

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended September 30, 2014 is dated November 4, 2014 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended September 30, 2014, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2013. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

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

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

Company Profile

Parex is an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks totaling approximately 2,765,954 gross acres. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

Abbreviations

Refer to the end of the MD&A for commonly used abbreviations in the document. Refer to page 19 for the Advisory on Forward-Looking Statements and page 21 for Non-GAAP Terms used.

Three months ended September 30, 2014 ("third quarter or Q3") Highlights

- Funds flow from operations was in excess of capital expenditures by approximately \$31.9 million, which along with the conversion and redemption of the Debentures, results in Parex having no net debt at September 30, 2014;
- Achieved quarterly oil production of 25,175 bopd, an increase of 27 percent over the second quarter of 2014 and a 55 percent increase from the comparative period;
- Generated funds flow from operations of \$88.7 million (\$0.70 per share basic, \$0.69 per share diluted). This was reduced by a \$9.1 million (\$0.07 per share) one-time charge related to the unwinding of the cross-currency hedge associated with the conversion of the Company's Debentures, as compared to \$77.3 million (\$0.70 per share basic, \$0.64 per share diluted) for the previous quarter and \$68.2 million (\$0.63 per share basic, \$0.56 per share diluted) in the comparative period;
- Invested \$56.8 million including drilling 9 gross wells (5.7 net) in Colombia, resulting in 5 oil wells, 2 disposal wells, 1 untested well, and 1 dry hole;
- Realized Brent referenced sales price of \$94.40/bbl and an operating netback of \$53.39/bbl;
- Acquired two new blocks in the 2014 Colombian bid round at 100% working interest in the Magdalena Basin, VIM-1 and VMM-9, totaling 375,965 acres. This, in conjunction with acquiring a 45% working interest in Block LLA-10, resulted in increased land holdings of 460,312 net acres.

Financial Summary

(Financial figures in 000s except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Average daily production (bopd)	25,175	16,199	21,172	15,374
Realized sales price (\$/bbl)	94.40	106.41	100.05	105.15
Operating netback (\$/bbl)	53.39	63.88	58.12	63.19
Oil and natural gas sales	\$ 228,648	\$ 157,043	\$ 591,438	\$ 469,618
Funds flow from operations ⁽¹⁾	\$ 88,678	\$ 68,241	\$ 242,755	\$ 194,105
Per share – basic	0.70	0.63	2.10	1.79
Per share – diluted ⁽⁵⁾	0.69	0.56	2.07	1.59
Adjusted net income (loss) ⁽¹⁾⁽²⁾	\$ 16,768	\$ (23,940)	\$ 63,479	\$ (11,415)
Per share – basic	0.13	(0.22)	0.55	(0.10)
Per share – diluted	0.13	(0.22)	0.54	(0.10)
Net income (loss)	\$ 16,768	\$ (27,965)	\$ 37,839	\$ (9,197)
Per share – basic	0.13	(0.26)	0.33	(0.09)
Per share – diluted ⁽⁶⁾	0.13	(0.26)	0.32	(0.09)
Capital Expenditures, excluding corporate acquisitions	\$ 56,799	\$ 49,962	\$ 213,305	\$ 175,055
Total assets (end of period)	\$ 1,266,610	\$ 820,827	\$ 1,266,610	\$ 820,827
Working capital surplus (end of period) ⁽⁴⁾	\$ 45,321	\$ 18,801	\$ 45,321	\$ 18,801
Debt (end of period) ⁽³⁾	\$ -	\$ 66,898	\$ -	\$ 66,898
Bank debt (end of period) ⁽⁷⁾	\$ 42,305	\$ 18,500	\$ 42,305	\$ 18,500
Weighted average shares outstanding (000s)				
Basic	126,410	108,285	115,620	108,407
Diluted	130,469	124,539	118,549	124,445
Outstanding shares (end of period (000s))	134,253	108,355	134,253	108,355

⁽¹⁾ Non-GAAP terms See “Non-GAAP terms”.

⁽²⁾ Adjusted net income (loss) has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three and nine months ended September 30, 2014 adjusted net (loss) income excludes \$nil income (loss) and a \$25.6 million loss upon revaluation of the derivative liability associated with the Company’s Debentures (three and nine months ended September 30, 2013 excludes a \$4.0 million loss and \$2.2 million gain upon revaluation of the derivative liability).

⁽³⁾ During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for Cdn\$0.3 million in cash

⁽⁴⁾ Working capital calculation does not take into consideration the undrawn \$132.7 million (September 30, 2013 - \$81.2 million) available under the syndicated bank credit facility.

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

⁽⁶⁾ Net income (loss) diluted has been adjusted for the IFRS accounting effects of changes in the Debentures. For the three months and nine months ended September 30, 2014 the effect of the debenture is anti-dilutive (three months ended September 30, 2013 there was no adjustment made as the effect of the Debenture was anti dilutive and for nine months ended September 30, 2013 the effect of the debenture was a \$1.4 million reduction relating to accretion, interest, foreign exchange and gain upon revaluation of the derivative liability).

⁽⁷⁾ Syndicated bank credit facility currently has a borrowing base of \$175 million, an increase from the borrowing base of \$100 million at September 30, 2013.

Strategy

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

Principal Properties

As at September 30, 2014, the Company's principal land holdings and interests in exploration and production blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
<u>Operated Properties</u>			
LLA-16, 20, 29 and 30	100%	489,137	489,137
LLA-57	100%	104,532	104,532
Los Ocarros	50%	110,436	55,218
LLA-17	63%	108,726	68,497
El Eden	60%	109,249	65,549
Cabrestero	100%	29,562	29,562
LLA-40	50%	163,090	81,545
LLA-24 ⁽¹⁾	100%	147,100	147,100
LLA-26 ⁽¹⁾	100%	184,061	184,061
Cebucan ⁽¹⁾	100%	109,150	109,150
El Porton ⁽¹⁾⁽³⁾	50%	109,476	54,738
Cerrero ⁽¹⁾	65%	108,973	70,832
Capachos ⁽¹⁾	50%	64,175	32,088
LLA-32	70%	100,325	70,228
LLA-10	45%	189,544	85,295
VIM-1	100%	223,651	223,651
VMM-9	100%	152,314	152,314
<u>Non-Operated Properties</u>			
LLA-34	55%	82,286	45,257
Balay	10%	4,500	450
Colombia Middle Magdalena Basin			
<u>Operated Properties</u>			
VMM-11 ⁽¹⁾	100%	116,826	116,826
Morpho ⁽¹⁾	100%	51,398	51,398
Trinidad & Tobago			
<u>Non-operated Properties</u>			
Cory Moruga ⁽²⁾	32.8%	7,443	2,441
Total		2,765,954	2,239,869

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

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

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

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

2014 Guidance

Supported by the Company's exploration and appraisal drilling to date in 2014 and its recent acquisition of Verano, Parex has increased its 2014 full year production guidance which is approximately 40% higher than the prior year as set out in the table below:

Revised 2014 Production Guidance

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

2014 production growth has been primarily driven by the appraisal drilling success at the Akira, Tigana and Tua fields, plus LLA-32 exploration success. The Company forecasts that the 2014 production guidance can be achieved with a capital expenditure budget of approximately \$290 million as compared to the previous outlook of \$365 million, excluding the corporate acquisition costs, and is forecast to be funded entirely from cash flow. There was no reduction of the 2014 production guidance forecast resulting from the decreased forecast capital expenditures as the deferred capital was in respect of: a) deferral of drilling into Q1 2015 on blocks LLA-26 and El Porton; b) drilling and testing proof of concept activity on the Cebucan Block.

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,	
	2014	2013	2014	2013
Average daily production				
Colombia – oil (bopd)	25,175	16,199	21,172	15,374
Total (bopd)	25,175	16,199	21,172	15,374
Average daily sales				
Colombia – produced oil (bopd)	24,490	16,041	20,697	15,223
Colombia – purchased oil (bopd)	1,859	-	956	1,137
Total (bopd)	26,349	16,041	21,653	16,360
Operating netback (\$000s)				
Oil sales	\$ 228,648	\$ 157,043	\$ 591,438	\$ 469,618
Royalties	(24,516)	(20,293)	(74,702)	(58,680)
Net revenue	204,132	136,750	516,736	410,938
Production expense	(27,730)	(14,851)	(63,514)	(41,387)
Transportation expense	(43,106)	(27,620)	(103,263)	(79,860)
Purchased oil	(12,948)	-	(20,725)	(30,336)
Operating netback	\$ 120,348	\$ 94,279	\$ 329,234	\$ 259,335
Operating netback (per bbl)				
Oil sales ⁽¹⁾	\$ 94.40	\$ 106.41	\$ 100.05	\$ 105.15
Royalties	(10.89)	(13.75)	(13.22)	(14.12)
Net revenue	83.51	92.66	86.83	91.03
Production expense	(12.32)	(10.06)	(11.24)	(9.96)
Transportation expense	(17.80)	(18.72)	(17.47)	(17.88)
Operating netback	\$ 53.39	\$ 63.88	\$ 58.12	\$ 63.19

⁽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, 2014 was \$53.39 and \$58.12 compared to \$61.65 for the second quarter of 2014. The average realized sales price in Colombia for the three and nine months ended September 30, 2014 was \$94.40/bbl and \$100.05/bbl compared to \$104.53/bbl for the second quarter of 2014.

Royalty charges for the three and nine months ended September 30, 2014 were \$10.89/bbl and \$13.22/bbl in comparison to \$15.06/bbl for the second quarter of 2014.

Production expense for the three and nine months ended September 30, 2014 was \$12.32/bbl and \$11.24/bbl compared to \$11.41/bbl for the second quarter of 2014 and \$10.06/bbl in the comparative prior year three month period.

Transportation expense per barrel for the three and nine months ended was \$17.80/bbl and \$17.47/bbl compared to \$16.41/bbl for the second quarter of 2014 and \$18.72/bbl in the comparative prior year 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 decreased by \$6.27/bbl in the third quarter as compared to the second quarter of 2014, while the operating netback decreased by \$8.26/bbl in the same period. The decrease in operating netback was in line with the decrease in the reference price, with the difference being attributed to the increased operating costs, offset by a decrease in royalties per barrel.

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,	
	2014	2013	2014	2013
Block LLA-34 (Max, Tua & Tarotaro fields)	11,277	3,878	8,742	2,824
Block LLA-32 (Kananaskis, Carmentea, Maniceno and Bandola fields)	4,932	479	2,134	597
Block Los Ocarros (Las Maracas field)	4,548	5,799	5,607	4,959
Block LLA-16 (Kona, Sulawesi, Java, and Malawi fields)	1,450	4,459	2,209	5,494
Block LLA-30 (Adalia field)	1,292	693	697	303
Block Cabrestero (Kitaro & Akira fields)	794	278	1,066	542
Other	882	613	715	655
Total Production	25,175	16,199	21,172	15,374
Inventory (build) draw	(685)	(158)	(475)	(151)
Colombia average daily oil sales of produced oil	24,490	16,041	20,697	15,223
Purchased oil	1,859	-	956	1,137
Sales Volumes	26,349	16,041	21,653	16,360

Production for the third quarter of the year averaged 25,175 bopd, an increase of approximately 55 percent from the third quarter of 2013. Production increased 27 percent from the second quarter of 2014. The third quarter production increase as compared to the second quarter was a result of the Verano acquisition completed on June 25, 2014 plus incremental production increases attributable to Block LLA-34 and Block LLA-32. During the three months ended September 30, 2014, inventory increased by an average of approximately 685 bopd mainly a result of oil delivery timing.

The increase in oil sales in the third quarter of 2014 to 26,349 bopd compared to oil sales of 16,041 bopd for the three months ended September 30, 2013 was primarily a result of higher production volumes as shown in the table above.

b) Average Reference and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Reference Prices				
WTI (\$/bbl)	97.25	105.83	99.62	98.15
Brent (\$/bbl)	103.46	110.22	106.99	108.33
Vasconia (\$/bbl)	96.32	106.19	100.34	104.31
Realized sales price (\$/bbl)	94.40	106.41	100.05	105.15
Realized oil hedging (loss) gain (\$/bbl)	0.19	(0.89)	(0.41)	0.03
Realized price after hedging (\$/bbl)	94.59	105.52	99.64	105.18
Realized price (discount) as percentage of Brent (%)	(9)	(4)	(6)	(3)
Realized price premium (discount) as percentage of WTI (%)	(3)	1	-	7

The Company's oil sales contracts during the period ended September 30, 2014 were referenced to a blend of Brent and Colombia Vasconia crude. The realized price discount to Brent was 9 percent in the quarter compared to 5 percent in the second quarter of 2014 and a 4 percent discount in the comparative period. The differential increased in the current quarter from the comparative periods as a result of an adjustment received in the third quarter relating to the prior period impacting sales by \$0.80/bbl and an increase in heavy oil production as a percentage of the Company's crude oil sales. However the majority of the impact of increased heavy oil production is forecast to be offset by the Company's crude blending operations which were commissioned during the quarter. Another factor was the increase in the volatility of the reference prices in the period. Prices are impacted by timing of crude oil shipments and Brent oil prices at the time of oil shipments.

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

Average price for the period	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Brent (\$/bbl)	103.46	109.69	108.17	109.21	110.22
Parex realized sales price (\$/bbl)	94.40	104.53	103.42	101.64	106.41
Parex realized price (discount) as percentage of Brent (%)	(8.8)	(4.7)	(4.4)	(6.9)	(3.5)

c) Oil Revenue

Third quarter 2014 oil revenue increased \$71.6 million or 46 percent as reconciled in the table below to the third quarter of 2013:

(\$000s)	
Oil revenue, three months ended September 30, 2013	\$ 157,043
Sales volume of produced oil, an increase of 53% (8,449 bopd)	81,367
Purchased oil sold increase	15,856
Sales price decrease of 11%	(25,618)
Oil revenue, three months ended September 30, 2014	\$ 228,648

Oil sales increased in the three months ended September 30, 2014 compared to the same period in 2013 due to the Verano acquisition completed in late June 2014, along with an incremental increase in oil production from the acquired fields. Oil sales of produced oil for the three months ended September 30, 2014 were less than crude oil production and as a result crude oil inventory increased 54,000 bbls from the second quarter of 2014, see "Colombian Crude Oil Inventory in Transit" below.

d) Colombian Crude Oil Inventory in Transit

As at September 30, (\$000s)	2014		2013	
Crude oil in transit	\$	13,880	\$	10,052

At September 30, 2014, the Company had 249,355 bbls of crude oil inventory in transit (146,588 bbls for the third quarter of 2013). The inventory is valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately \$56/bbl (\$69/bbl for the third quarter of 2013 and \$48/bbl for the second quarter of 2014) incurred in bringing the crude oil to its existing condition and location. A reconciliation of the crude oil inventory in transit volumes is provided below:

For the nine months ended September 30, (mbbls)	2014		2013	
Crude oil inventory in transit - beginning of the period	137.0		98.8	
Oil production	5,780.0		4,193.4	
Oil sales	(5,911.3)		(4,466.4)	
Purchased oil	261.0		323.3	
Company consumptions	(17.3)		(2.5)	
Crude oil inventory in transit - end of the period	249.4		146.6	

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

For the periods ended (mbbls)	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
Crude oil inventory in transit - beginning of the period	195.4	73.6	137.0	146.6
Oil production	2,316.2	1,805.5	1,658.3	1,590.4
Oil sales	(2,424.1)	(1,745.7)	(1,741.5)	(1,642.7)
Company consumptions	(9.2)	(5.3)	(2.8)	(2.4)
Purchased oil	171.1	67.3	22.6	45.1
Crude oil inventory in transit - end of the period	249.4	195.4	73.6	137.0

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.

Inventory increased in the third quarter of 2014 mainly due to an increase in inventoried pipeline volumes and timing of shipments which have a greater impact as higher volumes are being shipped.

e) Purchased Oil

(mbbls)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Oil purchased	171.1	-	261.0	323.3
Purchased oil sales	(171.1)	-	(261.0)	(323.3)
Purchased oil net change in inventory	-	-	-	-

From time to time the Company will purchase crude oil from partners. The table above shows the effect of purchased oil on ending crude oil inventory balances. At September 30, 2014 the Company had no third party purchased oil in inventory.

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Purchased oil expense (\$000s)	\$ 12,948	\$ -	\$ 20,725	\$ 30,336

Purchased oil expense for the three and nine months ended September 30, 2014 was \$12.9 and \$20.7 million compared to \$5.9 million for the second quarter of 2014 and \$nil and \$30.3 million for the 2013 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,	
	2014	2013	2014	2013
Royalties (\$000s)	\$ 24,516	\$ 20,293	\$ 74,702	\$ 58,680
Per unit (\$/bbl)	\$ 10.89	\$ 13.75	\$ 13.22	\$ 14.12
Percentage of sales ⁽¹⁾⁽²⁾	14.2%	15.7%	16.0%	16.4%

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

⁽²⁾ Net of transportation costs

In the three months ended September 30, 2014 royalties as a percentage of sales was 14%, while for the nine months ended September 30, 2014 the percentage was higher at 16%. The decrease in the royalty as a percentage of sales is largely a result of lower production volumes from the Kona and Las Maracas fields that are now subject to higher royalties. The higher royalty regime comes into effect when accumulated production of any production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices exceed pricing determined in the contract. The calculation is described as a "High Price Share" in the Company's Annual Information Form dated March 19, 2014, and may be accessed through the SEDAR website at www.sedar.com.

The Company expects that the overall royalty as a percentage of sales will continue to decrease in the final quarter of 2014 as production from new discoveries is brought online and production from fields subject to the High Price Share decreases as a percentage of total production. It is expected that the Tigana and Tua fields will become subject to the higher royalty regime in the second quarter of 2015.

Colombian Production Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Production expense (\$000s)	\$ 27,730	\$ 14,851	\$ 63,514	\$ 41,387
Per unit (\$/bbl) – based on sales volumes	\$ 12.32	\$ 10.06	\$ 11.24	\$ 9.96

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,	
	2014	2013	2014	2013
Per unit (\$/bbl) – based on sales volumes – operated ⁽¹⁾	\$ 12.79	\$ 7.34	\$ 11.20	\$ 7.91
Per unit (\$/bbl) – based on sales volumes – non-operated ⁽¹⁾	\$ 11.78	\$ 18.34	\$ 11.30	\$ 16.93

⁽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 was \$12.32 as compared to the second quarter of 2014 of \$11.41 and \$10.06 in the comparable three month period in 2013. Operated property production expense in the third quarter was \$12.79/bbl compared to \$10.86/bbl for the second quarter of 2014 and \$7.34 in the comparable three month period in 2013. Non-operated properties production expense was \$11.78/bbl for the third quarter of 2014 compared to \$12.13/bbl for the second quarter of 2014 and \$18.34 for the comparable three month period in 2013.

The costs on operated fields increased in the period compared to both the prior period and the comparable period in 2013 is a result of higher water handling costs, and expensed workovers on the Las Maracas and Kona fields, along with lower fixed cost absorption per bbl due to the natural production decline at these fields. The Company also experienced a \$0.40/bbl impact associated with reprocessing oil from non-operated Block LLA-34. This reprocessing cost should be reduced with the commissioning of the Tua production facility in January 2015. The quarter over quarter decrease in the non-operated properties production expense primarily relates to fixed cost absorption through higher production on the non-operated Block LLA-34.

Colombian Transportation Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Transportation expense (\$000s)	\$ 43,106	\$ 27,620	\$ 103,263	\$ 79,860
Per unit (\$/bbl)	\$ 17.80	\$ 18.72	\$ 17.47	\$ 17.88

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, 2014, the cost of transportation on a per barrel basis has increased to \$17.80/bbl from the second quarter of \$16.41/bbl and decreased from the comparative period of \$18.72/bbl. The increase from the second quarter relates to increased trucking costs, as there were issues associated with the Company's primary delivery point and a delivery point further from the Company's operations was used. For the balance of 2014, the Company expects trucking costs per barrel to decrease and be more in line with the prior quarter as it is anticipated there will continue to be more pipeline capacity and a reduction of oil trucking fees.

General and Administrative Expense ("G&A")

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Gross G&A	\$ 11,775	\$ 10,230	\$ 31,919	\$ 28,939
G&A recoveries	(273)	(793)	(1,176)	(2,177)
Capitalized G&A	(2,532)	(900)	(6,158)	(2,826)
Net G&A expense	\$ 8,970	\$ 8,537	\$ 24,585	\$ 23,936
Per unit (\$/bbl) ⁽¹⁾	\$ 3.88	\$ 5.76	\$ 4.27	\$ 5.72

⁽¹⁾ Calculated based on Company working interest production volumes

Net G&A was \$24.6 million for the nine months ended September 30, 2014 compared to \$23.9 million for the same period in 2013. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expense and employee costs. For the third quarter of 2014 net G&A was mainly comprised of \$6.0 million relating to staff, consultants and professional services and \$3.0 million relating to office costs and 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 261 full-time-equivalents in three locations were working for Parex as at September 30, 2014 compared to 203 at September 30, 2013 and 230 at June 30, 2014. On a per barrel basis net G&A for the year has declined 25% from the comparative period.

Share-Based Compensation Expense

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Share-based compensation expense	\$ 1,508	\$ 2,021	\$ 4,472	\$ 4,118
Share appreciation rights expense	1,292	694	9,111	(220)
Restricted share units expense	619	209	1,821	578
Share-based compensation expense	\$ 3,419	\$ 2,924	\$ 15,404	\$ 4,476

Share-based compensation expense was \$1.5 million for the three months ended September 30, 2014 compared to \$2.0 million for the same period in 2013. As at September 30, 2014 stock options outstanding were 6,239,340 equaling five percent of the common shares outstanding at the end of the third quarter. A total of 2,498,648 options were exercised, 126,875 options were granted and 84,250 options were forfeited during the nine months ended September 30, 2014. For the nine month period ended September 30, 2014, the weighted average fair value upon grant date of the options granted based upon the Black Scholes option value methodology was Cdn\$3.24 per option (nine months ended September 30, 2013 - Cdn\$2.01 per option).

Share appreciation rights ("SARs") expense was \$1.3 million expense for the three months ended September 30, 2014 compared to \$0.7 million for the same period in 2013. As at September, 2014, 2,340,164 SARs were outstanding all of which were granted to employees in Colombia and Trinidad & Tobago. The weighted average exercise price at September 30, 2014 of the SARs outstanding was Cdn \$6.46 per SAR (September 30, 2013 – Cdn \$5.33 per SAR).

As at September 30, 2014, the total SARs liability accrued is \$9.9 million (December 31, 2013 - \$3.2 million).

Restricted share unit expense was \$0.6 million for the three months ended September 30, 2014 compared to \$0.2 million for the same period in 2013. A total of 43,700 units were granted, 14,332 units were exercised, and 7,868 units were forfeited during the nine months ended September 30, 2014. For the nine month period ended September 30, 2014 the fair value upon grant date of the units issued was Cdn \$8.73 per RSU (nine months ended September 30, 2013 – Cdn \$5.19 per RSU).

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
DD&A expense (\$000s)	\$ 62,995	\$ 54,355	\$ 166,822	\$ 158,834
Per unit (\$/bbl)	\$ 27.23	\$ 36.67	\$ 28.96	\$ 38.08

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

Third quarter 2014 DD&A rate of \$27.23/bbl was 26% lower than third quarter 2013 rate of \$36.67/bbl due to an increase in the Company's crude oil reserves year over year. Third quarter 2014 DD&A rate is consistent with the second quarter 2014 rate of \$27.46/bbl. The nine month period ended September 30 DD&A expense also decreased from \$38.08/bbl in the comparative 2013 period to \$28.96/bbl for the current nine month period. This decrease in year to date DD&A per barrel is also a result of drilling success and increased reserves as compared to the prior period.

Included in the Q3 depletion calculation were future development costs of \$415.6 million compared to \$178.5 million in the third quarter of 2013. Third quarter 2014 depletion was \$62.6 million compared to \$54.0 million for the same period in 2013. The increase in depletion expense is a result of higher production in the third quarter compared to the same period of 2013 partially offset by lower depletion costs per barrel in 2014 as compared to 2013. The remaining DD&A relates to seismic equipment and office equipment which is depreciated over the assets estimated useful lives.

Foreign Exchange (Gain) Loss

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Foreign exchange (gain) loss (\$000s)	\$ (1,315)	\$ 1,456	\$ (2,481)	\$ (4,674)
Foreign Exchange Rates				
CAD\$/USD\$	0.92	0.96	0.91	0.98
Colombian peso/USD\$	1,908	1,908	1,941	1,854

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 driver of foreign exchange loss and gain recorded on the consolidated statements of comprehensive income (loss) is the revaluation of the Canadian dollar denominated Debenture, which on September 24th was redeemed. Peso denominated income tax and accounts payable in Colombia also have an impact. For both the three and nine months ended September 30, 2014, the total foreign exchange gain of \$1.3 million and 2.5 million relates to both the Canadian dollar and Colombian peso depreciating in value from the exchange rates at December 31, 2013. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statement of comprehensive income (loss).

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn\$85.0 million Convertible Debentures with the redemption date set as September 24, 2014. During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for \$0.3 million in cash. The foreign exchange gain on the Debenture was offset by a corresponding loss on the Cross Currency Interest Rate Swap. In association with the settlement of the Debenture, the Cross Currency Interest Rate Swap has also been terminated in the current period (refer to the "Risk Management" section for additional information).

Going forward the company expects less foreign exchange adjustments due to the redemption and conversion of the Canadian dollar denominated Debenture. There will still however continue to be foreign exchange impacts on Colombian peso denominated balance sheet accounts such as Colombian income taxes payable and peso denominated accounts receivable and accounts payable.

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

Net Finance Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Interest expense and bank charges	\$ 2,298	\$ 1,579	\$ 5,391	\$ 4,934
Accretion on convertible debentures	1,075	1,050	3,210	3,056
Accretion on decommissioning and environmental liabilities	313	41	793	307
Loss (gain) on derivative financial liability	-	4,026	25,640	(2,217)
Gain on settlement of convertible debentures	(2,490)	-	(2,490)	-
Amortization of debt issuance costs	154	158	475	460
Loss (gain) on CCIRS contract	2,734	(2,067)	2,672	2,757
Loss on disposition of tangible assets	20	-	595	-
Interest and other income	(493)	(473)	(1,411)	(1,101)
Net finance expense	\$ 3,611	\$ 4,314	\$ 34,875	\$ 8,196

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Non cash finance expense	\$ (1,037)	\$ 3,208	\$ 28,223	\$ 4,582
Cash finance expense	4,648	1,106	6,652	3,614
Net finance expense	\$ 3,611	\$ 4,314	\$ 34,875	\$ 8,196

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn\$85.0 million Convertible Debentures (the “Debentures”), with the redemption date set as September 24, 2014. During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted by the Debenture holders for an aggregate of 8,339,991 common shares of the Company and Debentures not converted were redeemed for \$0.3 million in cash. A gain of \$2.5 million on the settlement of the Debentures and the related derivative financial liability was recognized in finance expense in the consolidated statement of comprehensive income (loss) during the period ended September 30, 2014 (refer to the “Debenture” section for additional information).

Interest expense relates to the Debentures and interest on the credit facility. The interest expense on the Debentures up to the date of redemption for the three and nine month ended September 30, 2014 was \$0.9 million and \$2.9 million (three and nine months ended September 30, 2013 – \$1.1 million and \$3.3 million). The accretion expense for the debentures for the three and nine months ended September 30, 2014 was \$1.1 million and \$3.2 million (three and nine months ended September 30, 2013 – \$1.1 million and \$3.1 million). The accretion is related to the Debentures liability portion being accreted under the effective interest rate method until the date of redemption of the Debentures.

For the nine months ended September 30, 2014, a \$25.6 million loss (three and nine months ended September 30, 2013 - \$4.0 million loss and \$2.2 million gain) was recognized on the conversion feature of the Debenture. The Debenture was converted by Debenture holders on September 24, 2014.

Risk Management

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

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

a) Risk Management Contracts- Brent Crude

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

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
April 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00
July 1, 2014 to September 30, 2014	ICE Brent	Put	3000 bbl/d	\$103.00
October 1, 2014 to December 31, 2014	ICE Brent	Put	6000 bbl/d	\$103.00

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Realized (gain) loss on commodity risk management contracts	\$ (421)	\$ 1,329	\$ 2,326	\$ (114)
Unrealized (gain) loss on commodity risk management contracts	(3,583)	1,013	(4,148)	667
Total	\$ (4,004)	\$ 2,342	\$ (1,822)	\$ 553

The Company’s net unrealized derivative gain on risk management contracts for the nine months ended September 30, 2014 of \$4.1 million (nine month period ended September 30, 2013 – loss of \$0.7 million) is primarily attributable to the Company’s derivative contracts being in excess of Brent forward benchmark price.

b) Risk Management Contracts – Foreign Exchange

The following is a summary of the foreign currency risk management contracts in place as at September 30, 2014:

Period Hedged	Reference	Type	Amount USD	Price (COP)
September 5, 2014 to April 30, 2015	Colombian Peso	Put	\$15 million	1,850
September 5, 2014 to April 30, 2015	Colombian Peso	Call	\$15 million	2,100

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

	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%

In association with the settlement of the Debenture (see the “Debenture” section for additional details), the CCIRS has also been terminated in the current period.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Realized (gain) loss on foreign currency risk management contracts	\$ 2,852	\$ -	\$ 2,672	\$ (219)
Unrealized (gain) loss on foreign currency risk management contracts	(118)	(2,067)	-	2,976
Total	\$ 2,734	\$ (2,067)	\$ 2,672	\$ 2,757

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

Income Tax

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Current tax expense	\$ 13,652	\$ 13,413	\$ 44,816	\$ 35,582
Future tax (recovery) expense	16,190	(2,715)	8,483	4,031
Tax expense	\$ 29,842	\$ 10,698	\$ 53,299	\$ 39,613

The current and future tax expense relates to the Company’s operations in Colombia. Current tax in the third quarter was \$13.7 million as compared to \$13.4 million in the comparative three month period. The current tax expense stayed flat quarter over quarter notwithstanding the 18% increase in Colombian cash flow as a result of the incremental cash flows associated with the Verano acquisition not being subject to current income tax as a result of the utilization of the Verano carry forward tax losses. Deferred tax expense in the third quarter of 2014 was \$16.2 million and \$8.5 million for the nine month period in 2014 (\$2.7 million recovery and \$4.0 million expense for the three and nine months ended September 30, 2013), as a result of a widening of the book and tax basis in Colombian subsidiaries which was driven mainly by a depreciation in the Colombian peso in both the three and nine month periods.

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, 2014 on Colombian segmented operating cash flows was 14%.

For the fourth quarter of 2014 and through mid 2015 the anticipated Verano taxable income is expected to be offset by the utilization of these carry forward losses which will result in little current tax accruing to the Verano assets acquired. The full year 2014 Colombian effective tax rate on Colombian segmented operating cash flows is expected to be 13%.

Capital Expenditures

For the three months ended September 30, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Acquisition of unproved properties	2,199	603	-	225	-	-	2,199	828
Geological and geophysical	3,071	2,760	-	25	-	-	3,071	2,785
Drilling and completion	45,507	38,516	-	(35)	-	-	45,507	38,481
Well equipment and facilities	5,775	7,696	-	-	-	-	5,775	7,696
Other	194	157	10	-	43	15	247	172
Total capital expenditures	\$ 56,746	\$ 49,732	\$ 10	\$ 215	\$ 43	\$ 15	\$ 56,799	\$ 49,962

⁽¹⁾ Excludes Verano and Sorgenia corporate acquisition costs.

For the nine months ended September 30, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Acquisition of unproved properties	7,434	2,581	-	1,103	-	-	7,434	3,684
Geological and geophysical	6,550	10,310	-	2,305	-	-	6,550	12,615
Drilling and completion	175,966	127,790	-	(1,785)	-	-	175,966	126,005
Well equipment and facilities	22,538	18,690	-	851	-	-	22,538	19,541
Other	553	673	166	-	98	48	817	721
	\$ 213,041	\$ 160,044	\$ 166	\$ 2,474	\$ 98	\$ 48	\$ 213,305	\$ 162,566
Property acquisition costs	-	12,489	-	-	-	-	-	12,489
Total capital expenditures	\$ 213,041	\$ 172,533	\$ 166	\$ 2,474	\$ 98	\$ 48	\$ 213,305	\$ 175,055

⁽¹⁾ Excludes Verano and Sorgenia corporate acquisition costs.

a) Capital Expenditures Summary

During the nine months ended September 30, 2014 the Company incurred \$213.3 million of capital expenditures compared to \$175.1 million in the same period of 2013. During Q3, 2014 the Company drilled 9 gross (5.7 net) wells, compared to 6 gross (2.85 net) wells in the comparative period. Historically Q3 is a period of reduced drilling activity due to seasonality.

During Q3, 2014 drilling and completion costs totaled \$45.5 million of which the majority related to drilling, completion and capitalized workover costs in Colombia. The drilling and completion costs per well on a net basis was \$8.0 million in the second quarter of 2014 versus \$13.5 million in the comparative period.

In the third quarter of 2014 the Company's Colombian operations utilized two drilling rigs and one service rig plus equipment utilized on the non-operated block in the quarter. Spending on well equipment and facilities was \$5.8 million all focused in Colombia primarily on Block LLA-30 and LLA-34.

During the nine months ended September 30, 2014 capital expenditures of \$213.3 million, excluding the corporate acquisitions, were self funded from funds flow from operations of \$242.8 million. The Company has maintained its ability to fund growth from cash flow since 2012.

Corporate Acquisitions

a) Verano acquisition

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

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

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

Assets acquired and liabilities assumed⁽¹⁾	
Working capital deficiency	\$ (25,336)
PP&E	247,617
E&E assets	18,954
Deferred tax liability	(53,149)
Decommissioning and environmental liabilities	(1,852)
	\$ 186,234

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

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

An adjustment has been made to the fair values of assets acquired and liabilities assumed during the three months ended September 30, 2014.

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

The settlement of pre-existing relationship related to an outstanding payable balance between Verano and the Company that was no longer owed as a result of the Acquisition.

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

Oil sales	\$ 76,628
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The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. The consolidated statement of comprehensive income (loss) for the period ended September 30, 2014 includes \$44.4 million of oil sales attributable to the assets acquired since the Verano Acquisition. Net income for the period ended September 30, 2014 attributable to the assets acquired since the Verano Acquisition is considered impracticable to calculate.

b) Sorgenia Acquisition

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

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

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

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

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

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

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

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

Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	Sep. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
Average daily production volumes (bopd)	25,175	19,876	18,425	17,287
Realized sales price (\$/bbl)	94.40	104.53	103.42	101.64
Financial (000s except per share amounts)				
Oil Sales	\$ 228,648	\$ 182,996	\$ 179,794	\$ 166,959
Funds flow from operations ⁽¹⁾	\$ 88,678	\$ 77,331	\$ 76,746	\$ 75,818
Per share – basic	0.70	0.70	0.70	0.70
Per share – diluted	0.69	0.64	0.64	0.62
Adjusted net income ⁽³⁾	\$ 16,768	\$ 26,612	\$ 20,099	\$ 23,201
Per share – basic	0.13	0.24	0.18	0.21
Per share – diluted	0.13	0.22	0.17	0.19
Net income	\$ 16,768	\$ 11,408	\$ 9,663	\$ 21,869
Per share – basic	0.13	0.10	0.09	0.20
Per share – diluted	0.13	0.10	0.09	0.18
Capital Expenditures, excluding corporate acquisitions	56,799	95,101	61,405	58,817
Total assets (end of period)	\$ 1,266,610	\$ 1,226,983	\$ 882,306	\$ 854,808
Working capital surplus (deficit) (end of period) ⁽²⁾	\$ 45,321	\$ 31,189	\$ 36,957	\$ 24,005
Debentures (end of period) ⁽⁴⁾	\$ -	\$ 68,375	\$ 64,728	\$ 66,060
Bank debt (end of period)	\$ 42,305	\$ 56,000	\$ 4,000	\$ 8,530

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)
Capital Expenditures, excluding corporate acquisitions	49,962	77,921	47,172	64,887
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

⁽¹⁾ Non-GAAP terms. See “Non-GAAP terms”.

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

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

⁽⁴⁾ During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for \$0.3 million in cash.

Liquidity and Capital Resources

As at September 30, 2014 the Company had a working capital surplus of \$45.3 million, excluding amounts available under the credit facility, as compared to working capital surplus at December 31, 2013 of \$24.0 million. Bank debt was \$42.3 million compared to \$8.5 million at December 31, 2013. On a combined net basis, working capital less bank debt decreased from December 31, 2013 to September 30, 2014 by \$12.5 million and at quarter end Parex had no net debt. The company has a \$175.0 million credit facility in place which has a two year term and was last renewed using the June 30, 2014 reserve report. At September 30, 2014 Parex held \$33.9 million of cash, compared to \$63.1 million at June 30, 2014 and \$56.5 million at December 31, 2013. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada, Barbados and Colombia.

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 \$25.8 million or a fair value adjustment of approximately \$11.9 million.

Parex has a \$200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank, with a current borrowing base of \$175 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, 2014, the Company is in compliance with all covenants.

Debentures

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn\$85.0 million Convertible Debentures (the "Debentures"), with the redemption date set as September 24, 2014. The Debentures had a face value of \$1,000 per debenture, and were convertible into common shares at the option of the holder at a conversion price of Cdn\$10.15 per share representing a conversion rate of approximately 98.52 common shares per Debenture. Parex had the right to redeem the Debenture at par anytime after July 1, 2014 if the volume weighted average price of a common share of the Company was in excess of 125% of the conversion price. During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for \$0.3 million in cash. The annual coupon on the debentures was 5.25 percent paid semi-annually in arrears on June 30 and December 31 of each year. The holders of the debentures received accrued and unpaid interest for the period from July 1, 2014 to the date of conversion. A gain of \$2.5 million on the settlement of the Debentures and the related derivative financial liability was recognized in the consolidated statement of comprehensive income (loss) during the period ended September 30, 2014.

The following table summarizes the accounting for the debentures:

	Liability	Derivative financial liability	Total
Balance, December 31, 2012	\$ 65,657	\$ 9,899	\$ 75,556
Accretion	4,163	-	4,163
Amortization of debt issuance costs	627	-	627
Derivative gain	-	(885)	(885)
Foreign exchange gain	(4,387)	(639)	(5,026)
Balance, December 31, 2013	\$ 66,060	\$ 8,375	\$ 74,435
Accretion	3,210	-	3,210
Amortization of debt issuance costs	475	-	475
Derivative loss	-	25,640	25,640
Foreign exchange gain	(3,596)	(27)	(3,623)
Debentures converted or redeemed	(66,149)	(33,988)	(100,137)
Balance at September 30, 2014	\$ -	\$ -	\$ -

The accretion, interest paid, amortization of Debenture issuance costs, derivative loss and gain on the settlement of the Debenture are charged to finance expense in the consolidated statement of comprehensive income (loss). Prior to the settlement of the Debenture, the derivative financial liability was measured at fair value through profit or loss using the Black-Scholes valuation model, with changes to the fair value being recorded in finance expense.

In association with the settlement of the Debenture, the Cross Currency Interest Rate Swap has also been terminated in the current period (Refer to the “Risk Management” section for additional information).

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at September 30, 2014 the Company had 134,253,344 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 4, 2014 Parex has the following securities outstanding:

	Number	%
Common shares ⁽¹⁾	134,416,582	95.0%
Stock options ⁽¹⁾⁽²⁾	6,130,633	4.3%
Restricted share units ⁽¹⁾⁽³⁾	904,768	0.7%
	141,451,983	100.0%

⁽¹⁾ 158,707 options and 4,531 RSU’s have been exercised since September 30, 2014

⁽²⁾ 50,000 options have been granted since September 30, 2014

⁽³⁾ 19,667 RSU’s have been granted and 668 RSU’s have been cancelled since September 30, 2014

As of the date of this MD&A, total stock options and RSU’s outstanding represent approximately 5.0 percent of the total issued and outstanding common shares.

Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will affect the Company’s future operations and liquidity. These commitments primarily relate to exploration work commitments including seismic and drilling activities. The Company has discretion regarding the timing of capital spending for exploration work commitments, provided that the work is completed by the end of the exploration periods specified in the contracts or the Company can negotiate extensions of the exploration periods. The Company’s exploration commitments are described in the Company’s AIF dated March 19, 2014. The Company’s exploration commitments are described under “Description of Business - Principal Properties”. These obligations and commitments are considered in assessing cash requirements in the discussion of future liquidity.

In Colombia, the Company has provided guarantees to the Colombian energy regulator (“ANH”) which on September 30, 2014 was \$95.1 million (September 30, 2014 - \$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 approximately 100 percent of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company’s estimated commitments as at September 30, 2014:

(\$000s)	Total	<1 year	1 – 3 years	3 – 4 years	>5 years
Exploration ⁽¹⁾	\$ 178,744	28,200	150,544	-	-
Office and accommodations ⁽²⁾	7,232	2,425	2,603	2,118	86
Decommissioning and environmental expenditures	35,463	2,182	4,638	4,364	24,279
Total	\$ 221,439	32,807	157,785	6,482	24,365

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

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

Decommissioning Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2012	\$	12,079	\$	-	\$ 12,079
Additions		5,140		3,017	8,157
Property acquisition		809		-	809
Settlements of obligations during the period		(1,400)		-	(1,400)
Gain on settlements of obligations during the period		(712)		-	(712)
Change in estimates		(2,570)		4,144	1,574
Accretion expense		447		134	581
Balance, December 31, 2013	\$	13,793	\$	7,295	\$ 21,088
Additions		6,027		1,162	7,189
Corporate acquisitions		1,300		946	2,246
Settlements of obligations during the period		(841)		(158)	(999)
Loss on settlements of obligations during the period		127		-	127
Accretion expense		605		188	793
Foreign exchange gain		-		(494)	(494)
Balance, September 30, 2014	\$	21,011	\$	8,939	\$ 29,950
Current obligation		-		(2,056)	(2,056)
Long-term obligation	\$	21,011	\$	6,883	\$ 27,894

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at September 30, 2014, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$24.6 million as at September 30, 2014 (December 31, 2013 – \$19.4 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad and 2020 or later in Colombia. A risk-free discount rate of 5% and an inflation rate of 2% were used in the valuation of the liabilities (December 31, 2013 – 5% percent risk-free discount rate and a 2% percent inflation rate). The discount rate used is a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$10.9 million as at September 30, 2014 (December 31, 2013 – \$8.4 million) with the majority of these costs anticipated to occur in 2014 or later in Colombia. A risk-free discount rate of 6% and an inflation rate of 3% were used in the valuation of the liabilities (December 31, 2013 – 6% percent risk-free discount rate and a 3% percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.1 million (December 31, 2013 – \$1.6 million) that is classified as a current obligation.

Decommissioning and environmental liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning and environmental 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 and environmental liabilities to change are:

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

Advisory on Forward-Looking Statements

Certain information regarding Parex set forth in this MD&A, including assessments by the Company's management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur are intended to identify forward-looking statements. Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. These statements are only predictions and actual events or results may differ materially. Although the Company's management believes that the expectations

reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Parex. In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to:

- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- the Company's exploration blocks subject to farm-in and earning requirements;
- activities to be undertaken in various areas including the fulfillment of exploration commitments and farm-in obligations;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- the Company's planned capital expenditures for 2014 and the amount of such expenditures, along with the focus and timing thereof and the method of funding;
- the Company's forecast average production range for Q4 2014 and for the full year ended December 31, 2014;
- the Company's expected 2014 exit production rate;
- the Company's expected exploration program for 2014, including drilling plans, focus of drilling plans, anticipated number of wells to be drilled in 2014, utilization of cash flow, anticipated production, exploration prospects and exposure to new play concepts in Colombia;
- the status of the Company's review of transportation and marketing alternatives in an effort to maximize the net proceeds from production in Colombia;
- expected royalty rates as a percentage of sales and effect of changes in production and pricing on the Company's overall royalty as a percentage of sales;
- the Company's expectation that the Tigana and Tua fields will become subject to the High Price Share in the second quarter of 2015;
- expected transportation costs (including trucking costs) on a per barrel basis, and the effect of better direct export contracts, increased pipeline capacity and a reduction of oil trucking fees on rates for trucking costs;
- anticipated effect of Verano loss carryforwards on Verano's taxable income and Parex' 2014 effective tax rate;
- terms of stock based compensation plans, including option plan, restricted share unit plan, and share appreciation rights;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- expectations regarding the effect of conversion and redemption of Debentures on foreign exchange adjustments;
- the Company's risk management strategy, terms of the Company's risk management contracts and the anticipated effect of derivative contracts on managing cash flow;
- estimated income tax expense and expected effective Colombian corporate income tax rate for the nine months ended September 30, 2014;
- terms of the Company's credit facility;
- terms of the Company's NCIB;
- terms of the Company's exploration and other contractual commitments;
- the anticipated sources of funding for the Company's environmental, decommissioning and restoration obligations;
- impact of new and revised accounting pronouncements and critical accounting estimates; and
- effect of business and environmental risks on the Company.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada, Colombia and Trinidad & Tobago; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its

rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with the acquisitions of Verano and Sorgenia; risks related to the lawsuit brought in Texas against Parex and certain foreign subsidiaries; failure of counterparties to perform under the terms of their contracts; the risks discussed under “Risk Factors” in the Company’s Annual Information Form dated March 19, 2014 and under “Business Environment and Risks” in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company’s operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

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

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

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on the Company’s current and future operations and such information may not be appropriate for other purposes. The Company’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits Parex will derive there from. These forward-looking statements are made as of the date of this MD&A and Parex disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Non-GAAP Terms

This report contains financial terms that are not considered measures under GAAP such as Funds flow used in, or from operations, working capital, operating netback per barrel and adjusted net income, that 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 (used in) operations is a non-GAAP term that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. Management uses funds from (used in) operations to analyze operating performance and monitor financial leverage, and considers funds from (used in) operations to be a key measure as it demonstrates the Company’s ability to generate cash necessary to fund future capital investments. Funds flow from (used in) operations is reconciled with net income (loss) in the consolidated statements of cash flows. The following table reconciles funds flow from (used in) operations to cash flow from operations:

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Cash flow from operating activities (GAAP)	\$ 40,220	\$ 80,142	\$ 128,032	\$ 183,424
Changes in non-cash working capital including taxes and interest payable	48,458	(11,901)	114,723	10,681
Funds flow from operations (Non-GAAP)	\$ 88,678	\$ 68,241	\$ 242,755	\$ 194,105

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

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Funds flow from operations				
Funds flow from (used in) operations for the purpose of basic funds flow	\$ 88,678	\$ 68,241	\$ 242,755	\$ 194,105
Debt interest expense	914	1,074	2,948	3,270
Funds flow from operations for diluted funds flow	\$ 89,592	\$ 69,315	\$ 245,703	\$ 197,375
Weighted average number of shares for the purposes of basic funds flow (000s)	126,410	108,285	115,620	108,407
Dilutive effect of share options on potential common shares	4,059	1,318	2,929	1,101
Dilutive effect of Debentures on potential common shares	-	14,937	-	14,937
Weighted average number of shares for the purposes of diluted funds	130,469	124,539	118,549	124,445

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

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (GAAP)	\$ 16,768	\$ (27,965)	\$ 37,839	\$ (9,197)
Non cash (gain) loss on derivative financial liability	-	4,025	25,640	(2,218)
Adjusted net income (Non-GAAP)	\$ 16,768	\$ (23,940)	\$ 63,479	\$ (11,415)

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

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

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

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

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

Business Environment and Risks

There have been no significant changes during the nine months ended September 30, 2014 to the risks and uncertainties identified in the Company's Annual Information Form dated March 19, 2014.

Internal Controls over Financial Reporting

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

Limitation on Scope of Design – Corporate acquisition

In accordance section 3.3 (1)(b) of National Instrument 52-109, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period, the controls, policies and procedures of Verano Energy Limited ("Verano"), acquired by the Company effective June 25, 2014, have been excluded from the control design assessments discussed above. The scope limitation is based on the time required to document and assess the DC&P and ICFR of Verano in a manner consistent with the Company's other operations. The Company's management is currently in the process of integrating Verano into the existing internal controls and procedures of Parex. Verano constitutes 33% of net assets, 29% of total assets, 8% of net revenues, and 15% of income before income taxes of the consolidated financial statements amounts as at and for the nine months ended September 30, 2014.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the nine months ended September 30, 2014.

Financial Instruments and Other Instruments

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

Accounting Policies and Estimates

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

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

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	September 30, 2014	December 31, 2013
ASSETS			
Current assets			
Cash		\$ 33,903	\$ 56,492
Accounts receivable	5	225,247	121,969
Prepays and other current assets		8,365	4,880
Crude oil inventory	6	13,880	8,695
		281,395	192,036
Goodwill			
Exploration and evaluation	7	61,252	61,252
Property, plant and equipment	8	170,895	70,038
		753,068	531,482
		\$ 1,266,610	\$ 854,808
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 186,639	\$ 118,841
Current income and equity tax payable	16	47,379	47,548
Current portion of decommissioning and environmental liabilities	13	2,056	1,642
		236,074	168,031
Long-term debt			
Convertible debenture	11	42,305	8,530
Derivative financial liability	15	-	66,060
Other long-term liabilities	15	-	8,375
Decommissioning and environmental liabilities	12	2,771	7,081
Deferred tax liability	13	27,894	19,446
	16	153,858	92,222
		462,902	369,745
Shareholders' equity			
Share capital	14	692,136	414,176
Contributed surplus		24,538	21,692
Retained earnings		87,034	49,195
		803,708	485,063
		\$ 1,266,610	\$ 854,808

Commitments (note 22)

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Consolidated Statements of Comprehensive Income (Loss) (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,	
		2014	2013	2014	2013
Oil sales		\$ 228,648	\$ 157,043	\$ 591,438	\$ 469,618
Royalties		(24,516)	(20,293)	(74,702)	(58,680)
Revenue		204,132	136,750	516,736	410,938
Commodity risk management contracts	20	4,004	(2,342)	1,822	(553)
		208,136	134,408	518,558	410,385
Expenses					
Production		27,730	14,851	63,514	41,387
Transportation		43,106	27,620	103,263	79,860
Purchased oil		12,948	-	20,725	30,336
General and administrative		8,970	8,537	24,585	23,936
Transaction costs	9	82	-	586	-
Impairment of exploration and evaluation assets	7	-	37,618	-	37,618
Share-based compensation	14	3,419	2,924	15,404	4,476
Depletion, depreciation and amortization	8	62,995	54,355	166,822	158,834
Loss (gain) on settlement of decommissioning liabilities	13	(20)	-	127	-
Foreign exchange (gain) loss		(1,315)	1,456	(2,481)	(4,674)
		157,915	147,361	392,545	371,773
Finance income	10	(493)	3,553	(1,411)	(3,318)
Finance expense	10	4,104	761	36,286	11,514
Net finance expense		3,611	4,314	34,875	8,196
Net income (loss) before taxes		46,610	(17,267)	91,138	30,416
Income tax expense					
Current tax expense	16	13,652	13,413	44,816	35,582
Deferred tax (recovery) expense	16	16,190	(2,715)	8,483	4,031
		29,842	10,698	53,299	39,613
Net income (loss) and other comprehensive income (loss) for period		\$ 16,768	\$ (27,965)	\$ 37,839	\$ (9,197)
Basic net income (loss) per common share	17	\$ 0.13	\$ (0.26)	\$ 0.33	\$ (0.09)
Diluted net income (loss) per common share	17	\$ 0.13	\$ (0.26)	\$ 0.32	\$ (0.09)

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Shareholders' Equity (unaudited)

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

		2014		2013
Share capital				
Balance, beginning of period	\$	414,176	\$	412,736
Issuance of common shares under option plans		11,476		1,151
Issued on the acquisition of Verano Energy Limited ("Verano")		169,333		-
Share issue costs		(180)		-
Issued on conversion of convertible debentures		97,331		-
Repurchase of shares		-		(1,384)
Balance, end of period	\$	692,136	\$	412,503
Contributed surplus				
Balance, beginning of period	\$	21,692	\$	16,015
Share-based compensation		6,293		4,696
Options exercised		(3,447)		(341)
Balance, end of period	\$	24,538	\$	20,370
Retained earnings (deficit)				
Balance, beginning of period	\$	49,195	\$	36,645
Net income (loss) for the period		37,839		(9,197)
Repurchase of shares		-		(123)
Balance, end of period	\$	87,034	\$	27,325
	\$	803,708	\$	460,198

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	NOTE	For the three months ended September 30,		For the nine months ended September 30,	
		2014	2013	2014	2013
Operating activities					
Net income (loss)		\$ 16,768	\$ (27,965)	\$ 37,839	\$ (9,197)
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	62,995	54,355	166,822	158,834
Non-cash finance (income) expense	10	(1,037)	3,209	28,223	4,582
Share-based compensation	14	3,419	2,924	15,404	4,476
Deferred tax (recovery) expense	16	16,190	(2,715)	8,483	4,031
Impairment of exploration and evaluation assets	7	-	37,618	-	37,618
Unrealized foreign exchange (gain) loss		2,915	1,384	1,633	(4,459)
Unrealized (gain) loss on commodity risk management contracts	20	(3,583)	1,013	(4,148)	667
Abandonment costs paid	13	(511)	(903)	(999)	(903)
Equity tax paid	16	(939)	(629)	(1,667)	(1,494)
Stock appreciation rights paid	14	(1,107)	(50)	(2,403)	(50)
Settlement of cross currency interest rate swap	20	(6,432)	-	(6,432)	-
		88,678	68,241	242,755	194,105
Net change in non-cash working capital	18	(48,458)	11,901	(114,723)	(10,681)
		\$ 40,220	\$ 80,142	\$ 128,032	\$ 183,424
Investing activities					
Property, plant and equipment expenditures	8	(35,017)	(31,844)	(120,095)	(114,625)
Exploration and evaluation expenditures	7	(21,782)	(18,118)	(93,210)	(47,941)
Corporate and property acquisitions	9	-	-	(27,131)	(12,489)
Proceeds on the disposition of assets	7,8	55	-	774	-
Farm out proceeds		-	2,000	-	2,000
Net change in non-cash working capital	18	(496)	(42,226)	48,219	(23,875)
		\$ (57,240)	\$ (90,188)	\$ (191,443)	\$ (196,930)
Financing activities					
Issuance of common shares under options plans	14	2,572	324	8,029	810
Redemption of convertible debentures	15	(316)	-	(316)	-
Common share repurchase	14	-	(98)	-	(1,506)
Share issue costs		-	-	(180)	-
Long term debt (repaid) issued	11	(13,695)	(8,900)	33,775	9,400
Net change in non-cash working capital	18	-	-	-	-
		\$ (11,439)	\$ (8,674)	\$ 41,308	\$ 8,704
Decrease in cash for the period		(28,459)	(18,720)	(22,103)	(4,802)
Impact of foreign exchange on foreign currency-denominated cash balances		\$ (712)	\$ 111	\$ (486)	\$ (803)
Cash, beginning of period		\$ 63,074	\$ 44,954	\$ 56,492	\$ 31,950
Cash, end of period		\$ 33,903	\$ 26,345	\$ 33,903	\$ 26,345

Supplemental Disclosure of Cash Flow Information (note 18)

See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended September 30, 2014

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

1. Corporate Information

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

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

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 4, 2014.

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

a) *Statement of compliance*

The condensed interim consolidated financial information for the three and nine months ended September 30, 2014 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 4, 2014, the date of approval by the Board of Directors.

b) *Basis of measurement*

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

c) *Use of management estimates, judgments and measurement uncertainty*

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013, except for the following pertaining to the corporate acquisitions that occurred during the nine month period ended September 30, 2014:

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

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

3. Summary of Significant Accounting Policies

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

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

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

4. Determination of Fair Values

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

5. Accounts Receivable

	September 30, 2014	December 31, 2013
Trade receivables	\$ 180,554	\$ 91,729
Colombia income taxes receivable	30,701	24,608
Receivables from partners	13,626	3,228
Value added taxes (VAT)	366	2,404
	\$ 225,247	\$ 121,969

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

6. Inventory

	September 30, 2014	December 31, 2013
Crude oil inventory	\$ 13,880	\$ 8,695

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

7. Exploration and Evaluation Assets

	Colombia		Trinidad & Tobago		Total
Cost					
Balance at December 31, 2012	\$	83,452	\$	61,720	\$ 145,172
Additions		60,931		2,121	63,052
Transfers to PP&E		(96,666)		-	(96,666)
Changes in decommissioning liability		(948)		(267)	(1,215)
Farm-out proceeds		-		(2,000)	(2,000)
Exploration and evaluation impairment		-		(38,305)	(38,305)
Balance at December 31, 2013	\$	46,769	\$	23,269	\$ 70,038
Additions		93,054		156	93,210
Transfers to PP&E		(18,954)		-	(18,954)
Disposition of tangible assets		-		(1,348)	(1,348)
Changes in decommissioning liability		3,776		-	3,776
Corporate acquisitions – note 9		24,173		-	24,173
Balance at September 30, 2014	\$	148,818	\$	22,077	\$ 170,895

Exploration and Evaluation (“E&E”) assets consist of the Company’s exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions represent the Company’s share of costs incurred on E&E assets during the period. Additions for the nine months ended September 30, 2014 mainly relate to expenditures in Colombia on Cebucan Block, Cerrero Block, Block LLA-40 and Block LLA-57. For the nine months ended September 30, 2014 transfers in the amount of \$19.0 million from E&E to PP&E were made relating to Block LLA-32 and LLA-34. E&E assets increased by \$24.2 million for the nine month period ended September 30, 2014 relating to the fair value of the assets acquired in the corporate acquisitions as described in note 9.

In the year ended December 31, 2013 an amount of \$96.7 million was transferred from E&E to PP&E for costs associated with Block LLA-30, Block LLA-17 and El Eden Block.

For the three and nine months ended September 30, 2013 an impairment of \$37.6 million was recorded in the statement of comprehensive income (loss) relating to the Central Range Blocks in Trinidad & Tobago.

At September 30, 2014 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

	Canada	Colombia	Trinidad & Tobago	Total
Cost				
Balance at December 31, 2012	\$ 4,653	\$ 702,102	\$ 318	\$ 707,073
Additions	128	158,203	-	158,331
Transfer from E&E assets	-	96,666	-	96,666
Changes in decommissioning liability	-	10,946	-	10,946
Property acquisition	-	13,298	-	13,298
Balance at December 31, 2013	\$ 4,781	\$ 981,215	\$ 318	\$ 986,314
Additions	98	119,987	10	120,095
Changes in decommissioning liability	-	3,413	-	3,413
Verano acquisition – note 9 (a)	-	247,617	-	247,617
Transfer from E&E assets	-	18,954	-	18,954
Dispositions	-	-	(21)	(21)
Balance at September 30, 2014	\$ 4,879	1,371,186	307	1,376,372
Accumulated Depreciation, Depletion and Amortization				
Balance at December 31, 2012	\$ 2,043	\$ 238,217	\$ 181	\$ 240,441
Depletion and depreciation for the year	585	213,508	38	214,131
DD&A included in crude oil inventory costing	-	260	-	260
Balance at December 31, 2013	\$ 2,628	\$ 451,985	\$ 219	\$ 454,832
Depletion and depreciation for the period	138	166,669	15	166,822
DD&A included in crude oil inventory costing	-	1,650	-	1,650
Balance at September 30, 2014	\$ 2,766	\$ 620,304	\$ 234	\$ 623,304
Net book value:				
At December 31, 2012	\$ 2,610	\$ 463,885	\$ 137	\$ 466,632
At December 31, 2013	\$ 2,153	\$ 529,230	\$ 99	\$ 531,482
At September 30, 2014	\$ 2,113	\$ 750,882	\$ 73	\$ 753,068

In the nine months ended September 30, 2014 property, plant and equipment (“PPE”) additions mainly relate to development and appraisal expenditures in Colombia at Block LLA-32 and Block LLA-34. In the nine month period ended September 30, 2014, \$19.0 million (nine month period ended September 30, 2013 - \$30.6 million) was transferred from E&E assets. PP&E increased by \$247.6 million for the nine month period ended September 30, 2014 relating to the fair value of the assets acquired in the corporate acquisitions as described in note 9.

For the three month period ended September 30, 2014 future development costs of \$415.6 million (three months ended September 30, 2013 - \$178.5 million) were included in the depletion calculation for development and production assets. For the nine months ended September 30, 2014 \$6.2 million of general and administrative costs (nine months ended September 30, 2013 - \$2.8 million) have been capitalized in respect of development and production activities during the current period.

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

9. Corporate Acquisitions

c) Verano acquisition

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

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

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

Assets acquired and liabilities assumed⁽¹⁾		
Working capital deficiency	\$	(25,336)
PP&E		247,617
E&E assets		18,954
Deferred tax liability		(53,149)
Decommissioning and environmental liabilities		(1,852)
	\$	186,234

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

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

An adjustment has been made to the fair values of assets acquired and liabilities assumed during the three months ended September 30, 2014.

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

The settlement of pre-existing relationship related to an outstanding payable balance between Verano and the Company that was no longer owed as a result of the Acquisition.

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

Oil sales	\$	76,628
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The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. The consolidated statement of comprehensive income (loss) for the period ended September 30, 2014 includes \$44.4 million of oil sales attributable to the assets acquired since the Verano Acquisition. Net income for the period ended September 30, 2014 attributable to the assets acquired since the Verano Acquisition is considered impracticable to calculate.

d) Sorgenia Acquisition

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

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

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

Assets acquired and liabilities assumed⁽¹⁾

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

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

Consideration for the acquisition

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

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

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

10. Net Finance Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Interest expense and bank charges	\$ 2,298	\$ 1,579	\$ 5,391	\$ 4,934
Accretion on convertible debentures - note 15	1,075	1,050	3,210	3,056
Accretion on decommissioning and environmental liabilities - note 13	313	41	793	307
Loss (gain) on derivative financial liability - note 15	-	4,026	25,640	(2,217)
Gain on settlement of convertible debentures - note 15	(2,490)	-	(2,490)	-
Amortization of debt issuance costs - note 15	154	158	475	460
Loss (gain) on CCIRS contract - note 20	2,734	(2,067)	2,672	2,757
Loss on disposition of tangible assets	20	-	595	-
Interest and other income	(493)	(473)	(1,411)	(1,101)
Net finance expense	\$ 3,611	\$ 4,314	\$ 34,875	\$ 8,196

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Non cash finance expense	\$ (1,037)	\$ 3,208	\$ 28,223	\$ 4,582
Cash finance expense	4,648	1,106	6,652	3,614
Net finance expense	\$ 3,611	\$ 4,314	\$ 34,875	\$ 8,196

11. Long-Term Debt

	September 30, 2014	December 31, 2013
Long-term debt (syndicate credit facility)	\$ 42,305	\$ 8,530

On May 23, 2012 Parex entered into a \$200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank. At September 30, 2014 the credit facility consists of a reserve-based revolving facility of \$175.0 million including an operating line of \$20.0 million. The revolving facility is a rolling facility maturing on May 22, 2016, and may be extended for an additional 365 days after attaining syndicate approval. The credit facility is subject to re-determination of the borrowing base semi-annually on November 30 and May 31 of each year. The borrowing base is determined based on, among other things, the Company's current reserve report, results of operations, the lenders view of the current and forecasted commodity prices and the current economic environment. US base rate and LIBOR base rate loan advances under the revolving facility bear interest at rates ranging from US base rate or LIBOR plus 2.50% - 3.50% per annum, dependent on utilization. Canadian prime rate loan advances, drawn on the operating line only, bear interest at rates

ranging from Canadian prime plus 1.50% - 2.50% per annum, dependent on utilization. Undrawn amounts under the revolving facility bear a commitment fee ranging from 0.5% to 0.7% 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, 2014, the Company is in compliance with all covenants. Security is provided for by a first fixed and floating charge debenture over all assets of Parex Resources Inc., a pledge of the shares of material subsidiaries and general assignment of book debts.

12. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	September 30, 2014	December 31, 2013
Long-term SARs payable	\$ 2,771	\$ 638
Financial derivative liability related to the cross currency interest rate swap (“CCIRS”)(note 20(d))	-	6,443
	\$ 2,771	\$ 7,081

In association with the settlement of the Convertible Debenture (note 15), the Cross Currency Interest Rate Swap has also been terminated in the current period. This resulted in total payments in the three months ended September 30, 2014 of \$9.1 million comprised of a final payment of \$6.4 million and a realized loss of \$2.7 million that has been charged to finance expense in the consolidated statement of comprehensive income (loss).

13. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2012	\$	12,079	\$	-	\$ 12,079
Additions		5,140		3,017	8,157
Property acquisition		809		-	809
Settlements of obligations during the period		(1,400)		-	(1,400)
Gain on settlements of obligations during the period		(712)		-	(712)
Change in estimates		(2,570)		4,144	1,574
Accretion expense		447		134	581
Balance, December 31, 2013	\$	13,793	\$	7,295	\$ 21,088
Additions		6,027		1,162	7,189
Corporate acquisitions – note 9		1,300		946	2,246
Settlements of obligations during the period		(841)		(158)	(999)
Loss on settlements of obligations during the period		127		-	127
Accretion expense		605		188	793
Foreign exchange gain		-		(494)	(494)
Balance, September 30, 2014	\$	21,011	\$	8,939	\$ 29,950
Current obligation		-		(2,056)	(2,056)
Long-term obligation	\$	21,011	\$	6,883	\$ 27,894

The total decommissioning liability is estimated based on the Company’s net ownership in wells drilled as at September 30, 2014, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company’s decommissioning liability is approximately \$24.6 million as at September 30, 2014 (December 31, 2013 – \$19.4 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad and 2020 or later in Colombia. A risk-free discount rate of 5% and an inflation rate of 2% were used in the valuation of the liabilities (December 31, 2013 – 5% percent risk-free discount rate and a 2% percent inflation rate). The discount rate used is a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company’s environmental liability is approximately \$10.9 million as at September 30, 2014 (December 31, 2013 – \$8.4 million) with the majority of these costs anticipated to occur in 2014 or later in Colombia. A risk-free discount rate of 6% and an inflation rate of 3% were used in the valuation of the liabilities (December 31, 2013 – 6% percent risk-free discount rate and a 3% percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.1 million (December 31, 2013 – \$1.6 million) that is classified as a current obligation.

14. Share Capital

a) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2012	108,476,451	\$	412,736
Issued for cash – exercise of options and RSUs	587,598		1,971
Allocation of contributed surplus – exercise of options and RSUs	-		853
Repurchase of shares	(352,400)		(1,384)
Balance, December 31, 2013	108,711,649	\$	414,176
Issued for cash – exercise of options and RSUs	2,512,980		8,029
Issued in Verano Acquisition – note 9(a)	14,688,724		169,333
Issued on conversion of convertible debentures – note 15	8,339,991		97,331
Share issue costs	-		(180)
Allocation of contributed surplus – exercise of options and RSUs	-		3,447
Balance, September 30, 2014	134,253,344	\$	692,136

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

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn\$85.0 million Convertible Debentures (the “Debentures”), with the redemption date set as September 24, 2014. During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for \$0.3 million in cash; refer to note 15 – Convertible Debentures.

b) Stock options

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

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2013	8,695,363	4.94
Granted	126,875	8.73
Exercised	(2,498,648)	3.52
Forfeited	(84,250)	5.83
Balance, September 30, 2014	6,239,340	5.57

Stock options outstanding and the weighted average remaining life of the stock options at September 30, 2014 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$3.04 - \$4.47	1,688,598	2.16	4.19	1,213,432	1.88	4.09
\$4.48 - \$6.06	364,917	2.49	5.33	203,749	1.48	5.37
\$6.07 - \$6.12	3,965,200	4.04	6.07	-	-	-
\$6.13 - \$6.64	93,750	2.16	6.21	58,332	1.56	6.18
\$6.65 - \$13.93	126,875	4.43	8.73	-	-	-
	6,239,340	3.42	5.57	1,475,513	1.81	4.35

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 nine months ended September 30,	2014	2013
Risk-free interest rate (%)	1.21	1.32
Expected life (years)	4	4
Expected volatility (%)	46	48
Expected dividends	-	-

The weighted average fair value at the grant date of options issued during the nine months ended September 30, 2014 was Cdn\$3.24 per option (nine months ended September 30, 2013 – Cdn\$2.01 per option). The weighted average share price on the exercise date for options exercised in the nine months ended September 30, 2014 was Cdn\$10.47 (nine months ended September 30, 2013 – Cdn\$5.68).

c) Share appreciation rights (“SARs”)

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

	Number of SARs	Weighted average exercise price Cdn\$/SAR
Balance, December 31, 2013	3,070,731	5.77
Granted	268,110	12.01
Exercised	(587,984)	5.50
Forfeited	(410,693)	6.01
Balance, September 30, 2014	2,340,164	6.46

As at September 30, 2014, 341,971 SARs were vested (December 31, 2013 – 769,754).

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

For the nine months ended September 30,	2014	2013
Risk-free interest rate (%)	1.31	1.44
Expected life (years)	4	4
Expected volatility (%)	45	48
Share price	12.45	5.83
Expected dividends	-	-

As at September 30, 2014, the total SARs liability accrued is \$9.9 million (December 31, 2013 - \$3.2 million) of which \$2.8 million (December 31, 2013 - \$0.6 million) is classified as long-term in accordance with the three year vesting period. For the nine months ended September 30, 2014, Parex recorded \$9.1 million of compensation cost related to the outstanding SARs (nine months ended September 30, 2013 – recovery of \$0.2 million)

d) Restricted share units (“RSU”)

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

	Number of RSU’s	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2013	868,800	0.01
Granted	43,700	0.01
Exercised	(14,332)	0.01
Forfeited	(7,868)	0.01
Balance, September 30, 2014	890,300	0.01

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the nine months ended September 30, 2014 was Cdn\$8.73 per RSU (nine months ended September 30, 2013– Cdn\$5.19 per RSU). For the nine months ended September 30, 2014 a weighted average forfeiture rate of 3% was applied (nine months ended September 30, 2013 – nil).

e) *Share-based compensation*

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Share-based compensation expense	\$ 2,127	\$ 2,230	\$ 6,293	\$ 4,696
SARs expense	1,292	694	9,111	(220)
	\$ 3,419	\$ 2,924	\$ 15,404	\$ 4,476

15. Convertible Debenture

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn\$85.0 million Convertible Debentures (the “Debentures”), with the redemption date set as September 24, 2014. The Debentures had a face value of \$1,000 per debenture, and were convertible into common shares at the option of the holder at a conversion price of Cdn\$10.15 per share representing a conversion rate of approximately 98.52 common shares per Debenture. Parex had the right to redeem the Debenture at par anytime after July 1, 2014 if the volume weighted average price of a common share of the Company was in excess of 125% of the conversion price. During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted by the Debenture holders for an aggregate of 8,339,991 common shares of the Company and Debentures not converted were redeemed for \$0.3 million in cash. The annual coupon on the debentures was 5.25 percent paid semi-annually in arrears on June 30 and December 31 of each year. The holders of the debentures received accrued and unpaid interest for the period from July 1, 2014 to the date of conversion. A gain of \$2.5 million on the settlement of the Debentures and the related derivative financial liability was recognized in the consolidated statement of comprehensive income (loss) during the period ended September 30, 2014.

The following table summarizes the accounting for the debentures:

	Liability	Derivative financial liability	Total
Balance, December 31, 2012	\$ 65,657	\$ 9,899	\$ 75,556
Accretion	4,163	-	4,163
Amortization of debt issuance costs	627	-	627
Derivative gain	-	(885)	(885)
Foreign exchange gain	(4,387)	(639)	(5,026)
Balance, December 31, 2013	\$ 66,060	\$ 8,375	\$ 74,435
Accretion	3,210	-	3,210
Amortization of debt issuance costs	475	-	475
Derivative loss	-	25,640	25,640
Foreign exchange gain	(3,596)	(27)	(3,623)
Debentures converted or redeemed	(66,149)	(33,988)	(100,137)
Balance at September 30, 2014	\$ -	\$ -	\$ -

The accretion, interest paid, amortization of Debenture issuance costs, derivative loss and gain on the settlement of the Debenture are charged to finance expense in the consolidated statement of comprehensive income (loss). Prior to the settlement of the Debenture, the derivative financial liability was measured at fair value through profit or loss using the Black-Scholes valuation model, with changes to the fair value being recorded in finance expense.

The foreign exchange gain on the Debenture is offset by a corresponding loss on the Cross Currency Interest Rate Swap the Company entered into on December 30, 2012. In association with the settlement of the Debenture, the Cross Currency Interest Rate Swap has also been terminated in the current period (Refer to note 20 (d)).

16. Income Tax

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Current tax expense	\$ 13,652	\$ 13,413	\$ 44,816	\$ 35,582
Deferred tax (recovery) expense	16,190	(2,715)	8,483	4,031
Tax expense	\$ 29,842	\$ 10,698	\$ 53,299	\$ 39,613

Colombian Equity Tax

Parex' Colombian subsidiaries were subject to a tax which was calculated based on the subsidiary's net taxable equity as at January 1, 2011 at a rate of 6 percent. The equity tax was payable over four years (1.5 percent per year) in eight equal installments every May and September starting in 2011. The final payments of \$1.7 million have been made during the nine months ended September 30, 2014 and accordingly there is no remaining balance outstanding.

17. Net income (loss) per Share

a) Basic net income (loss) per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)				
Net income (loss) for the purpose of basic net income (loss) per share	\$ 16,768	\$ (27,965)	\$ 37,839	\$ (9,197)
Weighted average number of shares for the purposes of basic net income (loss) per share (000s)	126,410	108,285	115,620	108,407
Basic net income (loss) per share	\$ 0.13	\$ (0.26)	\$ 0.33	\$ (0.09)

b) Diluted net income (loss) per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)				
Net income (loss) for the purpose of diluted net income (loss) per share	\$ 16,768	\$ (27,965)	\$ 37,839	\$ (9,197)
Weighted average number of shares for the purposes of basic net income (loss) per share (000s)	126,410	108,285	115,620	108,407
Dilutive effect of share options on potential common shares	4,059	-	2,929	-
Weighted average number of shares for the purposes of diluted net income (loss) per share	130,469	108,285	118,549	108,407
Diluted net income (loss) per share	\$ 0.13	\$ (0.26)	\$ 0.32	\$ (0.09)

At September 30, 2014 39,375 (December 31, 2013 - 4,509,325) share options had an exercise price in excess of the average market value of the shares from the option grant date to the end of the period. As a result, these share options are excluded from the calculation of diluted earnings per share. The effect of the Debenture for the nine months ended September 30, 2014 is anti dilutive and therefore excluded from the diluted earnings per share.

18. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended September 30,			For the nine months ended September 30,		
	2014	2013		2014	2013	
Accounts receivable	\$ (60,971)	\$ (58,718)	\$	\$ (103,278)	\$ (19,848)	\$
Prepays and other current assets	(1,113)	(163)		(3,485)	(2,568)	
Oil inventory	(4,498)	(445)		(5,186)	(2,578)	
Accounts payable and accrued liabilities	21,454	27,901		69,068	(10,625)	
Depletion related to oil inventory	2,174	1,100		1,706	1,063	
Net non-cash working capital on corporate acquisitions - note 9	(6,000)	-		(25,329)	-	
Net change in non-cash working capital	\$ (48,954)	\$ (30,325)	\$	\$ (66,504)	\$ (34,556)	\$
Operating	(48,458)	11,901		(114,723)	(10,681)	
Investing	(496)	(42,226)		48,219	(23,875)	
Financing	-	-		-	-	
Net change in non-cash working capital	\$ (48,954)	\$ (30,325)	\$	\$ (66,504)	\$ (34,556)	\$

b) Interest and taxes paid

	For the three months ended September 30,			For the nine months ended September 30,		
	2014	2013		2014	2013	
Cash interest paid	\$ 3,438	\$ 1,277	\$	\$ 3,814	\$ 3,837	\$
Cash income and equity taxes paid	\$ 939	\$ 629	\$	\$ 47,298	\$ 44,790	\$

19. Capital Management

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

The Company manages its capital to achieve the following:

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

Parex has a senior secured credit facility (see note 11- Long-Term Debt) which as at September 30, 2014 had a borrowing base in the amount of \$175.0 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at September 30, 2014, \$42.3 million (December 31, 2013 - \$8.5 million) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the exploration work commitments on its Colombian concessions (see note 22 - Commitments).

As at September 30, 2014 the Company's net working capital surplus is \$45.3 million (December 31, 2013 - \$24.0 million), of which \$33.9 million was cash. This excludes the undrawn amount available under the credit facility of \$132.7 million (December 31, 2013 - \$91.5 million).

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity and the credit facility. As at September 30, 2014 shareholders' equity was \$803.7 million (December 31, 2013 - \$485.1 million).

20. Financial Instruments and Risk Management

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

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

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 nine months ended September 30, 2014 had the majority of its oil sales to approximately 13 counterparties. Accounts receivable balance as at September 30, 2014 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At September 30, 2014 there are \$1.2 million of accounts receivable past due, all of which are considered collectible (December 31, 2013 - \$1.2 million) given that the Company holds joint interest tangible assets against the receivable balance. None of the Company's receivables are impaired at September 30, 2014. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. In the current year the Company has maintained a robust capital program funded from funds flow from operations and has executed an early redemption of the Debentures that had an original expiry date of June 30, 2016. As at September 30, 2014 the Company has no net debt (defined as accounts receivables less accounts payable and accrued liabilities and long-term debt) and generates high operating netbacks and thus has the ability to maintain business in lower Brent crude oil pricing environments.

The following are the contractual maturities of financial liabilities at September 30, 2014:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 179,461	-	-	-	\$ 179,461
SARs payable	7,178	2,771	-	-	9,949
Current income and equity tax payable ⁽¹⁾	16,678	-	-	-	16,678
Credit Facility including interest ⁽²⁾	1,339	43,644	-	-	44,983
Total	\$ 204,656	46,415	-	-	\$ 251,071

⁽¹⁾ Net of withholding tax receivable in the amount of \$30.7 million.

⁽²⁾ Balances denominated in Canadian dollars have been translated at the September 30, 2014 exchange rate.

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

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

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

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

c) Commodity price risk

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

As at September 30, 2014, the Company had outstanding fixed contracts which are used to manage its exposure to fluctuations in the price of crude oil.

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

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
April 1, 2014 to September 30, 2014	ICE Brent	Put	2000 bbl/d	\$103.00
July 1, 2014 to September 30, 2014	ICE Brent	Put	3000 bbl/d	\$103.00
October 1, 2014 to December 31, 2014	ICE Brent	Put	6000 bbl/d	\$103.00

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Realized (gain) loss on commodity risk management contracts	\$ (421)	\$ 1,329	\$ 2,326	\$ (114)
Unrealized (gain) loss on commodity risk management contracts	(3,583)	1,013	(4,148)	667
Total	\$ (4,004)	\$ 2,342	\$ (1,822)	\$ 553

As shown in the table above, as at September 30, 2014, Parex had 552,000 barrels of oil hedged with puts of \$103.00. The following sensitivity shows the resulting unrealized loss (gain) and impact on income before tax for the oil hedged contracts if Brent oil price were to increase/decrease by \$10/bbl from the spot rate as at September 30, 2014:

Brent Price	Impact on Income before tax for the nine months ended September 30, 2014	
	Increase of 10/bbl	Decrease of 10/bbl
Oil hedged contract	\$ 3,562	\$ (5,299)

d) Foreign currency risk

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

The following is a summary of the foreign currency risk management contracts in place as at September 30, 2014:

Period Hedged	Reference	Type	Amount USD	Price (COP)
September 5, 2014 to April 30, 2015	Colombian Peso	Put	\$15 million	1,850
September 5, 2014 to April 30, 2015	Colombian Peso	Call	\$15 million	2,100

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

	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%

In association with the settlement of the Debenture (see note 15 – Convertible Debentures), the CCIRS has also been terminated in the current period.

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

		For the three months ended September 30,		For the nine months ended September 30,	
		2014	2013	2014	2013
Realized (gain) loss on foreign currency risk management contracts	\$	2,852	\$ -	\$ 2,672	\$ (219)
Unrealized (gain) loss on foreign currency risk management contracts		(118)	(2,067)	-	2,976
Total	\$	2,734	\$ (2,067)	\$ 2,672	\$ 2,757

The Company recorded a \$2.7 million loss on these contracts in the nine months ended September 30, 2014 (nine months ended September 30, 2013 - \$2.8 million loss) which is recorded in the financial statement line item “Finance expense” in the consolidated statements of comprehensive income (loss) (note 10).

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

Exchange Rate USD/COP	Impact on Income before tax for the nine months ended September 30, 2014	
	Increase of 10%	Decrease of 10%
Total	\$ 913	\$ (564)

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, 2014:

Interest rate	Impact on Income before tax for the nine months ended September 30, 2014	
	Increase of 1%	Decrease of 1%
Total	\$ 172	\$ (172)

21. Segmented Information

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

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

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	228,648	\$	-	\$ 228,648
Royalties		-		(24,516)		-	(24,516)
Revenue		-		204,132		-	204,132
Commodity risk management contracts		(10)		4,014		-	4,004
		(10)		208,146		-	208,136
Expenses							
Production		-		27,730		-	27,730
Transportation		-		43,106		-	43,106
Purchased oil		-		12,948		-	12,948
General and administrative		4,360		4,488		122	8,970
Share-based compensation		2,127		1,421		(129)	3,419
Depletion, depreciation and amortization		36		62,953		6	62,995
Transaction costs		82		-		-	82
Gain on settlement of decommissioning liabilities		-		(20)		-	(20)
Foreign exchange (gain) loss		(3,340)		2,025		-	(1,315)
		3,265		154,651		(1)	157,915
Finance income		(5)		(488)		-	(493)
Finance expense		3,761		319		24	4,104
Net finance expense (income)		3,756		(169)		24	3,611
Net income (loss) before taxes		(7,031)		53,664		(23)	46,610
Current tax expense		-		13,652		-	13,652
Deferred tax (recovery) expense		-		16,190		-	16,190
Net income (loss)	\$	(7,031)	\$	23,822	\$	(23)	\$ 16,768
Capital assets (end of period)	\$	2,113	\$	899,700	\$	22,150	\$ 923,963
Capital expenditures	\$	43	\$	56,746	\$	10	\$ 56,799
Total assets (end of period)	\$	5,925	\$	1,235,628	\$	25,057	\$ 1,266,610

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
Commodity risk management contracts		(2,342)		-		-	(2,342)
		(2,342)		136,750		-	134,408
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		4,026		(473)		-	3,553
Finance expense		721		39		1	761
Net finance expense (income)		4,747		(434)		1	4,314
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 nine months ended September 30, 2014 (unaudited)

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	591,438	\$	-	\$ 591,438
Royalties		-		(74,702)		-	(74,702)
Revenue		-		516,736		-	516,736
Commodity risk management contracts		877		945		-	1,822
		877		517,681		-	518,558
Expenses							
Production		-		63,514		-	63,514
Transportation		-		103,263		-	103,263
Purchased oil		-		20,725		-	20,725
General and administrative		11,377		12,236		972	24,585
Share-based compensation		6,293		9,111		-	15,404
Depletion, depreciation and amortization		138		166,668		16	166,822
Transaction costs		586		-		-	586
Loss on settlement of decommissioning liabilities		-		127		-	127
Foreign exchange (gain) loss		(3,561)		1,082		(2)	(2,481)
		14,833		376,726		986	392,545
Finance income		(18)		(1,393)		-	(1,411)
Finance expense		34,750		931		605	36,286
Net finance expense (income)		34,732		(462)		605	34,875
Net income (loss) before taxes		(48,688)		141,417		(1,591)	91,138
Current tax expense		-		44,816		-	44,816
Deferred tax expense		-		8,483		-	8,483
Net income (loss)	\$	(48,688)	\$	88,118	\$	(1,591)	\$ 37,839
Capital assets (end of period)	\$	2,113	\$	899,700	\$	22,150	\$ 923,963
Capital expenditures	\$	98	\$	213,041	\$	166	\$ 213,305
Total assets (end of period)	\$	5,925	\$	1,235,628	\$	25,057	\$ 1,266,610

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
Commodity risk management contracts		(553)		-		-	(553)
		(553)		410,938		-	410,385
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		(2,217)		(1,101)		-	(3,318)
Finance expense		11,207		293		14	11,514
Net finance expense (income)		8,990		(808)		14	8,196
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

In Colombia the majority of oil sales are with 13 customers in the oil and gas industry and are subject to normal industry credit risks.

22. Commitments

a) Colombia

At September 30, 2014 guarantees in place with ANH are in the form of issued letters of credit totaling \$95.1 million (December 31, 2013 - \$32.7 million) to support the exploration work commitments and future abandonment costs in respect of the Company's interest in the 24 blocks in Colombia.

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

The value of the Company's exploration commitments as at September 30, 2014 in respect of the Colombia blocks are estimated to be as follows:

(000's)	
2014	\$ 28,200
2015	30,162
Thereafter	120,382
	\$ 178,744

b) Operating leases

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

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

	Total	2014	2015	2016	2017	2018	Thereafter
Office and accommodations	\$ 7,232	691	2,199	1,367	1,023	1,012	940

DIRECTORS

Norman F. McIntyre
Chairman of the Board

Curtis D. Bartlett

John F. Bechtold

Robert J. Engbloom

Wayne K. Foo

Ron D. Miller

W. A. (Alf) Peneycad

Paul D. Wright

OFFICERS & SENIOR EXECUTIVES

Wayne K. Foo
President, Chief Executive Officer

Kenneth G. Pinsky
Chief Financial Officer

Barry B. Larson
Chief Operating Officer

David R. Taylor
Executive VP Exploration & Business Development

Stu R. Davie
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ABBREVIATIONS

Oil and Natural Gas Liquids

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

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

Other

WTI
Brent

West Texas Intermediate
Brent Ice