

## MESSAGE FROM THE PRESIDENT

The formation of Parex Resources Inc. in November 2009 allowed shareholders to participate in a well financed, fully staffed exploration company with attractive, well positioned, near term drilling opportunities. The current acreage position in Colombia and Trinidad & Tobago was acquired as part of the Plan of Arrangement with our precursor company, Petro Andina Resources Inc., where the current Parex management team had spent three years positioning the Company. I would like to thank the management, staff and directors of the Company for the confidence that they have demonstrated by continuing with the new entity and increasing our insider investment level by 50 percent through the purchase of additional shares – at the same pricing as was offered to prior shareholders and the market at large. As well, the Company retains the technical and commercial expertise that management had built up in all our areas of operation.

Our four exploration blocks in Colombia are located in one of the most attractive jurisdictions in the world. The Llanos basin has well developed infrastructure and prolific, oil prone reservoirs, positioning the Company for rapid production growth at relatively low risk. Colombia's fiscal regime was revised in 2005 to attract investment and grow the country's production and exports. In the ensuing five years, production of crude oil has risen more than 30 percent and the country has enjoyed a renaissance that reflects the vision and diligence of President Uribe's two term administration. In the recent congressional elections Uribe's Union Party, now led by his successor Juan Manuel Santos, led the polls and a continuation of the coalition would retain a clear majority in the Senate and a near majority in Congress. The four main parties that have backed Uribe during the past eight years won approximately 65 of 102 seats in the Senate and a near majority in the Congress. The Union Party and the conservative alliance at large have pledged to maintain Uribe's highly successful security and economic policies if former defense minister Santos wins the May 30 presidential election. Even in advance of the presidential election, the legislative results seem to indicate a desire by Colombians for continuity of the current government's plans and policies, which in our view implicitly lowers any risk to changes to the oil and gas system that is currently in place.

Trinidad & Tobago has been explored for more than 100 years, but has significant future development potential. We are pursuing a multi-element strategy in that jurisdiction, where our Moruga Block affords the potential for near term production growth in relatively low risk prospects close to existing production and infrastructure, and covered by recent high quality 3D seismic. In a complementary manner the Central Range Blocks, which cover almost 20 percent of the prospective area onshore Trinidad, are virtually undrilled and have only minimal seismic coverage. In the Central Range Blocks, we have a strong new partner following the purchase of Voyager Energy Ltd. by Niko Resources Ltd. announced on February 8, 2010. Niko is a well financed global exploration company and we look forward to working with them in this exciting new venture area.

The attached financial statements together with management's discussion and analysis will provide the reader with a clear sense that our new Company has a strong balance sheet and a healthy asset base. The outlook section of the MD&A describes our program for 2010 in a synopsis that speaks to a very busy year. As this is written, we are constructing locations for our first wells in Colombia and Trinidad & Tobago. These are at the leading edge of our eight well Colombia program and our three well Trinidad & Tobago for 2010. To this point the Company's capital expenditure programs have been executed on schedule and on budget; and we have every confidence that trend will continue. I look forward to providing the results of our initial drilling, possibly as early as the reporting of our first quarter for 2010, which will be at the end of May.

On behalf of the Board of Directors,



**Wayne Foo**  
President & CEO

March 29, 2010



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Parex Resources Inc. ("Parex" or the "Company") is dated March 29, 2010 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Company was incorporated as 1485196 Alberta Ltd. on August 17, 2009, pursuant to the Business Corporations Act (Alberta). On September 29, 2009 the Company filed Articles of Amendment to change its name to Parex Resources Inc. The Company was incorporated for the purposes of completing a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta) with Pluspetrol Resources Corporation N.V., its wholly owned subsidiary, 1462627 Alberta Ltd. (together "Pluspetrol") and Petro Andina Resources Inc. ("Petro Andina").

In connection with the Arrangement, through a series of transactions, Parex acquired from Petro Andina all of the issued and outstanding shares of Petro Andina (Barbados) Ltd. ("PABL"), Petro Andina (Colombia) Ltd. ("PACL") and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. ("PATL"), as well as an inter-company loan and other receivables from PABL, PATL and PACL, working capital and other miscellaneous assets. As the shareholders of Petro Andina ultimately continued to hold their respective interests in Parex, there was no resulting change of control of PABL and PACL. Therefore, the acquisition was accounted for using continuity-of-interests accounting under the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee Abstract 89 "Exchanges of Ownership Interests between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries" ("EIC-89"). Under EIC-89 no fair value adjustments were made for the assets acquired.

The consolidated financial statements of Parex, and the disclosures throughout the MD&A, reflect the assets and liabilities of PABL and PACL at their book value as reported in the financial statements of PABL and PACL for the period ended December 31, 2009. Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex include the operations of PABL and PACL for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of Parex were restated to reflect the financial position and results of operations as if Parex, PABL and PACL had been combined since their inception. As a result, references to Parex in the MD&A incorporate the activities of Parex and its subsidiaries from their inception.

The Company is currently in the development stage as defined in the CICA Accounting Guideline ("AcG") -11. Since inception and as is typical for development stage companies, the Company has incurred losses from operations and negative cash flows from operating activities. The ability of the Company to successfully carry out its business plan beyond exploration 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 reserves.

Additional information related to Parex is available in the Information Circular of Petro Andina Resources Inc. filed October 5, 2009 on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com).

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

### Advisory on Forward-Looking Statements

Certain information regarding Parex set forth in this MD&A contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "project", "intend", "believe", "should", "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 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 included in this MD&A include, but are not limited to, statements with respect to financial and business prospects and financial outlook; drilling plans; activities to be undertaken in various areas including the fulfillment of exploration commitments; timing of drilling; planned capital expenditures, the timing thereof and the method of funding; the use of certain technologies and materials; treatment under governmental regulatory regimes; tax laws and associated tax horizons; results of operations; and future costs.

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 partner approval; 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; 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; 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 effect Parex'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](http://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: availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies and other matters.

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 Parex' current and future operations and such information may not be appropriate for other purposes. Parex' 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 so, what benefits that Parex will derive therefrom. 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**

Funds flow from operations or funds flow used in operations, from time to time may be used by the Company, but does not have any standardized meaning under GAAP and may not be comparable to similar measures presented by other companies. Funds flow from operations or funds flow used in operations includes all cash generated from operating activities and is calculated before changes in non-cash working capital. Funds flow used in operations is reconciled with net earnings in the Consolidated Statements of Cash Flows. Funds flow per share is calculated by dividing funds flow used in operations by the weighted average number of shares outstanding. Management uses non-GAAP measures for its own performance measurement and to provide shareholders and other investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future growth expenditures.



## Highlights

In the year ended December 31, 2009:

- Parex was created through the Arrangement executed on November 6, 2009 with its precursor company, Petro Andina;
- Under the Arrangement, the Company received working capital of approximately Cdn\$70 million plus exploration assets in Colombia and Trinidad & Tobago;
- The Company enhanced liquidity with concurrent financings to directors and employees and the market at large at a price of Cdn\$3.00 per share for proceeds of approximately Cdn\$30 million;
- Pursuant to the Arrangement, warrants priced at Cdn\$3.00 per share were issued to Petro Andina shareholders to purchase common shares of Parex, resulting in proceeds of Cdn\$14 million;
- Parex acquired and processed 270 square kilometres of three-dimensional (“3D”) seismic on Block LLA-16 in Colombia on schedule and on budget and completed the acquisition and commenced processing of 216 square kilometres of 3D seismic on Block LLA-20 in Colombia;
- In Trinidad & Tobago, Parex closed a farm-in arrangement to earn a working interest in the Moruga Block Exploration and Production Licence subject to approval by the Republic of Trinidad & Tobago’s Ministry of Energy and Energy Industries (“MEEI”), identified multiple exploration prospects and contracted a Trinidad-based drilling rig;
- Parex maintained a strong balance sheet with cash and cash equivalents of \$101 million and working capital of \$96 million at year end; and
- The Company incurred capital expenditures of \$22 million, focused primarily on seismic exploration activity, setting up an active exploration drilling program in 2010.

For the year ended December 31,	2009	2008
Financial (\$000s except per share amounts)		
Net loss	(4,729)	(258)
Per share - basic	\$ (0.09)	\$ (0.01)
Per share - diluted	\$ (0.09)	\$ (0.01)
Funds flow used in operations	(3,926)	(258)
Per share - basic	\$ (0.08)	\$ (0.01)
Per share - diluted	\$ (0.08)	\$ (0.01)
Total assets (end of period)	133,485	7,993
Working capital (end of period)	95,704	(4,723)
Long term debt (end of period)	-	-
Weighted average shares outstanding (000s)		
Basic	51,055	49,214
Diluted	48,178	49,214
Outstanding shares (end of period) (000s)		
Basic	63,870	49,214
Diluted	67,345	49,214

## Description of Business

### Strategy

The Company’s strategy is to take advantage of its Latin American and Caribbean onshore experience and capability. Jurisdictions will be targeted that have stable fiscal regimes, coupled with oil-prone hydrocarbon-rich basins in under-explored areas. Parex will apply proven Western Canada Sedimentary Basin technology in new basins with large oil-in-place potential. The Company will focus on short cycle time from discovery to on-stream and use a portfolio approach to manage subsurface and commercial risks.

### Incorporation, Initial Financing and Plan of Arrangement

The Company was incorporated as 1485196 Alberta Ltd. on August 17, 2009. On September 29, 2009 the Company filed Articles of Amendment to change its name to Parex Resources Inc. The Company was incorporated for the purposes of completing the Arrangement with Pluspetrol and Petro Andina.



On September 29, 2009, the Company closed a bought-deal subscription receipt financing for 6,670,000 Subscription Receipts at a price of Cdn\$3.00 per Subscription Receipt for gross proceeds of Cdn\$20 million (the "Offering"). The proceeds from the Offering were deposited in escrow with the Company's transfer agent pending the satisfaction of certain conditions. Upon all conditions being met, and in conjunction with the completion of the Arrangement, the proceeds of the Offering were released to the Company and each Subscription Receipt was exchanged for one Parex common share without additional payment.

On November 6, 2009, the Arrangement among Parex, Petro Andina and Pluspetrol closed and was effective. Under the terms of the Arrangement, Pluspetrol acquired all of the issued and outstanding common shares of Petro Andina for cash consideration of Cdn\$7.65 per share. As part of the Arrangement, Parex acquired from Petro Andina all of the issued and outstanding shares of PABL, PAOL and indirectly all of the issued and outstanding shares of PATL; as well as an inter-company loan and other receivables from PABL, PATL and PAOL; working capital and other miscellaneous assets in exchange for the issuance of 49,213,718 Parex common shares and 4,921,372 Parex common share purchase warrants to Petro Andina shareholders. Each common share purchase warrant was exercisable to purchase one common share of Parex until December 6, 2009 at an exercise price of Cdn\$3.00.

After closing of the Arrangement on November 6, 2009 the Company issued 6,670,000 common shares in exchange for the Subscription Receipts and received gross proceeds of Cdn\$20 million (Cdn\$18.8 million net of underwriters' fees and other expenses). In addition, the Company issued 3,333,333 common shares at Cdn\$3.00 per share to directors, officers and employees (the "Management Private Placement") for gross proceeds of Cdn\$10 million. A total of 4,652,484 common share purchase warrants were exercised by the December 6, 2009 expiry date for total proceeds of Cdn\$14 million.

### Principal Properties

As at December 31, 2009, the Company's principal land holdings and/or exploration blocks were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia			
Llanos Basin Blocks LLA-16, 20, 29 & 30 <sup>(1)</sup>	50%	489,133	244,567
Trinidad & Tobago			
Central Range Blocks <sup>(2)</sup>	50%	211,478	105,739
Moruga Block <sup>(3)</sup>	50%	11,970	5,985
Total		712,581	356,291

- Note:**
- <sup>(1)</sup> The initial exploration phase under the Company's exploration and production contracts is 36 months. Subsequent to this period, the Company has the option to enter into two consecutive exploration phases of 18 months each, subject to certain criteria spelled out by the Colombian National Hydrocarbon Agency. The effective date of the Colombian contracts is April 20, 2009. Exploration property deemed non-commercial will be released in due course.
  - <sup>(2)</sup> Working interests noted are for the exploration phase of the Production Sharing Contracts ("PSCs"). The Petroleum Company of Trinidad & Tobago has the right to participate for a 35 percent working interest in any development on the Central Range Shallow Block and for a 20 percent interest in any development on the Central Range Deep Block. The initial exploration phase under the Company's PSCs is 48 months. Subsequent to this period, the Company has the option to enter into two consecutive exploration phases of 12 months each, subject to certain MEEI defined criteria. The effective date of both Trinidad & Tobago Central Range Block PSCs is September 18, 2008. Exploration property deemed non-commercial will be released in due course.
  - <sup>(3)</sup> Exploration block with farm-in commitments still ongoing. The working interest noted is post-completion of farm-in earning. As at December 31, 2009, the Company's post-completion farm-in earning increased from 7,443 gross acres (3,721 net acres) relating to the Cory Moruga Block "E", to the entire Moruga Block Exploration and Production Licence.

All of the Company's properties in Colombia and Trinidad & Tobago are undeveloped and are subject to exploration commitments for seismic and drilling activities as described below.

The Company also holds minor non-operated properties in Canada which are not significant to the Company's current or future operations.

#### a) Llanos Basin (LLA) Blocks (Colombia)

Parex holds a 50 percent working interest in the following exploration blocks in the Llanos Basin of Colombia: Block LLA-16, Block LLA-20, Block LLA-29 and Block LLA-30. The exploration and production contracts in respect of the blocks were effective on April 20, 2009. The Company is party to a joint venture agreement with Columbus Energy Sucursal Colombia ("Columbus"), a wholly owned subsidiary of Remora Energy International, L.P., under which Parex and Columbus each own a 50 percent working interest in the blocks. The Company is the operator of Blocks LLA-16 and LLA-20; Blocks LLA-29



and LLA-30 will be operated by Columbus. The exploration and production contracts consist of an initial exploration phase of three years with the option for the parties to enter into two consecutive exploration phases of 18 months each. The exploration work commitments for the initial exploration phase total \$46 million representing 19 wells and 900 square kilometres of 3D seismic. The first phase of 3D seismic acquisition over Block LLA-16 commenced in August 2009 and was completed in early November 2009. Seismic acquisition over Block LLA-20 was completed in December 2009.

The Company's share of exploration commitments remaining at December 31, 2009 was estimated to be approximately \$40 million.

Drilling is expected to commence in the second quarter of 2010, subject to regulatory approval. The Company currently has no oil and natural gas production or oil and natural gas reserves in Colombia.

#### **b) Central Range Blocks (Trinidad & Tobago)**

Parex holds a working interest in the Central Range Shallow and Central Range Deep blocks located onshore Trinidad & Tobago. The blocks are subject to PSCs that were signed on September 18, 2008. The Company is party to a joint venture agreement with Voyager Energy Ltd. ("Voyager") and is the operator of the blocks. During the exploration phase of the PSCs, Parex and Voyager will each hold a 50 percent working interest. The Petroleum Company of Trinidad & Tobago ("Petrotrin") has the right to participate for a 35 percent working interest in any development on the Central Range Shallow Block and for a 20 percent working interest in any development on the Central Range Deep Block. The PSCs provide for an initial exploration phase of four years with the option for the parties to enter into two single-year exploration phases beyond the initial phase.

The PSCs have minimum work commitments in the initial four-year exploration phase of the contracts. The work commitments total 100 kilometres of two-dimensional ("2D") seismic, 168 square kilometres of 3D seismic, one deep well drilled to a minimum depth of 12,000 feet and two shallow wells drilled to a maximum depth of 4,500 feet. Under the terms of the joint venture agreement with Voyager, Parex will pay 100 percent of the first \$10 million of seismic acquisition costs during the exploration phase, of which approximately \$8 million has been incurred to December 31, 2009.

The Company's share of exploration and other commitments remaining at December 31, 2009, including the remaining Voyager carry, was estimated to be \$16 million. This amount does not include production bonuses and other payments that will vary depending on production levels due to the uncertainty of their amount and timing.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Central Range blocks.

#### **c) Moruga Block (Trinidad & Tobago)**

Parex has entered into a farm-in agreement with Primera Energy Resources Ltd. and Primera Oil and Gas Limited (together "Primera") to acquire a working interest in the Moruga Block Exploration and Production Licence ("Moruga Block"). The terms of the agreement require Parex and its partners to drill two exploration wells to a minimum depth of 10,500 feet in 2010. Parex will earn a 50 percent working interest in the Moruga Block by paying 95 percent of all costs for drilling and evaluating these two exploration wells. The MEEI has provided an eight-week extension to drill the initial well, which was to spud on February 28, 2010, and reduced the minimum depth of the second well from 10,500 feet to 8,600 feet or intersection of the Cretaceous formation, whichever occurs first. Parex has commenced the surface lease work and expects to spud the initial well in April 2010. The second commitment well must be spud within three months of the rig-release on the first exploration well. The Company estimates that its costs to meet the two-well commitment will be approximately \$10 million. In connection with the farm-in, application will be made for Parex to become the operator of the Moruga Block. The farm-in and transfer of operatorship are subject to approval by the MEEI and the Ministry of Finance of the Republic of Trinidad & Tobago.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Moruga Block.



## Financial and Operational Results

During 2009, the Company completed the Arrangement and furthered exploration activity in Colombia and Trinidad & Tobago.

### Net Operating Income

(\$000s)	2009	2008
Oil and natural gas revenue	\$ 14	\$ -
Production expense	(6)	-
Net operating income	\$ 8	\$ -

Through the Arrangement, the Company acquired minor non-operated properties in Canada from Petro Andina which are not significant to the Company's current or future operations.

### General and Administrative Expenses ("G&A")

(\$000s)	2009	2008
Gross G&A	\$ 4,033	\$ 282
G&A recoveries	(141)	-
Capitalized G&A	(115)	(24)
Net G&A	\$ 3,777	\$ 258

The Company's largest component of G&A is staff and consultant costs. Geographically, 55 percent of the Company's G&A for the year ended December 31, 2009 relate to Colombia, with 34 percent relating to Canada and the remainder to Trinidad & Tobago. Salaries and consultant costs increased in Colombia and Trinidad & Tobago given the start-up nature of the Company's operations with rising staff levels as the subsidiaries commenced exploration activity. The Company engages local in-country staff as soon as possible and engages local professional services to enhance execution and manage costs. The Company continues to maximize partner recoveries and reduce net G&A where possible.

### Bank Taxes

(\$000s)	2009	2008
Bank taxes (\$000s)	\$ 52	\$ -

Colombian bank taxes are levied at 0.4 percent of the value of every debit bank transaction and were incurred in 2009 along with the start of Colombian operations.

### Stock-Based Compensation Expense

(\$000s)	2009	2008
Stock-based compensation expense (\$000s)	\$ 571	\$ -

The increase in stock-based compensation expense from 2008 to 2009 was a result of the initiation of a stock option plan for the Company in late 2009. The maximum number of options reserved for issuance under the plan may not exceed 10 percent of the number of common shares issued and outstanding. The amount reflects the value attributable to stock options awarded.

### Interest Expense and Income

\$000s	2009	2008
Related party interest expense	\$ 558	\$ -
Interest income	(59)	-
Net	\$ 499	\$ -

In 2009, interest expense was charged from Petro Andina to PATL and PACL. Prior to the Arrangement on November 6, 2009, interest expense was not eliminated upon consolidation as Petro Andina was not part of the Parex consolidated group. On a go-forward basis, these loans have been transferred to Parex and intercompany interest charges will therefore be eliminated in the consolidated financial statements. There was no interest expense in 2008 as there were no intercompany loans outstanding. Interest income was earned on cash balances held after the Arrangement and subsequent equity financings.



### **Depletion, Depreciation and Accretion Expense (“DD&A”)**

	2009	2008
DD&A (\$000s)	\$ 292	\$ -

DD&A in 2009 is mainly due to the transfer of miscellaneous non oil and natural gas assets to Parex under the Arrangement. The majority of DD&A relates to office furniture and equipment which are depreciated over their estimated useful lives. Depletion on the minor Canadian oil and natural gas properties is calculated using the unit-of-production method based on total proved reserves.

### **Foreign Exchange Gain**

	2009	2008
Foreign exchange gain (\$000s)	\$ (454)	\$ -

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars, Colombian pesos and Trinidad & Tobago dollars as the Company reports in US dollars. The Company also has exposure in Canada, Colombia and Trinidad & Tobago on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The Company holds a balance of Canadian dollars in cash and short-term deposits to meet head office G&A costs. Due to local currency exchange requirements, all cash balances in Colombia must be held in Colombian pesos. These exchanges of currencies can give rise to gains and losses. In 2009, the total foreign exchange gain was \$454,000 (\$60,000 unrealized). Foreign exchange gains and losses may reverse as a result of fluctuations in exchange rates. Currently, the Company does not hedge against fluctuations in exchange rates, but reviews its exposure to foreign currency fluctuations on an ongoing basis and maintains both Canadian and US dollar deposits.

### **Income Tax Expense**

The Canadian parent company and the foreign subsidiaries incurred losses for both accounting and tax purposes. No tax benefits were recorded for these losses since their recoverability is uncertain at this time. As at December 31, 2009, the Company has no significant oil and natural gas reserves or significant oil and natural gas production therefore utilization of tax losses is uncertain.

### **Capital Expenditures**

(\$000s)	2009	2008
Land	\$ 3,912	\$ 3,903
Geological and geophysical	17,229	772
Pre-drilling	469	-
Office and other equipment	773	-
	<b>\$ 22,383</b>	<b>\$ 4,675</b>
Trinidad & Tobago	12,123	4,675
Colombia	10,197	-
Canada	63	-
	<b>\$ 22,383</b>	<b>\$ 4,675</b>

In Trinidad & Tobago, during the year ended December 31, 2009, Parex completed the acquisition and processing of 216 kilometres of 2D seismic over the Central Range Block at sole cost of approximately \$8 million. This program fulfilled the 2D portion of exploration commitments under the PSCs. Interpretation of the seismic has identified initial drilling prospects to be followed up. Capital spending in Trinidad & Tobago also included pre-drilling and other costs related to the Moruga Block, where drilling of the first well is expected to commence in April 2010.

In Colombia, during the year ended December 31, 2009, Parex conducted 3D seismic acquisition programs over Blocks LLA-16 and LLA-20. The 2009 programs covered a total of 486 square kilometres in the two blocks at a net cost of approximately \$7 million.

Land costs are comprised mainly of the signing bonus and other payments related to the PSCs in Trinidad & Tobago.



## Summary of Quarterly Results (Unaudited)

Three months ended <sup>(1)</sup>	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009
Financial (\$000s except per share amounts)				
Net loss	(2,316)	(1,445)	(624)	(344)
Per share – basic	\$ (0.04)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Per share – diluted	\$ (0.04)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Funds flow used in operations	(1,569)	(1,393)	(620)	(344)
Per share – basic	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Per share – diluted	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Total assets (end of period)	133,485	46,147	13,428	12,740
Working capital (end of period)	95,704	15,773	(5,429)	(1,992)

<sup>(1)</sup> Determined by using continuity-of-interests accounting.

Three months ended <sup>(1)</sup>	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008
Financial (\$000s except per share amounts)				
Net loss	(167)	(23)	(18)	(50)
Per share – basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Per share – diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Funds flow used in operations	(167)	(23)	(18)	(50)
Per share – basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Per share – diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total assets (end of period)	7,993	3,924	124	40
Working capital (end of period)	(4,723)	(3,624)	(169)	(74)

<sup>(1)</sup> Determined by using continuity-of-interests accounting.

## Fourth Quarter Results (Unaudited)

A summarized unaudited income statement for the fourth quarter is set out below:

\$000s	2009	2008
Net operating income	\$ 8	\$ -
Less:		
G&A	(1,782)	(152)
Bank taxes	(43)	-
Stock-based compensation	(571)	-
Net interest expense	(112)	-
DD&A	(243)	-
Foreign exchange gain (loss)	427	(15)
Loss before taxes	(2,316)	(167)
Current tax expense	-	-
Future tax recovery	-	-
Net loss	\$ (2,316)	\$ (167)

In the fourth quarter of 2009, Parex had a net loss of \$2.3 million compared to a net loss of \$167,000 in the fourth quarter of 2008. The increase in net loss is mainly due to increased G&A costs of the head office functions and the start-up of operations in Colombia which were not reflected in 2008.

The Company's capital expenditures totaled \$10 million in the fourth quarter of 2009 compared to \$1 million in the fourth quarter of 2008. This increase is primarily due to work completed in the Colombian exploration blocks in 2009.



## Liquidity and Capital Resources

Immediately following the closing of the Arrangement on November 6, 2009, the Company had estimated working capital of approximately Cdn\$70 million, exclusive of net proceeds from the Cdn\$20 million offering of subscription receipts, Cdn\$10 million Management Private Placement and the exercise of common share purchase warrants for proceeds of approximately Cdn\$14 million. Actual working capital after the closing of the Arrangement amounted to Cdn\$68.6 million. The arising difference of Cdn\$1.4 million is explained below:

	Cdn\$ million
Capital and administration costs	0.8
Goods and Services Tax receivable	0.5
Foreign exchange difference	0.1
Total	1.4

The capital and administration cost difference was due to the Company exceeding its forecasted pace of capital activity. Further, the Company incurred an additional Cdn\$2.5 million of advisor fees because, in accordance with previous disclosure, a portion of the Arrangement advisor fees were based on the value of Parex over 20 days past closing of the Arrangement.

As at December 31, 2009 working capital of the Company was approximately \$96 million, with no long-term debt.

The Company's 2010 work program is over-funded as it now stands. Parex anticipates that it will have access to sufficient financial resources to fund all of its existing work commitments. However, the Company is in the start-up phase and currently has no production or cash flow from operations to fund its capital activities or overhead. The ability of the Company to successfully carry out its business plan beyond exploration is primarily dependent upon the continued support of shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop reserves.

### 2010 Outlook

The Company estimates 2010 capital spending will be approximately \$49 million, with \$34 million allocated to Colombia and \$15 million allocated to Trinidad & Tobago.

In Colombia, Parex plans to drill eight wells targeting oil, four of which will be drilled on Block LLA-16 and two on Block LLA-20, to depths ranging from 10,000 to 14,000 feet. The six wells on Blocks LLA-16 and LLA-20 are to be operated by Parex and two wells on Blocks LLA-29 and LLA-30 are expected to be operated by the Company's partner. Parex has signed a six-well rig contract, along with a subsequent six-month option. The new hydraulic rig is in Colombia where it will be rigged up and tested prior to field mobilization. The Company expects to begin drilling the first location on Block LLA-16 by mid-second quarter 2010. An additional 180 square kilometres of 3D seismic is budgeted to be acquired on Block LLA-30, plus some additional 3D seismic on Blocks LLA-16 and LLA-20.

In Trinidad & Tobago, the Company has planned to drill two wells on the Moruga Block and one well on the Central Range Deep Block. Under the original terms of the farm-in agreement, the Company was to have commenced drilling the first of two exploration wells on Moruga by February 28, 2010. An extension was received from the MEEI to allow for completion of surface access negotiations. Parex expects to spud the initial well in April 2010. Minor seismic costs on the Trinidad & Tobago blocks are expected to be incurred in 2010.

In addition to the capital program above, the Company has a budget for 2010 net G&A costs, after partner recoveries, of approximately \$11 million and for surface lease costs and value added taxes of \$7 million.

Parex will be actively evaluating opportunities to expand its capital programs in Colombia and Trinidad & Tobago.



A production and cash flow forecast is not planned until such time as initial exploration wells have been tested and marketing arrangements have been satisfactorily determined. However, facility costs contingent upon exploration success of \$9 million are included in the capital budget.

## Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at December 31, 2009 the Company had 63,869,535 outstanding common shares.

The Company has a stock option plan. It provides for the issuance of options to the Company's directors, officers, employees and consultants to acquire common shares. The maximum number of options reserved for issuance under the stock option plan may not exceed 10 percent of the number of common shares issued and outstanding.

As at March 29, 2010 Parex has the following securities outstanding:

- 63,869,535 common shares; and
- 3,737,500 stock options.

As of the date of this MD&A, total stock options outstanding represents 6 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 impact 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 terms specified in the contracts. 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 National Hydrocarbon Agency ("ANH") totaling \$23 million related to its 50 percent share of the initial exploration work commitments. The guarantees have been provided in the form of letters of credit for 18 month terms, which begin to expire in January 2011. Export Development Canada ("EDC") has provided the Company's bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The guarantees have not been reduced to reflect the 3D seismic commitment work performed in 2009.

In Trinidad & Tobago, the Company has purchased a performance bond and provided a guarantee to the underwriters of the bond in the amount of \$33 million to cover its and Voyager's share of the financial guarantees required under the PSCs for the initial four-year exploration phase. In the event of default by Voyager, the joint venture agreement provides that Voyager's working interest shall vest in Parex. The obligations under the PSCs are to perform the exploration work commitments, irrespective of actual cost. Parex has no liability to spend the actual amount guaranteed. The guarantee amount has not been reduced to reflect the 2D seismic commitment work performed in 2009.

The Company has operating leases that include minimum lease payment obligations associated with leases for office spaces and accommodations totaling \$3.2 million.

The Company has entered into contracts for a drilling rig in each of Colombia and Trinidad & Tobago. Both rig contracts include commitments to use the rigs for a minimum period, on terms consistent with normal industry practice. The Company anticipates that, given its planned level of drilling activity to meet exploration commitments in both countries, the rigs will be fully utilized and no material additional charges will be incurred. These commitments are included in the amounts associated with the Company's exploration contract commitments in Colombia and Trinidad & Tobago.



## Business Environment and Risks

Parex 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, Parex 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, blow-outs and other operating hazards and lack of infrastructure to access markets. 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. From time to time, the Company may have to raise additional financing to fund business development activities. However, depending on market conditions at the time there can be no assurance that the Company will be able to arrange debt or equity financing on satisfactory terms. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in commodity prices, foreign currency rates and interest rates. Parex operates the majority of its properties and, therefore, has significant control over the timing, direction and costs related to exploration commitments and any development opportunities.

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 drilling and other specialized technical equipment and for experienced key human resources. To the extent possible, Parex seeks to enter into joint venture arrangements with large and/or experienced industry players in each country to improve its access to resources.

Parex is focused on international oil and natural gas activities, currently with interests in Colombia and Trinidad & Tobago. As such, the Company is subject to political risks such as price controls, renegotiation of land tenure agreements, nationalization, different legal systems, complex regulatory regimes and foreign language risks. 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 legal, accounting and tax professionals. The Company may also, from time to time, arrange for insurance to mitigate specific risks.

The oil and natural gas industry is subject to extensive and varying environmental regulations imposed by governments in all 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.

The Company is exposed to a high level of exploration risk. The Company's future proved reserves, to the extent discovered or acquired, will decline as reserves are produced from its properties unless it 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, Parex employs highly experienced geologists and geophysicists, uses technology and 3D seismic as primary exploration tools and focuses exploration efforts in known hydrocarbon-producing basins. In addition, the Company takes a portfolio approach to exploration drilling by having drilling locations spread out among different exploration blocks, geological basins and targeting multiple play-types.

Since inception and typical with development-stage companies as defined in CICA AcG -11, the Company has incurred losses from operations and negative cash flows from operating activities. The ability of the Company to carry out its business plan beyond exploration 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 reserves.



## Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements in 2010.

## Financial Instruments and Other Instruments

The Company did not utilize financial instruments such as hedges or swaps in 2010.

## Related-Party Transactions

In November 2009, in conjunction with the closing of the Arrangement, the Company issued 3,333,333 common shares at Cdn\$3.00 per share to directors, officers and employees as part of the Management Private Placement. These shares were issued at the same price as the Offering on September 29, 2009 and at the same exercise price as the common share purchase warrants which were exercisable until December 6, 2009.

## Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make judgments, assumptions and estimates that affect the financial results of the Company. Management reviews its estimates regularly but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The Company believes the following are the most critical accounting estimates in preparing its financial statements.

### ***Full cost accounting***

The Company follows the full cost method of accounting for its oil and natural gas properties. Accordingly, all costs related to the acquisition, exploration and development of oil and natural gas reserves, whether successful or not, are capitalized. Costs related to oil and natural gas properties are depleted and depreciated using the unit-of-production method based on gross (before royalty) proved reserves of oil and natural gas as determined by independent engineers. In determining the cost base for depletion and depreciation, the Company includes estimated future capital costs associated with developing proved reserves and excludes costs of unproved properties, net of impairments.

The carrying amount of oil and natural gas properties may not exceed their recoverable amount (the “ceiling test”). The recoverable amount is calculated as the undiscounted net cash flow from the properties using proved reserves and expected future prices and costs. If the carrying amount of the properties exceeds their recoverable amount, an impairment loss is recognized in depletion equal to the amount by which the carrying amount of the properties exceeds their fair value. Fair value is calculated as the net cash flow from those properties using proved plus probable reserves and expected future prices and costs, discounted at a risk-free interest rate. Properties excluded from the depletion and depreciation calculation are assessed periodically to ascertain whether impairment has occurred.

### ***Oil and natural gas reserves***

The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, expected rates of production, current and estimated future commodity prices 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 earnings, as they are a key component in the calculation of depletion and depreciation and for determining potential asset impairment. For example, a revision to the reserve estimate would result in a higher or lower depletion and depreciation charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of oil and natural gas properties.

As of December 31, 2009 the Company had a very small amount of reserves from miscellaneous non-operated properties in Canada. The Canadian properties are not expected to be significant to the Company.



### ***Asset retirement obligation (“ARO”)***

The Company is required to recognize a liability for future abandonment and site restoration 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 ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, 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 earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

The ARO is based on estimated 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 ARO. 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 retirement costs based on current estimates adjusted for inflation and credit risk. These estimates for inflation and credit risk are also subject to management uncertainty.

### ***Stock-based compensation (“SBC”)***

The Company records SBC 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.

The determination of SBC expense is based on assumptions regarding stock volatility, risk-free interest rates, expected dividend rates and the expected life of the options. These assumptions, by their nature, are subject to measurement uncertainty. An increase in volatility, the risk-free rate, or the expected life would increase the calculated expense, with an increase in dividend rates decreasing the expense.

### ***Income taxes***

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 bases 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 future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are only recognized to the extent that it is more likely than not that sufficient future taxable income will be available in the applicable jurisdiction to allow the future income 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.

### ***Contingencies***

Under the terms of the Arrangement, and as noted in the consolidated financial statements of Parex, the Company has agreed to indemnify Petro Andina against any liability related to a claim filed by a former option holder of Petro Andina. The claim is for specific performance of the plaintiff’s right to exercise Petro Andina options or, in the alternate, damages estimated by the plaintiff at Cdn\$2.3 million. Parex believes that it has a reasonable chance of successfully defending the action, therefore no amount was accrued in the financial statements.

### ***Legal, environmental remediation and other contingent matters***

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



## Changes in Accounting Policy and Future Accounting Pronouncements

### ***Changes in Accounting Policy***

Effective January 1, 2009, the Company adopted the new accounting standards set out in the CICA Handbook Section 3064 “Goodwill and Intangible Assets”, which replaced Section 3062 “Goodwill and Other Intangible Assets” and section 3450 “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. The adoption of these new standards did not have any impact on the Company’s financial statements.

### ***Future Accounting Pronouncements***

In January 2009, the CICA issued three new standards. Section 1582 “Business Combinations” replaces the former section 1581. Section 1582 requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair value as at the date of acquisition. In addition, acquisition-related and restructuring costs are to be expensed. Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” replace the former Section 1600. Section 1601 establishes the requirements for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest.

All three standards are effective January 1, 2011 at which time the Company will have adopted IFRS. As such, the adoption of these standards by the Company is not expected unless they are adopted early. Early adoption is permitted; however, the early adoption of one of the three standards would require adoption of the other two. Should the Company engage in a business combination prior to 2011, consideration will be given to the potential impact of early adoption of these standards.

## **Conversion to International Financial Reporting Standards (“IFRS”)**

On February 13, 2008, the CICA’s Accounting Standards Board confirmed that Canadian public companies will be required to adopt IFRS for fiscal years starting on or after January 1, 2011.

Parex has completed a diagnostic analysis of differences between Canadian GAAP and IFRS. During this analysis, management examined differences that would have the greatest degree of complexity and impact on the consolidated financial statements. The Company believes that the implementation of IFRS 6 “Exploration for and Evaluation of Mineral Resources”, will have the most significant impact on the Company’s results of operations, financial position and disclosures. The Company is in the development stage, with an exploration focus in Colombia and Trinidad & Tobago. Given the stage and focus of the Company’s business, conversion to IFRS 6 is expected to directly impact how the Company accounts for pre-exploration and development costs. Parex has also examined the impact conversion to IFRS will have on foreign currency reporting which is currently deemed not to be significant. The conversion to IFRS may also result in other impacts including income taxes and asset retirement obligations, some of which may be significant.

IFRS 6 is the standard that deals with accounting for exploration and evaluation (“E&E”) assets in extractive industries. Typical costs included in E&E assets are acquisition of rights to explore, geological and geophysical studies, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources and exploratory drilling. Under IFRS 6, any costs incurred by Parex prior to the acquisition of the legal rights to explore an area may no longer be capitalized within E&E assets. The Company has identified costs that have been capitalized in accordance with Accounting Guideline – 16 “Oil and Gas Accounting – Full Cost” (“AcG-16”), that may be treated differently under IFRS 6. However, the current impact on the balance sheet of these differences has not been determined.

Upon initial adoption of IFRS 6, the Company will complete an impairment test on E&E assets. The level of grouping of E&E assets for impairment testing purposes is based on how management makes decisions about continuing/disposing of assets and operations and the commercial terms associated with these assets and operations. Parex conducts exploration activity in two key areas, Colombia and Trinidad & Tobago, and plans to examine the need for defining cash generating units (“CGU’s”) beyond these areas in the coming year.



Included in the IFRS changes are amendments to IFRS 1 “Additional Exemptions for First-time Adopters” issued in July 2009 by the International Accounting Standards Board, which prescribes transition exemptions for oil and natural gas companies following AcG-16. These transition exemptions allow companies to allocate their existing full cost property, plant and equipment balances using reserve values or volumes to IFRS-compliant units of account without requiring retroactive adjustment, subject to an initial impairment test. The Company intends to adopt the transition exemptions.

Subsequent to the Company’s diagnostic analysis, Parex is developing a conversion plan. The Company will be prioritizing issues and examining policy alternatives with the Audit Committee and the Company’s auditors. The Company will also be developing a training plan and examining the impact on the Company’s control environment.

At this time, the impact on the Company’s financial position and results of operations is not reasonably determinable for any of the IFRS conversion impacts identified. In addition, certain standards under IFRS are expected to change prior to adoption in 2011, and the impact of these potential changes is not known. Management plans to develop IFRS compliant statements and processes during 2010, to allow the Company to have IFRS in place prior to the first quarter of 2011.



## 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 Canadian generally accepted accounting principles. 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 Canadian generally accepted accounting principles.

The Board of Directors (Board) is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. The Audit Committee recommends appointment of the external auditors to the Board, ensures their independence and approves their fees. The Audit Committee meets regularly with Management and the external auditors to ensure 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 Audit Committee to discuss their audit and their findings.

Wayne K. Foo  
President, Chief Executive Officer

Kenneth G. Pinsky  
VP Finance, Chief Financial Officer

March 29, 2010



## Auditors' Report

### To the Shareholders of Parex Resources Inc.

We have audited the consolidated balance sheets of **Parex Resources Inc.** as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year's then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Calgary, Alberta

March 29, 2010



## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets

As at (thousands of United States dollars)	December 31, 2009 (note 2)	December 31, 2008 (note 2)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 101,280	\$ 2,830
Accounts receivable	2,997	484
Prepays and other current assets	350	4
	<u>104,627</u>	<u>3,318</u>
Property, plant and equipment (note 6)	28,858	4,675
	<u>\$ 133,485</u>	<u>\$ 7,993</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,923	\$ 4,629
Due to related party (note 7)	-	412
Preferred shares (note 8)	-	3,000
	<u>8,923</u>	<u>8,041</u>
Asset retirement obligation (note 9)	52	-
	<u>8,975</u>	<u>8,041</u>
Shareholders' equity		
Share capital (note 10)	128,726	210
Contributed surplus (note 13)	771	-
Deficit	(4,987)	(258)
	<u>124,510</u>	<u>(48)</u>
	<u>\$ 133,485</u>	<u>\$ 7,993</u>

Commitments and Contingency (notes 19 and 20)

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board:

Paul Wright  
Director

Ron Miller  
Director



## Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the year ended December 31 (thousands of United States dollars, except per share amounts)	2009 (note 2)	2008 (note 2)
<b>Revenue</b>		
Oil and natural gas revenue	\$ 14	\$ -
Interest income	59	-
	<u>73</u>	
<b>Expenses</b>		
Production	6	-
General and administrative	3,777	258
Bank taxes	52	-
Stock-based compensation (note 12)	571	-
Related party interest expense (note 7)	558	-
Depletion, depreciation and accretion	292	-
Foreign exchange gain	(454)	-
	<u>4,802</u>	<u>258</u>
<b>Loss before taxes</b>	<b>(4,729)</b>	<b>(258)</b>
<b>Income tax expense</b> (note 14)		
Current	-	-
Future	-	-
	<u>-</u>	<u>-</u>
<b>Net loss and other comprehensive loss for year</b>	<b>(4,729)</b>	<b>(258)</b>
Deficit, beginning of year	(258)	-
<b>Deficit, end of year</b>	<b>\$ (4,987)</b>	<b>\$ (258)</b>
Basic net loss per common share	\$ (0.09)	\$ (0.01)
Diluted net loss per common share	\$ (0.09)	\$ (0.01)

See accompanying Notes to the Consolidated Financial Statements



## Consolidated Statements of Cash Flows

For the year ended December 31 (thousands of United States dollars)	2009 (note 2)	2008 (note 2)
<b>Operating activities</b>		
Net loss	\$ (4,729)	\$ (258)
Add (deduct) non-cash items		-
Depletion, depreciation and accretion	292	-
Stock-based compensation	571	-
Unrealized foreign exchange gain	(60)	-
Funds flow used in operations	(3,926)	(258)
Net change in non-cash working capital (note 15)	182	187
	(3,744)	(71)
<b>Investing activities</b>		
Property, plant and equipment expenditures	(22,383)	(4,675)
Net change in non-cash working capital (note 15)	(1,316)	4,366
	(23,699)	(309)
<b>Financing activities</b>		
Issue of common shares – plan of arrangement (note 5)	52,479	-
Increase in related party receivables (note 7)	36,058	-
Issue of common shares – management private placement (note 5)	9,300	-
Issue of common shares – subscription receipts (note 5)	18,937	-
Issue of common shares – exercise of warrants (note 5)	13,271	-
Issue of common shares	40	210
Issue (redemption) of preferred shares	(3,000)	3,000
Share issue costs	(3,836)	-
Net change in non-cash working capital (note 15)	2,498	-
	125,747	3,210
<b>Increase in cash and cash equivalents for year</b>	<b>98,304</b>	<b>2,830</b>
<b>Impact of foreign exchange on foreign currency-denominated cash balances</b>	<b>146</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,830</b>	<b>-</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 101,280</b>	<b>\$ 2,830</b>

Supplemental Disclosure of Cash Flow Information (note 15)

See accompanying Notes to the Consolidated Financial Statements



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(tabular amounts in thousands of United States dollars, unless otherwise stated)

### 1. Nature of Operations

The Company was incorporated as 1485196 Alberta Ltd. on August 17, 2009, pursuant to the Business Corporations Act (Alberta). On September 29, 2009 the Company filed Articles of Amendment to change its name to Parex Resources Inc. ("Parex"). The Company was incorporated for the purposes of completing a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta) with Pluspetrol Resources Corporation N.V., its wholly owned subsidiary, 1462627 Alberta Ltd., (together "Pluspetrol") and Petro Andina Resources Inc. ("Petro Andina").

Under the terms of the Arrangement, Parex acquired from Petro Andina all of the issued and outstanding shares of Petro Andina (Barbados) Ltd. ("PABL"), Petro Andina (Colombia) Ltd. ("PACL") and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. ("PATL") an intercompany loan and other receivables from PABL, PATL and PACL, working capital and other miscellaneous assets in exchange for the issue of 49,213,718 Parex common shares and 4,921,372 Parex common share purchase warrants to Petro Andina shareholders.

Since inception and typical with development stage companies, the Company has incurred losses from operations and negative cash flows from operating activities. The ability of the Company to successfully carry out its business plan beyond exploration 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 reserves.

### 2. Summary of Significant Accounting Policies

#### a) *Basis of presentation*

The audited annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries.

#### b) *Continuity-of-interests accounting*

In connection with the Arrangement, through a series of transactions, Parex acquired from Petro Andina all of the outstanding shares of PABL and PACL. As the shareholders of Petro Andina ultimately continued to hold their respective interests in Parex, there was no resulting change of control of PABL and PACL. Therefore, the acquisition was accounted for using continuity-of-interests accounting under the Canadian Institute of Chartered Accountants Emerging Issues Committee Abstract 89 "Exchanges of Ownership Interests between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries" ("EIC-89"). Under EIC-89 no fair value adjustments were made for the assets acquired.

The consolidated financial statements of Parex reflect the assets and liabilities of PABL and PACL at their book value as reported in the financial statements of PABL and PACL. Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex include the operations of PABL and PACL for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of Parex were restated to reflect the financial position and results of operations as if Parex, PABL and PACL had been combined since their inception.

#### c) *Management estimates and measurement uncertainty*

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.



The recoverability of costs for undeveloped oil and natural gas properties is subject to the future discovery of reserves, future commodity prices and future costs required to develop and produce those reserves. Amounts recorded for depreciation and amortization are based on estimated useful lives and salvage values of the related assets. The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realizability of future tax assets. Provisions for contingent liabilities are subject to uncertainty regarding both the likelihood of their outcome and their recorded value.

**d) Foreign currency translation**

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at the monthly average exchange rate, except for depletion, depreciation and amortization which are translated at the same exchange rate as the related balance sheet items. Foreign currency gains and losses are included in income.

**e) Cash and cash equivalents**

Cash and cash equivalents consist of cash in the bank, less outstanding cheques, and deposits with an original maturity of less than three months.

**f) Property, plant and equipment**

**(i) Oil and natural gas properties**

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs related to the acquisition, exploration and development of oil and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of undeveloped properties, costs of drilling both productive and non-productive wells, the cost of oil and natural gas production equipment and overhead charges directly related to exploration and development activities.

Costs related to oil and natural gas properties are depleted and depreciated using the unit-of-production method based on gross (before royalty) proved reserves of oil and natural gas as determined by independent engineers. In determining the cost base for depletion and depreciation, the Company includes estimated future capital costs associated with developing proved reserves and excludes costs of unproved properties, net of impairments. For purposes of these calculations, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

The Company reviews the carrying amount of its oil and natural gas properties (the “properties”) relative to their recoverable amount (the “ceiling test”) for each cost centre at each annual balance sheet date, or more frequently if circumstances or events indicate impairment may have occurred. The recoverable amount is calculated as the undiscounted net cash flow from the properties using proved reserves and expected future prices and costs. If the carrying amount of the properties exceeds their recoverable amount, an impairment loss is recognized in depletion equal to the amount by which the carrying amount of the properties exceeds their fair value. Fair value is calculated as the net cash flow from those properties using proved and probable reserves and expected future prices and costs, discounted at a risk-free interest rate. Properties excluded from the depletion calculation are assessed separately and periodically to ascertain whether impairment has occurred.

Proceeds from the disposition of oil and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss would be recorded.

The Company is currently in the development stage and it has no proved or probable reserves to form the basis for an estimate of future net cash flow from the properties. The Company has considered the conditions in CICA Accounting Guideline 11 for impairment which includes significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, the Company’s continued execution of its business plan is a key factor considered as part of the assessment of the recoverability of the carrying amount of the properties. Whenever events or changes in circumstances indicate that the carrying amount of a property in the development stage may be impaired, capitalized costs are written down to the estimated recoverable amount.



**(ii) Other capital assets**

Office furniture and equipment are depreciated over their estimated useful lives at annual rates ranging from 10 percent to 100 percent.

**g) Asset retirement obligation**

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset, known as the asset retirement cost, 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 earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

**h) Stock-based compensation**

The Company has an incentive stock option plan for employees, officers, directors and consultants as described in note 12. 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 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.

**i) Revenue recognition**

Revenues associated with the sale of oil and natural gas owned by the Company are recognized when title passes from the Company to an external party.

**j) Income taxes**

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 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 future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are only recognized to the extent that it is more likely than not that sufficient future taxable income will be available in the applicable jurisdiction to allow the future income tax assets to be realized.

**k) Joint ventures**

Substantially all of the Company's exploration and development activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

**l) Per share information**

The Company calculated per share information for the years ending December 31, 2009 and 2008 as if the shares issued under the Arrangement were issued effective January 1, 2008 and considering subsequent issuances after the completion of the Arrangement on November 6, 2009.

### **3. Changes in Accounting Policy**

Effective January 1, 2009, the Company adopted the new accounting standards set out in the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 "Goodwill and Intangible Assets", which replaced section 3062 "Goodwill and Other Intangible Assets" and section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The adoption of these new standards did not have any impact on the Company's financial statements.



#### 4. Impact of New Accounting Pronouncements

On February 13, 2008, the CICA Accounting Standards Board confirmed that Canadian public companies will be required to adopt International Financial Reporting Standards (“IFRS”) for fiscal years starting on or after January 1, 2011. The Company has completed a diagnostic analysis of differences between Canadian GAAP and IFRS. During this analysis, management examined differences that would have the greatest degree of complexity and impact on the consolidated financial statements. The Company believes that the implementation of IFRS 6 “Exploration for and Evaluation of Mineral Resources” will have the most significant impact on the Company’s results of operations, financial position and disclosures.

Included in the IFRS changes are amendments to IFRS 1 “Additional Exemptions for First-time Adopters” issued in July 2009 by the International Accounting Standards Board, which prescribes transition exemptions for oil and natural gas companies following full cost accounting. The transition exemptions allow full cost companies to allocate their existing full cost property, plant and equipment balances using reserve values or volumes to IFRS compliant units of account without requiring retroactive adjustment, subject to an initial impairment test. The Company intends to adopt the transition exemptions.

At this time, the impact on the Company’s financial position and results of operations is not reasonably determinable for any of the IFRS conversion impacts identified. In addition, certain standards under IFRS are expected to change prior to adoption in 2011, and the impact of these potential changes is not known. Management plans to develop IFRS compliant statements and processes during 2010, to allow the Company to have IFRS in place prior to the first quarter of 2011.

In January 2009, the CICA issued three new standards. Section 1582 “Business Combinations” replaces the former section 1581. Section 1582 requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair value as at the date of acquisition. In addition, acquisition-related and restructuring costs are to be expensed. Section 1601 “Consolidated Financial Statements” and section 1602 “Non-Controlling Interests” replace the former section 1600. Section 1601 establishes the requirements for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest.

All three standards are effective January 1, 2011 at which time the Company will have adopted IFRS. As such, the adoption of these standards by the Company is not expected unless they are early adopted. Early adoption is permitted; however, the early adoption of one of the three standards would require adoption of the other two standards. Should the Company engage in a business combination prior to 2011, consideration will be given to the potential impact of early adoption of these standards.

#### 5. Plan of Arrangement

The Arrangement between Parex, Petro Andina and Pluspetrol closed on November 6, 2009. Pursuant to the Arrangement, in exchange for the issue of 49,213,718 Parex common shares and 4,921,372 Parex common share purchase warrants, the Company acquired the following from Petro Andina:

- all of the issued and outstanding shares of PABL, PAOL and indirectly all the issued and outstanding shares of PATL;
- intercompany loan and other receivables from PABL, PATL and PAOL; and
- working capital and other miscellaneous assets, including seismic exploration equipment used in Trinidad & Tobago and Colombia, minor Canadian oil and natural properties and the Calgary head office lease obligation along with all associated furniture, fixtures, computer hardware, software and software licenses.



The consolidated financial statements of Parex reflect the assets and liabilities of PABL and PACL at their book value as reported in the financial statements of PABL and PACL. The continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex include the operations of PABL and PACL for the entire fiscal period in which the Arrangement took place.

As at November 6, 2009, immediately after closing of the Arrangement, Parex had the following assets, liabilities and shareholders' equity:

#### ASSETS

Current assets		
Cash and cash equivalents <sup>(1)</sup>	\$	60,497
Accounts receivable		7,129
Prepays and other current assets		284
		<hr/>
		67,910
Property, plant and equipment		24,090
		<hr/>
	\$	92,000

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable and accrued liabilities	\$	4,086
Asset retirement obligation		52
		<hr/>
		4,138
Shareholders' equity		
Share capital		87,621
Contributed surplus		3,755
Retained earnings		(3,514)
		<hr/>
		87,862
		<hr/>
	\$	92,000

#### Note:

<sup>(1)</sup> As part of the working capital acquired under the plan of arrangement, Parex (non-consolidated) received \$52.5million of cash through a series of transactions. This amount does not include the subsequent equity issues noted below.

Through the completion of the Arrangement and after a series of transactions, the resulting working capital of Parex amounted to \$63.8 million (Cdn\$68.6 million, converted using the November 6 closing rate of Cdn\$/US\$ 0.93).

On September 29, 2009, the Company closed a bought deal subscription receipt financing for 6,670,000 Subscription Receipts at a price of Cdn\$3.00 per Subscription Receipt for gross proceeds of Cdn\$20 million (\$18.9 million) (the "Offering"). The proceeds from the Offering were deposited in escrow with the Company's transfer agent pending the satisfaction of certain conditions. After closing of the Arrangement on November 6, 2009 the Company issued 6,670,000 common shares in exchange for the Subscription Receipts and received gross proceeds of Cdn\$20 million (Cdn\$18.8 million net of underwriters' fees). In addition, the Company issued 3,333,333 common shares at Cdn\$3.00 per share to directors, officers and employees (the "Management Private Placement") for gross proceeds of Cdn\$10 million (\$9.3 million).

Further, a total of 4,652,484 common share purchase warrants were exercised by the December 6, 2009 expiry date for total proceeds of Cdn\$14 million (\$13.3 million).



## 6. Property, Plant and Equipment

December 31, 2009	Cost	Accumulated depletion, depreciation & amortization	Net book value
Oil and natural gas properties	\$ 28,194	\$ 87	\$ 28,107
Office and other equipment	956	205	751
	\$ 29,150	\$ 292	\$ 28,858

December 31, 2008	Cost	Accumulated depletion, depreciation & amortization	Net book value
Oil and natural gas properties	\$ 4,675	\$ -	\$ 4,675
Office and other equipment	-	-	-
	\$ 4,675	\$ -	\$ 4,675

During the year ended December 31, 2009 the Company capitalized \$115,000 (year ended December 31, 2008 – \$24,000) of general and administrative expenses related to exploration and development activities.

Included in oil and natural gas properties at December 31, 2009 are \$25,884,000 (December 31, 2008 – \$4,675,000) of unproved properties that are not subject to depletion as they represent costs incurred related to properties that are considered to be in the development stage. As the Company currently has no proved or probable reserves to form the basis for an estimate of future net cash flow from the properties, no ceiling test has been performed.

## 7. Related Parties

The comparative consolidated financial statements of Parex were restated to reflect the financial position and results of operations as if Parex, PABL and PACL had been combined since their inception. As at December 31, 2008 \$412,000 was payable to Petro Andina. This amount was related to charges under technical and services agreements held between PATL and Petro Andina. During the period January to November 6, 2009, the date of the Arrangement, the amounts due by PABL, PACL and PATL to Petro Andina increased by \$36,058,000 through loan advances, interest and charges under technical services agreements.

Included in the consolidated income statement for the year ended December 31, 2009 is \$558,000 (December 31, 2008 – nil) of related party interest expense. Interest was charged by Petro Andina to PACL and PATL until November 6, 2009, on outstanding loan balances and technical service agreement invoices. Prior to this date, interest was not eliminated as Petro Andina was not part of the Parex consolidated group.

The following table summarizes related party interest expense:

PATL loan interest	\$	432
PACL loan interest		103
PATL interest on technical service agreement invoices		23
Total	\$	558

During the year ended December 31, 2009, the Company was charged \$1,494,000 (December 31, 2008 – \$199,000) relating to technical service agreements by Petro Andina.

## 8. Preferred Shares

In 2008, PATL issued 3,000 non-cumulative redeemable preferred shares which were ultimately held by Petro Andina Spain S.L.U. (“PA Spain”), which was a wholly owned subsidiary of Petro Andina. There was no stated dividend rate. These shares were redeemable at the option of the holder at a price of \$1,000



per share. Due to this redemption feature, the shares were classified as debt. Prior to the closing of the Arrangement, the preferred shares were redeemed by PA Spain.

## 9. Asset Retirement Obligation

	December 31, 2009	December 31, 2008
Balance, beginning of period	\$ -	\$ -
Liabilities incurred during period	52	-
Balance, end of period	\$ 52	\$ -

## 10. Share Capital

### a) Parex Resources Inc.

#### (i) Authorized share capital

An unlimited number of voting common shares without nominal or par value.

#### (ii) Issued and outstanding common shares

	Number of shares	Amount
Issued – plan of arrangement (note 5)	49,213,718	\$ 91,254
Issued – subscription receipts (note 5)	6,670,000	18,937
Issued – management private placement (note 5)	3,333,333	9,300
Issued – exercise of warrants (note 5)	4,652,484	13,271
Share issue costs	-	(7,495)
Allocation of contributed surplus – exercise of warrants (note 11)	-	3,459
Balance, December 31, 2009	63,869,535	\$ 128,726

### b) Petro Andina (Barbados) Ltd.

#### (i) Authorized share capital

An unlimited number of one class of common shares.

#### (ii) Issued and outstanding common shares

	Number of shares	Amount <sup>(1)</sup>
Issued on incorporation	100	\$ 100
Issued for cash	210,000	210,000
Balance, December 31, 2008	210,100	\$ 210,100

#### Note:

<sup>(1)</sup> Amounts in US dollars as stated

### c) Per share amounts

The weighted average number of common shares outstanding for the year ended December 31, 2009 was 51,054,797 (for the year ended December 31, 2008 – 49,213,718). The weighted average number of diluted common shares outstanding for the year ended December 31, 2009 was 48,178,423 (for the year ended December 31, 2008 – 49,213,718).

## 11. Warrants

Pursuant to the Arrangement, the Company issued 4,921,372 common share purchase warrants on November 6, 2009. Each common share purchase warrant was exercisable to purchase one common share of Parex until December 6, 2009 at an exercise price of Cdn\$3.00. On November 6, 2009, the issue date of the warrants, the Black-Scholes calculated fair value was \$0.7435 per warrant. The following table summarizes the assumptions used:



For the year ended December 31, 2009

Risk-free interest rate (%)	<b>0.5</b>
Expected life (days)	<b>30</b>
Expected volatility (%)	<b>60</b>
Expected dividends	<b>-</b>

The following table presents the valuation of warrants for the year ended December 31, 2009:

	Number of Warrants		Amount
Exercised	4,652,484	\$	3,459
Expired	268,888		200
Total issued	4,921,372	\$	3,659

The total fair value of the issued warrants has been included in share issue costs. The fair value of the warrants that expired on December 6, 2009 has been included in Contributed Surplus.

## 12. Stock Options

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

	Number of options		Weighted average exercise price
Balance, December 31, 2008	-	\$	-
Granted	3,475,000	\$	3.08
Balance, December 31, 2009	3,475,000	\$	3.08

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2009 are as follows:

Exercise price	Number	Options outstanding	
		Weighted average remaining life (years)	Weighted average exercise price
\$3.04	3,362,500	4.75	\$ 3.04
\$4.40	112,500	4.87	\$ 4.40
	3,475,000	4.75	\$ 3.08

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

For the year ended December 31	2009	2008
Risk-free interest rate (%)	<b>2.08</b>	-
Expected life (years)	<b>3</b>	-
Expected volatility (%)	<b>64</b>	-
Expected dividends	-	-

For options granted during the year ended December 31, 2009 the weighted average fair value at the date of grant was \$1.33 per option (year ended December 31, 2008 – nil).



### 13. Contributed Surplus

	December 31, 2009	December 31, 2008
Balance, beginning of period	\$ -	\$ -
Stock-based compensation expense	571	-
Fair value of expired warrants	200	-
Balance, end of period	\$ 771	\$ -

### 14. Income Tax

The provision for income tax recovery is different from the amount computed by applying the combined Canadian federal and provincial income tax rates to loss before taxes. The reasons for the differences are as follows:

For the year ended December 31	2009	2008
Loss before taxes	\$ (4,729)	\$ (258)
Canadian statutory income tax rate	29.0%	29.5%
Income tax at statutory rate	\$ (1,371)	\$ (76)
Effect on income taxes of:		
Canadian statutory income tax rate change	(14)	-
Non-deductible costs	744	2
Foreign tax rate differential	(266)	(46)
Valuation allowance for losses not recognized	907	120
	\$ -	\$ -

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value. The income tax benefit of these losses and deductions has not been recognized in the financial statements since their recoverability is uncertain at this time. Losses can be carried forward for 20 years in Canada and indefinitely in Colombia and Trinidad & Tobago. Amounts denominated in foreign currency have been translated at the December 31, 2009 exchange rate. At December 31, 2009 the Company had non-capital losses carried forward of \$0.8 million in Canada, \$1.6 million in Colombia and \$2.8 million in Trinidad & Tobago.

### 15. Supplemental Disclosure of Cash Flow Information

#### a) Net change in non-cash working capital

For the year ended December 31,	2009	2008
Accounts receivable	\$ (2,500)	\$ (484)
Prepays and other current assets	(346)	(4)
Accounts payable and accrued liabilities	4,210	4,629
Due to related party	-	412
Net change in non-cash working capital	\$ 1,364	\$ 4,553
Operating	\$ 182	\$ 187
Investing	(1,316)	4,366
Financing	2,498	-
Net change in non-cash working capital	\$ 1,364	\$ 4,553

#### b) Interest and taxes paid

For the year ended December 31	2009	2008
Cash interest paid	\$ -	\$ -
Cash income taxes paid	\$ -	\$ -



## 16. Capital Management

The Company's capital structure is described in note 10.

The Company manages its capital to achieve the following:

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

Parex has the ability to adjust its capital structure by issuing new equity and making adjustments to its capital expenditure program, to the extent the capital expenditures are not committed.

## 17. Financial Instruments and Risk Management

The Company's financial instruments recognized in the balance sheet include cash, accounts receivable and accounts payable. The fair values of these financial instruments approximate their carrying value due to their short-term maturity.

### **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 will not perform their underlying obligations. A substantial portion of the Company's accounts receivables are with joint venture partners in the countries in which the Company operates. The Company assesses financial strength of its joint venture partners and manages exposure to individual joint venture partners

### **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 strategies 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. After closing of the Arrangement and equity financings as described in note 5, the Company considers itself to be well capitalized with working capital and no debt. The Company expects that the amount of working capital acquired in the Arrangement will be sufficient to meet the exploration commitments in Colombia and Trinidad & Tobago that have been assumed pursuant to the Arrangement, also described in note 19.

### **c) Foreign currency risk**

The Company is exposed to foreign currency risk as a portion 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 Company has not entered into any foreign currency hedges or swaps.

### **d) Interest rate risk and commodity price risk**

The Company is not currently exposed to interest rate or commodity price risk as it has no debt and it has no significant production.

### **e) Financial instrument sensitivities**

The following summarizes the annualized sensitivities of the Company's net income to changes in the fair value of financial instruments outstanding as at December 31, 2009, resulting from changes in the specified variable, with all other variables held constant. These sensitivities are limited to the impact of changes in a specified variable applied to financial instruments only and do not represent the impact of a change in the variable on the operating results of the Company taken as a whole.



The table below depicts the impact to net income loss for the period had the exchange rate changed by 1 cent.

	Impact on net loss	
Foreign currency exchange rate risk		
Cdn\$/ US\$	\$	231
COP\$/ US\$	\$	87
TT\$/ US\$	\$	8

## 18. Segmented Information

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

### For the year ended December 31, 2009

	Canada		Trinidad & Tobago		Colombia		Total
Oil and natural gas revenue	\$	14	\$	-	\$	-	\$ 14
Interest income		30		5		24	59
		44		5		24	73
Expenses							
Production		6		-		-	6
General and administrative		1,275		434		2,068	3,777
Stock-based compensation		571		-		-	571
Related party interest expense		-		455		103	558
Bank taxes		-		-		52	52
Depletion, depreciation and accretion		178		13		101	292
Foreign exchange loss (gain)		(798)		3		341	(454)
		1,232		905		2,665	4,802
Loss before taxes		(1,188)		(900)		(2,641)	(4,729)
Income tax expense		-		-		-	-
Net loss	\$	(1,188)	\$	(900)	\$	(2,641)	\$ (4,729)
Property, plant and equipment	\$	1,977	\$	16,785	\$	10,096	\$ 28,858
Property, plant and equipment expenditures	\$	63	\$	12,123	\$	10,197	\$ 22,383
Total assets	\$	86,042	\$	27,639	\$	19,804	\$ 133,485

### For the year ended December 31, 2008

	Canada		Trinidad & Tobago		Colombia		Total
Expenses							
General and administrative	\$	-	\$	258	\$	-	\$ 258
Loss before taxes		-		(258)		-	(258)
Income tax expense		-		-		-	-
Net loss	\$	-	\$	(258)	\$	-	\$ (258)
Property, plant and equipment	\$	-	\$	4,675	\$	-	\$ 4,675
Property, plant and equipment expenditures	\$	-	\$	4,675	\$	-	\$ 4,675
Total assets	\$	-	\$	7,993	\$	-	\$ 7,993

## 19. Commitments

### a) Llanos Basin (LLA) Blocks (Colombia)

Parex holds a working interest in four exploration Blocks LLA-16, LLA-20, LLA-29 and LLA-30 in the Llanos Basin of Colombia. The exploration and production contracts in respect of the blocks were effective on April 20, 2009. The Company is party to a joint venture agreement with Columbus Energy Sucursal Colombia ("Columbus"), a wholly owned subsidiary of Remora Energy International, L.P., under which Parex and Columbus each own a 50 percent



working interest in the blocks. Parex is the operator of Blocks LLA-16 and LLA-20; Blocks LLA-29 and LLA-30 are operated by Columbus. The exploration and production contracts consist of an initial exploration phase of three years with the option for the parties to enter into two consecutive exploration phases of 18 months each. The exploration work commitments for the initial exploration phase total 19 wells and 900 square kilometers of three-dimensional (“3D”) seismic. The first phase of 3D seismic acquisition over Block LLA-16 commenced in August 2009 and was completed in early November 2009. Seismic acquisition over Block LLA-20 was completed in December 2009.

The Company’s share of exploration commitments remaining at December 31, 2009 was estimated to be approximately \$40 million.

Drilling is expected to commence in the second quarter of 2010, subject to regulatory approval. The Company currently has no oil and natural gas production or oil and natural gas reserves in Colombia

The Company has provided guarantees to the Colombian National Hydrocarbon Agency (“ANH”) totaling \$23 million related to its 50 percent share of the initial exploration work commitments. The guarantees have been provided in the form of letters of credit for an 18 month term, which begin to expire in January 2011. Export Development Canada (“EDC”) has provided Parex’s bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The guarantees have not been reduced to reflect the 3D seismic commitment work performed in 2009.

#### **b) Central Range Blocks (Trinidad & Tobago)**

Parex holds a working interest in the Central Range Shallow and Central Range Deep blocks located onshore Trinidad & Tobago. The blocks are subject to Production Sharing Contracts (“PSCs”) that were signed on September 18, 2008. The Company is party to a joint venture agreement with Voyager Energy Ltd. (“Voyager”) and is operator of the blocks. During the exploration phase of the PSCs, Parex and Voyager will each hold a 50 percent working interest. The Petroleum Company of Trinidad & Tobago has the right to participate for a 35 percent working interest in any development on the Central Range Shallow Block and for a 20 percent working interest in any development on the Central Range Deep Block. The PSCs provide for an initial exploration phase of four years with the option for the parties to enter into two single-year exploration phases beyond the initial phase.

The PSCs have minimum work commitments in the initial four-year exploration phase of the contracts. The work commitments total 100 kilometres of two-dimensional (“2D”) seismic, 168 square kilometres of 3D seismic, one deep well drilled to a minimum depth of 12,000 feet and two shallow wells drilled to a maximum depth of 4,500 feet. Under the terms of the joint venture agreement with Voyager, Parex is to pay 100 percent of the first \$10 million of seismic acquisition costs during the exploration phase, of which approximately \$8 million has been incurred to December 31, 2009. The Company’s share of exploration commitments remaining at December 31, 2009, including the remaining Voyager carry, was estimated to be \$16 million. This amount does not include production bonuses and other payments that will vary depending on production levels due to the uncertainty of their amount and timing.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Central Range blocks.

The Company has purchased a performance bond and provided a guarantee to the underwriters of the bond in the amount of \$33 million to cover both its and Voyager’s share of the financial guarantees required under the PSCs for the initial four-year exploration phase. In the event of default by Voyager, the joint venture agreement provides that Voyager’s working interest shall vest in Parex. The obligations under the PSCs are to perform the exploration work commitments, irrespective of actual cost. Parex has no liability to spend the actual amount guaranteed. The guarantees have not been reduced to reflect the 2D seismic commitment work performed in 2009.

#### **c) Moruga Block (Trinidad & Tobago)**

Parex has entered into a farm-in agreement with Primera Energy Resources Ltd. and Primera Oil and Gas Limited (together “Primera”) to acquire a working interest in the Moruga Block Exploration and Production License (“Moruga Block”). The terms of the agreement require Parex and its partners to drill two exploration wells to a minimum depth of 10,500 feet in 2010. Parex will earn a 50 percent working interest in the Moruga Block by paying 95 percent of all costs for drilling and evaluating these two exploration wells. The Ministry of Energy and Energy Industries (“MEEI”) has provided an eight week extension to drill the initial well which was to spud on February 28, 2010 and reduced the minimum depth of the well from 10,500 feet to 8,600 feet or the Cretaceous



formation, whichever occurs first. Parex has commenced the surface lease work and expects to spud the initial well in April 2010. The second commitment well must be spud within three months of the rig release of the first exploration well. The Company estimates that its costs to meet the commitment will be approximately \$10 million. In connection with the farm-in, application will be made for Parex to become the operator of the Moruga Block. The farm-in and transfer of operatorship are subject to approval by the MEEI and the Ministry of Finance of Trinidad & Tobago.

The Company currently has no oil and natural gas production or oil and natural gas reserves on the Moruga Block

#### **d) 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 primarily relate to exploration work commitments including both seismic and drilling activities, and include leases for office spaces and accommodations.

The existing minimum lease payment obligations associated with leases for office spaces and accommodations at December 31, 2009 are as follows:

	Total	2010	2011	2012	2013	2014	Thereafter
Office and accommodations	\$ 3,199	\$ 732	\$ 710	\$ 567	\$ 529	\$ 529	\$ 132

The Company has entered into contracts for a drilling rig in each of Colombia and Trinidad & Tobago. Both rig contracts include commitments to use the rigs for a minimum period, on terms consistent with normal industry practice. The Company anticipates that, given its planned level of drilling activity to meet exploration commitments in both countries, the rigs will be fully utilized and no material additional charges will be incurred. These commitments are included in the amounts associated with the Company's exploration contract commitments in Colombia and Trinidad & Tobago.

## **20. Contingency**

In May 2008, a former optionholder of Petro Andina filed a claim to exercise Petro Andina options which had been issued in 2004. Since the optionholder had ceased to be either an employee or consultant to Petro Andina in 2005, Petro Andina's position is that the right to exercise such options had expired. In November 2008, a motion filed by Petro Andina for summary judgment was partially successful and part of the claim was dismissed. This partial summary judgment order was set aside in July 2009 and the action is now proceeding to trial. Under the terms of the Arrangement, instead of negotiating an expected value to be deducted from the sale proceeds, Parex agreed to indemnify Petro Andina against any liabilities related to the claim and has been added as a defendant to the action.

The claim is for specific performance of the plaintiff's right to exercise the Petro Andina options, or in the alternative, damages estimated by the plaintiff at Cdn\$2.3 million. Parex believes that it has a reasonable chance of successfully defending the action and, therefore, no amount has been accrued in the financial statements.



## DIRECTORS

**Norman F. McIntyre**  
*Chairman of the Board*

**Curtis D. Bartlett**

**John F. Bechtold**

**Robert J. Engbloom**

**Wayne K. Foo**

**Ron D. Miller**

**W. A. (Alf) Peneycad**

**Paul D. Wright**

## OFFICERS AND SENIOR EXECUTIVES

**Wayne K. Foo**  
*President, Chief Executive Officer*

**Barry B. Larson**  
*VP Operations, Chief Operating Officer*

**Kenneth G. Pinsky**  
*VP Finance, Chief Financial Officer*

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

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### Abbreviations

<b>bbl</b>	barrel
<b>bbls</b>	barrels
<b>mbbls</b>	thousand barrels
<b>mmbbls</b>	million barrels
<b>bbls/d</b>	barrels per day
<b>boe</b>	barrels of oil equivalent *
<b>boe/d</b>	barrels of oil equivalent per day
<b>mboe</b>	thousand barrels of oil equivalent
<b>mboe/d</b>	thousand barrels of oil equivalent per day
<b>mmboe</b>	million barrels of oil equivalent

<b>mmboe/d</b>	million barrels of oil equivalent per day
<b>NGL</b>	natural gas liquids
<b>mcf</b>	thousand cubic feet
<b>mmcf</b>	million cubic feet
<b>bcf</b>	billion cubic feet
<b>tcf</b>	trillion cubic feet
<b>mcf/d</b>	one thousand cubic feet per day
<b>mmcf/d</b>	one million cubic feet per day
<b>gj</b>	gigajoules
<b>gj/d</b>	gigajoules per day

\* A barrel of oil equivalent (boe) is derived by converting natural gas to crude oil in the ratio of six thousand cubic feet of natural gas to one barrel of crude oil. This boe conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and is not intended to represent a value equivalency at the wellhead. Boe may be misleading, particularly if used in isolation.