



FOR THE YEAR ENDED DECEMBER 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or the "Company") for the three months and years ended December 31, 2013 and 2012 is dated March 12, 2014 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2013 and 2012. The audited consolidated 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 27, 2013, 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 1,913,321 gross acres. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT. The Company's 5.25 percent convertible unsecured subordinated Debentures (the "Debentures") trade on the TSX under the symbol PXT.DB.

Abbreviations

Refer to the end of the MD&A for commonly used abbreviations in the document. Refer to page 20 for the Advisory on Forward-Looking Statements and page 22 for Non-GAAP Terms used.

2013 Highlights

- Achieved annual average oil production in 2013 of 15,854 barrels per day, an increase of 40 percent over 2012;
- Released an updated independently evaluated reserves assessment prepared by GLJ Petroleum Consultants Ltd. with Proved plus probable reserves growth of 99 percent over 2012, increasing to 32.0 million barrels of oil equivalent at December 31, 2013 from 16.1 million barrels of oil equivalent (net company working interest) at December 31, 2012, which was fully funded through funds flow from operations;
- Realized Brent referenced sales price of \$104.20 per barrel of oil and an operating netback of \$62.70 per bbl;
- Generated year end funds flow from operations of \$269.9 million (\$2.49 per share basic). Funds flow has increased from the prior year due to production growth from exploration and appraisal success;
- The Company participated in drilling 37 gross wells in Colombia resulting in 25 oil wells, 4 disposal wells, 3 untested and 5 dry and abandoned, for a success rate of 83 percent; and,
- Increased land holdings in Colombia by 469,944 net acres.

Three months ended December 31, 2013 ("fourth quarter or Q4") Highlights

- Achieved a record quarterly oil production of 17,287 barrels per day, an increase of 7 percent over the three months ending September 30, 2013;
- Realized sales price in Colombia averaged \$101.64 per barrel of oil and an operating netback of \$60.78 per bbl;
- Generated funds flow from operations of \$75.8 million (\$0.70 per share basic);
- The Company participated in drilling 9 gross wells in Colombia resulting in 5 oil wells, 1 disposal wells, 2 untested and 1 dry and abandoned, for a success rate of 83 percent; and,
- Continued to increase monthly production with year to date February 28, 2014 average production of approximately 18,400 bopd primarily driven by production increases from the Tua and Tigana fields.

Financial Summary

(Financial figures in 000s except per share amounts)	For the three months ended December 31,		For the year ended December 31,		
	2013	2012	2013	2012	2011
Average daily oil production (bopd)	17,287	12,743	15,854	11,407	5,345
Realized sales price (/bbl)	\$ 101.64	\$ 105.75	\$ 104.20	\$ 109.18	\$ 100.43
Operating netback (/bbl)	\$ 60.78	\$ 68.94	\$ 62.70	\$ 73.41	\$ 69.48
Oil and natural gas sales	\$ 166,959	\$ 149,614	\$ 636,577	\$ 523,514	\$ 171,170
Funds flow from operations ⁽¹⁾	\$ 75,818	\$ 54,446	\$ 269,923	\$ 241,569	\$ 97,916
Per share – basic	0.70	0.50	2.49	2.23	1.05
Per share – diluted ⁽⁵⁾	0.62	0.50	2.22	1.96	1.03
Adjusted net income (loss) ⁽¹⁾⁽²⁾	\$ 23,201	\$ (13,450)	\$ 11,786	\$ 32,628	\$ 10,545
Per share – basic	0.21	(0.12)	0.11	0.30	0.11
Per share – diluted	0.19	(0.12)	0.10	0.26	0.11
Net Income (loss) ⁽⁷⁾	\$ 21,869	\$ (15,840)	\$ 12,672	\$ 39,922	\$ 15,635
Per share – basic	0.20	(0.15)	0.12	0.37	0.17
Per share – diluted ⁽⁶⁾	0.18	(0.15)	0.09	0.31	0.11
Capital Expenditures, excluding corporate acquisitions	\$ 58,817	\$ 64,877	\$ 233,872	\$ 267,688	\$ 149,643
Total assets (end of period)	\$ 854,808	\$ 821,201	\$ 854,808	\$ 821,201	\$ 660,177
Working capital surplus (deficit) ⁽¹⁾⁽⁴⁾ (end of period)	24,005	(12,640)	24,005	(12,640)	92,893
Debt (end of period) ⁽³⁾	66,060	65,657	66,060	65,657	60,001
Bank debt (end of period) ⁽⁸⁾	8,530	9,100	8,530	9,100	-
Weighted average shares outstanding (000s)					
Basic	108,460	108,440	108,421	108,403	92,996
Diluted	124,164	109,508	123,535	125,711	98,067
Outstanding shares (end of period) (000s)	108,712	108,476	108,712	108,476	108,300

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

⁽²⁾ Adjusted net (loss) income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three months and year ended December 31, 2013 adjusted net (loss) income excludes a \$1.3 million loss and \$0.9 million gain upon revaluation of the derivative liability associated with the Company's Debentures (three months and year ended December 31, 2012 excludes a \$2.4 million loss and \$7.3 million gain upon revaluation of the derivative liability).

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

⁽⁴⁾ Working capital calculation does not take into consideration the undrawn \$91.5 million (December 31, 2012 - \$65.9 million) available under the secured credit facility.

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

⁽⁶⁾ Net income diluted has been adjusted for the IFRS accounting effects of changes in the Debentures. For the three months ended December 31, 2013 there is a \$0.3 million increase and for the year ended December 31, 2013 there is a \$1.1 million reduction relating to accretion, interest, foreign exchange and gain upon revaluation of the derivative liability (three month ended December 31, 2012 – nil, year ended December 31, 2012- reduction of \$1.3 million).

⁽⁷⁾ For the three months ended December 31, 2013 the Company recognized \$0.7 million and for the year ended December 31, 2013, the Company recognized a \$38.3 million impairment relating to the Trinidad and Tobago exploration and evaluation assets on the Central Range Block. For the three months and year ended December 31, 2012 the Company recognized a \$23.5 million impairment relating to the Trinidad and Tobago exploration and evaluation assets on the Moruga Block.

⁽⁸⁾ Bank credit facility currently has a borrowing base of \$100 million, an increase from the borrowing base of \$75 million at December 31, 2012.

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 December 31, 2013, the Company's principal land holdings and interests in exploration blocks held by its subsidiaries were as follows:

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

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

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

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

⁽³⁾ Cory Moruga Block subject to a farm-out agreement whereby Parex will reduce its working interest to 32.8% upon completion of drilling two wells on the Snowcap discovery and recompleting the Snowcap well by the farmee.

2014 Outlook

Building on our 2013 operational and exploration success, Parex plans a self funding 2014 capital investment program of approximately \$250-280 million focused on growing Colombian production, reserves and identifying future resource potential. The Company is forecasting a 2014 average production range of approximately 17,500-18,500 bopd as compared to the 2013 average production of 15,854 bopd and the 2012 average production of 11,407 bopd.

Highlights of the 2014 guidance include:

- A low risk development and appraisal program of 15 wells (9.6 net) that is expected to utilize approximately 30-40 percent of annual cash flow and is intended to maintain a production base of approximately 16,000 bopd;
- A strong exploration program targeting 19 prospects (11.5 net) plus the potential to drill another 8 (4.6 net) follow-up appraisals;
- Multiple high impact exploration prospects in proven traditional plays over 11 Colombian blocks, of which 6 blocks have not yet been tested; and,
- Exposure to new play concepts in Colombia such as cold heavy oil production, tight sands and stratigraphic traps, which are targeting potentially large multi-well resource trends on controlled lands.

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 December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Average daily production				
Colombia – oil (bopd)	17,287	12,743	15,854	11,407
Total (bopd)	17,287	12,743	15,854	11,407
Average daily sales				
Colombia – oil (bopd) ⁽¹⁾	17,365	12,592	15,767	11,800
Total (bopd)	17,365	12,592	15,767	11,800
Operating netback (000s)				
Oil and natural gas sales	\$ 166,959	\$ 149,614	\$ 636,577	\$ 523,514
Royalties	(18,745)	(9,359)	(77,425)	(35,890)
Net revenue	148,214	140,255	559,152	487,624
Production expense	(15,881)	(12,122)	(57,268)	(36,286)
Transportation expense	(30,663)	(25,853)	(110,523)	(91,397)
Purchased oil expense	(3,297)	(19,749)	(33,633)	(37,158)
Operating netback	\$ 98,373	\$ 82,531	\$ 357,728	\$ 322,783
Operating netback (per bbl) ⁽¹⁾				
Oil and natural gas sales	\$ 101.64	\$ 105.75	\$ 104.20	\$ 109.18
Royalties	(11.73)	(8.08)	(13.46)	(8.31)
Net revenue	89.91	97.67	90.74	100.87
Production expense	(9.94)	(10.46)	(9.95)	(8.40)
Transportation expense	(19.19)	(18.27)	(18.09)	(19.06)
Operating netback	\$ 60.78	\$ 68.94	\$ 62.70	\$ 73.41

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

The Company's operating netback on a per barrel basis for the three months and year ended December 31, 2013 was \$60.78 (\$68.94 - three months ended December 31, 2012) and \$62.70 (\$73.41 - year ended December 31, 2012) compared to \$63.88 for the third quarter of 2013. The average realized sales price in Colombia for the three months and year ended was \$101.64/bbl (\$105.75/bbl - three months ended December 31, 2012) and \$104.20/bbl (\$109.18 - year ended December 31, 2012) compared to \$106.41/bbl for the third quarter of 2013.

Royalty charges for the three months and year ended December 31, 2013 were \$11.73/bbl (\$8.08/bbl - three months ended December 31, 2012) and \$13.46/bbl (\$8.31/bbl - year ended December 31, 2012) in comparison to \$13.75/bbl for the third quarter of 2013. Royalty charge per barrel is calculated by applying the royalty percentage on produced oil sold and is valued at the realized price, net of transportation costs. The increase in royalty expense per bbl compared to the prior period comparative is a result of the Company now paying the High Price Share royalty on the Kona field as the 5 million barrel cumulative threshold for the field was reached in January 2013 (see Colombian Royalties for further discussion on the High Price Share royalty).

Production expense for the three months and year ended was \$9.94/bbl (\$10.46/bbl - three months ended December 31, 2012) and \$9.95/bbl (\$8.40/bbl - year ended December 31, 2012) and compared to \$10.06/bbl for the third quarter of 2013. Transportation expense per barrel for the three months and year ended was \$19.19/bbl (\$18.27/bbl - three months ended December 31, 2012) and \$18.09/bbl (\$19.06 - year ended December 31, 2012) and compared to \$18.72/bbl for the third quarter of 2013. Transportation and marketing alternatives continue to be examined by the Company in an effort to maximize the net proceeds from production in Colombia.

Overall the price of the Company's benchmark Brent price decreased by \$1.01/bbl in the fourth quarter as compared to the third quarter of 2013 while the operating netback declined by \$3.10/bbl in the same period, mainly a result of a widening of the company's realized price as compared to the Brent reference price (see Commodity Prices).

Colombian Oil and Gas Sales

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

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Block Los Ocarros (Las Maracas field)	6,177	3,131	5,266	1,233
Block LLA-34 (Max, Tua & Tarotaro fields)	4,863	1,144	3,470	408
Block LLA-16 (Kona, Sulawesi, Java and Malawi fields)	3,931	6,473	5,100	8,551
Block LLA-30 (Adalia field)	937	-	463	-
Block LLA-20 (Cumbre field)	322	661	539	612
Block LLA-32 (Maniceno and Bandola fields)	303	840	445	350
Block Cabrestero (Kitaro & Akira fields)	280	478	476	243
Block El Eden (La Casona field)	95	-	41	-
Other	379	16	54	10
Total Production	17,287	12,743	15,854	11,407
Inventory changes	78	(151)	(87)	393
Colombia average daily oil sales of produced oil	17,365	12,592	15,767	11,800
Purchased oil	490	3,204	973	1,384
Sales Volumes	17,855	15,796	16,740	13,184

Production for the fourth quarter of the year averaged 17,287 bopd, an increase of approximately 7 percent from the third quarter average of 2013. Production in the fourth quarter includes increased production attributable to Las Maracas, Block 34, Block 30 and El Eden. During the three months ended December 31, 2013, inventory in transit including purchased oil inventory decreased by an average of approximately 104 bopd.

Production in January and February 2014 has increased by approximately 1,113 bopd from the fourth quarter of 2013 and has averaged approximately 18,400 bopd. The production increase in 2014 is primarily a result of net new volumes being added at the Tua and Tigana fields.

b) Commodity Prices

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Reference Prices				
WTI (\$/bbl)	97.34	88.01	97.91	94.05
Brent (\$/bbl)	109.21	110.15	108.64	111.63
Vasconia (\$/bbl)	101.58	103.32	103.70	106.30
Average Realized Prices				
Realized sales price (\$/bbl)	101.64	105.75	104.20	109.18
Realized oil hedging (loss) gain (\$/bbl)	(0.85)	0.77	(0.22)	0.13
Realized price after hedging (\$/bbl)	100.79	106.52	103.98	109.31
Realized price (discount) as percentage of Brent (%)	(6.9)	(4.0)	(4.1)	(2.2)
Realized price premium as percentage of WTI (%)	4.4	20.2	6.4	16.1

The Company's oil sales contracts during the period ended December 31, 2013 were referenced to a blend of Brent and Colombia Vasconia crude. The discount to Brent was 6.9 percent in the fourth quarter compared to 3-4 percent historically. The differential to Brent in the fourth quarter increased as a result of the Vasconia crude differential widening versus the Brent crude reference price. Approximately 20% of the Company's crude oil contracts are referenced to Vasconia crude. Historically, the Brent/Vasconia differential has been in the range of \$2-6/bbl. In addition, a greater percentage of total production was being trucked to the coast and sold as heavy crude in the fourth quarter 2013, which resulted in a lower realized price. In Q1, 2014 the Company has increased heavy oil blending operations which is expected to reduce the volume of heavy crude priced sales and thereby narrow the crude differential.

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

Average price for the period	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Brent (\$/bbl)	109.21	110.22	102.56	112.44	110.15
Parex realized sales price (\$/bbl)	101.64	106.41	99.34	109.63	105.75
Parex realized price (discount) as percentage of Brent (%)	(6.9)	(3.5)	(3.1)	(3.1)	(2.8)

c) Oil Revenue

Fourth quarter 2013 oil revenue increased \$17.3 million or 12 percent as reconciled in the table below to the fourth quarter of 2012:

(\$000s)	
Oil revenue, three months ended December 31, 2012	\$ 149,614
Sales volume of produced oil, an increase of 38% (4,773 bopd)	46,437
Sales volume of purchased oil, a decrease of 85% (2,714 bopd)	(22,526)
Sales price decrease of 4%	(6,566)
Oil revenue, three months ended December 31, 2013	\$ 166,959

Oil sales increased in the three months ended December 31, 2013 compared to the same period in 2012 due an increase in production volumes and the Company purchasing and selling third party oil. Oil sales for the three months ended December 31, 2013 included a crude oil inventory drawdown of 9,600 bbls from the third quarter of 2013, see "Colombian Crude Oil Inventory in Transit" below.

d) Colombian Crude Oil Inventory in Transit

(\$000s)		For the years ended December 31,	
		2013	2012
Crude oil in transit	\$	8,695	\$ 7,474

As at December 31, 2013, the Company had 137,000 bbls of crude oil inventory in transit, which was injected into the Colombian Ocesa and ODC pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately \$63/bbl (\$75/bbl - 2012) 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:

(mmbbls)		For the periods ended December 31,	
		2013	2012
Crude oil inventory in transit - beginning of the period		98.8	281.5
Oil production		5,786.8	4,177.2
Oil sales		(6,110.5)	(4,825.5)
Purchased oil		370.3	465.6
Company consumption		(8.4)	-
Crude oil inventory in transit - end of the period		137.0	98.8

As a percentage of the quarters crude oil production, crude oil inventory has decreased in Q4, 2013 to 9 percent from 2012 at 13 percent. A reconciliation of quarter to quarter crude oil inventory movements is provided below:

(mmbbls)		For the periods ended			
		Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013
Crude oil inventory in transit - beginning of the period		146.6	134.6	196.7	98.8
Oil production		1,590.4	1,490.3	1,407.1	1,299.0
Oil sales		(1,642.7)	(1,475.8)	(1,485.6)	(1,506.4)
Company consumption		(2.4)	(2.5)	-	(3.5)
Purchased oil		45.1	-	16.4	308.8
Crude oil inventory in transit - end of the period		137.0	146.6	134.6	196.7

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

e) Purchased Oil

(mmbbls)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Oil purchased	45.1	240.5	370.3	465.6
Purchased oil sales	(45.1)	(256.4)	(370.3)	(465.6)
Purchased oil net change in inventory	-	(15.9)	-	-

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 December 31, 2013 and December 31, 2012 the Company did not have any third party purchased oil in inventory.

		For the three months ended December 31,		For the year ended December 31,	
		2013	2012	2013	2012
Purchased oil expense (\$000s)	\$	3,297	\$ 19,749	\$ 33,633	\$ 37,158

Purchased oil expense for the three months and year ended December 31, 2013 was \$3.3 million and \$33.6 million as compared to nil in the preceding quarter and \$19.7 million and \$37.2 million for the three months and year ended December 31, 2012. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Colombian Royalties

		For the three months ended December 31,		For the year ended December 31,	
		2013	2012	2013	2012
Royalties (\$000s)	\$	18,745	\$ 9,359	\$ 77,425	\$ 35,890
Per unit (\$/bbl)		11.73	8.08	13.46	8.31
Percentage of sales ⁽¹⁾⁽²⁾		14.1%	9.7%	15.7%	8.3%

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

⁽²⁾ Net of transportation costs

The Company's Colombian government royalties are generally comprised of a fixed rate of 8 percent, supplemented with an x-factor based upon the E&P contract terms. In the three months and year ended December 31, 2013 royalties increased from in the comparative periods in 2012 due to the Company being subjected to the High Price Royalty Share for the Kona field. The high price royalty share comes into effect when accumulated production of any production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices exceed pricing determined in the contract. In the fourth quarter royalties as a percentage of sales decreased to 14.1% as compared to the previous quarter of 15.7% as a result of a decrease in Brent price over the quarter, as applied in the calculation of the high price royalty share, and a reduced percentage of total production from the Kona field.

In January 2014 the Las Maracas field became subject to the High Price Royalty Share as a result of achieving cumulative production of 5.0 million barrels. The Las Maracas royalty percentage will increase by approximately 18 percent and total approximately 26 percent at a WTI price of \$103.65 per bbl. It is expected that first quarter 2014 royalty as a percentage of sales (net of transportation expense) will increase by approximately 6%, as a result of the Las Maracas production area now being subject to the High Price Share. The Company expects that the overall royalty percentage will decrease in subsequent 2014 quarters as production from new discoveries is brought online and production from fields subject to the High Price Share decreases as a percentage of total production.

Colombian Production Expense

		For the three months ended December 31,		For the year ended December 31,	
		2013	2012	2013	2012
Production expense (\$000s)	\$	15,881	\$ 12,122	\$ 57,268	\$ 36,286
Per unit (\$/bbl)		9.94	10.46	9.95	8.40

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 December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Per unit (\$/bbl) – based on sales volumes – operated ⁽¹⁾	8.14	9.49	8.09	7.92
Per unit (\$/bbl) – based on sales volumes – non-operated ⁽¹⁾	14.11	17.15	15.40	16.72

⁽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 fourth quarter on a per barrel basis of \$9.94/bbl is lower in comparison of the third quarter of \$10.06/bbl. Operated properties production expense in the fourth quarter was \$8.14/bbl compared to \$7.34/bbl for the third quarter and non-operated properties production expense was \$14.11/bbl for the fourth quarter compared to \$18.34/bbl for the third quarter. The quarter over quarter decrease in the non-operated properties production expense primarily relates to production cost decreases at Block LLA-34 as fixed operating costs have lowered on a per barrel basis as production has increased.

Production expense for the year ended December 31, 2013 on a per barrel basis is \$9.95/bbl in comparison to \$8.40/bbl for the year ended December 31, 2012. The increase is primarily due to non-operated production expenses on a per barrel basis being higher early in the year due to the high costs associated with the initial production of the new fields on LLA-34.

Colombian Transportation Expense

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Transportation expense (\$000s)	\$ 30,663	\$ 25,853	\$ 110,523	\$ 91,397
Per unit (\$/bbl)	19.19	18.27	18.09	19.06

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 December 31, 2013, the cost of transportation on a per barrel basis has increased to \$19.19/bbl (\$18.27 - three months ended December 31, 2012) from the third quarter of \$18.72/bbl mainly as a result of a larger percentage of the company's oil being trucked to the coast for export. For the year ended December 31, 2013, the cost of transportation on a per barrel basis has decreased to \$18.09/bbl from year ended December 31, 2012 of \$19.06/bbl. Parex expects that transportation expense per barrel will decrease from those realized in Q4 2013 due to many factors including the depreciation of the Colombian peso and the increased availability of pipeline capacity which will in turn reduce the amount of Company oil being trucked for export which comes at a higher cost per barrel than pipeline tariff fees. Year to date 2014 transportation costs are approximately \$18/bbl.

General and Administrative Expense ("G&A")

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Gross G&A	\$ 14,519	\$ 13,403	\$ 43,458	\$ 40,183
G&A recoveries	(771)	(553)	(2,948)	(1,367)
Capitalized G&A	(5,583)	(1,918)	(8,409)	(7,798)
Net G&A expense	\$ 8,165	\$ 10,932	\$ 32,101	\$ 31,018

Net G&A was \$32.1 million for the twelve months ended December 31, 2013 compared to \$31.0 million for the same period in 2012. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expense and employee costs. Costs were higher than the comparative period as a result of increased activity levels. For the fourth quarter of 2013 net G&A was mainly comprised of \$7.0 million relating to staff, consultants and professional services and the balance to 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 206 full-time-equivalents in three locations were working for Parex as at December 31, 2013 and throughout the fourth quarter compared to 185 as at December 31, 2012.

Share-Based Compensation Expense

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Share-based compensation expense	\$ 1,296	\$ 1,358	\$ 5,409	\$ 6,907
Share appreciation rights expense	564	1,139	344	1,068
Restricted share units expense	538	140	1,121	140
	\$ 2,398	\$ 2,637	\$ 6,874	\$ 8,115

Share-based compensation expense was \$6.9 million for the twelve months ended December 31, 2013 compared to \$8.1 million for the same period in 2012.

Share-based compensation expense relating to stock options was \$5.4 million for the twelve months ended December 31, 2013 compared to \$6.9 million for the same period in 2012. The primary reason for the decrease relates to the initial tranche of options granted at the time of incorporation in 2009 becoming fully vested and therefore expensed in prior periods. As at December 31, 2013, stock options outstanding were 8,695,363 equaling 8 percent of the common shares outstanding at the end of the fourth quarter. A total of 585,432 options were exercised and 4,270,575 options were granted during the twelve months ended December 31, 2013. As at December 31, 2013, the weighted average fair value upon grant date of the options outstanding based upon the Black-Scholes option value methodology was Cdn\$2.32 per option (December 31, 2012 - Cdn\$1.68 per option). The weighted average grant price for the twelve months ended December 31, 2013 was Cdn\$6.02 per option (December 31, 2012 - Cdn\$4.85).

Share appreciation rights (“SARs”) expense was \$0.3 million for the twelve months ended December 31, 2013 compared to \$1.1 million for the same period in 2012. As at December 31, 2013, 3,070,731 SARs were outstanding all of which were granted to employees in Colombia and Trinidad & Tobago. The weighted average exercise price at December 31, 2013 of the SARs outstanding was Cdn\$5.77 per SAR (December 31, 2012 - Cdn\$6.26 per SAR).

As at December 31, 2013, the total SARs liability accrued is \$3.2 million (December 31, 2012 - \$2.9 million).

Restricted share unit expense was \$1.1 million for the twelve months ended December 31, 2013 compared to \$0.1 million for the same period in 2012 as the plan commenced on October 19, 2012. A total of 633,500 units were granted and 2,166 units were exercised during the twelve months ended December 31, 2013. As at December 31, 2013 the fair value upon grant date of the units outstanding was \$5.95 per unit (December 31, 2012 - \$4.72 per unit).

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

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
DD&A (\$000s)	\$ 55,297	\$ 48,836	\$ 214,131	\$ 181,149
Per unit (\$/bbl) ⁽¹⁾	34.61	41.66	37.22	43.37

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

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

For the fourth quarter of 2013, future development costs of \$232.4 million (three months ended December 31, 2012 - \$113.1 million) were included in the depletion calculation. Fourth quarter 2013 depletion was \$55.0 million compared to \$48.1 million for the same period in 2012. Fourth quarter 2013 DD&A of \$34.61/bbl is lower than Q3, 2013 rate of \$36.67/bbl due to an increase in proved and probable reserves. The remaining DD&A relates to seismic equipment and office equipment which is depreciated over the assets estimated useful lives’.

For the year ended December 31, 2013 DD&A expense was \$214.1 million as compared to \$181.1 million for the prior year. The increase is a direct result of higher production volumes in 2013 partially offset by lower per barrel DD&A cost.

Foreign Exchange Loss (Gain)

	For the three months ended December 31,		For the year ended December 31,	
(\$000s)	2013	2012	2013	2012
Foreign exchange loss (gain)	\$ (2,562)	\$ 157	\$ (7,236)	\$ 2,446
Foreign Exchange Rates				
CAD\$/USD\$	0.95	1.00	0.97	1.00
Colombian peso/USD\$	1,913	1,805	1,869	1,796

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos, as the Company’s functional currency is the US dollar. The Company has exposure in Colombia and Canada on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The main drivers of foreign exchange losses (gains) are the revaluation of the Canadian dollar denominated Debenture and peso denominated income tax and accounts payable to USD at period end dates. During the three and twelve months ended December 31, 2013, the total foreign exchange gain of \$2.6 million and \$7.2 million relates to both the Canadian dollar and Colombian peso

depreciating in value from the exchange rates at December 31, 2012. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statement of comprehensive income. For the three months and year ended December 31, 2013, \$0.1 million and \$0.2 million of the foreign exchange gain is realized and \$2.5 million and \$7.0 million is unrealized.

For the twelve month period ended December 31, 2012, a foreign exchange loss of \$2.4 million was recognized primarily due to the Canadian dollar exchange rate at December 31, 2012 being higher than the opening January 1, 2012 exchange rate with the main driver being the conversion for reporting purposes of the CAD denominated Debenture to USD.

As of December 30, 2012 the Company put into place a cross currency interest rate swap ("CCIRS") for the principal balance of Cdn \$85.0 million relating to the Debenture in order to minimize the monetary exposure to the fluctuations in US/CDN dollar exchange rates and to capitalize on fixed USD denominated interest rates being lower than comparable CDN denominated interest rates. Effectively the Company hedged the CDN dollar denominated debenture to USD to source a lower interest rate and fix the cost of the debenture to the currency the Company is paid its oil revenues. See Cross Currency Interest Rate Swap ("CCIRS") below. The losses on the CCIRS are presented in financial statement line item "finance expense" in the consolidated statement of comprehensive income. These losses (gains) are offset by the (gains) losses reflected in the carrying amount of the Debenture. Associated with the CCRIS, there has been a realized gain of \$0.2 and \$0.4 million for the three and twelve months ended December 31, 2013 due to the lower interest rate obtained.

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

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

Net Finance Expense (Income)

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Interest expense and bank charges	\$ 1,948	\$ 1,575	\$ 6,883	\$ 5,719
Accretion on convertible debentures	1,108	1,026	4,163	3,744
Accretion on provisions	274	110	581	359
Loss (gain) on derivative financial liability	1,332	2,389	(885)	(7,294)
Amortization of debt issuance costs	167	155	627	564
Realized gain on CCIRS contract	(191)	-	(409)	-
Unrealized loss on CCIRS contract	2,718	992	5,694	992
Interest and other income	62	(1,413)	(1,039)	(2,399)
Net finance expense (income)	\$ 7,418	\$ 4,834	\$ 15,615	\$ 1,685

Interest expense relates to the Debenture and interest on the credit facility. Interest expense on Debentures for the three months ended December 31, 2013 was \$1.1 million (three months ended December 31, 2012 - \$1.1 million). Interest expense on the Debenture for the year ended December 31, 2013 was \$4.3 million (December 31, 2012 - \$4.5 million). The interest expense relates to the annual 5.25 percent coupon on the outstanding Debentures. The accretion expense for the debentures for the three months ended December 31, 2013 was \$1.1 million (three months ended December 31, 2012 - \$1.0 million). The debenture accretion expense was \$4.2 million for the year ended December 31, 2013 (December 31, 2012 - \$3.7 million). The accretion is related to the Debenture liability portion being accreted under the effective interest rate method. The liability portion of the Debentures is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method.

Under IFRS, the conversion feature of the Debenture issued on June 29, 2011 is classified as a derivative financial liability given that, if converted, the Company has the option to deliver either common shares or cash equal to the redemption value upon redemption. In the three months ended December 31, 2013, a \$1.3 million loss on the derivative financial liability was recognized (December 31, 2012 - loss of \$2.4 million). An equivalent non-cash derivative gain/loss was recorded in comprehensive income. The gain/loss is a result of fair valuing the derivative liability at December 31, 2013 and specifically the decrease/increase in the Company's stock price from December 31, 2012 of Cdn\$5.80, September 30, 2013 of Cdn\$5.83 to December 31, 2013 of \$6.58 offset by other changes in variables in the Black-Scholes model calculation. Derivatives are carried at fair value on the consolidated balance sheet, with any changes in fair value being recorded to the consolidated statement of comprehensive income.

Risk Management

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

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 as at December 31, 2013:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
July 1, 2013 to December 31, 2013	ICE Brent	Fixed Price	1000 bbl/d	\$100.00
July 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$108.50
August 1, 2013 to December 31, 2013	ICE Brent	Collar	2000 bbl/d	\$100.00 - \$109.00
August 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$110.90
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$109.01
January 1, 2014 to March 31, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$105.00
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
January 1, 2014 to March 31, 2014	ICE Brent	Put	1000 bbl/d	\$103.00

Subsequent to December 31, 2013, Parex entered into the following ICE Brent priced crude oil risk management contracts:

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

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

(\$000s)		For the three months ended December 31,		For the year ended December 31,	
		2013	2012	2013	2012
Realized loss (gain) on commodity risk management contracts	\$	1,353	\$ (230)	\$ 1,239	\$ (234)
Unrealized loss (gain) on commodity risk management contracts		793	(90)	1,459	(90)
Total	\$	2,146	\$ (324)	\$ 2,698	\$ (324)

The Company's net unrealized derivative loss on risk management contracts for the year ended December 31, 2013 was \$1.5 million (December 31, 2012 - gain of \$0.1 million). The unrealized loss on commodity risk management contracts of \$0.8 million and \$1.5 million for the three and twelve months ended December 31, 2013 is primarily attributable to the Brent forward benchmark price being in excess of the Company's derivative contracts.

b) Risk Management Contracts – Foreign Currency

The following is a summary of the foreign currency risk management contracts in place as at December 31, 2013:

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

In the fourth quarter of 2013 the Company put in place two Colombian peso collars with the purpose of hedging the 2013 current income tax payable due in April and June 2014.

The following is a summary of the Cross Currency Interest Rate Swap (“CCIRS”) contract in place as at December 31, 2013:

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

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

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Realized gain on foreign currency risk management contracts	\$ (191)	\$ -	\$ (409)	\$ -
Unrealized loss on foreign currency risk management contracts	2,718	992	5,694	992
Total	\$ 2,527	\$ 992	\$ 5,285	\$ 992

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

The unrealized CCIRS loss of \$2.7 million and \$5.7 million for the three and twelve months ended December 31, 2013 is primarily attributable to the increase/decrease in the forward Cdn dollar exchange rate at December 31, 2013 versus the US dollar and is offset by the foreign exchange gain embedded in the Debenture amount.

Income Tax

The components of tax expense for the three and twelve months ended December 31, 2013 and 2012 were as follows:

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Current tax expense	\$ 10,692	\$ 17,049	\$ 46,274	\$ 42,999
Deferred tax recovery	(7,025)	(9,265)	(2,994)	(8,847)
Total tax expense	\$ 3,667	\$ 7,784	\$ 43,280	\$ 34,152

The current and deferred tax expense relates to the Company’s operations in Colombia. Current tax in the fourth quarter was \$10.7 million as compared to \$17.0 million in the comparative three month period. Deferred tax expense in the fourth quarter of 2013 was a recovery of \$7.0 million (\$9.3 million for the three months ended December 31, 2012), mainly a result of a narrowing of the book and tax basis in Colombian subsidiaries. The calculation of current and future income tax in Colombia is based on a number of variables which can cause swings in current and future 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 twelve months ended December 31, 2013 on Colombian segmented operating cash flows was 14%.

Capital Expenditures

For the year ended December 31, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Acquisition of unproved properties	3,309	20,848	958	16,480	-	-	4,267	37,328
Geological and geophysical	9,150	12,880	2,305	9,715	-	-	11,455	22,595
Drilling and completion	174,494	170,835	(1,991)	13,476	-	-	172,503	184,311
Well equipment and facilities	31,148	21,162	851	(28)	-	-	31,999	21,134
Other	1,033	1,833	(2)	241	128	246	1,159	2,320
	\$ 219,134	\$ 227,558	\$ 2,121	\$ 39,884	\$ 128	\$ 246	\$ 221,383	\$ 267,688
Property acquisition costs	12,489	-	-	-	-	-	12,489	-
Total capital expenditures	\$ 231,623	\$ 227,558	\$ 2,121	\$ 39,884	\$ 128	\$ 246	\$ 233,872	\$ 267,688

⁽¹⁾ Excludes corporate acquisition costs.

For the three months ended December 31, (\$000s)	Colombia ⁽¹⁾		Trinidad & Tobago		Canada		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Acquisition of unproved properties	728	8,271	(145)	1,480	-	-	583	9,751
Geological and geophysical	(1,160)	9,849	-	421	-	-	(1,160)	10,270
Drilling and completion	46,704	35,064	(206)	1,851	-	-	46,498	36,915
Well equipment and facilities	12,458	7,058	-	(71)	-	-	12,458	6,987
Other	360	711	(2)	209	80	34	438	954
Total capital expenditures	\$ 59,090	60,953	(353)	3,890	80	34	58,817	64,877

⁽¹⁾ Excludes corporate acquisition costs.

a) Capital Expenditures Summary

During the twelve months ended December 31, 2013 the Company incurred \$233.9 million of capital expenditures compared to \$267.7 million in the same period of 2012. During 2013 the Company drilled 37 wells (24.2 net), compared to 35 wells (23 net) in 2012. Geological and geophysical were \$11.4 million and mainly relate to 3D seismic acquired on Blocks LLA-34 and LLA-32 in the year.

In the fourth quarter of 2013 the Company drilled 9 wells (6.1 net) in Colombia. Total drilling and completion costs during the fourth quarter totaled \$46.5 million, all of which related to drilling and completion and capitalized workover costs in Colombia. Spending on well equipment and facilities was \$12.5 million in the quarter, all focused in Colombia.

In the fourth quarter of 2013 the Company's Colombian operations utilized 3 drilling rigs and 2 service rigs. The level of activity increased in the fourth quarter of 2013 from the third quarter of 2013 as Parex invested \$59.1 million in the fourth quarter as compared to \$49.7 million in the previous third quarter of 2013.

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

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

b) Exploration and Evaluation Impairment

A non-cash impairment of \$38.3 million was recorded in the consolidated statement of comprehensive income for the twelve months ended December 31, 2013 relating to the Central Range Blocks ("CRB") in Trinidad & Tobago. The Company notified the Trinidad & Tobago Ministry of Energy and Energy Affairs (MEEA) that it has relinquished both Central Range Blocks and as such the Company has concluded that the carrying value of the blocks is nil. At December 31, 2012, the Company recorded a non-cash impairment of \$23.5 million relating to the Cory Moruga Block.

Acquisitions

Property Acquisition

On May 31, 2013, Parex, through a foreign subsidiary, acquired an additional 50% working interest in the Cabrestero Block (the "Cabrestero Acquisition"). The Company paid cash consideration of \$12.5 million. The Cabrestero Acquisition gives the Company 100% working interest in the Block.

The consolidated statement of comprehensive income includes results of operation of the property since the closing date of May 31, 2013.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, 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		
PP&E	\$	13,298
Decommissioning liabilities		(809)
	\$	12,489

Consideration for the acquisition		
Cash paid	\$	12,489
Total consideration paid	\$	12,489

Corporate Acquisition

On April 12, 2012, Parex, through a foreign subsidiary, acquired Ramshorn International Limited (“Ramshorn”) which assets primarily consist of interests in four exploration blocks located in Colombia’s Llanos Basin and one block located in Colombia’s Middle Magdalena Basin (the “Ramshorn Acquisition”). Total net consideration paid was \$71.8 million in cash, and the assumption of a working capital deficiency at close, primarily relating to post effective date adjustments. The acquisition was funded from existing cash.

The consolidated statement of comprehensive income includes Ramshorn’s results of operation since the Ramshorn Acquisition closing date of April 12, 2012 and expensed transaction costs of \$1.1 million.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, 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		
PP&E	\$	66,382
E&E assets		34,312
Working capital deficiency		(13,269)
Deferred tax liability		(14,946)
Decommissioning liabilities		(705)
	\$	71,774

Consideration for the acquisition		
Cash paid	\$	72,636
Cash acquired		(862)
Total consideration paid net of cash acquired	\$	71,774

Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	Dec. 31, 2013	Sep. 30, 2013	June 30, 2013	March 31, 2013
Average daily oil production (bopd)	17,287	16,199	15,463	14,440
Realized sales price - oil (\$/bbl)	101.64	106.41	99.34	109.63
Financial (000s except per share amounts)				
Oil and gas sales	\$ 166,959	\$ 157,043	\$ 147,585	\$ 164,990
Funds flow from operations ⁽¹⁾	\$ 75,818	\$ 68,241	\$ 65,638	\$ 60,226
Per share – basic	0.70	0.63	0.61	0.56
Per share – diluted	0.62	0.56	0.51	0.48
Adjusted net income (loss) ⁽¹⁾⁽³⁾	\$ 23,201	\$ (23,940)	\$ 5,987	\$ 6,538
Per share – basic	0.21	(0.22)	0.06	0.06
Per share – diluted	0.19	(0.22)	0.05	0.05
Net income (loss)	\$ 21,869	\$ (27,965)	\$ 7,632	\$ 11,136
Per share – basic	0.20	(0.26)	0.07	0.10
Per share – diluted	0.18	(0.26)	0.04	0.05
Capital Expenditures, excluding corporate acquisitions	\$ 58,817	\$ 49,962	\$ 77,921	\$ 47,172
Total assets (end of period)	\$ 854,808	\$ 820,827	\$ 824,276	\$ 827,821
Working capital surplus (deficit) (end of period) ⁽²⁾	\$ 24,005	\$ 18,801	\$ 8,630	\$ 16,972
Debentures (end of period) ⁽⁴⁾	\$ 66,060	\$ 66,898	\$ 64,338	\$ 65,402
Bank debt (end of period)	\$ 8,530	\$ 18,500	\$ 27,400	\$ 20,000

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

⁽²⁾ The December 31, 2013 working capital surplus does not include the undrawn \$91.5 million available from the credit facility.

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

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

Three months ended (\$000s)	Dec. 31, 2012	Sep. 30, 2012	June 30, 2012	March 31, 2012
Average daily oil production (bopd)	12,743	10,874	10,389	11,679
Realized sales price - oil (\$/bbl)	105.75	107.53	107.54	116.90
Financial (000s except per share amounts)				
Oil and gas sales	\$ 149,614	\$ 130,824	\$ 113,087	\$ 129,989
Funds flow from operations ⁽¹⁾	\$ 54,446	\$ 42,012	\$ 61,357	\$ 83,754
Per share – basic	0.50	0.39	0.57	0.77
Per share – diluted	0.50	0.39	0.53	0.69
Adjusted net income (loss) ⁽¹⁾⁽³⁾	\$ (13,450)	\$ 7,490	\$ 11,654	\$ 26,934
Per share – basic	(0.12)	0.07	0.11	0.25
Per share – diluted	(0.12)	0.07	0.10	0.24
Net income (loss)	\$ (15,840)	\$ 7,538	\$ 20,920	\$ 27,304
Per share – basic	(0.15)	0.07	0.19	0.25
Per share – diluted	(0.15)	0.07	0.09	0.24
Capital Expenditures, excluding corporate acquisitions	\$ 64,887	\$ 50,902	\$ 92,514	\$ 59,395
Total assets (end of period)	\$ 821,201	\$ 789,546	\$ 768,498	\$ 703,343
Working capital surplus (end of period) ⁽²⁾	\$ (12,640)	\$ (9,014)	\$ (555)	\$ 116,277
Debentures (end of period) ⁽⁴⁾	\$ 65,657	\$ 65,251	\$ 61,940	\$ 62,148
Bank debt (end of period)	\$ 9,100	\$ -	\$ -	\$ -

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

⁽²⁾ The December 31, 2012 working capital deficiency does not include the undrawn \$65.9 million available from the credit facility.

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

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

Factors that Caused Variations Over the Quarters

Throughout 2013 Parex grew production resulting in increased funds flow from operations quarter over quarter. In the third quarter of 2013 the Company recorded an impairment of \$38.3 million as a result of the relinquishment of the Central Range Block in Trinidad, resulting in a net loss of \$28.0 million for the quarter.

In the second quarter of 2012 the Company completed an acquisition of Ramshorn International Ltd. The acquisition was funded through the Company's working capital resulting in a significant decrease in working capital from the first quarter to the second quarter of 2012. Throughout 2012 the company grew oil production to 12,743 bopd for the fourth quarter. In the fourth quarter of 2012 the Company recorded an impairment of \$23.5 million related to the Cory Moruga Block in Trinidad, resulting in a net loss of \$15.8 million in the quarter.

Working capital and bank debt fluctuations quarter over quarter are mainly a result of the difference between funds flow from operations in the quarter and capital expenditures incurred in the period. Funds flow from operations fluctuate due mainly to inventory movements, price realizations and operating netback items including production and transportation expenses.

Please refer to "Financial and Operating Results" for detailed discussions on variations during the comparative quarters and to Parex' previously issued interim and annual MD&A for changes in prior quarters.

Fourth Quarter Results (Unaudited)

An unaudited income statement for the three months ended December 31 is set out below:

(\$000s) For the three month period ended December 31,	2013	2012
Oil and gas sales	\$ 166,959	\$ 149,614
Royalties	(18,745)	(9,359)
Revenue	148,214	140,255
Risk management contracts	(2,146)	320
	146,068	140,575
Expenses		
Production	15,881	12,122
Transportation	30,663	25,853
Purchased oil	3,297	19,749
General and administrative	8,165	10,932
Share-based compensation	2,398	2,637
Depletion, depreciation and amortization	55,297	48,836
Foreign exchange (gain) loss	(2,562)	157
Exploration and evaluation impairment	687	23,511
Gain on settlement on decommissioning liabilities	(712)	-
	113,114	143,797
Finance income	62	(1,413)
Finance expense	7,356	6,247
Net finance expense (income)	7,418	4,834
Net income (loss) before taxes	25,536	(8,056)
Income tax expense		
Current tax expense	10,692	17,049
Deferred tax recovery	(7,025)	(9,265)
	3,667	7,784
Net comprehensive income (loss) for the period	\$ 21,869	\$ (15,840)

Liquidity and Capital Resources

As at December 31, 2013, the Company had a working capital surplus of \$24.0 million, excluding amounts available under the credit facility, as compared to working capital surplus at September 30, 2013 of \$18.8 million and a working capital deficiency at December 31, 2012 of \$12.6 million. Bank debt was \$8.5 million compared to \$9.1 million at December 31, 2012. The credit facility has a current borrowing base of \$100 million. Combined working capital net of bank debt has improved from December 31, 2012 to December 31, 2013 by \$37.2 million which is mainly a function of operating cash flows being higher than capital expenditures in the period. At December 31, 2013 Parex held \$56.5 million of cash, compared to \$32.0 million at December 31, 2012. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados.

The Company values its crude oil inventory on hand using weighted average cost for the inventoried barrels. At December 31, 2013, on a fair market value basis the inventory on hand would have a value of approximately \$15.0 million or a positive fair value adjustment of approximately \$6.3 million (December 31, 2012 - value of \$10.9 million or a fair value adjustment of \$3.5 million).

Parex entered into a \$200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank during 2012, with a current borrowing base of \$100 million. Key covenants include a current ratio test of 1:1 adjusted for undrawn amounts on the facility plus the fair value of inventoried oil, and a rolling four quarters total funded debt to EBITDA test of 3:50:1, and other standard business operating covenants. As at December 31, 2013, the Company is in compliance with all covenants.

On March 18, 2013, Parex commenced a normal course issuer bid (the "NCIB") to purchase, from time to time, as it considers advisable, up to a maximum of 8,818,165 common shares of the Company. The price that Parex will pay for any common shares under the NCIB will be the prevailing market price on the TSX at the time of such purchase. Common shares acquired under the NCIB will be cancelled.

Debentures

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

The following table summarizes the accounting for the Debentures:

	Liability	Derivative financial liability	Total
Balance, December 31, 2011	\$ 60,001	\$ 16,821	\$ 76,822
Accretion	3,744	-	3,744
Amortization of debt issuance costs	564	-	564
Derivative gain	-	(7,294)	(7,294)
Foreign exchange loss	1,348	372	1,720
Balance, 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

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

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at December 31, 2013 the Company had 108,711,649 common shares outstanding.

The Company has a stock option and RSU plan. The plans provide for the issuance of options to the Company's directors, officers and certain employees to acquire common shares. The maximum number of 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 March 12, 2014 Parex has the following securities outstanding:

	Number	%
Common shares	109,427,024	92
Stock options ⁽¹⁾	8,029,488	7
Restricted share units	896,800	1
	118,353,312	100

⁽¹⁾ Stock option plan is subject to shareholder re-approval at the Annual Shareholders' Meeting to be held in May 2014.

As of the date of this MD&A, total stock options and RSU's outstanding represent approximately 8 percent of the total issued and outstanding common shares.

Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will affect the Company's future operations and liquidity. These commitments primarily relate to exploration work commitments including seismic and drilling activities. The Company has discretion regarding the timing of capital spending for exploration work commitments, provided that the work is completed by the end of the exploration periods specified in the contracts or the Company can negotiate extensions of the exploration periods. The Company's exploration commitments are described in the Company's AIF dated March 27, 2013. 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 December 31, 2013 was \$32.7 million (December 31, 2012 - \$50.0 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada ("EDC") has provided performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated commitments as at December 31, 2013:

(\$000s)	Total	<1 year	1 – 3 years	3 – 4 years	>5 years
Exploration ⁽¹⁾	\$ 74,050	\$ 37,250	\$ 36,800	\$ -	\$ -
Office and accommodations ⁽²⁾	2,282	1,719	563	-	-
Decommissioning expenditures	19,368	-	274	-	19,094
Other	321	321	-	-	-
Total	\$ 96,021	\$ 39,290	\$ 37,637	\$ -	\$ 19,094

⁽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.

Legal update

In connection with the lawsuit relating to Ramshorn International Limited filed in 2012; on January 28, 2014 the Texas Appeal Court reversed the decision of the Texas Trial Court respecting Parex Resources Inc., and dismissed all of the Plaintiff's claims against Parex Resources Inc., for lack of jurisdiction. The Texas Appeal Court also affirmed the decision of the Texas Trial Court dismissing all of the Plaintiff's claims against Parex Bermuda for lack of jurisdiction. Lastly, the Texas Appeal Court affirmed the decision of the Texas Trial Court respecting Ramshorn such that Ramshorn remains subject to the Lawsuit. The causes of action alleged against Ramshorn in the suit all relate to acts and conduct by Ramshorn that the Plaintiff alleges took place prior to Parex Bermuda's acquisition of Ramshorn. On February 12, 2014 the Plaintiff filed a combined motion requesting an initial reconsideration by the Texas Appeal Court of its decision regarding Parex and Parex Bermuda. The Plaintiff's motion was rejected entirely by the Texas Appeals Court on March 6, 2014. Parex has determined that the likelihood of a material outflow of economic resources is now remote. As such, the Company will no longer be disclosing updates to the case unless facts and circumstances change. Refer to note 26 in the audited consolidated financial statements for the year ended December 31, 2013 for further information.

Impairment Test of Goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3. The Company has allocated goodwill to the Colombia operating segment.

The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded.

Valuation Techniques

The recoverable amount of the group of CGUs in which the goodwill was assigned is based on fair value less costs of disposal. The technique used in determining the recoverable amount is based on the net present value of the after-tax cash flows from oil and gas reserves of the group of CGU's based on reserves estimated by Parex' independent reserve evaluator and the fair value of undeveloped land based on estimates with consideration given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant group of CGU's. The discounting process uses a rate of return that is commensurate with the risk associated with the assets and the time value of money. This approach requires assumptions about revenue, future oil prices, tax rates and discount rates, all of which are level 3 inputs.

Significant Assumptions

Oil Reserves

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Future Oil Prices

Oil forward price estimates are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors. The future oil prices used in the model are based on a forecast of crude oil prices by Parex' independent reserve evaluator. Prices used are as follows:

	2014	2015	2016	2017	2018	Thereafter
Brent (\$US/bbl)	107.50	107.50	105.00	102.50	102.50	2% increase per year

Discount Rate

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in similar industries, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Its determination requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the group of Colombia CGU's. The discount rate used in performing the impairment test was 11 percent.

The fair value of the group of Colombian CGU's was in excess of its carrying value. Based on sensitivity analysis, no reasonably possible change in discount rate assumptions would cause the carrying amount of the group of Colombia CGUs to exceed its recoverable amount.

Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2011	\$	5,105	\$	-	\$ 5,105
Additions		5,465		-	5,465
Corporate acquisition		705		-	705
Change in estimates		445		-	445
Accretion expense		359		-	359
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
Current obligation		-		(1,642)	(1,642)
Long-term obligation	\$	13,793	\$	5,653	\$ 19,446

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2013, the estimated costs to abandon and reclaim the wells and well sites 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 \$19.4 million as at December 31, 2013 (December 31, 2012 – \$17.5 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad, and 2020 or later in Colombia. A weighted average risk-free discount rate of 5% and an inflation rate of 2% were used in the valuation of the liabilities (December 31, 2012 – 4% weighted average risk-free discount rate and a 3% inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$8.4 million as at December 31, 2013 (December 31, 2012 – nil) 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. The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$1.6 million (December 31, 2012 – nil) 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 liabilities to change are:

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

Advisory on Forward-Looking Statements

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

- exploration blocks subject to farm-in and earning requirements;
- the Company's forecast average production range for 2014;
- terms of the Company's Debentures;
- terms of the Company's secured credit facility;
- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- activities to be undertaken in various areas including the fulfillment of exploration commitments and farm-in obligations;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- the Company's planned capital expenditures for 2014 along with the focus and timing thereof and the method of funding;
- the Company's expected exploration program for 2014, including 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 and effect of increased production and pricing on the Company's royalty rates;
- expected oil differentials and the Company's plans to increase blending operations and the anticipated effects on differentials;
- expected transportation costs on a per barrel basis;
- expected average production costs and effect of pipeline capacity on such costs;
- anticipated effect of increased production volumes in the non-operated fields on the Company's operating costs;
- terms of stock based compensation plans, including option plan, restricted share unit plan, and share appreciation rights and the Company's plans with respect to granting securities under its stock based compensation plans;
- foreign currency risk;
- ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy, terms of the Company's risk management contracts and the anticipated effect of derivative contracts on managing cash flow;
- estimated income tax expense;
- expected effective Colombian corporate income tax rate for 2014 and in the future;
- status of lawsuit brought in Texas against Parex and certain foreign subsidiaries;
- the Company's ability to fund its capital program and meet its financial obligations;
- drilling plans and timing of drilling, completion and tie-in of wells;
- impact of new and revised accounting pronouncements and critical accounting estimates;
- effect of business and environmental risks on the Company; and,
- financial and business prospects and financial outlook.

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

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada, Colombia and Trinidad & Tobago; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risks related to the lawsuit brought in Texas against Parex and certain foreign subsidiaries; failure of counterparties to perform under the terms of their contracts; the risks discussed under "Risk Factors" in the Company's Annual Information Form dated March 27, 2013 and under "Business Environment and Risks" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to areas of the Company's operations and infrastructure; future exchange rates; the price of oil; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of reserves and future production rates; royalty rates; future operating costs; foreign exchange rates; the status of

litigation; timing of drilling and completion of wells; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company's conduct and results of operations will be consistent with its expectations; that the Company will have the ability to develop the Company's oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the estimates of the Company's reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that the Company will be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves.

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

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

Non-GAAP Terms

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

Funds flow from operations is a non-GAAP term that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. Management uses funds from (used in) operations to analyze operating performance and monitor financial leverage, and considers funds from (used in) operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments. Funds flow from operations is reconciled with net (loss) income in the consolidated statements of cash flows. The following table reconciles funds flow from operations to cash flow from operations:

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Cash flow from operating activities (GAAP)	25,125	41,947	208,549	254,517
Changes in non-cash working capital including taxes and interest payable	50,693	12,499	61,374	(12,948)
Funds flow from operations (Non-GAAP)	\$ 75,818	\$ 54,446	\$ 269,923	\$ 241,569

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

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Funds flow from operations				
Funds flow from (used in) operations for the purpose of basic funds flow	\$ 75,818	\$ 54,446	\$ 269,923	\$ 241,569
Debt interest expense	1,062	1,125	4,333	4,466
Funds flow from operations for diluted funds flow	\$ 76,880	\$ 55,571	\$ 274,256	\$ 246,035
Weighted average number of shares for the purposes of basic funds flow (\$000s)	108,460	108,440	108,421	108,403
Dilutive effect of share options on potential common shares	1,724	1,068	1,134	1,324
Dilutive effect of Debentures on potential common shares ⁽¹⁾	13,980	-	13,980	15,984
Weighted average number of shares for the purposes of diluted funds	124,164	109,508	123,535	125,711

⁽¹⁾ For the three months ended December 31, 2012 the effect of the Debenture is antidilutive.

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

(\$000s)	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	2013	2012
Net income (GAAP)	\$ 21,869	\$ (15,840)	\$ 12,672	\$ 39,922
Non cash (gain) loss on derivative financial liability	1,332	2,390	(885)	(7,294)
Adjusted net income (Non-GAAP)	\$ 23,201	\$ (13,450)	\$ 11,787	\$ 32,628

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 Parax's profitability relative to current commodity prices.

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

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

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

Business Environment and Risks

Overall

Parax is exposed to a variety of risks including but not limited to operational, financial, competitive, political and environmental risks. As a participant in the oil and natural gas industry, Parax is exposed to operational risks such as: unsuccessful exploration and exploitation activities, the inability to find new reserves that are commercially and economically feasible, premature declines of reservoirs, well blow-outs and other operating hazards, and lack of infrastructure or transportation to access markets and monetize reserves. The Company works to mitigate these risks by employing highly skilled personnel and utilizing available technology. The Company also maintains a corporate insurance program consistent with industry practices to protect against insurable losses.

The Company is exposed to normal financial risks inherent in the oil and natural gas industry including: commodity price risk, exchange rate risk, interest rate risk and credit risk. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in commodity prices, foreign currency rates and interest rates. Parax operates the majority of its properties and, therefore, has significant control over the timing, direction and costs related to exploration commitments and development opportunities.

Foreign Jurisdictions

Parex is focused on international oil and natural gas activities, currently with the majority of its interests in Colombia. As such, the Company is subject to political risks such as: changes in policies and regulation related to changes in government, price controls, renegotiation of land tenure agreements, nationalization, changes in tax regulations, amendments or changes to legal systems, and complex regulatory regimes. The Company focuses its foreign operations in countries where management has prior experience and/or engages local in-country staff as soon as possible. The Company engages local, Canadian and international advisors. The Company may also, from time to time, arrange for insurance to mitigate specific risks. The Company is also exposed to potential delay of its operations due to waiting on permits or obtaining surface access to drilling locations.

Reserves Estimates

Parex has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves. Reserve values are based on a number of variables and assumptions such as commodity prices, projected production, future production costs and governmental regulations. The reserves and recovery information contained in the independent reserve report is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserve engineers.

Volatility of Commodity Prices and Foreign Exchange Rates

The Company's operational results and financial condition depend on the prices received for petroleum production. Commodity prices are determined by economic and, in some circumstances, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, also influence prices. Parex is exposed to commodity price risk whereby the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum are affected by the global economic events that dictate the levels of supply and demand. The Company protects itself from fluctuations in commodity prices by maintaining an appropriate hedging strategy. As at the date of this MD&A, Parex has six crude oil hedges in place (see "Risk Management Contracts – Brent Crude").

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as various portions of its cash balances are denominated in Colombian pesos (COP\$), Canadian dollars (Cdn\$) and Trinidad & Tobago dollars (TT\$), and the Convertible Debenture is denominated in Canadian dollars. The Company protects itself from fluctuations in foreign exchange rates by maintaining an appropriate hedging strategy. At the date of this MD&A, Parex had three foreign currency exchange risk management contracts in place (see "Risk Management Contracts – Foreign Exchange").

Counterparty Risk

Credit risk is the risk of a counterparty failing to meet its obligations in accordance with the agreed upon terms. The Company may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its commodities and other parties. Parex has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and natural gas sales, financial hedging transactions and joint venture participants. The Company makes every effort to sell its commodities to major companies with excellent credit ratings.

Access to Capital

From time to time, the Company may have to raise additional funds to finance business development activities. Parex' ability to raise additional capital will depend on a number of factors such as general economic and market conditions that are beyond the Company's control. Internally generated funds will also fluctuate with changing commodity prices. Parex currently has a \$100,000,000 syndicated facility with four banks. The Company is required to comply with covenants under this facility and in the event it does not comply, access to capital could be restricted or repayment may be required. Parex routinely reviews the covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants under the credit facility. Parex is committed to maintaining a strong balance sheet along with an adaptable capital expenditure program that can be adjusted to capitalize on, or reflect acquisition opportunities and, if necessary a tightening of liquidity sources. From the company's founding to the date of this MD&A, Parex has had no defaults or breaches on its bank debt or any of its financial liabilities.

Operational Matters

The oil and natural gas industry is intensely competitive, with Parex competing against companies that may have greater technical and financial resources. There is competition for new exploration and development properties, for infrastructure and sales contracts, for drilling and other specialized technical equipment and for experienced key human resources. As appropriate, Parex seeks to enter into joint venture arrangements with large and/or experienced industry players in each country to improve its access to resources.

There are also extensive and varying environmental regulations imposed by the governments in the countries in which Parex operates. The Company adopts prudent and industry-recommended field operating procedures in all of its operations, as well as maintaining a health, safety and environment program.

Exploration

The Company is exposed to a high level of exploration risk. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless the Company is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital-intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, Parex employs highly experienced geologists and geophysicists, uses technology such as 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. In addition, the Company takes a portfolio approach to exploration by dispersing drilling locations among different exploration blocks and geological basins and by targeting multiple play-types. The Company may also choose to mitigate exploration risk through acquisitions that may require raising funds.

Internal Controls over Financial Reporting

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation authorities is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Parex evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded Parex DC&P were effective as at December 31, 2013.

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

- 1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Parex;
- 2) Are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of Parex are being made in accordance with authorizations of management and Directors of Parex; and
- 3) Are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial reports.

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining ICFR for Parex. They have, as at the financial year ended December 31, 2013, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Parex officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Parex conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2013 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2013, Parex maintained effective ICFR. It should be noted that while Parex officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. There were no changes in Parex ICFR during the year ended December 31, 2013.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the twelve months ended December 31, 2013.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized on 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

The Company's IFRS accounting policies are provided below. The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2013. The principal operating subsidiaries and their activities are:

Entity	Country	Ownership %	Principle Activity
Parex Resources Colombia Ltd. Sucursal	Colombia	100	Oil and natural gas exploration and development
Ramshorn International Limited	Colombia	100	Oil and natural gas exploration and development
Parex Resources (Trinidad) Ltd.	Trinidad	100	Oil and natural gas exploration and development

The above listing does not include the wholly-owned holding company subsidiaries of Parex. Inter-company balances and transactions are eliminated on consolidation. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. A significant portion of the Company's operating cash flows is derived through joint operations which are involved in the development and production of crude oil in Colombia. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

b) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in United States dollars, which is the functional currency of Parex.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of comprehensive income.

c) Financial instruments

The Company initially measures financial instruments at estimated fair value. The Company's loans and receivables, comprised of cash and accounts receivables, are included in current assets due to their short-term nature. Financial liabilities are categorized as "other financial liabilities" consisting of accounts payable and accrued liabilities, the convertible debentures and long-term debt.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are recognized at the amount expected to be received less any discount or rebate to reduce the loan and receivables to estimated fair value. Loans and receivables are subsequently measured at amortized cost using the effective interest method. For loans and receivables that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature. Loans and receivables are comprised of cash and accounts receivable in the consolidated balance sheet.

Other financial liabilities

Other financial liabilities are financial liabilities that are not quoted on an active market and with no intention of being traded. They are included in current liabilities, except for the convertible debentures and long-term debt as these instruments have maturities greater than 12 months after the balance sheet date and are classified as non-current liabilities. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable are subsequently measured at amortized cost using the effective interest method. For accounts payable that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature. The convertible debentures were recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

Derivative instruments

Derivatives may be used by the Company to manage economic exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. Parex' policy is not to utilize derivative financial instruments for speculative purposes. The Company does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, all financial derivative contracts are classified at fair value through comprehensive income and are recorded on the consolidated balance sheet at fair value.

Financial derivative contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date.

Financial derivative instruments are included in current assets (liabilities) except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets (liabilities).

Convertible Debenture

On issuance, the Debenture was split between the financial liability and the equity conversion feature. The convertible debenture represents a liability in its entirety, as the conversion feature fails the fixed-for-fixed requirement for equity classification as the convertible debenture is denominated in Canadian dollars, whereas the functional currency of Parex is US dollars. The convertible feature of the convertible debenture is required to be fair-valued at each balance sheet date. As a result, the convertible debenture conversion feature is classified at fair value through comprehensive income and is recorded on the consolidated balance sheet at fair value. The financial liability portion was initially recorded at fair value and accretes to the debenture face value over the term of the Debenture.

d) Capital assets

(i) Exploration and evaluation

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to comprehensive income as impairment of exploration and evaluation assets.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to PP&E, where they are depleted. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income as impairment of exploration and evaluation assets. Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible assets.

(ii) Property, plant and equipment

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include proved property acquisitions, development drilling, completion of wells, gathering facilities and infrastructure, decommissioning and restoration costs and transfers of E&E assets.

Costs accumulated within each CGU are depleted using the unit-of-production method based on proved plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

Costs associated with office furniture, fixtures and leasehold improvements are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from 1 to 5 years.

e) Impairment of long-term assets

The carrying amounts of the Company's long-term assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, and, if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD").

Value in use is determined by estimating the present value of the pre-tax future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future after tax net cash flows of proved plus probable reserves using forecast prices and costs.

E&E assets are allocated to related CGUs where they are assessed for impairment upon their eventual reclassification to PP&E. E&E assets not reclassified to PP&E are assessed for impairment on a block by block basis.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in comprehensive income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

f) Crude oil inventory

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.

g) Purchased oil

Purchased oil includes costs to buy third party oil. These costs are initially recorded in inventory until the crude oil title is transferred.

h) Goodwill

Goodwill is recorded on a business acquisition when the purchase price is in excess of the fair values assigned to assets acquired and liabilities assumed. Goodwill is not amortized and an impairment test is performed annually or as events occur that could indicate impairment. To test for impairment, goodwill is allocated to each of the Company's CGUs, groups of CGUs, or an operating segment expected to benefit from the acquisition. Goodwill is tested by combining the carrying amounts of property, plant and equipment and exploration and evaluation assets and goodwill and comparing this to the recoverable amount. Fair value less costs of disposal, is derived by estimating the discounted after-tax future net cash flows as described in the property, plant and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Impairment charges, which are not tax affected, are recognized in comprehensive income and are not reversed. Goodwill is reported at cost less any impairment.

i) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party.

j) Repurchase of shares

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

k) Share-based compensation

The Company has an incentive stock option plan and a restricted unit plan for certain employees, officers and directors as described in note 15. The Company records share-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date using the Black-Scholes pricing model, and expensed over the vesting period of the option. The fair value of an RSU is calculated using the market price of Parex shares on the date of issuance, and expensed over the vesting period of the RSU. The Company determines an appropriate forfeiture rate by examining the history of its forfeitures. The Company records the cumulative share-based compensation as contributed surplus. When options or RSUs are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share-based compensation for the exercised security. Any consideration received on the exercise of stock options or RSUs is credited to share capital.

Obligations for payments of cash under the foreign subsidiaries' 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. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

l) Provisions

A provision is recognized if, as a result of a past event, the Company has a current legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

m) Decommissioning and environmental liabilities

The Company's activities give rise to dismantling, decommissioning, environmental, abandonment and site disturbance remediation activities. Provisions are made for the estimated cost of the future site restoration and capitalized in the relevant asset category.

Decommissioning and environmental liabilities are measured at the present value of management's best estimate of the cost and future timing of the expenditure required to settle the present obligation at the balance sheet date using a risk-free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense whereas increases (decreases) due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning and environmental liabilities are charged against the provision to the extent the provision was established.

n) Operating Segments

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by the Company's chief operating decision makers. The operating segments are Canada, Colombia and Trinidad & Tobago. The Company evaluates the financial performance of its operating segments primarily based on operating cash flow.

o) Finance income and expense

Finance expense comprises interest expense on borrowings, accretion on other provisions and convertible debentures, amortization of debt issuance costs, revaluation of derivative financial liabilities and impairment losses recognized on financial assets. Finance income comprises interest earned on cash and other income.

p) Cash

Cash is comprised of cash held in chartered banks in Canada and recognized financial institutions abroad with BBB+ credit ratings or higher.

q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in comprehensive income.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws enacted or substantively enacted by the balance sheet date and expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax is provided on temporary differences arising on investments in subsidiaries except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets and liabilities are presented as non-current.

r) Per share information

Basic net income per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and convertible debentures, except when the effect would be anti-dilutive.

s) Accounting policies adopted

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

IFRS 10, Consolidated Financial Statements, revised the definition of control to include three elements: (1) power over an investee; (2) exposure to variable returns from its involvement with the investee and (3) the ability to use its power to affect returns from the investee. The Company reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change in the consolidation status of its subsidiaries and investees.

IFRS 11, Joint Arrangements, was revised so that a joint arrangement is classified as either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement. Under a joint operation, parties have rights to the assets and obligations for the liabilities of the arrangement and account for their share of assets, liabilities, revenues and expenses. Under a joint venture, parties have the rights to the net assets of the arrangement and account for the arrangement as an investment using the equity method. The Company has determined that IFRS 11 did not have a material impact on its financial position.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to the methodology the Company applies for determining the fair value for its financial assets and liabilities and, as such, the adoption of IFRS 13 did not result in any measurement adjustments as at January 1, 2013. The standard requires certain enhanced disclosures which have been incorporated in the notes to the statements.

There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28) and IFRS 12, Disclosure of Interests in Other Entities (IFRS 12). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12. IFRS 12 required disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company has determined that the amendments to IAS 27, IAS 28, and IFRS 12 did not have a material impact on its financial position.

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

IFRS 7, Financial Instruments: Disclosures, was amended regarding disclosure requirements for offsetting financial assets and financial liabilities. The Company has determined that IFRS 7 did not have a material impact on its financial position.

The Company has reviewed new and revised accounting pronouncements that have been issued effective January 1, 2014 and determined the following impacts on the Company:

In May 2013, the IASB issued an amendment to IAS 36, “Impairment of Assets”. The amendment removes certain disclosures of the recoverable amount of a CGU. The amendment is effective retrospectively for annual periods beginning on or after January 1, 2014. As allowed by the standard, the Company early adopted the amendment in the current period. Refer to note 7 for the amended disclosures.

t) New standards and interpretations not yet adopted

The standards and interpretations that are issued but not yet effective up to the date of issuance of the company’s financial statements, and that may have an impact on the disclosures and financial position of the Company, are disclosed below. The company intends to adopt these standards and interpretations, if applicable, when they become effective.

IFRS 9, Financial Instruments was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through net income or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in net income to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through net income are generally recorded in other comprehensive income. In November 2013, the IASB issued additional amendments to include the new general hedge accounting model and to postpone the mandatory effective date of this standard indefinitely. The full impact of this standard will not be known until the amendments addressing impairments, classification and measurement have been completed. When these projects are completed, an effective date will be added by the IASB.

In May 2013, the IASB issued International Financial Reporting Interpretation Committee (IFRIC) 21 Levies. This clarifies 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 clarifies that no liability should be anticipated before the minimum threshold is reached. Retrospective application of this interpretation is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. The company is assessing the impact of this interpretation on royalties.

Critical Accounting Estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, assumptions and estimates that affect the financial results of the Company. The following discussion outlines the accounting policies and practices involving the use of estimates that the Company believes are critical in determining Parex’ financial results.

Oil and natural gas reserves

The Company retains qualified independent reserves evaluators to evaluate the Company’s proved and probable oil and natural gas reserves. As at December 31, 2013, Parex’ reserves were evaluated by GLJ Petroleum Consultants Ltd., who are a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The Operations and Reserves Committee of the Company’s Board of Directors is comprised of independent directors whose mandate is to steward the reserves evaluation process.

The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, expected rates of production and the timing of future capital expenditures, all of which are subject to major uncertainties and interpretations. The Company expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net income (loss), as they are a key component in the calculation of DD&A and for determining potential asset impairment. A downward revision in reserves estimates or an increase in estimated future development costs could result in the recognition of a higher DD&A charge to net income (loss).

Oil and natural gas assets (development and producing costs) are aggregated into CGUs based on their ability to generate largely independent cash flows. If the carrying value of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss). The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell may be determined using discounted future net cash flows of proved plus probable reserves using forecast prices and costs. A downward revision in reserves estimates could result in the recognition of impairments charged to net income (loss).

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net income (loss).

Decommissioning and environmental liabilities

The Company is required to recognize a liability for future dismantling, decommissioning, environmental, abandoning and site disturbance remediation costs associated with the Company's oil and natural gas properties in accordance with existing laws, contracts or other policies. The fair value of the estimated decommissioning and environmental liability is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related long-lived asset, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to net income (loss), and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

Decommissioning and environmental liabilities are determined by using management's best estimate of costs, taking into account the anticipated method and extent of restoration consistent with legal requirements, technological advances, industry practices and the possible use of the site. Since these estimates are specific to the sites involved, there are many individual assumptions underlying the Company's total decommissioning and environmental liability. These individual assumptions can be subject to change based on experience. Restoration technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. The Company estimates future decommissioning and environmental costs based on current estimates adjusted for inflation. This estimate for inflation is also subject to management uncertainty.

Deferred tax

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred tax liabilities and assets is recognized in net income (loss) in the period that the change occurs. Deferred tax assets are only recognized to the extent that it is probable that sufficient future taxable income will be available in the applicable jurisdiction to allow the deferred tax assets to be realized.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations from multiple jurisdictions. Rates are also affected by legislative changes. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded in the financial statements. Estimates of Colombian current income tax for interim periods are also subject to additional uncertainty. A variety of factors cannot be known until year-end and, therefore, estimates are used for interim period current tax provisions.

Share-based compensation

The Company records stock-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date, and expensed equally over the vesting term of the option. The Company records the cumulative stock-based compensation as contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated stock-based compensation for the exercised option. Any consideration received on the exercise of stock options is credited to share capital.

The determination of stock-based compensation expense is based on assumptions regarding stock volatility, risk-free interest rates and the expected life of the options. These assumptions, by their nature, are subject to measurement uncertainty.

Obligations for payments of cash under the subsidiaries' 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. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

The determination of SARs expense is based on assumptions regarding stock volatility, risk-free interest rates and the expected life of the SAR. These assumptions, by their nature, are subject to measurement uncertainty.

The fair value of stock RSUs is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life.

The determination of RSUs expense is based on assumptions regarding stock volatility, risk-free interest rates and the expected life of the SAR. These assumptions, by their nature, are subject to measurement uncertainty.

Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired, and is assessed for impairment annually at December 31 of each year. To test for impairment, goodwill is allocated to each of the Company's CGUs, or groups of CGUs, that are expected to benefit from the acquisition and is tested as described above in the Company's impairment policy. The recoverable amount of an asset or a CGU is the greater of its value in use and its FVLCD.

Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future net cash flows of proved plus probable reserves using forecast prices and costs. A downward revision in reserves estimates could result in the recognition of a goodwill impairment charge to net earnings.

These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves and discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGUs.

Derivative liabilities

The convertible feature of the convertible debentures is required to be fair-valued at each balance sheet date. The fair value of this derivative liability is calculated using the Black-Scholes pricing model which is based on significant assumptions such as volatility of the market price of Parex' shares, the risk free interest rate (based on government of Canada Bonds), and the share price of Parex' stock at the measurement date.

Risk management contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. The fair value of the risk management contract on initial recognition is normally the transaction price. Subsequent to initial recognition, the fair value are based on quoted market price where available from active markets, otherwise fair values are estimated based on market prices at the reporting date for similar assets or liabilities with similar terms and conditions.

Legal, environmental remediation and other contingent matters

In respect of these matters, the Company is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and if such a loss can reasonably be estimated. When any such loss is determined, it is charged to net income (loss). Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to net income (loss) when warranted by circumstances.

MANAGEMENT'S REPORT

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that management make estimates and assumptions and use judgment. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP were appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for overseeing that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Finance & Audit Committee. The Finance & Audit Committee recommends appointment of the external auditors to the Board, evaluates their independence and approves their fees. The Finance & Audit Committee meets regularly with management and the external auditors to oversee that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Finance & Audit Committee to discuss their audit and their findings.



Wayne K. Foo
President, Chief Executive Officer



Kenneth G. Pinsky
Chief Financial Officer

March 12, 2014

March 12, 2014

Independent Auditor's Report

To the Shareholders of Parex Resources Inc.

We have audited the accompanying consolidated financial statements of Parex Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parex Resources Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at (thousands of United States dollars)	NOTE	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash		\$ 56,492	\$ 31,950
Accounts receivable	5	121,969	102,442
Prepays and other current assets		4,880	6,279
Crude oil inventory	6	8,695	7,474
		192,036	148,145
Goodwill	10	61,252	61,252
Exploration and evaluation	7	70,038	145,172
Property, plant and equipment	8	531,482	466,632
		\$ 854,808	\$ 821,201
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 118,841	\$ 116,116
Current income and equity tax payable	17	47,548	44,669
Current portion of other provisions	14	1,642	-
		168,031	160,785
Long-term debt	11	8,530	9,100
Convertible debenture	16	66,060	65,657
Derivative financial liability	16	8,375	9,899
Other long-term liabilities	13	7,081	3,071
Other provisions	14	19,446	12,079
Deferred tax liability	17	92,222	95,214
		369,745	355,805
Shareholders' equity			
Share capital	15	414,176	412,736
Contributed surplus		21,692	16,015
Retained earnings		49,195	36,645
		485,063	465,396
		\$ 854,808	\$ 821,201

Commitments (note 24)

Subsequent event (note 26)

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Consolidated Statements of Comprehensive Income

For the year ended December 31,

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

	NOTE	2013	2012
Oil sales		\$ 636,577	\$ 523,514
Royalties		(77,425)	(35,890)
Revenue		559,152	487,624
Commodity risk management contracts	22	(2,698)	324
		556,454	487,948
Expenses			
Production		57,268	36,286
Transportation		110,523	91,397
Purchased oil		33,633	37,158
General and administrative		32,101	31,018
Share-based compensation	15	6,874	8,115
Transaction costs	9	-	1,109
Depletion, depreciation and amortization	8	214,131	181,149
Gain on settlement of decommissioning liabilities	14	(712)	-
Foreign exchange (gain) loss		(7,236)	2,446
Impairment of exploration and evaluation assets	7	38,305	23,511
		484,887	412,189
Finance income	12	(1,039)	(2,399)
Finance expense	12	16,654	4,084
Net finance expense		15,615	1,685
Net income before taxes		55,952	74,074
Income tax expense			
Current tax expense	17	46,274	42,999
Deferred tax recovery	17	(2,994)	(8,847)
		43,280	34,152
Net income and comprehensive income for the year		\$ 12,672	\$ 39,922
Basic net income per common share	18	\$ 0.12	\$ 0.37
Diluted net income per common share	18	\$ 0.09	\$ 0.31

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Changes in Equity

For the year ended December 31, (thousands of United States dollars)	NOTE	2013	2012
Share Capital			
Balance, beginning of year		\$ 412,736	\$ 411,921
Issuance of common shares under option plans		2,824	815
Repurchase of shares	15	(1,384)	-
Balance, end of year		\$ 414,176	\$ 412,736
Contributed Surplus			
Balance, beginning of year		\$ 16,015	\$ 9,215
Share-based compensation		6,530	7,047
Options exercised		(853)	(247)
Balance, end of year		\$ 21,692	\$ 16,015
Retained Earnings (deficit)			
Balance, beginning of year		\$ 36,645	\$ (3,277)
Net income for the year		12,672	39,922
Repurchase of shares	15	(122)	-
Balance, end of year		\$ 49,195	\$ 36,645

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the year ended December 31,
(thousands of United States dollars)

	NOTE	2013	2012
Operating activities			
Net income		\$ 12,672	\$ 39,922
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	214,131	181,149
Non-cash finance loss (income)	12	10,180	(1,641)
Share-based compensation	15	6,874	8,115
Deferred tax recovery	17	(2,994)	(8,847)
Impairment of exploration and evaluation assets	7	38,305	23,511
Unrealized foreign exchange gain (loss)		(6,949)	1,030
Unrealized (gain) loss on commodity risk management contracts	22	1,459	(90)
Gain on settlement of decommissioning liabilities	14	(712)	-
Abandonment costs paid	14	(1,400)	-
Colombia equity tax paid		(1,494)	(1,580)
Stock appreciation rights paid		(149)	-
		269,923	241,569
Net change in non-cash working capital	19	(61,374)	12,948
		208,549	254,517
Investing activities			
Capital expenditures		(221,383)	(267,688)
Property Acquisition	9	(12,489)	-
Corporate Acquisition	9	-	(71,774)
Farm out proceeds		2,000	-
Net change in non-cash working capital	19	48,973	2,466
		(182,899)	(336,996)
Financing activities			
Issuance of common shares under option plans	15	1,971	568
Common share repurchase		(1,506)	-
Long-term debt (repaid) issued	11	(570)	9,100
		(105)	9,668
Increase (decrease) in cash for the year		25,545	(72,811)
Impact of foreign exchange on foreign currency-denominated cash balances		(1,003)	877
Cash, beginning of year		31,950	103,884
Cash, end of year		\$ 56,492	\$ 31,950

Supplemental Disclosure of Cash Flow Information (note 19)

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

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

1. Corporate Information

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

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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 12, 2014.

2. Basis of Preparation, Critical Accounting Estimates and Judgements

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standard Boards (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 12, 2014, the date the Board of Directors approved the consolidated financial statements.

b) Basis of measurement

The 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 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 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 consolidated financial statements. Accordingly, actual results could differ from estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(i) Depletion, depreciation and reserves

Depletion is based on the proved plus probable reserves as evaluated in accordance with National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* (“NI 51-101”) and incorporating the estimated future cost of developing and extracting those. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates may also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions of reserve estimates are often required due to changes in well performance, prices, economic conditions and governmental regulations.

Although every reasonable effort is made to determine that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 8).

(ii) Determination of cash-generating units (“CGU”)

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

(iii) Exploration and evaluation (“E&E”)

The decision to transfer assets from E&E to property, plant and equipment (“PP&E”) is primarily based on the estimated proved plus probable reserves used in the determination of an area’s technical feasibility and commercial viability.

(iv) Decommissioning and environmental liabilities

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves, laws and regulations or their interpretation, the timing and likelihood of the settlement of the obligation, discount rates, and future interest rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company’s judgment, the most appropriate discount rate to use is a risk-free rate.

Liabilities for environmental costs are recognized in the period in which they are incurred, normally when the asset is developed and the associated costs can be estimated. These liabilities are in addition to the decommissioning liabilities due to government regulations that require the Company to perform additional mitigation against the environmental issues attributed to water usage and deforestation from oil and gas activities performed. In addition, the timing of expected settlement of the environmental liabilities differs from the timing of expected settlement of the decommissioning liabilities. Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Refer to note 14 – Other Provisions.

(v) Impairment indicators and discount rate

The recoverable amounts of CGUs and individual assets have been determined as the greater of either an asset’s or CGU’s value in use or fair value less costs of disposal. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, quantity of reserves and discount rates as well as future development and operating costs. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the oil and natural gas reserves and the recoverable economical reserves and may require a material adjustment to the carrying value of oil and natural gas assets. The Company monitors internal and external indicators of impairment relating to its property, plant and equipment and exploration and evaluation assets. Refer to note 8 – Property, Plant and Equipment and note 10 – Goodwill.

(vi) Share-based compensation

Compensation costs accrued for share-based compensation plans and the Company’s Share Appreciation Rights (“SAR”) plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of Parex shares and expected term of the issued stock option or SAR. Compensation costs accrued for the Company’s Restricted Share Unit (“RSU”) plan are measured at fair value based on the market price of Parex shares on the date of issuance. Refer to note 15.

(vii) Derivative financial asset/liability

The estimated fair value of derivative instruments resulting derivative assets and liabilities by their nature are subject to measurement uncertainty.

(viii) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. The Company follows the liability method for calculating deferred taxes. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

Corporate and property acquisitions

Corporate and property acquisitions are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of E&E assets and oil and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment or goodwill impairment.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2013. The principal operating subsidiaries and their activities are:

Entity	Country of incorporation	Country of principle business activity	Ownership %	Principle business activity
Parex Resources Colombia Ltd.	Barbados	Colombia	100	Oil and natural gas exploration and development
Ramshorn International Limited	Bermuda	Colombia	100	Oil and natural gas exploration and development
Parex Resources (Trinidad) Ltd.	Trinidad	Trinidad	100	Oil and natural gas exploration and development

The above listing does not include the wholly-owned holding company subsidiaries of Parex. Inter-company balances and transactions are eliminated on consolidation. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. A significant portion of the Company's operating cash flows is derived through joint operations which are involved in the development and production of crude oil in Colombia. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

b) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in United States dollars, which is the functional currency of Parex.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of comprehensive income.

c) Financial instruments

The Company initially measures financial instruments at estimated fair value. The Company's loans and receivables, comprised of cash and accounts receivables, are included in current assets due to their short-term nature. Financial liabilities are categorized as "other financial liabilities" consisting of accounts payable and accrued liabilities, the convertible debentures and long-term debt.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are recognized at the amount expected to be received less any discount or rebate to reduce the loan and receivables to estimated

fair value. Loans and receivables are subsequently measured at amortized cost using the effective interest method. For loans and receivables that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature. Loans and receivables are comprised of cash and accounts receivable in the consolidated balance sheet.

Other financial liabilities

Other financial liabilities are financial liabilities that are not quoted on an active market and with no intention of being traded. They are included in current liabilities, except for the convertible debentures and long-term debt as these instruments have maturities greater than 12 months after the balance sheet date and are classified as non-current liabilities. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable are subsequently measured at amortized cost using the effective interest method. For accounts payable that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature. The convertible debentures were recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

Derivative instruments

Derivatives may be used by the Company to manage economic exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. Parex' policy is not to utilize derivative financial instruments for speculative purposes. The Company does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, all financial derivative contracts are classified at fair value through comprehensive income and are recorded on the consolidated balance sheet at fair value.

Financial derivative contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date.

Financial derivative instruments are included in current assets (liabilities) except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets (liabilities).

Convertible Debenture

On issuance, the Debenture was split between the financial liability and the equity conversion feature. The convertible debenture represents a liability in its entirety, as the conversion feature fails the fixed-for-fixed requirement for equity classification as the convertible debenture is denominated in Canadian dollars, whereas the functional currency of Parex is US dollars. The convertible feature of the convertible debenture is required to be fair-valued at each balance sheet date. As a result, the convertible debenture conversion feature is classified at fair value through comprehensive income and is recorded on the consolidated balance sheet at fair value. The financial liability portion was initially recorded at fair value and accretes to the debenture face value over the term of the Debenture.

d) Capital assets

(i) Exploration and evaluation

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to comprehensive income as impairment of exploration and evaluation assets.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to PP&E, where they are depleted. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income as impairment of exploration and evaluation assets. Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible assets.

(ii) Property, plant and equipment

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include proved property acquisitions, development drilling, completion of wells, gathering facilities and infrastructure, decommissioning and restoration costs and transfers of E&E assets. Costs accumulated within each CGU are depleted using the unit-of-production method based on proved plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

Costs associated with office furniture, fixtures and leasehold improvements are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from 1 to 5 years.

e) Impairment of long-term assets

The carrying amounts of the Company's long-term assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, and, if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD").

Value in use is determined by estimating the present value of the pre-tax future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future after tax net cash flows of proved plus probable reserves using forecast prices and costs.

E&E assets are allocated to related CGUs where they are assessed for impairment upon their eventual reclassification to PP&E. E&E assets not reclassified to PP&E are assessed for impairment on a block by block basis.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in comprehensive income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

f) Crude oil inventory

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.

g) Purchased oil

Purchased oil includes costs to buy third party oil. These costs are initially recorded in inventory until the crude oil title is transferred.

h) Goodwill

Goodwill is recorded on a business acquisition when the purchase price is in excess of the fair values assigned to assets acquired and liabilities assumed. Goodwill is not amortized and an impairment test is performed annually or as events occur that could indicate impairment. To test for impairment, goodwill is allocated to each of the Company's CGUs, groups of CGUs, or an operating segment expected to benefit from the acquisition. Goodwill is tested by combining the carrying amounts of property, plant and equipment and exploration and evaluation assets and goodwill and comparing this to the recoverable amount. Fair value less costs of disposal, is derived by estimating the discounted after-tax future net cash flows as described in the property, plant and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Impairment charges, which are not tax

affected, are recognized in comprehensive income and are not reversed. Goodwill is reported at cost less any impairment.

i) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party.

j) Repurchase of shares

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

k) Share-based compensation

The Company has an incentive stock option plan and a restricted unit plan for certain employees, officers and directors as described in note 15. The Company records share-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date using the Black-Scholes pricing model, and expensed over the vesting period of the option. The fair value of an RSU is calculated using the market price of Parex shares on the date of issuance, and expensed over the vesting period of the RSU. The Company determines an appropriate forfeiture rate by examining the history of its forfeitures. The Company records the cumulative share-based compensation as contributed surplus. When options or RSUs are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share-based compensation for the exercised security. Any consideration received on the exercise of stock options or RSUs is credited to share capital.

Obligations for payments of cash under the foreign subsidiaries’ 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. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

l) Provisions

A provision is recognized if, as a result of a past event, the Company has a current legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

m) Decommissioning and environmental liabilities

The Company’s activities give rise to dismantling, decommissioning, environmental, abandonment and site disturbance remediation activities. Provisions are made for the estimated cost of the future site restoration and capitalized in the relevant asset category.

Decommissioning and environmental liabilities are measured at the present value of management’s best estimate of the cost and future timing of the expenditure required to settle the present obligation at the balance sheet date using a risk-free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense whereas increases (decreases) due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning and environmental liabilities are charged against the provision to the extent the provision was established.

n) Operating Segments

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by the Company’s chief operating decision makers. The operating segments are Canada, Colombia and Trinidad & Tobago. The Company evaluates the financial performance of its operating segments primarily based on operating cash flow.



o) Finance income and expense

Finance expense comprises interest expense on borrowings, accretion on other provisions and convertible debentures, amortization of debt issuance costs, revaluation of derivative financial liabilities and impairment losses recognized on financial assets. Finance income comprises interest earned on cash and other income.

p) Cash

Cash is comprised of cash held in chartered banks in Canada and recognized financial institutions abroad.

q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in comprehensive income.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws enacted or substantively enacted by the balance sheet date and expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax is provided on temporary differences arising on investments in subsidiaries except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets and liabilities are presented as non-current.

r) Per share information

Basic net income per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and convertible debentures, except when the effect would be anti-dilutive.

s) Accounting policies adopted

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

- (i) IFRS 10, Consolidated Financial Statements, revised the definition of control to include three elements: (1) power over an investee; (2) exposure to variable returns from its involvement with the investee and (3) the ability to use its power to affect returns from the investee. The Company reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change in the consolidation status of its subsidiaries and investees.
- (ii) IFRS 11, Joint Arrangements, was revised so that a joint arrangement is classified as either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement. Under a joint operation, parties have rights to the assets and obligations for the liabilities of the arrangement and account for their share of assets, liabilities, revenues and expenses. Under a joint venture, parties have the rights to the net assets of the arrangement and account for the arrangement as an investment using the equity method. The Company has determined that IFRS 11 did not have a material impact on its financial position.
- (iii) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to the methodology the Company applies for determining the fair value for its financial assets and liabilities and, as such, the adoption of IFRS 13 did not result in any measurement adjustments as at January 1, 2013. The standard requires certain enhanced disclosures which have been incorporated in the notes to the statements.
- (iv) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates

and Joint Ventures (IAS 28) and IFRS 12, Disclosure of Interests in Other Entities (IFRS 12). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12. IFRS 12 required disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company has determined that the amendments to IAS 27, IAS 28, and IFRS 12 did not have a material impact on its financial position.

- (v) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has determined that IAS 12 did not have a material impact on its financial position.
- (vi) IFRS 7, Financial Instruments: Disclosures, was amended regarding disclosure requirements for offsetting financial assets and financial liabilities. The Company has determined that IFRS 7 did not have a material impact on its financial position.

The Company has reviewed new and revised accounting pronouncements that have been issued effective January 1, 2014 and determined the following impacts on the Company:

- (i) In May 2013, the IASB issued an amendment to IAS 36, "Impairment of Assets". The amendment removes certain disclosures of the recoverable amount of a CGU. The amendment is effective retrospectively for annual periods beginning on or after January 1, 2014. As allowed by the standard, the Company early adopted the amendment in the current period. Refer to note 7 for the amended disclosures.

t) *New standards and interpretations not yet adopted*

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements, and that may have an impact on the disclosures and financial position of the Company, are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

- (i) IFRS 9, Financial Instruments was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through net income or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in net income to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through net income are generally recorded in other comprehensive income. In November 2013, the IASB issued additional amendments to include the new general hedge accounting model and to postpone the mandatory effective date of this standard indefinitely. The full impact of this standard will not be known until the amendments addressing impairments, classification and measurement have been completed. When these projects are completed, an effective date will be added by the IASB.
- (ii) In May 2013, the IASB issued International Financial Reporting Interpretation Committee (IFRIC) 21 Levies. This clarifies 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 clarifies that no liability should be anticipated before the minimum threshold is reached. Retrospective application of this interpretation is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. The Company is assessing the impact of this interpretation on royalties.

4. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the

assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) PP&E and intangible exploration assets

The fair value of PP&E and intangible exploration assets are determined if there are indicators of impairment. The fair value of PP&E 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 fair value of oil and natural gas assets (included in PP&E) is 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 risk-adjusted discount rate is specific to the asset with reference to general market conditions.

b) Cash, accounts receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013 and 2012 the fair value of these balances approximated their carrying value due to their short-term to maturity.

c) Stock options

The fair value of stock options is measured using the Black-Scholes pricing model. Measurement inputs include the share price on measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 15.

d) Share appreciation rights

The fair value of SARs is measured using the Black-Scholes pricing model. Measurement inputs include the share price on each balance sheet date, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general SAR-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 15.

e) Restricted share units

The fair value of stock RSUs are measured based on the market price of Parex shares on the date of issuance. Refer to note 15.

f) Derivative financial asset /liability

The conversion feature of the convertible debentures is required to be fair-valued at each balance sheet date. The fair value of this derivative liability is calculated using the Black-Scholes pricing model which is based on significant assumptions such as volatility of the market price of Parex' shares, the risk-free interest rate (based on government of Canada Bonds), and the share price of Parex' stock at the measurement date.

Risk management contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. The fair value of the risk management contract on initial recognition is normally the transaction price. Subsequent to initial recognition, the fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated based on market prices at the reporting date for similar assets or liabilities with similar terms and conditions.

5. Accounts Receivable

	December 31, 2013	December 31, 2012
Trade receivables	\$ 91,729	\$ 58,435
Colombia income taxes receivable	24,608	21,147
Receivables from partners	3,228	16,109
Value added taxes (VAT)	2,404	6,751
	\$ 121,969	\$ 102,442

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

overhead recoveries outstanding from joint venture partners. VAT receivable is \$2.4 million as at December 31, 2013 (December 31, 2012 - \$6.8 million) and is recoverable in 2014. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Inventory

	December 31, 2013		December 31, 2012	
Crude oil inventory	\$	8,695	\$	7,474

Crude oil inventory consists of crude oil in transit at the balance sheet date and is valued at the lower of cost, using the weighted average cost method, and net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude oil to its existing condition and location. During 2013 \$7.5 million (December 31, 2012 - \$9.8 million) of crude oil inventory cost was expensed to the consolidated statement of comprehensive income.

7. Exploration and Evaluation Assets

	Colombia		Trinidad & Tobago		Total
Cost					
Balance at December 31, 2011	\$	91,974	\$	44,741	\$ 136,715
Additions		66,438		39,858	106,296
Transfers to PP&E		(109,440)		-	(109,440)
Change in decommissioning liability		168		632	800
Corporate acquisition – note 9 (b)		34,312		-	34,312
Exploration and evaluation impairment		-		(23,511)	(23,511)
Balance at December 31, 2012	\$	83,452	\$	61,720	\$ 145,172
Additions		60,931		2,121	63,052
Transfers to PP&E		(96,666)		-	(96,666)
Change in decommissioning liability		(948)		(267)	(1,215)
Farm-out proceeds		-		(2,000)	(2,000)
Exploration and evaluation impairment		-		(38,305)	(38,305)
Balance at December 31, 2013	\$	46,769	\$	23,269	\$ 70,038

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. Amounts transferred to PP&E of \$96.7 million for the year ended December 31, 2013 are primarily associated with Block LLA-30, Block LLA-17 and El Eden Block. In the prior year amounts of \$109.4 million were transferred from E&E to PP&E for costs associated with the Las Maracas, Tua and Cabrestero fields. E&E increased by \$34.3 million for the year ended December 31, 2012 relating to the fair values of the E&E assets acquired in the corporate acquisition (see note 9 - Acquisitions).

The Company completed an impairment review for the exploration and evaluation assets in Trinidad & Tobago in the third quarter of 2013 due to the relinquishment of the Central Range Blocks. The impairment review compared the carrying value of the Central Range Blocks to the recoverable amount. The Company notified the Trinidad & Tobago Ministry of Energy and Energy Affairs (MEEA) that it has relinquished both Central Range Blocks and as such the Company concluded that the recoverable amount of the blocks is nil. An impairment of the full carrying value of \$38.3 million was recorded in the consolidated statement of comprehensive income for the year ended December 31, 2013.

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

The Company, in 2012, completed an impairment review for the exploration and evaluation assets associated with the Cory Moruga Block in Trinidad & Tobago due to unfavorable testing results in late 2012 relating to the Green Hermit and Fire Crown wells. The impairment review compared the carrying value of the Cory Moruga Block to the recoverable amount. The recoverable amount of the Block was estimated using fair value less costs of disposal based on offers and indications from third parties in the Company's interest in the Block (level 3 inputs). It was determined that the impairment on the Moruga Block was \$23.5 million which is recorded in the consolidated statement of comprehensive income for the year ended December 31, 2012. The recoverable amount of the Moruga Block was determined to be \$23.3 million.

At December 31, 2013 and December 31, 2012 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

	Canada		Colombia		Trinidad & Tobago		Total
Cost							
Balance at December 31, 2011	\$	4,407	\$	360,082	\$	292	\$ 364,781
Additions		246		161,120		26	161,392
Transfer from E&E assets		-		109,440		-	109,440
Changes in decommissioning liability		-		5,078		-	5,078
Corporate acquisition – note 9 (b)		-		66,382		-	66,382
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 – note 9 (a)		-		13,298		-	13,298
Balance at December 31, 2013	\$	4,781	\$	981,215	\$	318	\$ 986,314
Accumulated Depreciation, Depletion and Amortization							
Balance at December 31, 2011	\$	1,176	\$	63,607	\$	142	\$ 64,925
Depletion and depreciation for the year		867		180,243		39	181,149
DD&A transferred to crude oil inventory costing		-		(5,633)		-	(5,633)
Balance at December 31, 2012	\$	2,043	\$	238,217	\$	181	\$ 240,441
Depletion and depreciation for the year		585		213,508		38	214,131
DD&A transferred to crude oil inventory costing		-		260		-	260
Balance at December 31, 2013	\$	2,628	\$	451,985	\$	219	\$ 454,832
Net book value:							
At December 31, 2011		3,231		296,475		150	299,856
At December 31, 2012		2,610		463,885		137	466,632
At December 31, 2013	\$	2,153	\$	529,230	\$	99	\$ 531,482

During 2013, additions mainly relate to development expenditures in the amount of \$158.2 million (December 31, 2012 - \$161.1 million) in Colombia at the Las Maracas, Tua, Tarotaro and Tigana fields. Amounts transferred from E&E are \$96.7 million for the year ended December 31, 2013 and \$109.4 million for the year ended December 31, 2012. PP&E increased by \$13.3 million for the year ended December 31, 2013 and \$66.4 million for the year ended December 31, 2012 relating to the fair values of the assets acquired in the property and corporate acquisitions (see note 9 – Acquisitions).

9. Acquisitions

a) Property Acquisition

On May 31, 2013, Parex, through a foreign subsidiary, acquired an additional 50% working interest in the Cabrestero Block (the “Cabrestero Acquisition”). The Company paid cash consideration of \$12.5 million. The Cabrestero Acquisition gives the Company 100% working interest in the Block.

The consolidated statement of comprehensive income includes results of operation of the property since the closing date of May 31, 2013.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, 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	
PP&E	\$ 13,298
Decommissioning liabilities	(809)
	\$ 12,489
Consideration for the acquisition	
Cash paid	\$ 12,489
Total consideration paid	\$ 12,489

No working capital was included in the assets acquired.

The pro forma results for year ended December 31, 2013 are shown below, as if the Cabrestero Acquisition had occurred on January 1, 2013. Pro forma results are not indicative of actual results or future performance.

Oil sales	\$	5,859
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The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. The consolidated statement of comprehensive income for the year ended December 31, 2013 includes \$3.5 million of oil sales attributable to the assets acquired since the Acquisition. Net income for the year ended December 31, 2013 attributable to the assets acquired since the Acquisition is considered impracticable to calculate.

b) Corporate Acquisition

On April 12, 2012, Parex, through a foreign subsidiary, acquired Ramshorn International Limited (“Ramshorn”) which assets primarily consist of interests in four exploration blocks located in Colombia’s Llanos Basin and one block located in Colombia’s Middle Magdalena Basin (the “Ramshorn Acquisition”). Total net consideration paid was \$71.8 million in cash, and the assumption of a working capital deficiency at close, primarily relating to post effective date adjustments. The Acquisition was funded from existing cash.

The consolidated statement of comprehensive income includes Ramshorn’s results of operation since the Ramshorn Acquisition closing date of April 12, 2012 and expensed transaction costs of \$1.1 million.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, 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		
PP&E	\$	66,382
E&E assets		34,312
Working capital deficiency		(13,269)
Deferred tax liability		(14,946)
Decommissioning liabilities		(705)
	\$	71,774
Consideration for the acquisition		
Cash paid	\$	72,636
Cash acquired		(862)
Total consideration paid net of cash acquired	\$	71,774

Included in the working capital deficiency of assets acquired are accounts receivable of \$5.8 million. The receivables are joint venture and trade receivables for which the fair value approximates its carrying value.

The pro forma results for year ended December 31, 2012 are shown below, as if the Ramshorn Acquisition had occurred on January 1, 2012. Pro forma results are not indicative of actual results or future performance.

Oil sales	\$	28,787
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The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. The consolidated statement of comprehensive income for the year ended December 31, 2012 includes \$20.7 million of oil sales attributable to the assets acquired since the Ramshorn Acquisition. Net income for the year ended December 31, 2012 attributable to the assets acquired since the Acquisition is considered impracticable to calculate.

10. Goodwill

	December 31, 2013	December 31, 2012
Goodwill	\$ 61,252	\$ 61,252

Impairment test of goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3. The Company has allocated goodwill to the Colombia operating segment.

The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded.

Valuation Techniques

The recoverable amount of the group of CGUs in which the goodwill was assigned is based on fair value less costs of disposal. The technique used in determining the recoverable amount is based on the net present value of the after-tax cash flows from oil and gas reserves of the group of CGU's based on reserves estimated by Parex' independent reserve evaluator and the fair value of undeveloped land based on estimates with consideration given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant group of CGU's. The discounting process uses a rate of return that is commensurate with the risk associated with the assets and the time value of money. This approach requires assumptions about revenue, future oil prices, tax rates and discount rates, all of which are level 3 inputs.

Significant Assumptions

Oil Reserves

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Future Oil Prices

Oil forward price estimates are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors. The future oil prices used in the model are based on a forecast of crude oil prices by Parex' independent reserve evaluator. Prices used are as follows:

	2014	2015	2016	2017	2018	Thereafter
Brent (\$US/bbl)	107.50	107.50	105.00	102.50	102.50	2% increase per year

Discount Rate

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in similar industries, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Its determination requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the group of Colombia CGU's. The discount rate used in performing the impairment test was 11 percent.

The fair value of the group of Colombian CGU's was in excess of its carrying value. Based on sensitivity analysis, no reasonably possible change in discount rate assumptions would cause the carrying amount of the group of Colombia CGUs to exceed its recoverable amount.

11. Long-Term Debt

	December 31, 2013		December 31, 2012	
Long-term debt (syndicate credit facility)	\$	8,530	\$	9,100

On May 23, 2012, Parex entered into a \$200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank. The facility, at December 31, 2013, consists of a reserve-based revolving facility of \$100 million including an operating line of \$10 million. The revolving facility is a rolling facility maturing on May 22, 2015, and may be extended for an additional 365 days after attaining syndicate approval. The facility is subject to re-determination of the borrowing base semi-annually on November 30 and May 31 of each year. The borrowing base is determined based on, among other things, the Company's current reserve report, results of operations, the lenders view of the current and forecasted commodity prices and the current economic environment. US base rate and LIBOR base rate loan advances under the revolving facility bear interest at rates ranging from US base rate or LIBOR plus 2.75% - 3.50% per annum, depending on utilization. Canadian prime rate loan advances, drawn on the operating line only, bear interest at rates

ranging from Canadian prime plus 1.75% - 2.50% per annum, dependent on utilization. Undrawn amounts under the revolving facility bear a commitment fee ranging from 0.5% to 0.75% per annum, dependent on utilization.

Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. Key covenants include a current ratio test of 1:1 adjusted for undrawn amounts on the credit facility plus fair value of inventoried oil, a rolling four quarter total funded debt to EBITDA test of 3:50: 1, and other standard business operating covenants. The authorized borrowing amount is subject to an interim review as discussed above. As at December 31, 2013, the Company is in compliance with all covenants. Security is provided for by a first fixed and floating charge debenture over all assets of Parex Resources Inc., a pledge of the shares of material subsidiaries and general assignment of book debts.

12. Net Finance Expense (Income)

For the year ended December 31,	2013		2012	
Interest expense and bank charges	\$	6,883	\$	5,719
Accretion on convertible debentures (note 16)		4,163		3,744
Accretion on provisions (note 14)		581		359
Gain on derivative financial liability (note 16)		(885)		(7,294)
Amortization of debt issuance costs (note 16)		627		564
Realized gain on CCIRS contract (note 22)		(409)		-
Unrealized loss on CCIRS contract (note 22)		5,694		992
Interest and other income		(1,039)		(2,399)
Net finance expense	\$	15,615	\$	1,685

For the year ended December 31,	2013		2012	
Non-cash finance expense (income)	\$	10,180	\$	(1,641)
Cash finance expense		5,435		3,326
Net finance expense	\$	15,615	\$	1,685

13. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	December 31, 2013		December 31, 2012	
Long-term SARs payable	\$	638	\$	511
Long-term equity tax payable		-		1,574
Financial derivative liability related to the cross currency interest rate swap ("CCIRS")		6,443		986
	\$	7,081	\$	3,071

14. Other Provisions

	Decommissioning		Environmental		Total
Balance, December 31, 2011	\$	5,105	\$	-	\$ 5,105
Additions		5,465		-	5,465
Corporate acquisition		705		-	705
Change in estimates		445		-	445
Accretion expense		359		-	359
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
Current obligation		-		(1,642)	(1,642)
Long-term obligation	\$	13,793	\$	5,653	\$ 19,446

The total environmental, decommissioning and restoration obligations were determined by management based on the estimated costs to settle environmental

impact obligations incurred and to reclaim and abandon the wells and well sites based on contractual requirements. The obligations are expected to be funded from the Company's internal resources available at the time of settlement.

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2013, the estimated costs to abandon and reclaim the wells and well sites 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 \$19.4 million as at December 31, 2013 (December 31, 2012 – \$17.5 million) with the majority of these costs anticipated to occur in 2015 or later in Trinidad, and 2020 or later in Colombia. A weighted average risk-free discount rate of 5% and an inflation rate of 2% were used in the valuation of the liabilities (December 31, 2012 – 4% weighted average risk-free discount rate and a 3% inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$8.4 million as at December 31, 2013 (December 31, 2012 – nil) 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. The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$1.6 million (December 31, 2012 – nil) that is classified as a current obligation.

15. Share Capital

a. Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2011	108,300,368	\$ 411,921
Issued for cash – exercise of options	176,083	568
Allocation of contributed surplus – exercise of options	-	247
Balance, December 31, 2012	108,476,451	\$ 412,736
Issued for cash – exercise of options 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

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

In 2013, a total of 587,598 options were exercised for proceeds of \$2.0 million (December 31, 2012 - 176,083 options were exercised for \$0.6 million).

In 2013, the Company repurchased 352,400 (December 31, 2012 – nil) common shares pursuant to its Normal Course Issuer Bid at a cost of \$1.5 million (average cost per share of Cdn\$4.39). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

b. Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's directors, officers, and certain employees to acquire common shares. The option plan is subject to shareholder re-approval at the Annual Shareholders' Meeting, to be held in May 2014. 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 5 years from the date of grant.

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2012	9,626,515	5.64
Granted	4,270,575	6.02
Exercised	(585,432)	3.51
Cancelled	(4,435,708)	7.61
Forfeited	(180,587)	6.69
Balance, December 31, 2013	8,695,363	4.94

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2013 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$3.04 - \$3.55	2,234,734	0.79	3.04	2,234,734	0.79	3.04
\$3.56 - \$4.47	1,645,054	3.26	4.44	689,736	2.74	4.42
\$4.48 - \$6.06	573,625	2.89	5.37	295,000	1.53	5.39
\$6.07 - \$6.12	3,998,200	4.79	6.07	-	-	-
\$6.13 - \$6.37	243,750	2.55	6.25	174,998	2.26	6.24
	8,695,363	3.28	4.94	3,394,468	1.32	3.69

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 year ended December 31,	2013	2012
Risk-free interest rate (%)	1.46	1.14
Expected life (years)	4	3
Expected volatility (%)	48	50
Forfeiture rate (%)	3	-
Expected dividends	-	-

The weighted average fair value at the grant date for the year ended December 31, 2013 was Cdn\$2.32 per option (year ended December 31, 2012 – Cdn\$1.68 per option). The weighted average share price on the exercise date for options exercised in 2013 was Cdn\$6.07 (year ended December 31, 2012 – Cdn\$6.67)

c. Share appreciation rights

Parex Trinidad and Parex Colombia initiated a SARs plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company's common shares at the time of exercise over the grant price. At any time, if the current market price of the Company's common shares exceeds four times the grant price, Parex has the option to require the holders to exercise all vested SARs. SARs typically vest over a three-year period and expire 5 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, 2012	2,741,143	6.26
Granted	1,823,884	6.06
Exercised	(122,497)	4.69
Cancelled	(1,033,135)	7.68
Forfeited	(338,664)	5.99
Balance, December 31, 2013	3,070,731	5.77

As at December 31, 2013, 769,754 SARs were vested (year ended December 31, 2012 – 783,472).

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

For the year ended December 31,	2013	2012
Risk-free interest rate (%)	1.38	1.24
Expected life (years)	4	3
Expected volatility (%)	47	49
Share price	6.58	5.80
Expected dividends	-	-

As at December 31, 2013, the total SARs liability accrued is \$3.2 million (December 31, 2012 - \$2.9 million) of which \$0.6 million (December 31, 2012 - \$0.5 million) is classified as long-term in accordance with the three year vesting period. For the year ended December 31, 2013, Parex recorded \$0.3 million of compensation costs related to the outstanding SARs (year ended December 31, 2012 – \$1.1 million). The intrinsic value of vested SARs at December 31, 2013 was \$0.9 million (December 31, 2012 – \$0.1 million).

d. Restricted share units

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

	Number of RSU's	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2012	240,800	0.01
Granted	633,500	0.01
Exercised	(2,166)	0.01
Forfeited	(3,334)	0.01
Balance, December 31, 2013	868,800	0.01

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the year ended December 31, 2013 was Cdn\$5.95 per RSU (year ended December 31, 2012 – Cdn\$4.72 per RSU). For the year ended December 31, 2013 a weighted average forfeiture rate of 3% was applied (December 31, 2012 – nil).

e. Share-based compensation and SARs expense

For the year ended December 31,	2013	2012
Share-based compensation expense	\$ 6,530	\$ 7,047
SARs expense	344	1,068
Total	\$ 6,874	\$ 8,115

16. Convertible Debenture

On June 29, 2011, Parex issued Cdn\$85.0 million of convertible unsecured subordinated debentures (the “Debentures”) with an annual coupon of 5.25 percent maturing on June 30, 2016. The Debentures have a face value of \$1,000 per debenture, are convertible into common shares at the option of the holder at a conversion price of Cdn\$10.15 per common share and represent a conversion rate of approximately 98.52 common shares per Debenture. The Debentures pay interest semi-annually in arrears on June 30 and December 31 of each year, commencing on December 31, 2011. In the event that a holder of Debentures exercises the conversion feature, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of common shares to be received on conversion, for the period from the latest interest payment date to the date of conversion.

On issuance, the Debentures were split between the financial liability and the equity conversion feature (which is classified as a derivative financial liability under IFRS). The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature from the principal of the Debenture. As at June 29, 2011, the \$87.5 million (Cdn\$85.0 million) net issuance proceeds resulted in \$60.8 million (Cdn\$62.4 million) being classified as a liability and \$23.3 million (Cdn\$22.6 million) being classified as a derivative financial liability. The fair value of the equity conversion feature is estimated every balance sheet date using the Black-Scholes pricing model with changes in the fair value estimate between periods recognized in the consolidated statement of comprehensive income as finance expense.

The following table summarizes the accounting for the debentures:

	Liability	Derivative financial liability	Total
Balance, December 31, 2011	\$ 60,001	\$ 16,821	\$ 76,822
Accretion	3,744	-	3,744
Amortization of debt issuance costs	564	-	564
Derivative gain	-	(7,294)	(7,294)
Foreign exchange loss	1,348	372	1,720
Balance, 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

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

The fair value of the liability portion of the Debenture is \$73.9 million at December 31, 2013 (December 31, 2012 – \$76.0 million). The fair value was estimated using the trading data of the debentures on the measurement dates, which is a level 1 input, less the fair value of the debenture conversion feature, which is estimated using the Black-Scholes valuation model, as explained below.

The foreign exchange gain is offset by a corresponding loss on the Cross Currency Interest Rate Swap the Company entered into on December 30, 2012. (Refer to note 22 (d)).

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

For the year ended December 31,	2013	2012
Risk-free interest rate (%)	1.38	1.24
Expected life (years)	2.5	3.5
Expected volatility (%)	47	49
Expected dividends	-	-

17. Income Tax

The components of tax expense for 2013 and 2012 were as follows:

For the year ended December 31,	2013	2012
Current tax expense	\$ 46,274	\$ 42,999
Deferred tax recovery	(2,994)	(8,847)
Total tax expense	\$ 43,280	\$ 34,152

Factors affecting tax expense for the year

The standard Colombian corporate income tax rate for 2013 was 34 percent (year ended December 31, 2012 – 33 percent). The following is a reconciliation of income taxes calculated at the Colombian corporate tax rate to the tax expense for 2013 and 2012:

For the year ended December 31,	2013	2012
Income before tax	\$ 55,952	\$ 74,074
Income before tax multiplied by the standard rate of Colombian corporate tax of 34% (2012 – 33%)	19,024	24,445
Effects of:		
Income taxes recorded at rates different from the Colombian tax rate	(6,327)	(2,835)
Expenses not deductible for tax purposes	(1,512)	(1,592)
Share based compensation	1,633	2,325
Deferred tax assets not recognized	26,007	20,352
Adjustment in respect of prior period	(2,351)	(3,716)
Foreign exchange effects and other	6,806	(4,827)
Total tax expense	\$ 43,280	\$ 34,152

The analysis of deferred income tax liabilities (assets) as follows:

	December 31, 2013	December 31, 2012
Deferred tax liabilities to be settled within 12 months	\$ -	\$ -
Deferred tax liabilities to be settled after more than 12 months	92,222	95,214
Net deferred income tax liability	\$ 92,222	\$ 95,214

For the purposes of the above table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same entity and jurisdiction. The deferred income tax liabilities and assets to be settled (recovered) within 12 months represents management's estimate of the timing of the reversal of temporary differences and does not correlate to the current income tax expense of the subsequent year.

The movement during the year in the deferred income tax (assets) liabilities and the net components is as follows:

Deferred Tax (Liability) Asset	December 31, 2013	(Charged) credited to the statement of comprehensive income	December 31, 2012	(Charged) credited to the statement of comprehensive income (loss)	Corporate Acquisition
PP&E	\$ (100,579)	5,446	(106,025)	14,399	(21,876)
Loss carry forwards	-	(6,187)	6,187	(10,419)	6,929
Decommissioning liability	7,041	2,234	4,807	3,978	-
SARs	998	(638)	1,636	882	-
Other	318	2,139	(1,819)	7	-
Balance, end of period	\$ (92,222)	2,994	(95,214)	8,847	(14,947)

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value in Canada and Trinidad & Tobago, the recoverability of which is uncertain and therefore has not been recognized in the financial statements. The Company did not recognize deferred income tax asset on the total gross temporary differences (including non-capital losses) in Trinidad & Tobago of \$79.9 million and Canada of \$40.7 million. Losses can be carried forward indefinitely in Colombia and Trinidad & Tobago, while in Canada they expire in 20 years. Amounts denominated in foreign currency have been translated at the December 31, 2013 exchange rate. At December 31, 2013 the Company had the following non-capital losses:

	Canada	Colombia	Trinidad & Tobago
Expiry			
2029	\$ 1,327	-	-
2030	6,056	-	-
2031	4,382	-	-
2032	11,055	-	-
2033	4,698	-	-
Indefinitely	-	-	36,858
Total	\$ 27,518	-	36,858

Earnings retained by subsidiaries amounted to \$173.0 million at December 31, 2013 (December 31, 2012 - \$98.5 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

Colombian Equity Tax

Parex' Colombian subsidiaries were subject to a one-time tax which was calculated based on the subsidiary's net taxable equity as at January 1, 2011 at a rate of 6 percent. The equity tax is payable over four years (1.5 percent per year) in eight equal installments every May and September starting in 2011. A total of \$1.6 million was paid during the year ended December 31, 2013 (December 31, 2012 - \$1.6 million). The outstanding amount is \$1.5 million (December 31, 2012 - \$3.1 million) is to be paid over the remaining two installments both of which are due within one year.

18. Net Income per Share

a) Basic net income per share

For the year ended December 31,	2013	2012
Net income		
Net income for the purpose of basic net income per share	\$ 12,672	\$ 39,922
Weighted average number of shares for the purposes of basic net income per share (000's)	108,421	108,403
Basic net income per share	\$ 0.12	\$ 0.37

b) Adjusted diluted net income per share

For the year ended December 31,	2013	2012
Net income		
Net income for the purpose of basic net income per share	\$ 12,672	\$ 39,922
Elimination of interest and accretion expense and the gain on changes in fair value and foreign exchange, net of tax, on the Debentures and derivative financial liability	(1,121)	(1,266)
Net income used to calculate diluted net income per share	\$ 11,551	\$ 38,656
Weighted average number of shares for the purposes of basic net income per share (000's)	108,421	108,403
Dilutive effect of share options and RSUs on potential common shares	1,134	1,324
Dilutive effect of Debentures on potential common shares	13,980	15,984
Weighted average number of shares for the purposes of diluted net income per share	123,535	125,711
Diluted net income per share	\$ 0.09	\$ 0.31

At December 31, 2013, 4,509,325 (December 31, 2012 - 4,848,961) 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.

19. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the year ended December 31,	2013	2012
Accounts receivable	\$ (19,527)	\$ (66,495)
Prepays and other current assets	1,399	(1,077)
Crude oil inventory	(1,221)	9,847
Accounts payable and accrued liabilities	6,690	92,041
Depletion related to crude oil inventory	258	(5,633)
Net non-cash working capital on acquisition	-	(13,269)
Net change in non-cash working capital	\$ (12,401)	\$ 15,414
Operating	\$ (61,374)	\$ 12,948
Investing	48,973	2,466
Financing	-	-
Net change in non-cash working capital	\$ (12,401)	\$ 15,414

b) Interest and taxes paid

For the year ended December 31,	2013	2012
Cash interest paid	\$ 4,990	\$ 4,602
Cash income and equity taxes paid	\$ 44,790	\$ 1,580

20. Employee Salaries and Benefit Expenses

For the year ended December 31,	2013	2012
Salaries, bonuses and other short term benefits	\$ 26,856	\$ 24,607
Share-based compensation expense	6,530	7,047
SARs expense	344	1,068
	<u>\$ 33,730</u>	<u>\$ 32,722</u>

Employee salaries, bonuses and short-term benefits are included in general and administrative expenses in the consolidated statement of comprehensive income. Stock-based compensation and SARs and RSUs expense is included in share-based compensation expense in the consolidated statement of comprehensive income.

21. Capital Management

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

The Company manages its capital to achieve the following:

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

Parex has secured a senior credit facility (see note 11 - Long-Term Debt) which as at December 31, 2013 had a borrowing base in the amount of \$100 million. The facility is intended to serve as means to increase liquidity and fund short-term cash needs as they arise. As at December 31, 2013, \$8.5 million (December 31, 2012 - \$9.1 million) was drawn on the facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the exploration work commitments on its Colombian concessions (see note 24 - Commitments).

As at December 31, 2013 the Company's net working capital surplus is \$24.0 million (December 31, 2012 - \$12.6 million working capital deficit), of which \$56.5 million was cash. This excludes the undrawn amount available under the credit facility of \$91.5 million (December 31, 2012 - \$65.9 million).

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders equity plus debentures (excluding the associated derivative financial liability) and the credit facility. As at December 31, 2013 shareholders' equity was \$485.1 million (December 31, 2012 - \$465.4 million) and the Debentures' face value balance was Cdn\$85.0 million (December 31, 2012 - Cdn\$85.0 million).

22. Financial Instruments and Risk Management

The Company's non-derivative financial instruments recognized on 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 fair value of the revolving credit facility is equal to its carrying amount as the facility bears interest at floating rates and the credit spreads within the facility are indicative of market rates.

Long-term financial instruments of the Company carried on the consolidated balance sheet are carried at amortized cost with the exception of financial derivative instruments, specifically fixed price contracts and CCIRS contract, which are carried at fair value. There are no significant differences between the carrying amount of derivative financial instruments and their estimated fair values as at December 31, 2013.

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 consolidated statement of comprehensive income.

The fair value of the Company's financial derivative instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

Level 1 – quoted prices in active markets for identical financial instruments.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial derivative instruments have been classified as level 2 based on the fair value hierarchy described above. The Company used the following techniques to determine the fair value measurements:

Crude oil contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price for the same commodity, using quoted market prices or the period end forward price for the same commodity extrapolated to the end of the contract term.

The fair value of the Cross Currency Interest Rate Swap ("CCIRS") is determined using the forward exchange rates at the measurement date.

The convertible debenture has two components of value – a conventional bond and a call on the equity of the Company through conversion. Based on its terms disclosed in note 16 – Convertible Debenture, the conversion option is an embedded derivative and has been separated from the host contract and classified as a financial liability through profit and loss. The valuation technique and key assumptions used in determining the fair value of the bond and the derivative liability conversion feature are disclosed in note 16 – Convertible Debenture.

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 oil marketing counterparties in its management of credit exposure.

The Company for the year ended December 31, 2013 had the majority of its oil sales to nine counterparties. Accounts receivable balance at December 31, 2013 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 December 31, 2013 there are \$1.2 million of accounts receivable past due, all of which are considered collectible (December 31, 2012 - nil).

As at December 31, 2013 and 2012 the Company's accounts receivable are aged as follows:

For the year ended December 31,	2013		2012	
Current (less than 90 days)	\$	120,725	\$	102,442
Past due (more than 90 days)		1,244		-
Total	\$	121,969	\$	102,442

None of the Company's receivables are impaired at December 31, 2013. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

b) Liquidity risk

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

the Company has completed a property acquisition and maintained a robust capital program. The Company's Debentures are unsecured and subordinated with expiry on June 30, 2016.

The following are the contractual maturities of financial and other 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.

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

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 113,730	\$ -	\$ -	\$ -	\$ 113,730
SARs payable	2,386	511	-	-	2,897
Current income and equity tax payable ⁽¹⁾	25,094	1,573	-	-	26,667
Credit Facility including interest ⁽²⁾	273	9,373	-	-	9,646
Debentures ⁽²⁾	-	-	85,434	-	85,434
Interest on Debentures ⁽²⁾	4,485	8,970	2,243	-	15,698
Total	\$ 145,968	\$ 20,427	\$ 87,677	\$ -	\$ 254,072

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

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

c) **Commodity price risk**

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

As at December 31, 2013, the Company entered into a fixed and swap contract which manages 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 as at December 31, 2013:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
July 1, 2013 to December 31, 2013	ICE Brent	Fixed Price	1000 bbl/d	\$100.00
July 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$108.50
August 1, 2013 to December 31, 2013	ICE Brent	Collar	2000 bbl/d	\$100.00 - \$109.00
August 1, 2013 to December 31, 2013	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$110.90
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$109.01
January 1, 2014 to March 31, 2014	ICE Brent	Collar	1000 bbl/d	\$100.00 - \$111.25
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$105.00
January 1, 2014 to March 31, 2014	ICE Brent	Fixed Price	1000 bbl/d	\$107.00
January 1, 2014 to March 31, 2014	ICE Brent	Put	1000 bbl/d	\$103.00

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

For the year ended December 31,		2013	2012
Realized loss (gain) on commodity risk management contracts	\$	1,239	\$ (234)
Unrealized loss (gain) on commodity risk management contracts		1,459	(90)
Total	\$	2,698	\$ (324)

As at December 31, 2013, Parex had committed to the future sale of 991,000 barrels of oil with fixed price swaps and costless collars of \$100/bbl to \$111.25/bbl. The following sensitivity shows the resulting unrealized (gain) loss and impact on net income before tax for the oil hedged contract if Brent oil price were to increase/decrease by \$10/bbl as at December 31, 2013:

	Reference	Impact on net income before tax for the year ended December 31, 2013	
		Increase of \$10/bbl	Decrease of \$10/bbl
Oil hedged contracts	ICE Brent		
Total		\$ 5,052	\$ (4,396)

Subsequent to December 31, 2013, Parex entered into the following ICE Brent priced crude oil risk management contract:

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

d) Foreign currency risk

The Company is exposed to foreign currency risk as various portions of its cash balances are held in Canadian dollars (Cdn\$), Colombian pesos (COP\$) and Trinidad & Tobago dollars (TT\$) 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 December 31, 2013:

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

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

The following is a summary of the CCIRS contract in place as at December 31, 2013:

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

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

For the year ended December 31,		2013	2012
Realized gain on foreign currency risk management contracts		(409)	-
Unrealized loss on foreign currency risk management contracts	\$	5,694	992
Total	\$	5,285	\$ 992

The fair value of the foreign exchange risk management contracts at December 31, 2013 is a \$6.4 million liability that is recorded in other long-term liabilities. The Company recorded a \$5.3 million loss on these contracts in the year ended December 31, 2013 which is recorded in the financial statement line item "Finance expense" in the consolidated statements of comprehensive income (note 12).

The following sensitivity show the resulting unrealized (gain) loss and impact on net income before tax for the CCRIS contract and the Colombian foreign exchange collar for the respective changes in the period end foreign exchange rates at December 31, 2013:

Exchange Rate Cdn/Usd	Impact on net income before tax for the year ended December 31, 2013	
	Increase of 5 cents	Decrease of 5 cents
Total	\$ (4,188)	\$ 4,188

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 net income before tax if the interest expense increased /decreased by 1% as at December 31, 2013:

Interest rate	Impact on net income before tax for the year ended December 31, 2013	
	Increase of 1%	Decrease of 1%
Total	\$ 197	\$ (197)

23. Segmented Information

The Company has foreign subsidiaries and the following segmented information is provided:
For the year ended December 31, 2013

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	\$ -	\$ 636,577	\$ -	\$ 636,577
Royalties	-	(77,425)	-	(77,425)
Revenue	-	559,152	-	559,152
Risk management contracts	(2,478)	(220)	-	(2,698)
	(2,478)	558,932	-	556,454
Expenses	-	-	-	-
Production	-	57,268	-	57,268
Transportation	-	110,523	-	110,523
Purchased oil	-	33,633	-	33,633
General and administrative	13,438	16,916	1,747	32,101
Share-based compensation	6,530	344	-	6,874
Depletion, depreciation and amortization	585	213,508	38	214,131
Foreign exchange loss (gain)	(5,388)	(1,882)	34	(7,236)
Gain on settlement of decommissioning liabilities	-	(419)	(293)	(712)
Exploration and evaluation impairment	-	-	38,305	38,305
	15,165	429,891	39,831	484,887
Finance income	(300)	(739)	-	(1,039)
Finance expense	16,073	556	25	16,654
	15,773	(183)	25	15,615
Net income (loss) before taxes	(33,416)	129,224	(39,856)	55,952
Current tax expense	-	46,274	-	46,274
Deferred tax recovery	-	(2,994)	-	(2,994)
Net income (loss)	\$ (33,416)	\$ 85,944	\$ (39,856)	\$ 12,672
Capital assets (end of year)	\$ 2,153	\$ 575,999	\$ 23,368	\$ 601,520
Capital expenditures, excluding corporate acquisitions	\$ 128	\$ 231,623	\$ 2,121	\$ 233,872
Total assets (end of year)	\$ 6,990	\$ 818,059	\$ 29,759	\$ 854,808

For the year ended December 31, 2012

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	523,514	\$	-	\$ 523,514
Royalties		-		(35,890)		-	(35,890)
Revenue		-		487,624		-	487,624
Risk management contracts		324		-		-	324
		324		487,624		-	487,948
Expenses							
Production		-		36,286		-	36,286
Transportation		-		91,397		-	91,397
Purchased oil		-		37,158		-	37,158
General and administrative		8,088		19,521		3,409	31,018
Transaction costs		-		1,109		-	1,109
Share-based compensation		6,684		986		445	8,115
Depletion, depreciation and amortization		867		180,243		39	181,149
Foreign exchange loss (gain)		1,382		1,081		(17)	2,446
Exploration and evaluation impairment		-		-		23,511	23,511
		17,021		367,781		27,387	412,189
Finance income		(1,005)		(2,357)		963	(2,399)
Finance expense		3730		332		22	4,084
		2,725		(2,025)		985	1,685
Net income (loss) before taxes		(19,422)		121,868		(28,372)	74,074
Current tax expense		-		42,999		-	42,999
Deferred tax recovery		-		(8,847)		-	(8,847)
Net income (loss)	\$	(19,422)	\$	87,716	\$	(28,372)	\$ 39,922
Capital assets (end of year)	\$	2,610	\$	547,337	\$	61,857	\$ 611,804
Capital expenditures, excluding corporate acquisitions	\$	246	\$	227,558	\$	39,884	\$ 267,688
Total assets (end of year)	\$	9,216	\$	735,497	\$	76,488	\$ 821,201

In Colombia in the years 2013 and 2012 the majority of oil sales are with four customers in the oil and gas industry and are subject to normal industry credit risks.

24. Commitments

a) Colombia

At December 31, 2013 guarantees in place with ANH are in the form of issued letters of credit totaling \$32.7 million (December 31, 2012 - \$50 million) to support the exploration work commitments in respect of the 17 blocks in Colombia.

EDC has provided the Company's bank with performance security guarantees to support the majority 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 to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at December 31, 2013 in respect of the Colombia blocks are estimated to be as follows:

(000s)	
2014	37,250
2015	36,800
Thereafter	-
	\$ 74,050

b) Cory Moruga Block (Trinidad & Tobago)

The value of the Company's annual financial obligations in the Cory Moruga block remaining at December 31, 2013 is estimated to be as follows:

(000s)		Financial Obligation
2014	\$	321
Thereafter		-
	\$	321

These amounts do not include production bonuses and other payments that will vary depending on production levels due to the uncertainty of their amount and timing.

c) 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 December 31, 2013 are as follows:

(000s)		Total	2014	2015	2016	2017
Office and accommodations	\$	2,282	1,719	563	-	-

25. Related Party Disclosures

a) Significant Subsidiaries

The consolidated financial statements include the financial statements of Parex Resources Inc. at December 31, 2013. Transactions between subsidiaries are eliminated upon consolidation. The Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2013 and 2012.

b) Compensation of Key Management Personnel

Key management personnel compensation, including directors, is as follows:

For the year ended December 31,		2013		2012
Salaries, directors fees and other benefits	\$	2,939	\$	2,754
Share-based compensation ⁽¹⁾		2,191		2,883
	\$	5,130	\$	5,637

⁽²⁾ Non-cash share-based compensation expense for the year.

Key management personnel are comprised of the Company's directors and five executive officers. As at December 31, 2013, there is a \$5.1 million commitment (December 31, 2012 - \$4.5 million) relating to change of control or termination of employment of the key management personnel.

26. Subsequent Event

On January 28, 2014 the Texas Court of Appeals ("Texas Appeal Court") reversed the decision of the 61st Judicial District Court of Harris County, Texas ("Texas Court") respecting Parex and dismissed all of the Texas based private company's (the "Plaintiff") claims against Parex for lack of jurisdiction. The Texas Appeal Court also affirmed the decision of the Texas Court dismissing all of the Plaintiff's claims against Parex Bermuda for lack of jurisdiction. Lastly, the Texas Appeal Court affirmed the decision of the Texas Court respecting Ramshorn such that Ramshorn remains subject to the Lawsuit. The causes of action alleged against Ramshorn in the suit all relate to acts and conduct by Ramshorn that the Plaintiff alleges took place prior to Parex Bermuda's acquisition of Ramshorn. On February 12, 2014 the Plaintiff filed a combined motion requesting an initial reconsideration by the Texas Appeal Court of its decision regarding the Courts dismissal of Parex and Parex Resources ("Bermuda") Ltd. ("Parex Bermuda") as ruled on January 28, 2014. The Plaintiff's motion was entirely rejected by the Texas Appeal Court on March 6, 2014.

Background

As announced by Parex on April 12, 2012, Parex and its wholly owned subsidiaries Parex Bermuda and Ramshorn International Limited ("Ramshorn") have been named as defendants along with Nabors Industrial Ltd. and Nabors Global Holdings II Limited in a lawsuit (the "Lawsuit") filed in Texas Court by a the Plaintiff. The Lawsuit relates to a share purchase agreement entered into by the Plaintiff and a third party seller (the "Seller") (prior to the agreement entered into by Parex Bermuda and the Seller for the purchase of Ramshorn) respecting the proposed purchase by the Plaintiff of the shares of Ramshorn, which prior agreement the Plaintiff claims was improperly terminated by the Seller. The Plaintiff is seeking specific performance remedies or in the alternative, actual, consequential, and exemplary damages. Each of Parex, Parex Bermuda and Ramshorn specially appeared in the Lawsuit to challenge the jurisdiction of the Texas Court and to seek dismissal of the claims against them.

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

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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

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President, Chief Executive Officer

David R. Taylor
*Executive VP Exploration & Business
Development*

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbbls
mmbbls
mmmbbls
NGLs
bbbls/d
mmbbls/d

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

Other

BOE or boe
mboe
mmboe
bfpd
boe/d
WTI
Brent

barrel of oil equivalent, using the conversion factor of 6 Mcf: 1 bbl
one thousand barrels of oil equivalent
one million barrels of oil equivalent
barrels of fluid per day
barrels of oil equivalent per day
West Texas Intermediate
Brent Ice

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of nine thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.