (\$0.63 per share basic) as compared to \$65.6 million (\$0.61 per share basic) for the previous quarter and \$0.39 per share basic in the comparative period;
- Realized Brent referenced sales price of \$106.41/bbl and an operating netback of \$63.88/bbl;
- Net loss of \$28.0 million was a result of recording a \$37.6 million non-cash impairment in respect of the relinquishment of the Central Range blocks in Trinidad and Tobago;
- Participated in drilling 6 gross wells (2.85 net) in Colombia, resulting in 5 oil discoveries and 1 untested; and
- Increased land holdings in Colombia by 102,970 net acres through farm-in agreements.

Financial Summary

(Financial figures in 000s except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Average daily production (bopd)	16,199	10,874	15,374	10,960
Realized sales price (\$/bbl)	106.41	107.53	105.15	110.61
Operating netback (\$/bbl)	63.88	70.57	63.19	75.17
Oil sales	\$ 157,043	\$ 130,824	\$ 469,618	\$ 373,900
Funds flow from operations ⁽¹⁾	\$ 68,241	\$ 42,012	\$ 194,105	\$ 187,123
Per share – basic	0.63	0.39	1.79	1.73
Per share – diluted ⁽¹⁾	0.56	0.39	1.59	1.61
Adjusted net (loss) income ⁽¹⁾⁽²⁾	\$ (23,940)	\$ 7,490	\$ (11,415)	\$ 46,078
Per share – basic	(0.22)	0.07	(0.10)	0.43
Per share – diluted ⁽¹⁾	(0.22)	0.07	(0.10)	0.39
Net (loss) income	\$ (27,965)	\$ 7,538	\$ (9,197)	\$ 55,762
Per share – basic	(0.26)	0.07	(0.09)	0.51
Per share – diluted ⁽⁶⁾	(0.26)	0.07	(0.09)	0.44
Capital Expenditures, excluding corporate acquisitions	\$ 49,962	\$ 50,902	\$ 175,055	\$ 202,811
Total assets (end of period)	\$ 820,827	\$ 789,546	\$ 820,827	\$ 789,546
Working capital surplus (deficit) (end of period)	18,801	(9,014)	18,801	(9,014)
Debt (end of period) ⁽³⁾	66,898	65,251	66,898	65,251
Bank debt (end of period) ⁽⁴⁾	18,500	-	18,500	-
Weighted average shares outstanding (000s)				
Basic and diluted	108,285	108,422	108,407	108,390

- (1) Non GAAP terms See “Non GAAP terms”.
- (2) Adjusted net (loss) income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three and nine months ended September 30, 2013 adjusted net (loss) income excludes a \$4.0 million loss and \$2.2 million gain upon revaluation of the derivative liability associated with the Company’s Debentures (three and nine months ended September 30, 2012 excludes a \$0.5 million and \$9.7 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) Bank credit facility currently has a borrowing base of \$100 million.
- (5) Net (loss) income diluted has been adjusted for the IFRS accounting effects of changes in the Debentures. For the three months ended September 30, 2013 there was no adjustment made as it is anti dilutive and for nine months ended September 30, 2013 the effect of the debenture is a \$1.4 million reduction relating to accretion, interest, foreign exchange and gain upon revaluation of the derivative liability (three months ended September 30, 2012 was anti dilutive and for the nine months ended September 30, 2012 a \$4.2 million reduction).

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 September 30, 2013, 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			
<u>Operated Properties</u>			
Blocks LLA-16, 20, 29 and 30 ⁽¹⁾	100%	489,137	489,137
Block LLA-57	100%	104,532	104,532
Block Los Ocarros	50%	110,436	55,218
Block LLA-17	40%	108,726	43,490
Block El Eden	60%	109,249	65,549
Block Cabretero	100%	29,562	29,562
Block LLA-40	50%	163,090	81,545
Block LLA-24 ⁽²⁾	70%	147,100	102,970
Block LLA-26 ⁽²⁾	80%	184,061	147,249
Block Cebucan ⁽²⁾	100%	109,150	109,150
<u>Non-Operated Properties</u>			
Block LLA-32	30%	100,325	30,097
Block LLA-34	45%	82,286	37,029
Colombia Middle Magdalena Basin			
<u>Operated Properties</u>			
Block VMM-11 ⁽²⁾	60%	116,826	70,096
Morpho	100%	51,398	51,398
Trinidad & Tobago			
<u>Operated Properties</u>			
Cory Moruga Block ⁽³⁾	63.8%	7,443	4,749
Total		1,913,321	1,421,771

Exploration properties that are deemed non-commercial will be released in due course. Accordingly, the gross and net acres described above may decrease over time as lands deemed non-commercial are released. For a complete description of each blocks phase, commitments and letter of credits refer to the Annual Information Form dated March 27, 2013.

(1) Block LLA - 29 has received an extension on phase one commitments to April 27, 2014.

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

(3) Cory Moruga Block subject to a farmout 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.

2013 Outlook

We expect production for the fourth quarter of 2013 to be 16,800 bopd and full year 2013 production therefore to be approximately 15,700 bopd, which would be a 38% increase over the 2012 average production of 11,407 bopd (2011 - 5,345 bopd) and slightly in excess of 2013 production guidance range of 15,000 – 15,500 bopd. Capital expenditures for 2013 are estimated to range between \$225 million to \$235 million, dependant upon the timing of year end capital activity. Capital expenditures are forecast to be funded from funds flow from operations.

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 September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Average daily production				
Colombia – oil (bopd)	16,199	10,874	15,374	10,960
Total (bopd)	16,199	10,874	15,374	10,960
Average daily sales				
Colombia – oil (bopd)	16,041	10,833	16,360	11,534
Total (bopd)	16,041	10,833	16,360	11,534
Operating netback (\$000s)				
Oil sales	\$ 157,043	\$ 130,824	\$ 469,618	\$ 373,900
Royalties	(20,293)	(8,041)	(58,680)	(26,531)
Net revenue	136,750	122,783	410,938	347,369
Production expense	(14,851)	(9,242)	(41,387)	(24,164)
Transportation expense	(27,620)	(23,872)	(79,860)	(65,544)
Purchased oil	-	(15,896)	(30,336)	(17,409)
Operating netback	\$ 94,279	\$ 73,773	\$ 259,335	\$ 240,252
Operating netback (per bbl)				
Oil sales ⁽¹⁾	\$ 106.41	\$ 107.53	\$ 105.15	\$ 110.61
Royalties	(13.75)	(8.07)	(14.12)	(8.40)
Net revenue	92.66	99.46	91.03	102.21
Production expense	(10.06)	(9.27)	(9.96)	(7.65)
Transportation expense	(18.72)	(19.62)	(17.88)	(19.39)
Operating netback	\$ 63.88	\$ 70.57	\$ 63.19	\$ 75.17

⁽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 nine months ended September 30, 2013 was \$63.88 and \$63.19 compared to \$58.22 for the second quarter of 2013. The average realized sales price in Colombia for the three and nine months ended September 30, 2013 was \$106.41/bbl and \$105.15/bbl compared to \$99.34/bbl for the second quarter of 2013. Royalty charges for the three and nine months ended September 30, 2013 were \$13.75/bbl and \$14.12/bbl in comparison to \$13.65/bbl for the second quarter of 2013. Royalty charge per barrel is calculated by applying the royalty percentage on produced oil sold and is valued at the realized price net of transportation costs. The increase in royalty expense per bbl compared to the prior period comparative is a result of the Company now paying the High Price Share royalty on the Kona field as the 5 million barrel cumulative threshold for the field was reached in January 2013 (see Colombian Royalties). Production expense for the three and nine months ended September 30, 2013 was \$10.06/bbl and \$9.96/bbl compared to \$9.19/bbl for the second quarter of 2013 and \$9.27/bbl in the comparative three month period. Transportation expense per barrel for the three and nine months ended was \$18.72/bbl and \$17.88/bbl compared to \$18.28/bbl for the second quarter of 2013 and \$19.62/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 price of the Company's benchmark Brent price increased by \$7.66/bbl in the third quarter as compared to the second quarter of 2013, while the operating netback increased by \$5.66/bbl in the same period. The increase in the reference price was not matched by the increase in the operating netback, which was mainly a result of increased production expense on non-operated fields and a widening of the realized price differential.

In comparison to the three month period in the prior year, the netback per bbl decreased in 2013 as a result of higher royalties at the Kona field.

Colombian Oil Sales

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Block LLA-16 (Kona, Sulawesi, Java, and Malawi fields)	4,459	6,977	5,494	9,249
Block LLA-20 (Cumbre field)	510	1,012	612	596
Block Los Ocarros (Las Maracas field)	5,799	1,388	4,959	595
Block Cabretero (Kitaro & Akira fields)	278	452	542	164
Block LLA-32 (Maniceno and Bandola fields)	479	529	597	185
Block LLA-34 (Max, Tua & Tarotaro fields)	3,878	473	2,824	161
Block LLA-30 (Adalia field)	693	-	303	-
Other	103	43	43	10
Total Production	16,199	10,874	15,374	10,960
Inventory changes	(158)	(41)	(151)	574
Colombia average daily oil sales of produced oil	16,041	10,833	15,223	11,534
Purchased oil	-	2,390	1,137	782
Sales Volumes	16,041	13,223	16,360	12,316

Production for the third quarter of the year averaged 16,199 bopd, an increase of approximately 49 percent from the third quarter of 2012. Production increased 5 percent from the second quarter of 2013. The third quarter production increase as compared to the second quarter was a result of increased production attributable to Las Maracas, Block LLA-34 and Block LLA-30. During the three months ended September 30, 2013, inventory increased by an average of approximately 158 bopd mainly a result of oil delivery timing.

The increase in oil sales in the third quarter of 2013 to 16,041 bopd compared to oil sales of 10,833 bopd for the three months ended September 30, 2012 was primarily a result of drilling success at Las Maracas, Block 34, and Block 30.

b) Average Reference and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
WTI (\$/bbl)	105.83	92.17	98.15	96.11
Brent (\$/bbl)	110.22	109.63	108.33	112.17
Realized sales price (\$/bbl)	106.41	107.53	105.15	110.61
Realized oil hedging (loss) gain (\$/bbl)	(0.89)	(0.07)	0.03	(0.02)
Realized price after hedging (\$/bbl)	105.52	107.46	105.18	110.59
Realized price discount as percentage of Brent (%)	(4)	(2)	(3)	(1)
Realized price premium as percentage of WTI (%)	1	17	7	15

The Company's oil sales contracts during the period ended September 30, 2013 were referenced to Brent. The realized price discount to Brent was 3.5 percent in the quarter compared to 3.1 percent in the second quarter of 2013 and a 3.9 percent discount in the comparative period. The realized price discount to Brent reference price continues to stay within a range of two to four percent.

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

Average price for the period	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Brent (\$/bbl)	110.22	102.56	112.44	110.15	109.63
Parex realized sales price (\$/bbl)	106.41	99.34	109.63	105.75	107.46
Parex realized price (discount) as percentage of Brent (%)	(3.5)	(3.1)	(3.1)	(2.8)	(3.9)

c) Oil Revenue

Third quarter 2013 oil revenue increased \$34.5 million or 30 percent as reconciled in the table below to the third quarter of 2012:

(\$000s)	
Oil revenue, three months ended September 30, 2012	\$ 130,824
Sales volume of produced oil, an increase of 48% (5,208 bopd)	51,521
Purchased oil sold decrease	(23,645)
Sales price decrease of 1%	(1,657)
Oil revenue, three months ended September 30, 2013	\$ 157,043

Oil sales increased in the three months ended September 30, 2013 compared to the same period in 2012 due to an increase in oil production. Oil sales for the three months ended September 30, 2013 were slightly less than crude oil production and as a result crude oil inventory increased 11,952 bbls from the second quarter of 2013, see "Colombian Crude Oil Inventory in Transit" below.

d) Colombian Crude Oil Inventory in Transit

As at September 30, (\$000s)	2013		2012	
Crude oil in transit	\$	10,052	\$	10,047

At September 30, 2013, the Company had 146,588 bbls of crude oil inventory in transit (139,100 bbls for the third quarter of 2012), which was injected into the Colombian Ocesa and ODC pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately \$69/bbl (\$72/bbl for the third quarter of 2012 and \$71/bbl for the second quarter of 2013) incurred in bringing the crude oil to its existing condition and location. A reconciliation of the crude oil inventory in transit volumes is provided below:

For the nine months ended September 30, (mmbbls)	2013	2012
Crude oil inventory in transit - beginning of the period	98.8	281.5
Oil production	4,193.4	3,008.5
Oil sales	(4,466.4)	(3,380.3)
Purchased oil	323.3	229.4
Company consumptions	(2.5)	-
Crude oil inventory in transit - end of the period	146.6	139.1

As a percentage of the quarter production crude oil inventory has decreased in Q3, 2013 to 10 percent from 2012 at 16 percent. A reconciliation of quarter to quarter crude oil inventory movements is provided below:

For the periods ended (mmbbls)	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
Crude oil inventory in transit - beginning of the period	134.6	196.7	98.8	139.1
Oil production	1,490.3	1,407.1	1,296.0	1,172.4
Oil sales	(1,475.8)	(1,485.6)	(1,505.0)	(1,453.2)
Company consumptions	(2.5)	-	-	-
Purchased oil	-	16.4	306.9	240.5
Crude oil inventory in transit - end of the period	146.6	134.6	196.7	98.8

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

e) **Purchased Oil**

(mbls)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Oil purchased	-	190.6	323.3	229.4
Purchased oil sales	-	(219.9)	(323.3)	(213.6)
Purchased oil net change in inventory	-	(29.3)	-	15.8

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 September 30, 2013 the Company had no third party purchased oil in inventory.

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Purchased oil expense (\$000s)	\$ -	\$ 15,896	\$ 30,336	\$ 17,409

Purchased oil expense for the three and nine months ended September 30, 2013 was \$nil and \$30.3 million compared to \$0.5 million for the second quarter of 2013 and \$15.9 and \$17.4 million for the 2012 three and nine month periods. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Colombian Royalties

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Royalties (\$000s)	\$ 20,293	\$ 8,041	\$ 58,680	\$ 26,531
Per unit (\$/bbl)	\$ 13.75	\$ 8.07	\$ 14.12	\$ 8.40
Percentage of sales ⁽¹⁾⁽²⁾	15.7%	9.3%	16.4%	8.6%

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

⁽²⁾ Net of transportation costs

In the three and nine months ended September 30, 2013 royalties increased from the comparative periods in 2012 due to the Company being subjected to High Price Share Royalty share for the Kona field as the 5.0 million barrel cumulative production threshold was reached in January of 2013. In the third quarter the royalty rate is slightly higher of \$13.75/bbl compared to the previous quarter of 13.65/bbl as a result of an increase in Brent price over the quarter. It is expected that the Las Maracas field will be subject to the High Price Share Royalty share in the first quarter of 2014 based on current production estimates. 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 are exceeded by pricing determined in the contract. The production areas royalty percentage will increase by approximately 16 percent and total approximately 33 percent at a WTI price of \$103.65 per bbl.

Colombian Production Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Production expense (\$000s)	\$ 14,851	\$ 9,242	\$ 41,387	\$ 24,164
Per unit (\$/bbl) – based on sales volumes	\$ 10.06	\$ 9.27	\$ 9.96	\$ 7.65

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 September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Per unit (\$/bbl) – based on sales volumes – operated ⁽¹⁾	\$ 7.34	\$ 8.58	\$ 7.91	\$ 7.41
Per unit (\$/bbl) – based on sales volumes – non-operated ⁽¹⁾	\$ 18.34	\$ 16.84	\$ 16.93	\$ 15.95

⁽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 third quarter on a per barrel basis of \$10.06 increased from the second quarter of 2013 of \$9.19. Operated properties production expense in the third quarter was \$7.34/bbl compared to \$7.32/bbl for the second quarter of 2013 and non-operated properties production expense was \$18.34/bbl for the third quarter of 2013 compared to \$15.37/bbl for the second quarter of 2013. The quarter over quarter increase in the non-operated properties production expense primarily relates to production cost increase on the non-operated blocks LLA-32 and LLA-34.

Production expense for the three months ended September 30, 2013 on a per barrel basis was \$10.06/bbl in comparison to \$9.27/bbl for the three months ended September 30, 2012. The increase is primarily due to higher non-operated property expenses.

Colombian Transportation Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Transportation expense (\$000s)	\$ 27,620	\$ 23,872	\$ 79,860	\$ 65,544
Per unit (\$/bbl)	\$ 18.72	\$ 19.62	\$ 17.88	\$ 19.39

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 September 30, 2013, the cost of transportation on a per barrel basis has stayed within the historical range of \$17/bbl to \$20/bbl. Parex expects that once the Bicentenario pipeline is operational the incremental takeaway capacity will benefit area producers.

General and Administrative Expense ("G&A")

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Gross G&A	\$ 10,230	\$ 8,393	\$ 28,939	\$ 26,780
G&A recoveries	(793)	(557)	(2,177)	(814)
Capitalized G&A	(900)	(1,027)	(2,826)	(5,880)
Net G&A expense	\$ 8,537	\$ 6,809	\$ 23,936	\$ 20,086

Net G&A was \$23.9 million for the nine months ended September 30, 2013 compared to \$20.1 million for the same period in 2012. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expense and employee costs. The year to date increase over the prior year is mainly due to increased consulting and professional fees. For the third quarter of 2013 net G&A was mainly comprised of \$6.6 million relating to staff, consultants and professional services, \$0.9 million relating to office costs, and \$1.0 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 203 full-time-equivalents in three locations were working for Parex as at September 30, 2013 compared to 185 at September 30, 2012.

Share-Based Compensation Expense

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Stock-based compensation	\$ 2,230	\$ 1,870	\$ 4,696	\$ 5,548
Share appreciation rights	694	749	(220)	(70)
Share-based compensation expense	\$ 2,924	\$ 2,619	\$ 4,476	\$ 5,478

Stock-based compensation expense includes stock options and restricted share units. For the nine months ended September 30, 2013 the expense was \$2.9 million compared to \$2.6 million for the same period in 2012. The primary reason for the increase relates to the 4.6 million cancelled options in the third quarter of 2013, where by the expense recognition was accelerated for the cancelled options. This is offset by the initial tranche of options granted at the time of incorporation in 2009 becoming fully vested and therefore expensed in prior periods.

Share appreciation rights (“SARs”) expense was a \$0.2 million recovery for the nine months ended September 30, 2013 compared to \$0.1 million recovery for the same period in 2012. The recovery booked for nine months ended September 30, 2013 relates to the cancellation of SARS in the third quarter offset by the increase in Parex’ share price from Cdn \$5.80 at December 31, 2012 to Cdn \$5.83 at September 30, 2013.

At September 30, 2013, the total SARs liability accrued was \$2.7 million (December 31, 2012 - \$2.9 million).

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
DD&A expense (\$000s)	\$ 54,355	\$ 41,975	\$ 158,834	\$ 132,313
Per unit (\$/bbl)	\$ 36.67	\$ 41.96	\$ 38.08	\$ 44.06

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

Third quarter 2013 DD&A rate of \$36.67/bbl is lower than third quarter 2012 rate of \$41.96/bbl due to an increase in the Company’s crude oil reserves year over year. Third quarter 2013 DD&A rate is consistent with the second quarter 2013 rate of 36.03/bbl.

Included in the Q3 depletion calculation were future development costs of \$178.5 million (three months ended December 31 2012- \$113.2 million). Third quarter 2013 depletion was \$54.0 million compared to \$45.3 million for the same period in 2012. The increase in depletion is a result of higher production in the third quarter compared to the same period of 2012 partially offset by lower depletion costs per barrel in 2013 as compared to 2012. The remaining DD&A relates to seismic equipment and office equipment which is depreciated over the assets estimated useful lives.

Foreign Exchange Loss (Gain)

	For the three months ended September 30,		For then nine months ended September 30,	
	2013	2012	2013	2012
Foreign exchange loss (gain) (\$000s)	\$ 1,456	\$ 2,607	\$ (4,674)	\$ 2,289

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 losses (gains) 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 nine months ended September 30, 2013, the total foreign exchange gain of \$4.7 million relates to both the Canadian dollar and Colombian peso depreciating in value from the exchange rates at December 31, 2012. For the three months ended September 30, 2013 a foreign exchange loss was recorded due to the appreciation in value from the Colombian peso and Canadian dollar exchange rates at June 30, 2013. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of comprehensive income.

As of December 30, 2012 the Company put into place a cross currency interest rate swap (“CCIRS”) for the principal balance of Cdn \$85.0 million relating to the Debenture in order to minimize the monetary exposure to the fluctuations in US/CDN dollar exchange rates and to capitalize on fixed USD denominated interest rates being lower than comparable CDN denominated interest rates. Effectively the Company hedged the CDN dollar denominated debenture to USD to source a lower interest rate and fix the cost of the debenture to the currency the Company is paid its oil revenues. See Cross Currency Interest Rate Swap (“CCIRS”) below. The losses on the CCIRS are presented in financial statement line item “risk management contracts” in the Consolidated Statement of Comprehensive Income. These losses (gains) 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 September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Interest and bank charges	\$ 1,579	\$ 1,921	\$ 4,934	\$ 4,140
Accretion on debentures	1,050	954	3,056	2,718
Accretion on decommissioning liability	41	106	307	249
Loss (Gain) on derivative financial liability	4,026	(47)	(2,217)	(9,683)
Amortization of debt issuance costs	158	144	460	409
Interest and other income	(473)	(216)	(1,101)	(986)
Net finance expense (income)	\$ 6,381	\$ 2,862	\$ 5,439	\$ (3,153)

Interest expense relates to the Debenture and interest on the credit facility. The interest expense on the Debentures for the three and nine month ended September 30, 2013 was \$1.1 million and \$3.3 million (three and nine months ended September 30, 2012 – \$1.2 million and \$3.4 million). The accretion expense for the debentures for the three and nine months ended September 30, 2013 was \$1.1 million and \$3.1 million (three and nine months ended September 30, 2012 – \$1.0 million and \$2.7 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 converted, the Company has the option to deliver either common shares or cash equal to the redemption value upon redemption. For the three and nine months ended September 30, 2013, a \$4.0 million loss and \$2.2 million gain on the derivative financial liability was recognized (three and nine months ended September 30, 2012 a \$0.1 million and \$9.7 million gain was recognized) equivalent non-cash derivative gain was recorded in comprehensive income. The loss in the third quarter is a result of fair valuing the derivative liability at September 30, 2013 and specifically the increase in the Company's stock price from Cdn \$4.12 at June 30, 2013 to Cdn \$5.83 at September 30, 2013 offset by other changes in variables in the Black Scholes model calculation. Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded to the statement of comprehensive income.

Derivatives

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 creditworthy financial institutions.

a) Risk Management Contracts- Brent Crude

The following is a summary of the Commodity derivative risk management contracts in place for the period ended September 30, 2013:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
July 1, 2013 to December 31, 2013	ICE Brent	Fixed Price	1000 bbl/d	\$100.00
July 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$108.50
August 1, 2013 to December 31, 2013	ICE Brent	Collar	2000 bbl/d	\$100.00 - \$109.00
August 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$110.90
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$109.01
January 1, 2014 to March 31, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25

Subsequent to September 30, 2013 entered into the following contracts:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$105.00
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
January 1, 2014 to March 31, 2014	ICE Brent	Put	1000 bbl/d	\$103.00

b) Cross Currency Interest Rate Swap (“CCIRS”) contract

The following is a summary of the CCIRS in place for the six month period ended September 30, 2013:

	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 loss (gain) on risk management contracts:

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Realized loss (gain) on commodity risk management contracts	\$ 1,329	\$ 77	\$ (114)	\$ 77
Unrealized loss (gain) on commodity risk management contracts	1,013	(81)	667	(81)
Realized gain on CCIRS	-	-	(219)	-
Unrealized (gain) loss on CCIRS ⁽¹⁾	(2,067)	-	2,976	-
Net loss (gain) on derivative contracts	\$ 275	\$ (4)	\$ 3,310	\$ (4)

⁽¹⁾ Offset by the foreign exchange embedded in the Debenture amount.

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

The Company’s net derivative loss for the three and nine months ended September 30, 2013 was \$0.3 million and \$3.1 million (three and nine months ended September 30, 2012-nil). The unrealized loss on commodity risk management contracts of \$1.0 million and \$0.7 million for the three and nine months ended September 30, 2013 is primarily attributable to the Brent forward benchmark price being in excess of the Company’s derivative contracts. The unrealized CCIRS gain of \$2.1 million and loss of \$2.8 million for the three and nine months ended September 30, 2013 is primarily attributable to the increase/decrease in the forward Cdn dollar exchange rate at September 30, 2013 versus the US dollar and is offset by the foreign exchange gain embedded in the Debenture amount.

The Company has not designated any of its derivative contracts as accounting hedges under International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* and, accordingly, has fair valued its derivatives.

Income Tax

The components of tax expense for the three and nine months ended September 30, 2013 and 2012 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Current tax expense	\$ 13,413	\$ 19,282	\$ 35,582	\$ 25,950
Future tax expense	(2,715)	(10,124)	4,031	418
Tax expense	\$ 10,698	\$ 9,158	\$ 39,613	\$ 26,368

The current and future tax expense relates to the Company’s operations in Colombia. Current tax in the third quarter was \$13.4 million as compared to \$19.3 million in the comparative three month period. The decrease is a result of the prior year expense being high due to NOL’s being exhausted in Q2 of the prior year. Deferred tax expense in the third quarter of 2013 was a recovery \$2.7 million (\$4.0 million for the three months ended September 30, 2012), mainly 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 nine months ended September 30, 2013 on Colombian segmented operating cash flows was 14%.

Capital Expenditures

For the three months ended September 30, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Acquisition of unproved properties	603	601	225	(1,967)	-	-	828	(1,366)
Geological and geophysical	2,760	1,154	25	158	-	-	2,785	1,312
Drilling and completion	38,516	37,969	(35)	5,297	-	-	38,481	43,266
Well equipment and facilities	7,696	7,115	-	43	-	-	7,696	7,158
Other	157	527	-	-	15	5	172	532
Total capital expenditures	\$ 49,732	\$ 47,366	\$ 215	\$ 3,531	\$ 15	\$ 5	\$ 49,962	\$ 50,902

⁽¹⁾ Excludes corporate acquisition costs.

For the nine months ended September 30, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Acquisition of unproved properties	2,581	3,031	1,103	9,294	-	-	3,684	12,325
Geological and geophysical	10,310	12,577	2,305	15,000	-	-	12,615	27,577
Drilling and completion	127,790	135,771	(1,785)	11,625	-	-	126,005	147,396
Well equipment and facilities	18,690	14,104	851	43	-	-	19,541	14,147
Other	673	1,122	-	32	48	207	721	1,366
	\$ 160,044	\$ 166,605	\$ 2,474	\$ 35,994	\$ 48	\$ 207	\$ 162,566	\$ 202,811
Property acquisition costs	12,489	-	-	-	-	-	12,489	-
Total capital expenditures	\$ 172,533	\$ 166,605	\$ 2,474	\$ 35,994	\$ 48	\$ 207	\$ 175,055	\$ 202,811

a) Capital Expenditures Summary

During the nine months September 30, 2013 the Company incurred \$175.1 million of capital expenditures compared to \$202.8 million in the same period of 2012. Year to date the Company has drilled 28 gross wells (18.1 net) wells compared to 25 gross (18.3 net) wells for the comparative period. During Q3, 2013 the Company drilled 6 gross (2.85 net) wells, compared to 5 gross (2.5 net) wells in the comparative period. Historically Q3 is a period of reduced drilling activity due to seasonality. Geological and geophysical were \$12.6 million and mainly relate to 3D seismic acquired on Blocks LLA-34 and LLA-32 in the year.

Total drilling and completion costs during the third quarter totaled \$38.5 million of which the majority related to drilling, completion and capitalized workover costs in Colombia. In the third quarter of 2013 the Company's Colombian operations utilized two drilling rigs and one service rig plus equipment utilized on non-operated blocks in the quarter. Spending on well equipment and facilities was \$7.7 million all focused in Colombia primarily on Las Maracas and Tua fields.

Property acquisition costs were \$12.5 million year to date as a result of Parex increasing its Cabrestero working interest from 50 percent to 100 percent through acquiring its partner's working interest for cash consideration.

b) Trinidad and Tobago update

A non-cash impairment of \$37.6 million was recorded in the Statement of Comprehensive Income for the three and nine months ended September 30, 2013 consolidated financial statements relating to the Central Range Blocks ("CRB") in Trinidad & Tobago. The Company notified the Trinidad & Tobago Ministry of Energy and Energy Affairs (MEEA) that it has relinquished both Central Range Blocks and as such the Company has concluded that the carrying value of the blocks is nil. At December 31, 2012, the Company recorded a non-cash impairment of \$23.5 million relating to the Cory Moruga Block.

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

Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	Sep. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
Average daily production volumes (bopd)	16,199	15,463	14,440	12,743
Realized sales price (\$/bbl)	106.41	99.34	109.63	105.75
Financial (000s except per share amounts)				
Oil Sales	\$ 157,043	\$ 147,585	\$ 164,990	\$ 149,614
Funds flow from operations ⁽¹⁾	\$ 68,241	\$ 65,638	\$ 60,226	\$ 54,446
Per share – basic	0.63	0.61	0.56	0.50
Per share – diluted	0.56	0.51	0.48	0.50
Adjusted net (loss) income ⁽³⁾	\$ (23,940)	\$ 5,987	\$ 6,538	\$ (13,450)
Per share – basic	(0.22)	0.06	0.06	(0.12)
Per share – diluted	(0.22)	0.05	0.05	(0.12)
Net (loss) income	\$ (27,965)	\$ 7,632	\$ 11,136	\$ (15,840)
Per share – basic	(0.26)	0.07	0.10	(0.15)
Per share – diluted	(0.26)	0.04	0.05	(0.15)
Total assets (end of period)	\$ 820,827	\$ 824,276	\$ 827,821	\$ 821,201
Working capital surplus (deficit) (end of period) ⁽²⁾	\$ 18,801	\$ 8,630	\$ 16,972	\$ (12,640)
Debentures (end of period) ⁽⁴⁾	\$ 66,898	\$ 64,338	\$ 65,402	\$ 65,657
Bank debt (end of period)	\$ 18,500	\$ 27,400	\$ 20,000	\$ 9,100

Three months ended (\$000s)	Sep. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011
Average daily production volumes (bopd)	10,874	10,389	11,679	11,342
Realized sales price (\$/bbl)	107.53	107.54	116.90	102.15
Financial (000s except per share amounts)				
Oil Sales	\$ 130,824	\$ 113,087	\$ 129,989	\$ 96,169
Funds flow from operations ⁽¹⁾	\$ 42,012	\$ 61,357	\$ 83,754	\$ 63,135
Per share – basic	0.39	0.57	0.77	0.58
Per share – diluted	0.39	0.53	0.69	0.56
Adjusted net (loss) income ⁽³⁾	\$ 7,490	\$ 11,654	\$ 26,934	\$ 6,470
Per share – basic	0.07	0.11	0.25	0.06
Per share – diluted	0.07	0.10	0.24	0.06
Net income	\$ 7,538	\$ 20,920	\$ 27,304	\$ 4,477
Per share – basic	0.07	0.19	0.25	0.04
Per share – diluted	0.07	0.09	0.24	0.04
Total assets (end of period)	\$ 789,546	\$ 768,498	\$ 703,343	\$ 660,177
Working capital surplus (deficit) (end of period) ⁽²⁾	\$ (9,014)	\$ (555)	\$ 116,277	\$ 92,893
Debentures (end of period) ⁽⁴⁾	\$ 65,251	\$ 61,940	\$ 62,148	\$ 60,001
Bank debt (end of period)	\$ -	\$ -	\$ -	\$ -

⁽¹⁾ Non GAAP terms. See "Non GAAP terms".

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

⁽³⁾ Net (loss) 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 September 30, 2013 the Company had a working capital surplus of \$18.8 million, excluding amounts available under the credit facility, as compared to working capital deficit at December 31, 2012 of \$12.6 million. Bank debt was \$18.5 million compared to \$9.1 million at December 31, 2012. The credit facility has a current borrowing base of \$100 million. Combined working capital net of bank debt has improved from December 31, 2012 to September 30, 2013 by \$22.0 million which is mainly a function of operating cash flows being higher than capital expenditures in the period. At September 30, 2013 Parex held \$26.3 million of cash, compared to \$31.9 million at December 31, 2012. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados denominated in US dollars.

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 \$15.5 million or a positive fair value adjustment of approximately \$5.5 million.

Parex entered into a \$200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank during 2012, with a current borrowing base of \$100 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 September 30, 2013, 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.

Debentures

The following table summarizes the accounting for the Debentures:

(\$000s)	Liability ⁽²⁾	Derivative financial liability ⁽²⁾	Total
Balance at December 31, 2011	\$ 60,001	\$ 16,821	\$ 76,822
Accretion	3,744	-	3,744
Amortization of debt issuance costs	564	-	564
Derivative gain	-	(7,294)	(7,294)
Foreign exchange loss	1,348	372	1,720
Balance at December 31, 2012	\$ 65,657	\$ 9,899	\$ 75,556
Accretion	3,056	-	3,056
Amortization of debt issuance costs	460	-	460
Derivative gain	-	(2,217)	(2,217)
Foreign exchange gain ⁽¹⁾	(2,275)	(454)	(2,729)
Balance at September 30, 2013	\$ 66,898	\$ 7,228	\$ 74,126

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

⁽²⁾ The term of the debenture ends June 30, 2016.

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.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at September 30, 2013 the Company had 108,355,317 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 November 13, 2013 Parex has the following securities outstanding:

	Number	%
Common shares ⁽¹⁾	108,383,917	91.7%
Stock options ⁽²⁾	9,049,113	7.7%
Restricted share units	827,100	0.6%
	118,260,130	100.0%

⁽¹⁾ 28,600 options have been exercised since September 30, 2013

⁽²⁾ 3,998,200 options and 539,500 RSU's have been granted since September 30, 2013

As of the date of this MD&A, total stock options and RSU's outstanding represent approximately 8.3 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 27, 2013. 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 September 30, 2013 was \$31.6 million to support the exploration work commitments on its Blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada ("EDC") has provided performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated commitments as at September 30, 2013:

(\$000s)	Total	<1 year	1 – 3 years	3 – 4 years	>5 years
Exploration ⁽¹⁾	\$ 37,750	\$ -	\$ 32,750	\$ 5,000	\$ -
Office and accommodations ⁽²⁾	3,624	1,443	2,181	-	-
Decommissioning expenditures	21,700	-	-	-	21,700
Other	437	14	423	-	-
Total	\$ 63,511	\$ 1,457	\$ 35,354	\$ 5,000	\$ 21,700

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

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

The Company has entered into contracts for drilling rigs in Colombia. Rig contracts include commitments to use the rigs for a minimum period on terms consistent with normal industry practice.

Legal Contingency update

In connection with the lawsuit relating to Ramshorn International Limited, the parties have recently completed and submitted written briefs to the Court of Appeals in both cases and a consolidated oral hearing took place on September 18, 2013. Parex' council currently anticipates that it will be likely months before a ruling is received regarding the jurisdictional issues in the case. Refer to note 22 in the interim consolidated financial statements for period ended September 30, 2013 for further information.

Decommissioning Liabilities

(\$000s)		2013		2012
Balance, beginning of period	\$	12,079	\$	5,105
Additions		3,886		5,465
Property acquisition		809		-
Corporate acquisition		-		705
Change in estimates		(446)		445
Liabilities settled		(903)		-
Accretion expense		307		359
Balance, end of the period	\$	15,732	\$	12,079

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at September 30, 2013, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The estimated total undiscounted amount of cash flows required to settle Parex' decommissioning liability is approximately \$21.7 million as at September 30, 2013 (December 31, 2012 – \$17.5 million) with the majority of these costs relating to Colombia operations and are anticipated to occur in 2020 or later. A weighted average risk-free discount factor of 4.25% and an inflation rate of 3.0% were used in the valuation of the liabilities (December 31, 2012 – 4.0 percent risk free discount factor and a 4.0 percent inflation rate). The discount rates used are a blend of US, Colombia and Trinidad & Tobago risk free rates.

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:

- new exploration blocks;
- the Company's forecast average production range for 2013;
- terms of the Company's Debentures;
- terms of the Company's secured credit facility;
- 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;
- fulfill farm in obligations to earn additional lands;
- activities to be undertaken in various areas including the fulfillment of exploration commitments;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;

- terms of the PSCs (as defined herein) on the Central Range Shallow and Central Range Deep Blocks and the timing of release of exploration property deemed non commercial;
- the Company's planned capital expenditures for 2013 along with the timing thereof and the method of funding;
- the status of the Company's review of transportation and marketing alternatives in an effort to maximize the net proceeds from production in Colombia;
- expected royalty rates and effect of increased production and pricing on the Company's royalty rates;
- expected average production costs and effect of additional productive fields on such costs;
- anticipated effect of increased production volumes in the non-operated fields on the Company's operating costs;
- terms of stock based compensation plans, including option plan, restricted share unit plan, and share appreciation rights and the Company's plans with respect to granting securities under its stock based compensation plans;
- foreign currency risk;
- 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;
- expected effective Colombian corporate income tax rate for 2013 and in the future;
- status of lawsuit brought in Texas against Parex and certain foreign subsidiaries and Parex' plans to defend such lawsuit;
- the Company's ability to fund its capital program and meet its financial obligations;
- drilling plans and timing of drilling, completion and tie-in of wells;
- impact of new and revised accounting pronouncements and critical accounting estimates;
- effect of business environment and risks on the Company; and
- financial and business prospects and financial outlook.

In addition, statements relating to "reserves" or "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. The recovery and reserve estimates of Parex' reserves provided herein or used in critical accounting assumptions are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada, Colombia and Trinidad & Tobago; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risks related to the lawsuit brought in Texas against Parex and certain foreign subsidiaries; failure of counterparties to perform under the terms of their contracts; the risks discussed under "Risk Factors" in the Company's Annual Information Form dated March 27, 2013 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. 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 September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Cash Flow from Operating Activities (GAAP)	80,142	42,012	183,424	212,570
Changes in non-cash Working Capital including taxes and interest payable	(11,901)	(29,790)	10,681	(25,447)
Funds flow from operations (Non-GAAP)	\$ 68,241	\$ 42,012	\$ 194,105	\$ 187,123

Funds flow per share is calculated by dividing funds flow from operations by the weighted average number of shares outstanding. The following table shows the variables used in the calculation of diluted funds flow from operations per share:

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Funds flow from operations				
Funds flow from operations for the purpose of basic funds flow	\$ 68,241	\$ 42,012	\$ 194,105	\$ 187,123
Debenture interest expense	1,074	1,122	3,270	3,341
Funds flow from operations for diluted funds flow	\$ 68,315	\$ 43,134	\$ 197,375	\$ 190,464
Weighted average number of shares for the purposes of basic funds flow (\$000s)				
	108,285	108,422	108,407	108,390
Dilutive effect of share options on potential common shares				
	1,318	918	1,101	1,419
Dilutive effect of Debentures on potential common shares				
	14,937	-	14,937	8,374
Weighted average number of shares for the purposes of diluted funds	124,539	109,340	124,445	118,183

Adjusted net (loss) income 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.

The following table reconciles net (loss) income to adjusted net (loss) income:

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net (loss) income (GAAP)	\$ (27,965)	\$ 7,538	\$ (9,197)	\$ 55,762
Non cash loss (gain) on derivative financial liability	4,025	(48)	(2,218)	(9,684)
Adjusted net (loss) income (Non-GAAP)	\$ (23,940)	\$ 7,490	\$ (11,415)	\$ 46,078

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.

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 credit facility amount.

Free cash flow is determined by cash flow from operations less capital expenditures.

Net debt is determined by working capital less long-term debt.

Business Environment and Risks

There have been no significant changes during the three and nine months ended September 30, 2013 to the risks and uncertainties identified in the Company's Annual Information Form dated March 27, 2013.

Internal Controls over Financial Reporting

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

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the nine months ended September 30, 2013.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized in the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and Debentures (excluding the derivative financial liability associated with the Debentures). 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, 2012 with the exception of the accounting policies described below:

a) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as described below:

Repurchase of shares

- Pursuant of the Normal Course Issuer Bid ("NCIB"), repurchased common shares will reduce share capital for the average book value with any excess or deficiency is charged to retained earnings.

Income taxes

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

E&E assets

- Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible assets.

b) Accounting Policies Adopted

The Company has reviewed new and revised accounting pronouncements that have been issued effective January 1, 2013 and determined the following impacts on the Company:

(i) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements. The Company has determined that IFRS 10 did not have a material impact on its financial position.

(ii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Company has determined that IFRS 11 did not have a material impact on its financial position.

(iii) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The Company has determined that IFRS 13 did not have a material impact on its financial position.

(iv) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements.

IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12. The Company has determined that IFRS 27 did not have a material impact on its financial position.

(v) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has determined that IAS 12 did not have a material impact on its financial position.



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	September 30, 2013	December 31, 2012
ASSETS			
Current assets			
Cash		\$ 26,345	\$ 31,950
Accounts receivable	5	122,290	102,442
Prepays and other current assets		8,847	6,279
Crude oil inventory	6	10,052	7,474
		167,534	148,145
Goodwill			
Exploration and evaluation	7	61,252	61,252
Property, plant and equipment	8	123,033	145,172
		469,008	466,632
		\$ 820,827	\$ 821,201
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 112,524	\$ 116,116
Current income and equity tax payable	15	36,209	44,669
		148,733	160,785
Long-term debt			
Convertible debenture	10	18,500	9,100
Derivative financial liability	14	66,898	65,657
Other long-term liabilities	14	7,228	9,899
Decommissioning liabilities	11	4,261	3,071
Deferred tax liability	12	15,732	12,079
	15	99,277	95,214
		360,629	355,805
Shareholders' equity			
Share capital	13	412,503	412,736
Contributed surplus		20,370	16,015
Retained earnings		27,325	36,645
		460,198	465,396
		\$ 820,827	\$ 821,201

Commitments (note 21)

Contingencies (note 22)

See accompanying Notes to the Interim Consolidated Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Interim Consolidated Statements of Comprehensive (loss) Income (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended September 30,		For the nine months ended September 30,	
		2013	2012	2013	2012
Oil sales		\$ 157,043	\$ 130,824	\$ 469,618	\$ 373,900
Royalties		(20,293)	(8,041)	(58,680)	(26,531)
Revenue		136,750	122,783	410,938	347,369
Risk management contracts		(275)	-	(3,310)	-
		136,475	122,783	407,628	347,369
Expenses					
Production		14,851	9,242	41,387	24,164
Transportation		27,620	23,872	79,860	65,544
Purchased oil		-	15,896	30,336	17,409
General and administrative		8,537	6,809	23,936	20,086
Transaction costs		-	205	-	1,109
Impairment of exploration and evaluation assets	7	37,618	-	37,618	-
Share-based compensation	13	2,924	2,619	4,476	5,478
Depletion, depreciation and amortization	8	54,355	41,975	158,834	132,313
Foreign exchange gain		1,456	2,607	(4,674)	2,289
		147,361	103,225	371,773	268,392
Finance income		(473)	(216)	(1,101)	(986)
Finance expense		6,854	3,078	6,540	(2,167)
Net finance expense (income)	9	6,381	2,862	5,439	(3,153)
Net (loss) income before taxes		(17,267)	16,696	30,416	82,130
Income tax expense					
Current tax expense	15	13,413	19,282	35,582	25,950
Deferred tax expense	15	(2,715)	(10,124)	4,031	418
		10,698	9,158	39,613	26,368
Net (loss) income and other comprehensive (loss) income for period		\$ (27,965)	\$ 7,538	\$ (9,197)	\$ 55,762
Basic net (loss) income per common share	16	\$ (0.26)	\$ 0.07	\$ (0.09)	\$ 0.51
Diluted net (loss) income per common share	16	\$ (0.26)	\$ 0.07	\$ (0.09)	\$ 0.44

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Changes in Shareholders' Equity (unaudited)

For the nine months ended September 30,
(thousands of United States dollars)

		2013		2012
Share capital				
Balance, beginning of period	\$	412,736	\$	411,921
Issuance of common shares under option plans		1,151		161
Repurchase of shares		(1,384)		369
Balance, end of period	\$	412,503		412,451
Contributed surplus				
Balance, beginning of period	\$	16,015	\$	9,215
Share-based compensation		4,696		5,548
Options exercised		(341)		(161)
Balance, end of period	\$	20,370	\$	14,602
Retained earnings (deficit)				
Balance, beginning of period	\$	36,645	\$	(3,277)
Net (loss) income for the period		(9,197)		55,762
Repurchase of shares	\$	(123)		-
Balance, end of period	\$	27,325	\$	52,485

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	NOTE	For the three months ended September 30,		For the nine months ended September 30,	
		2013	2012	2013	2012
Operating activities					
Net (loss) income		\$ (27,965)	\$ 7,538	\$ (9,197)	\$ 55,762
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	54,355	41,975	158,834	132,313
Non-cash finance income	9	5,275	1,158	1,606	(6,305)
Share-based compensation	13	2,924	1,933	4,476	5,478
Deferred tax expense	15	(2,715)	(10,124)	4,031	418
Impairment of exploration and evaluation assets		37,618	-	37,618	-
Unrealized foreign exchange loss (gain)		1,384	1,834	(4,459)	1,118
Unrealized (gain) loss on risk management contracts		(1,053)	(81)	3,643	(81)
Abandonment costs paid		(903)	-	(903)	-
Equity tax paid		(629)	(2,221)	(1,494)	(1,580)
Stock appreciation rights paid		(50)	-	(50)	-
		68,241	42,012	194,105	187,123
Net change in non-cash working capital	17	11,901	29,790	(10,681)	25,447
		\$ 80,142	\$ 71,802	\$ 183,424	\$ 212,570
Investing activities					
Capital expenditures		(49,962)	(50,902)	(162,566)	(202,811)
Property Acquisition	8	-	-	(12,489)	-
Corporate Acquisition		-	-	-	(71,774)
Farm out proceeds		2,000	-	2,000	-
Net change in non-cash working capital	17	(42,226)	(44,886)	(23,875)	(16,446)
		\$ (90,188)	\$ (95,788)	\$ (196,930)	\$ (291,031)
Financing activities					
Long term debt (repaid) issued	10	(8,900)	-	9,400	-
Common share repurchase		(98)	-	(1,506)	-
Issuance of common shares		324	-	810	369
Net change in non-cash working capital	17	-	-	-	-
		\$ (8,674)	\$ -	\$ 8,704	\$ 369
Increase (decrease) in cash and cash equivalents for the period		(18,720)	(23,986)	(4,802)	(78,092)
Impact of foreign exchange on foreign currency-denominated cash balances		\$ 111	\$ (1)	\$ (803)	\$ 750
Cash and cash equivalents, beginning of period		\$ 44,954	\$ 50,529	\$ 31,950	\$ 103,884
Cash and cash equivalents, end of period		\$ 26,345	\$ 26,542	\$ 26,345	\$ 26,542

Supplemental Disclosure of Cash Flow Information (note 17)

See accompanying Notes to the Interim Consolidated Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended September 30, 2013

(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 and the Caribbean region.

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 as 1485196 Alberta Ltd. on August 17, 2009, pursuant to the Business Corporations Act (Alberta). On September 29, 2009 it filed Articles of Amendment to change its name to Parex Resources Inc.

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 13, 2013.

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

a) *Statement of compliance*

The condensed consolidated interim financial information for the three and nine months ended September 30, 2013 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2012, 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 November 13, 2013, the date of approval by the Board of Directors.

b) *Basis of measurement*

The interim condensed 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 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 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 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, 2012.

3. Summary of Significant Accounting Policies

a) *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year, except as described below:

Repurchase of shares

- Pursuant of the Normal Course Issuer Bid (“NCIB”), repurchased common shares will reduce share capital for the average book value with any excess or deficiency is charged to retained earnings.

Income taxes

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

E&E assets

- Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible assets.

b) Accounting Policies Adopted

The Company has reviewed new and revised accounting pronouncements that have been issued effective January 1, 2013 and determined the following impacts on the Company:

(ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements. The Company has determined that IFRS 10 did not have a material impact on its financial position.

(iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Company has determined that IFRS 11 did not have a material impact on its financial position.

(vi) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The Company has determined that IFRS 13 did not have a material impact on its financial position.

(vii) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12. The Company has determined that IFRS 27 did not have a material impact on its financial position.

(viii) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has determined that IAS 12 did not have a material impact on its financial position.

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 the December 31, 2012 financial statements for details concerning determination of fair values.

5. Accounts Receivable

	September 30, 2013		December 31, 2012
Trade receivables	\$ 85,825	\$	58,435
Colombia income taxes receivable	19,417		21,147
Receivables from partners	14,651		16,109
Value added taxes (VAT)	2,397		6,751
	\$ 122,290	\$	102,442

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. VAT receivable is \$2.4 million as at September 30, 2013 and is recoverable in 2013. All accounts receivable are expected to be received with twelve months and are thus recognized as current assets.

6. Inventory

	September 30, 2013		December 31, 2012
Crude oil inventory	\$ 10,052	\$	7,474

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, 2011	\$ 91,974	\$	44,741	\$	136,715
Additions	66,438		39,858		106,296
Transfers to PP&E	(109,440)		-		(109,440)
Changes in decommissioning liability	168		632		800
Corporate acquisition	34,312		-		34,312
Exploration and evaluation impairment	-		(23,511)		(23,511)
Balance at December 31, 2012	\$ 83,452	\$	61,720	\$	145,172
Additions	45,468		2,474		47,942
Transfers to PP&E	(30,608)		-		(30,608)
Farm out proceeds	-		(2,000)		(2,000)
Changes in decommissioning liability	297		(152)		145
Exploration and evaluation impairment	-		(37,618)		(37,618)
Balance at September 30, 2013	\$ 98,609	\$	24,424	\$	123,033

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions represent the Company's share of costs incurred on E&E assets during the period. For the nine months ended September 30, 2013 transfers in the amount of \$30.6 million from E&E to PP&E were made relating to Block LLA-30. In the prior year an amount of \$109.4 million was transferred from E&E to PP&E for costs associated with the Kona, Sulawesi and Las Maracas fields.

An impairment of \$37.6 million was recorded in the Statement of Comprehensive Income for the three and nine months ended September 30, 2013 consolidated financial statements. The Company notified the Trinidad & Tobago Ministry of Energy and Energy Affairs (MEEA) that it has relinquished both Central Range Blocks and as such the Company has concluded that the carrying value of the blocks is nil. As December 31, 2012, the Company recorded an impairment of \$23.5 million relating to the Cory Moruga Block in Trinidad.

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

At September 30, 2013 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, 2011	\$	4,407	\$	360,082	\$	292	\$ 364,781
Additions		246		161,120		26	161,392
Transfer from E&E assets		-		109,440		-	109,440
Changes in decommissioning liability		-		5,078		-	5,078
Corporate acquisition		-		66,382		-	66,382
Balance at December 31, 2012	\$	4,653	\$	702,102	\$	318	\$ 707,073
Additions		48		114,577		-	114,625
Property acquisition		-		13,298		-	13,298
Transfer from E&E assets		-		30,608		-	30,608
Changes in decommissioning liability		-		3,742		-	3,742
Balance at September 30, 2013	\$	4,701	\$	864,327	\$	318	\$ 869,346
Accumulated Depreciation, Depletion and Amortization							
Balance at December 31, 2011	\$	1,176	\$	63,607	\$	142	\$ 64,925
Depletion and depreciation for the year		867		180,243		39	181,149
DD&A transferred to crude oil inventory costing		-		(5,633)		-	(5,633)
Balance at December 31, 2012	\$	2,043	\$	238,217	\$	181	\$ 240,441
Depletion and depreciation for the year		503		158,301		30	158,834
DD&A included in crude oil inventory costing		-		1,063		-	1,063
Balance at September 30, 2013	\$	2,546	\$	397,581	\$	211	\$ 400,338
Net book value:							
At December 31, 2011	\$	3,231	\$	296,475	\$	150	\$ 299,856
At December 31, 2012	\$	2,610	\$	463,885	\$	137	\$ 466,632
At September 30, 2013	\$	2,155	\$	466,746	\$	107	\$ 469,008

In the nine months ended September 30, 2013 additions mainly relate to development expenditures in Colombia at the Las Maracas, Tua and Tarotaro fields and \$30.6 million was transferred from E&E assets related to the Block 30 field.

On May 31, 2013, the Company acquired an additional 50% working interest in the Cabrestero Block, increasing working interest to 100 percent. The Company paid cash consideration of \$12.5 million before adjustments. The acquisition gives the Company 100% working interest in the Block. The acquisition was accounted for as a business combination under IFRS 3. The fair value of net assets was \$12.5 million, allocated as \$13.3 million to PPE and \$0.8 million to decommissioning liability. No working capital was acquired. If Parex had acquired the additional working interest of the Cabrestero block on January 1, 2013, the proforma results of oil sales is \$4.7 million. Since May 31, 2013 the company recorded \$2.1 million of revenue relating to the acquired 50% working interest in the Cabrestero Block. A pro forma net income is considered impracticable to calculate and therefore not included.

During 2012, additions mainly relate to development expenditures in the amount of \$161.1 million in Colombia. Amounts transferred from E&E are \$109.4 million for the year ended December 31, 2012. PP&E increased by \$66.4 million for the year ended December 31, 2012 relating to the fair values of the assets acquired in the corporate acquisition in 2012.

9. Net Finance Expense (Income)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Interest and bank charges	\$ 1,579	\$ 1,921	\$ 4,934	\$ 4,140
Accretion on convertible debenture	1,050	954	3,056	2,718
Accretion on decommissioning liability	41	106	307	249
Derivative liability loss (gain)	4,026	(47)	(2,217)	(9,683)
Amortization of debt issuance costs	158	144	460	409
Interest income	(473)	(216)	(1,101)	(986)
Net finance expense (income)	\$ 6,381	\$ 2,862	\$ 5,439	\$ (3,153)

	For the three months ended September 30,			For the nine months ended September 30,	
	2013	2012		2013	2012
Non cash finance expense	\$ 5,275	\$ 1,158	\$	\$ 1,606	\$ (6,307)
Cash finance expense	1,106	1,704		3,833	3,154
Net finance expense	\$ 6,381	\$ 2,862	\$	\$ 5,439	\$ (3,153)

10. Long-Term Debt

	September 30, 2013	December 31, 2012
Long-term debt (syndicate credit facility)	\$ 18,500	\$ 9,100

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. The facility at September 30, 2013 consists of a reserve-based revolving facility of \$100 million including an operating line of \$10 million. The revolving facility is a rolling facility maturing on May 22, 2015, and may be extended for an additional 365 days. The facility is subject to re-determination of the borrowing base semi-annually on November 30 and May 31 of each year. The borrowing base is determined based on, among other things, the Company’s current reserve report, results of operations, the lenders view of the current and forecasted commodity prices and the current economic environment. US base rate and LIBOR base rate loan advances under the revolving facility bear interest at rates ranging from US base rate or LIBOR plus 2.75% - 3.50% per annum, depending on utilization. Canadian prime rate loan advances, drawn on the operating line only, bear interest at rates ranging from Canadian prime plus 1.75% - 2.50% per annum, dependent on utilization. Undrawn amounts under the revolving facility bear a commitment fee ranging from 0.5% to 0.75% per annum, dependent on utilization.

Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. Key covenants include a current ratio test of 1:1 adjusted for undrawn amounts on the credit facility plus fair value of inventoried oil, a rolling four quarter total funded debt to EBITDA test of 3:50: 1, and other standard business operating covenants. The authorized borrowing amount is subject to an interim review as discussed above. As at September 30, 2013, the Company is in compliance with all covenants. Security is provided for by a first fixed and floating charge debenture over all assets of Parex Resources Inc., a pledge of the shares of material subsidiaries and general assignment of book debts.

11. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	September 30, 2013	December 31, 2012
Long-term SARs payable	\$ 365	\$ 511
Long-term equity tax payable	-	1,574
Financial derivative liability related to the cross currency interest rate swap (“CCIRS”)(note 19(d))	3,896	986
	\$ 4,261	\$ 3,071

12. Decommissioning Liabilities

	September 30, 2013	December 31, 2012
Balance, beginning of period	\$ 12,079	\$ 5,105
Additions	3,886	5,465
Property acquisition	809	-
Corporate acquisition	-	705
Change in estimates	(446)	445
Liabilities settled	(903)	-
Accretion expense	307	359
Balance, end of period	\$ 15,732	\$ 12,079

The total decommissioning liability is estimated based on the Company’s net ownership in wells drilled as at September 30, 2013, 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 \$21.7 million as at September 30, 2013 (December 31, 2012 – \$17.5 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad and 2020 or later in Colombia. A weighted average risk-free discount rate of 4.25 %

and a weighted average inflation rate of 3.25% were used in the valuation of the liabilities (December 31, 2012 – 4.0% percent risk free discount rate and a 4.0% percent inflation rate). The discount rates used are a blend of US, Colombia and Trinidad & Tobago risk free rates.

13. Share Capital

a) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2011	108,300,368	\$	411,921
Issued for cash – exercise of options	176,083		568
Allocation of contributed surplus – exercise of options	-		247
Balance, December 31, 2012	108,476,451	\$	412,736
Issued for cash – exercise of options	231,266		810
Allocation of contributed surplus – exercise of options	-		341
Repurchase of shares	(352,400)		(1,384)
Balance, September 30, 2013	108,355,317	\$	412,503

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

The Company repurchased 352,400 common shares pursuant to its Normal Course Issuer Bid at a cost of \$1.5 million (average cost per share of Cdn\$4.39). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

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 typically 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, 2012	9,626,515	5.64
Granted	228,625	5.16
Exercised	(231,266)	3.57
Cancelled	(4,435,708)	7.61
Forfeited	(137,253)	7.25
Balance, September 30, 2013	5,050,913	3.94

Stock options outstanding and the weighted average remaining life of the stock options at September 30, 2013 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 - \$3.55	2,517,234	1.0	3.04	2,517,234	1.0	3.04
\$3.56 - \$4.43	255,000	1.5	4.37	240,000	1.3	4.37
\$4.44 - \$4.47	1,405,054	3.9	4.45	454,736	3.9	4.45
\$4.48 - \$5.40	406,250	2.6	5.07	266,666	1.7	5.29
\$5.41 - \$6.32	467,375	3.1	5.99	253,332	2.4	5.99
	5,050,913	2.2	3.94	3,731,968	1.5	3.66

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

For the three months ended September 30,	2013	2012
Risk-free interest rate (%)	1.32	1.08
Expected life (years)	4	3
Expected volatility (%)	48	48
Expected dividends	-	-

The weighted average fair value at the grant date for the three months ended September 30, 2013 - Cdn\$2.01 per option (three months ended September 30, 2012 – Cdn\$1.68 per option). The weighted average share price on the exercise date for options exercised in the three months ended September 30, 2013 was Cdn\$5.68 (three months ended September 30, 2012 – Cdn\$4.85 per option).

c) Share appreciation rights

	Number of SARs	Weighted average exercise price Cdn\$/SAR
Balance, December 31, 2012	2,741,143	\$ 6.26
Granted	108,250	5.42
Cancelled	(1,033,135)	7.68
Forfeited	(229,498)	7.32
Exercised	(49,968)	4.55
Balance, September 30, 2013	1,536,792	\$ 5.33

As at September 30, 2013, 744,402 SARs were vested (December 31, 2012 – 783,472).

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 nine months ended September 30,	2013	2012
Risk-free interest rate (%)	1.44	1.08
Expected life (years)	4	3
Expected volatility (%)	48	50
Share price	5.83	4.72
Expected dividends	-	-

As at September 30, 2013, the total SARs liability accrued was \$2.7 million (December 31, 2012 - \$2.9 million) of which \$0.4 million (December 31, 2012 - \$0.5 million) is classified as long-term in accordance with the three year vesting period. For the nine months ended September 30, 2013, Parex recorded \$0.1 million of compensation cost related to the outstanding SARs (nine months ended September 30, 2012 – \$0.01 million)

d) Restricted share units (“RSU”)

On October 19, 2012, The Company put into place a restricted share unit plan pursuant to which the Company may grant restricted shares to directors and certain employees. The plan was approved by shareholders May 22, 2013. 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, 2012	240,800	0.01
Granted	78,800	0.01
Exercised	-	-
Forfeited	(2,000)	0.01
Balance, September 30, 2013	317,600	0.01

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

For the nine months ended September 30,	2013	2012
Risk-free interest rate (%)	1.33	-
Expected life (years)	4	-
Expected volatility (%)	48	-
Expected dividends	-	-

e) Share-based compensation

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Stock-based compensation expense	\$ 2,230	\$ 1,870	\$ 4,696	\$ 5,548
SARs expense	694	749	(220)	(70)
	\$ 2,924	\$ 2,619	\$ 4,476	\$ 5,478

14. Convertible Debenture

On June 29, 2011, Parex issued and 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 common share and represent a conversion rate of approximately 98.52 common shares per Debenture. The Debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. In the event that a holder of Debentures exercises the conversion feature, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of common shares to be received on conversion, for the period from the latest interest payment date to the date of conversion.

The following table summarizes the accounting for the debentures:

	Liability	Derivative financial liability	Total
Balance at December 31, 2011	\$ 60,001	\$ 16,821	\$ 76,822
Accretion	3,744	-	3,744
Amortization of debt issuance costs	564	-	564
Derivative gain	-	(7,294)	(7,294)
Foreign exchange loss	1,348	372	1,720
Balance at December 31, 2012	\$ 65,657	\$ 9,899	\$ 75,556
Accretion	3,056	-	3,056
Amortization of debt issuance costs	460	-	460
Derivative gain	-	(2,217)	(2,217)
Foreign exchange gain	(2,275)	(454)	(2,729)
Balance at September 30, 2013	\$ 66,898	7,228	74,126

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

The fair value of the derivative financial liability is determined using the Black Scholes valuation model and with the following assumptions:

For the period ended September 30,	2013	2012
Risk-free interest rate (%)	1.44	1.13
Expected life (years)	2.75	4
Expected volatility (%)	48	50
Expected dividends	-	-

15. Income Tax

The components of tax expense for the three and six months ended September 30, 2013 and 2012 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Current tax expense	\$ 13,413	\$ 19,282	\$ 35,582	\$ 25,950
Deferred tax expense	(2,715)	(10,124)	4,031	418
Tax expense	\$ 10,698	\$ 9,158	\$ 39,613	\$ 26,368

Colombian Equity Tax

Parex' Colombian subsidiaries were subject to a one-time 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 until September 2014. The outstanding amount is \$1.5 million, to be paid over the remaining two installments all of which is due within one year.

16. Net (loss) income per Share

a) Basic net (loss) income per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net (loss) income				
Net (loss) income for the purpose of basic net (loss) income per share	\$ (27,965)	\$ 7,538	\$ (9,197)	\$ 55,762
Weighted average number of shares for the purposes of basic net (loss) income per share (000s)	108,285	108,422	108,407	108,390
Basic net (loss) income per share	\$ (0.26)	\$ 0.07	\$ (0.09)	\$ 0.51

b) Adjusted diluted net (loss) income per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net (loss) income				
Net (loss) income for the purpose of basic net (loss) income per share	\$ (27,965)	\$ 7,538	\$ (9,197)	\$ 55,762
Elimination of interest and accretion expense and the gain on changes in fair value and foreign exchange, on the Debentures and derivative financial liability	-	-	-	(4,189)
Net (loss) income used to calculate diluted net (loss) income per share	\$ (27,465)	7,538	\$ (9,197)	\$ 51,573
Weighted average number of shares for the purposes of basic net (loss) income per share (000s)	108,285	108,422	108,407	108,390
Dilutive effect of share options on potential common shares	-	918	-	1,419
Dilutive effect of Debentures on potential common shares	-	-	-	8,374
Weighted average number of shares for the purposes of diluted net (loss) income per share	108,285	109,340	108,407	118,183
Diluted net (loss) income per share	\$ (0.26)	\$ 0.07	\$ (0.09)	\$ 0.44

At September 30, 2013, 2,522,595 (December 31, 2012 - 4,848,961) share options had an exercise price in excess of the average market value of the shares for the nine months period ended September 30, 2013. The Company has reported a net loss for the three and nine months ended September 30, 2013 and therefore stock options and the effect of Debentures that are otherwise dilutive are anti dilutive and therefore excluded from the diluted earnings per share.

17. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Accounts receivable	\$ (58,718)	\$ (35,217)	\$ (19,848)	\$ (31,311)
Prepays and other current assets	(163)	322	(2,568)	(2,338)
Oil inventory	(445)	1,289	(2,578)	7,274
Accounts payable and accrued liabilities	27,901	20,719	(10,625)	54,014
Depletion related to oil inventory	1,100	(2,209)	1,063	(5,369)
Net non-cash working capital on acquisition	-	-	-	(13,269)
Net change in non-cash working capital	\$ (30,325)	\$ (15,096)	\$ (34,556)	\$ 9,001
Operating	11,901	29,790	(10,681)	25,447
Investing	(42,226)	(44,886)	(23,875)	(16,446)
Financing	-	-	-	-
Net change in non-cash working capital	\$ (30,325)	\$ (15,096)	\$ (34,556)	\$ 9,001

b) Interest and taxes paid

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Cash interest paid	\$ 1,277	\$ 1,171	\$ 3,837	\$ 3,390
Cash income and equity taxes paid	\$ 629	\$ 2,221	\$ 44,790	\$ 1,580

18. Capital Management

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

The Company manages its capital to achieve the following:

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

Parex has secured a senior credit facility (see note 10 - Long-Term Debt) which as at September 30, 2013 had a borrowing base in the amount of \$100 million. The facility is intended to serve as means to increase liquidity and fund short term cash needs as they arise. As at September 30, 2013, \$18.5 million was drawn on the facility.

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

As at September 30, 2013 the Company's net working capital surplus is \$18.8 million, of which \$26.3 million was cash. This excludes the undrawn amount available under the credit facility of \$81.5 million (December 31, 2012 - \$12.6 million working capital deficit).

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 September 30, 2013 shareholders' equity was \$460.2 million (December 31, 2012 - \$465.4 million) and the Debentures' face value balance was Cdn\$85.0 million (December 31, 2012 - Cdn\$85.0 million).

19. Financial Instruments and Risk Management

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

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

a) Credit risk

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

The Company, for the three and nine months ended September 30, 2013 had the majority of its oil sales to nine counterparties. Accounts receivable balance as at September 30 2013 substantially made up of receivables with customers in the oil and gas industry and is subject to normal industry credit risks. Trade accounts receivable reported in the Company's balance sheet are aged at or under ninety days. The Company historically has not experienced any collection issues with its crude oil customers. None of the Company's receivables are impaired as at September 30, 2013. 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. The Debentures are unsecured and subordinated with expiry on June 30, 2016.

The following are the contractual maturities of financial liabilities at September 30, 2013:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 110,213	\$ -	\$ -	\$ -	\$ 110,213
SARs payable	2,311	365	-	-	2,676
Current income tax payable ⁽¹⁾	16,792	-	-	-	16,792
Equity tax payable	1,548	-	-	-	1,548
Credit Facility ⁽²⁾	-	18,500	-	-	18,500
Interest on the credit facility ⁽²⁾	441	441	-	-	882
Debentures ⁽²⁾	-	-	85,685	-	85,685
Interest on Debentures ⁽²⁾	953	7,626	1,907	-	10,486
Total	\$ 132,258	\$ 26,932	\$ 87,592	\$ -	\$ 246,782

⁽¹⁾ Net of withholding tax receivable in the amount of \$19.4 million.

⁽²⁾ Balances denominated in Canadian dollars have been translated at the September 30, 2013 exchange rate, except for the Debenture which is dominated in its USD hedged amount.

The following are the contractual maturities of financial liabilities at December 31, 2012:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 113,730	\$ -	\$ -	\$ -	\$ 113,730
SARs payable	2,386	511	-	-	2,897
Current income tax payable ⁽¹⁾	23,522	-	-	-	23,522
Equity tax payable	1,572	1,573	-	-	3,145
Credit Facility ⁽²⁾	-	9,100	-	-	9,100
Interest on the credit facility ⁽²⁾	273	273	-	-	546
Debentures ⁽²⁾	-	-	85,434	-	85,434
Interest on Debentures ⁽²⁾	4,485	8,970	2,243	-	15,698
Total	\$ 145,968	\$ 20,427	\$ 87,677	\$ -	\$ 254,072

⁽¹⁾ Net of withholding tax receivable in the amount of \$21.1 million.

⁽²⁾ Balances denominated in Canadian dollars have been translated at the December 31, 2012 exchange rate.

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.

Risk Management contracts

As at September 30, 2013, the Company had entered into fixed and swap contracts which manages its exposure to fluctuations in the price of crude oil.

The following is a summary of the Brent crude oil risk management contracts in place for the nine months period ended September 30, 2013:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
July 1, 2013 to December 31, 2013	ICE Brent	Fixed Price	1000 bbl/d	\$100.00
July 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$108.50
August 1, 2013 to December 31, 2013	ICE Brent	Collar	2000 bbl/d	\$100.00 - \$109.00
August 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$110.90
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$109.01
January 1, 2014 to March 31, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Realized (gain) loss on risk management contracts	\$ 1,329	\$ -	\$ (114)	\$ -
Unrealized loss on risk management contracts	\$ 1,013	\$ -	\$ 667	\$ -
Total	\$ 2,342	\$ -	\$ 553	\$ -

As at September 30, 2013, Parex had committed to the future sale of 1,002,000 barrels of oil with fixed price and collar contracts ranging from \$100 and \$111.25 as noted below. The following sensitivity shows the resulting unrealized (gain) loss impact on income before tax for the oil hedged contracts if Brent oil price were to increase/decrease by \$10/bbl as at September 30, 2013.

Reference	Impact on Income before tax for the three months ended September 30, 2013	
	Increase of 10/bbl	Decrease of 10/bbl
Oil hedged contract		
Total	\$ 6,632	\$ (2,428)

Subsequent to September 30, 2013 Parex entered into the following contracts:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$105.00
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
January 1, 2014 to March 31, 2014	ICE Brent	Put	1000 bbl/d	\$103.00

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\$), Colombian pesos (COP\$) and Trinidad & Tobago dollars (TT\$) while its committed capital expenditures are expected to be primarily denominated in US dollars.

Associated with the Cdn\$85.0 million of convertible 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 CDN dollar denominated debenture is hedged to USD to source a lower interest rate and fix the cost of the debenture.

The following is a summary of the CCIRS contract in place for the six months period ended September 30, 2013:

	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 loss on the CCIRS contract:

		For the three months ended September 30,		For the nine months ended September 30,	
		2013	2012	2013	2012
Realized gain on CCIRS	\$	-	\$ -	\$ (219)	\$ -
Unrealized (gain) loss on CCIRS		(2,067)	-	2,976	-
Total	\$	(2,067)	\$ -	\$ 2,757	\$ -

The loss or gain on the CCIRS contract is recorded in the financial statement line item “Risk management contracts” in the Consolidated Statements of Comprehensive Income.

The following sensitivity show the resulting unrealized (gain) loss impact on income before tax for the CCIRS contract for the respective changes in the period end foreign exchange rates at September 30, 2013.

Exchange Rate Cdn/Usd	Impact on Income before tax for the three months ended September 30, 2013	
	Increase of 5 cents	Decrease of 5 cents
Total	\$ (4,250)	\$ 4,250

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 September 30, 2013.

Interest rate	Impact on Income before tax for the three months ended September 30, 2013	
	Increase of 1%	Decrease of 1%
Total	\$ 167	\$ (167)

20. Segmented Information

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

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

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	157,043	\$	-	\$ 157,043
Royalties		-		(20,293)		-	(20,293)
Revenue		-		136,750		-	136,750
Risk management contracts		(275)		-		-	(275)
		(275)		136,750		-	136,475
Expenses							
Production		-		14,851		-	14,851
Transportation		-		27,620		-	27,620
Purchased oil		-		-		-	-
General and administrative		3,217		4,769		551	8,537
Impairment of exploration and evaluation assets		-		-		37,618	37,618
Share-based compensation		2,231		471		222	2,924
Depletion, depreciation and amortization		110		54,247		(2)	54,355
Foreign exchange (gain) loss		1,731		(274)		(1)	1,456
		7,289		101,684		38,388	147,361
Finance income		-		(473)		-	(473)
Finance expense		6,814		39		1	6,854
Net finance (income) expense		6,814		(434)		1	6,381
Net (loss) income before taxes		(14,378)		35,500		(38,389)	(17,267)
Current tax expense		-		13,413		-	13,413
Deferred tax expense		-		(2,715)		-	(2,715)
Net (loss) income	\$	(14,378)	\$	24,802	\$	(38,389)	\$ (27,965)
Capital assets (end of period)	\$	2,155	\$	565,357	\$	24,529	\$ 592,041
Capital expenditures	\$	15	\$	49,732	\$	215	\$ 49,962
Total assets (end of period)	\$	4,344	\$	785,302	\$	31,181	\$ 820,827

For the three months ended September 30, 2012 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	130,824	\$	-	\$ 130,824
Royalties		-		(8,041)		-	(8,041)
Revenue		-		122,783		-	122,783
Expenses							
Production		-		9,242		-	9,242
Transportation		-		23,872		-	23,872
General and administrative		2,978		3,405		426	6,809
Transaction costs		-		205		-	205
Purchased oil		-		15,896		-	15,896
Share-based compensation		1,833		475		311	2,619
Depletion, depreciation and amortization		234		41,720		21	41,975
Foreign exchange gain		2,468		127		12	2,607
		7,513		94,942		770	103,225
Finance income		(7)		(209)		-	(216)
Finance expense		2,970		102		6	3,078
		2,963		(107)		6	2,862
Net (loss) income before taxes		(10,476)		27,948		(776)	16,696
Current tax expense		-		19,282		-	19,282
Deferred tax expense		-		(10,124)		-	(10,124)
Net (loss) income	\$	(10,476)	\$	18,790	\$	(776)	\$ 7,538
Capital assets (end of period)	\$	2,790	\$	532,951	\$	81,166	\$ 616,907
Capital expenditures	\$	5	\$	47,366	\$	3,531	\$ 50,902
Total assets (end of period)	\$	12,881	\$	680,398	\$	96,267	\$ 789,546

For the nine months ended September 30, 2013 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	469,618	\$	-	\$ 469,618
Royalties		-		(58,680)		-	(58,680)
Revenue		-		410,938		-	410,938
Risk management contracts		(3,310)		-		-	(3,310)
		(3,310)		410,938		-	407,628
Expenses							
Production		-		41,387		-	41,387
Transportation		-		79,860		-	79,860
Purchased oil		-		30,336		-	30,336
General and administrative		9,615		13,059		1,262	23,936
Impairment of exploration and evaluation assets		-		-		37,618	37,618
Share-based compensation		4,697		(304)		83	4,476
Depletion, depreciation and amortization		502		158,301		31	158,834
Foreign exchange (gain) loss		(2,597)		(2,109)		32	(4,674)
		12,217		320,530		39,026	371,773
Finance income		-		(1,101)		-	(1,101)
Finance expense		6,233		293		14	6,540
Net finance (income) expense		6,233		(808)		14	5,439
Net (loss) income before taxes		(21,760)		91,216		(39,040)	30,416
Current tax expense		-		35,582		-	35,582
Deferred tax expense		-		4,031		-	4,031
Net (loss) income	\$	(21,760)	\$	51,603	\$	(39,040)	\$ (9,197)
Capital assets (end of period)	\$	2,155	\$	565,357	\$	24,529	\$ 592,041
Capital expenditures	\$	48	\$	172,533	\$	2,474	\$ 175,055
Total assets (end of period)	\$	4,344	\$	785,302	\$	31,181	\$ 820,827

For the nine months ended September 30, 2012 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	373,900	\$	-	\$ 373,900
Royalties		-		(26,531)		-	(26,531)
Revenue		-		347,369		-	347,369
Expenses							
Production		-		24,164		-	24,164
Transportation		-		65,544		-	65,544
General and administrative		6,139		11,236		2,711	20,086
Purchased oil		-		1,109		-	1,109
Transaction costs		-		17,409		-	17,409
Share-based compensation		5,153		(32)		357	5,478
Depletion, depreciation and amortization		653		131,596		64	132,313
Foreign exchange loss (gain)		2,050		227		12	2,289
		13,995		251,253		3,144	268,392
Finance income		(1,005)		(945)		964	(986)
Finance expense		(2,416)		236		13	(2,167)
		(3,421)		(709)		977	(3,153)
Net (loss) income before taxes		(10,574)		96,825		(4,121)	82,130
Current tax expense		-		25,950		-	25,950
Deferred tax expense		-		418		-	418
Net (loss) income	\$	(10,574)	\$	70,457	\$	4,121	\$ 55,762
Capital assets (end of period)	\$	2,790	\$	532,951	\$	81,166	\$ 616,907
Capital expenditures	\$	212	\$	166,605	\$	35,994	\$ 202,811
Total assets (end of period)	\$	12,881	\$	680,398	\$	96,267	\$ 789,546

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

21. Commitments

At September 30, 2013 guarantees in place with ANH are in the form of issued letters of credit totaling \$31.4 million (December 31, 2012 - \$50 million) to support the exploration work commitments in respect of the 15 blocks in Colombia.

EDC has provided the Company's bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH are reduced from time to time to reflect completed work on an ongoing basis.

a) *Colombia*

The value of the Company's exploration commitments as at September 30, 2013 in respect of the Colombia blocks are estimated to be as follows:

2013	\$	-
2014		32,750
Thereafter		5,000
	\$	37,750

b) *Cory Moruga Block (Trinidad & Tobago)*

The value of the Company's annual financial obligations in the Moruga block remaining at September 30, 2013 is estimated to be as follows:

	Financial Obligation	
2013	\$	14
2014		423
Thereafter		-
	\$	437

c) *Operating leases*

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

The existing minimum lease payments for office space and accommodations at September 30, 2013 are as follows:

	Total		2013		2014		2015		2016	
Office and accommodations	\$	3,624	\$	480	\$	1,234	\$	450	\$	1,460

d) *Drilling rig contracts*

The Company has entered into contracts for drilling rigs in Colombia on terms consistent with normal industry practice for a minimum period of time. The drilling rig commitments have been entered into to fulfill the exploration drilling commitments in both Colombia and Trinidad and Tobago as described above along with the companies 2013 budgeted work program. The commitment amount has been calculated above in points a) and b).

22. Contingencies

As announced by Parex on April 12, 2012, Parex and its wholly owned subsidiaries Parex Resources (Bermuda) Ltd. ("Parex Bermuda") and Ramshorn International Limited ("Ramshorn") have been named as defendants along with Nabors Industrial Ltd. and Nabors Global Holdings II Limited in a lawsuit (the "Lawsuit") filed in the 61st Judicial District Court of Harris County, Texas (the "Texas Court") by a Texas based private company (the "Plaintiff"). The Lawsuit relates to a share purchase agreement entered into by the Plaintiff and a third party seller (the "Seller") (prior to the agreement entered into by Parex Bermuda and the Seller for the purchase of Ramshorn) respecting the proposed purchase by the Plaintiff of the shares of Ramshorn, which prior agreement the Plaintiff claims was improperly terminated by the Seller. The Plaintiff is seeking specific performance remedies or in the alternative, actual, consequential,

and exemplary damages. Each of Parex, Parex Bermuda and Ramshorn specially appeared in the Lawsuit to challenge the jurisdiction of the Texas Court and to seek dismissal of the claims against them.

A hearing on the jurisdictional aspects of the case took place on November 19 and 20, 2012 and the decision of the Texas Court on these jurisdictional matters has now been received. The Texas Court found that it does not have jurisdiction over Parex Bermuda and ordered that all of the Plaintiff's claims against Parex Bermuda be dismissed. The Texas Court overruled Parex and Ramshorn's jurisdictional challenges such that the Plaintiff's claims against Parex and Ramshorn have not been dismissed. Parex and Ramshorn have filed a Notice of Appeal of the Texas Court's rulings in this regard. Additionally, the Texas Court has entered an order staying all discovery between the Plaintiff and Parex/Ramshorn pending the outcome of the appeal on these jurisdictional matters. A consolidated oral hearing to the Court of Appeals was held September 18, 2013. Parex' counsel currently anticipates that it will be likely months before a ruling is received regarding the jurisdictional issues in the case.

Parex and Ramshorn believe that the Lawsuit and the Plaintiff's claims against it are baseless and without merit and will continue to vigorously defend the Lawsuit, including by way of appealing the Texas Court's recent jurisdictional rulings against Parex and Ramshorn. Based on input from counsel received to date and on managements' understanding of the facts, risks and uncertainties at the date of authorization of these financial statements management has determined it is not more likely than not that an economic outflow will occur given these uncertainties.



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Executive VP Exploration & Business Development

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbbls
mmbbls
mmmbbls
NGLs
bbbls/d
mmbbls/d

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

Other

WTI
Brent

West Texas Intermediate
Brent Ice