

MESSAGE FROM THE PRESIDENT

As I sat down to write this message, I'm reminded that 12 months ago to the week we were finalizing the details of the plan of arrangement that led to the formation of Parex Resources. One of the questions that I was asked on many occasions was, "Why are you so interested in retaining the exploration upside for your shareholders?"

It was an easy answer for me – we had spent two years assembling what we viewed as a fantastic property base, drawing together a talented team to work the assets and attracting a shareholder base that had confidence in management's ability to execute and deliver.

In the intervening year we have:

- executed four three-dimensional ("3D") seismic programs in Colombia;
- cased and tested light oil in our first Colombian well;
- begun drilling our second well in Colombia; and
- drilled and cased two wells in Trinidad and Tobago.

Over the next four months we expect to fully test the three wells that have been cased – and hopefully the one Colombian well that is currently drilling – and we will likely reach the important milestone for any new company: first production.

As is our practice, all of these activities are described in detail in our accompanying Management Discussion and Analysis ("MD&A"). In this message I'll attempt to provide some context for that disclosure in terms of the fit with our ongoing program.

In Colombia, our 2010 program contemplated drilling eight wells (six operated & two non-operated) and our expectations were based on basin average success rates on existing proven structural trends. In that assessment of basin wide data, typical pay thicknesses were in the order of 20 feet in the primary objective C7 sands and a good discovery constituted one to three million barrels. The "basin average" led us to believe that in drilling unproven structural trends with a 35% chance of success we might expect about three discoveries with 20 feet of pay in each as an outcome of our eight well program. As noted in the MD&A, our initial well at Kona showed indications of pay in both the C7 and the underlying Mirador sands, aggregating 82 feet and significantly exceeding our expectations. To delineate the Kona structure and the additional encouraging potential observed in the deeper Gacheta sands, the rig was moved to drill Kona-2 as a 600 metre offset from the same pad. If Kona-2 is successful, these two wells should provide a framework for additional appraisal and will allow us to budget initial field development for 2011. The company has contracted a service rig to complete the wells immediately following cessation of drilling operations, and we executed a letter of intent to secure two additional drilling rigs to accelerate the pace of our remaining 2010 exploratory drilling program.

In Trinidad, our 2010 drilling has focused on the Moruga Block farm-in, where we have a favorable fiscal regime, high quality 3D seismic data and proximity to infrastructure. The initial two wells have validated our exploration thesis that good quality 3D seismic can be used to predict the presence of reservoir quality sand units in trapping configurations. We are currently awaiting final government approvals for our testing program and we have contracted a service rig to test prospective intervals in each of the wells. Based on these results we intend to commence a one to two well program for similar objectives on the Central Range Shallow PSC during the fourth quarter of 2010. Onshore Trinidad, there are very few recent wells drilled and there is very little modern 3D seismic data. This provides us with significant opportunity to explore for new play-types. As we move forward with our initial planning for the Central Range 3D survey required by the terms of our PSC we are encouraged that our program to date is providing us with the necessary information for continued success.



In closing, I'd like to thank our staff, our directors and our shareholders for being part of a great start-up experience, and I look forward to additional interesting and rewarding years to come.

On behalf of the Board of Directors of Parex Resources Inc,

A handwritten signature in black ink, appearing to read 'Wayne Foo'.

Wayne Foo
President & CEO

August 25, 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 August 25, 2010 and should be read in conjunction with the unaudited consolidated financial statements for the six months ended June 30, 2010 and the MD&A and audited consolidated financial statements for the year ended December 31, 2009. The unaudited consolidated 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") (now Parex Resources (Barbados) Ltd.), Petro Andina (Colombia) Ltd. ("PACL") (now Parex Resources (Colombia) Ltd.) and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. ("PATL") (now Parex Resources (Trinidad) Ltd.), as well as inter-company loans 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 unaudited consolidated financial statements of Parex, and the disclosures throughout the MD&A reflect the assets and liabilities of PABL and PACL. 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 CICA's 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 Annual Information Form dated March 31, 2010 on the Canadian Securities Administrators' website at www.sedar.com.

All financial 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 the Company's management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social



uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Parex.

In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to: 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 affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding: 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 the Company's current and future operations and such information may not be appropriate for other purposes. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits Parex will derive there from. These forward-looking statements are made as of the date of this MD&A and Parex disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Non-GAAP Terms

Funds flow used in operations may from time to time 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 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

- The Kona-1 well in Colombia commenced drilling on May 16, 2010 and reached a total measured depth of 13,250 feet on June 18, 2010. Kona-1 penetrated multiple oil objectives as programmed and encountered shows of hydrocarbons during drilling from the Upper C7, Mirador, and Gacheta Formations and tested oil in the Mirador. Based on the encouraging results of Kona-1, a follow-up well is drilling to provide additional structural and reservoir information for the 2011 development program;
- The Firecrown-1 well in Trinidad & Tobago commenced drilling on April 16, 2010 and reached a total measured depth of 8,701 feet on June 14, 2010. It penetrated both the primary and secondary objectives in the Herrera Formation and encountered potential hydrocarbon bearing sandstones with oil shows. The second Trinidad & Tobago exploration well, Snowcap-1 spud in July 2010 and reached a total depth of 8,600 feet on August 15, 2010 and penetrated both the primary and secondary objectives in the Herrera and Eocene Formations offsetting the Moruga West oil field;
- The Company acquired and processed 49 square kilometres (“km²”) of three-dimensional (“3D”) seismic on Block LLA-16 in Colombia, acquired an additional 38 km² of 3D seismic on Block LLA-20 and through Parex’s joint venture partner, processed and evaluated 180 km² of 3D seismic on Block LLA-30; and
- Parex maintained a strong balance sheet with cash and cash equivalents of \$80.6 million and working capital of \$72.9 million at June 30, 2010 against commitments of approximately \$59.8 million.

	For the three months ended June 30		For the six months ended June 30	
	2010	2009 ⁽¹⁾	2010	2009 ⁽¹⁾
Financial (\$000s except per share amounts)				
Net loss	(4,389)	(624)	(7,960)	(968)
Per share – basic	\$ (0.07)	\$ (0.01)	\$ (0.12)	\$ (0.02)
Per share – diluted	\$ (0.07)	\$ (0.01)	\$ (0.12)	\$ (0.02)
Funds flow used in operations	(2,617)	(620)	(5,942)	(964)
Per share – basic	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.02)
Per share – diluted	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.02)
Total assets (end of period)	128,183	13,428	128,183	13,428
Working capital (end of period)	72,945	(5,429)	72,945	(5,429)
Long-term debt (end of period)	-	-	-	-
Weighted average shares outstanding (000s)				
Basic	63,870	49,214	63,870	49,214
Diluted	63,870	49,214	63,870	49,214
Outstanding shares (end of period) (000s)				
Basic	63,870	49,214	63,870	49,214
Diluted	67,857	49,214	67,857	49,214

⁽¹⁾ Determined using continuity-of-interest accounting (EIC-89)

Description of Business

Strategy

The Company’s strategy is to leverage 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 bringing on-stream and use a portfolio approach to manage subsurface and commercial risks.



Principal Properties

As at June 30, 2010, 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 ⁽¹⁾	50%	489,133	244,567
Trinidad & Tobago			
Central Range Blocks ⁽²⁾	50%	211,478	105,739
Moruga Block ⁽³⁾	50%	11,970	5,985
Total		712,581	356,291

⁽¹⁾ 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 a second 36 month exploration phase. The effective date of the Colombian contracts is April 20, 2009. Exploration property deemed non-commercial will be released in due course.

⁽²⁾ Working interests noted are for the exploration phase of the Production Sharing Contracts ("PSCs"). The Petroleum Company of Trinidad & Tobago ("Petrotrin") has the right to participate at a 35 percent working interest in any development on the Central Range Shallow Block and at 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 Ministry of Energy and Energy Industries' ("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.

⁽³⁾ Exploration block with farm-in commitments ongoing. The working interest noted is post-completion of farm-in earning. 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 in the first quarter of 2010.

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.

The Company's seismic programs to date are as follows:

	Size	Status	
Colombia			
LLA-16	270 km ²	Completed	November 2009
	49 km ²	Completed	May 2010
LLA-20	216 km ²	Completed	January 2010
	38 km ²	Completed	July 2010
LLA-29	195 km ²	Ongoing	August 2010
LLA-30	180 km ²	Completed	March 2010
Colombia - Total	948 km²		
Trinidad & Tobago			
Central Range Blocks	216 km	Completed	July 2009
Trinidad - Total	216 km		

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 are operated by Columbus. The exploration and production contracts consist of an initial exploration phase of 36 months with the option for the parties to enter into a second 36 month exploration phase. The exploration work commitments for the initial exploration phase total \$46 million representing 19 wells and 900 km² of 3D seismic.



Parex's first well in its eight well 2010 Llanos Basin exploration program, Kona-1 on Block LLA-16 (Parex 50 percent working interest), commenced drilling operations on May 16, 2010 and reached a final total depth of 13,250 feet on June 18, 2010. Kona-1 penetrated multiple objectives as programmed and encountered shows of hydrocarbons during drilling from the Upper C7, Mirador, and Gacheta Formations at depths ranging from approximately 11,090 to 13,000 feet. Well logs indicate potential net oil pay, measured as true vertical depth, of 82 feet consisting of 35 feet in the Upper C7 and 47 feet in the Mirador. Due to the well bore deviation required to drill through multiple horizons, Kona-1 could only be cased to 12,765 feet, above the top of the Gacheta Formation where hydrocarbon shows were encountered. The Mirador Formation was tested and flowed naturally at a rate of up to 500 barrels of oil per day plus 750 barrels of water per day of lab tested 35 degree API oil.

Kona-2, the next exploration prospect on Block LLA-16 was spud in late July 2010 based on the encouraging Kona-1 Mirador test. Kona-2 is on the same surface pad and will drill through to appraise the C7 and Mirador Formations and test the deeper Gacheta and Une Formations. The ultimate bottom-hole location of Kona-2 will be approximately 600 metres away from the bottom hole location of Kona-1. Subsequent to drilling the Kona-2 well the remaining five operated exploration wells in Blocks LLA-16 and LLA-20 are planned to be drilled in 2010.

Parex has been advised by the National Agency of Hydrocarbons ("ANH") that following their comprehensive review of bidder qualifications and bids submitted on June 22, 2010 in the 2010 Colombia Bid Round, Parex was deemed to be the successful bidder for Block LLA-57 (100 percent working interest) in the Llanos Basin. The Company is awaiting final confirmation from the ANH on the block awards. Block LLA-57 covers 104,532 acres and lies immediately north of Parex operated Block LLA-20 (50 percent working interest). The Company's bid terms for Block LLA-57 were a Phase 1 work program of \$10.1 million and a supplemental royalty (x-factor) of one percent over the base ANH royalty. The block has a six year exploration term divided into two 36 month exploration phases. Parex anticipates signing the ANH contract in 2010. After signing the contract, the Company is required to place a guarantee of approximately \$3.85 million with the ANH. Block LLA-57's Phase 1 work program is expected to be funded through existing working capital. With the signing of Block LLA-57, Parex's total gross acreage in Colombia's Llanos Basin would increase from approximately 489,000 acres (245,000 net acres) to 594,000 acres (349,000 net acres).

The Company currently has no oil and natural gas production or published 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 Niko Resources Ltd. (formerly Voyager Energy Ltd.) ("Niko"), and is the operator of the blocks. During the exploration phase of the PSCs, Parex and Niko will each hold a 50 percent working interest. Petrotrin has the right to participate at a 35 percent working interest in any development on the Central Range Shallow Block and at 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 km² 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 Niko, Parex will pay 100 percent of the first \$10 million of seismic acquisition costs during the exploration phase, of which approximately \$8.5 million was incurred to June 30, 2010. Petrotrin is carried through the minimum work commitments of the contracts.

Parex plans to drill a shallow test well on the Central Range Block in 2010. An application for regulatory approval was submitted in June 2009 and upon approval Parex expects to commence drilling operations on the shallow prospect.

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 earning terms of the Moruga Block require Parex to drill one



exploratory well to a depth of 8,600 feet or the top of the Cretaceous, whichever occurs first and one exploratory well to 10,500 feet. Parex will earn a 50 percent working interest in the Moruga Block by paying 95 percent of costs to drill and evaluate these two exploration wells to a maximum of \$13.3 million. The exploration term of the Moruga Block exploration licence expires on August 29, 2013.

Firecrown-1, the first of three Trinidad & Tobago exploration wells planned in 2010, started drilling on April 16, 2010 and reached a total measured depth of 8,701 feet on June 14, 2010. It penetrated both the primary and secondary objectives in the Herrera Formation. Based on the interpretation of wireline logs, mudgas, and cutting samples the well encountered potential hydrocarbon bearing sandstones with oil shows. Parex elected to case the well to a depth of 8,400 feet to enable future testing of the prospective zones. The Company expects to have a service rig move onto the Firecrown-1 location to conduct a multi-zone testing program, subject to obtaining regulatory approvals. The drilling rig was mobilized to the second Moruga Block location, Snowcap-1 which was spud in July 2010. Snowcap-1 reached a total measured depth of 8,600 feet on August 15, 2010 and penetrated both the primary and secondary objectives in the Herrera and Eocene Formations offsetting the Moruga West oil field.

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 published oil and natural gas reserves in the Moruga Block.

Financial and Operational Results

Net Operating Income

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Oil and natural gas revenue	\$ 32	\$ -	\$ 68	\$ -
Production expense	(21)	-	(40)	-
Net operating income	\$ 11	\$ -	\$ 28	\$ -

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. The Company currently has no production in Colombia or Trinidad & Tobago.

General and Administrative Expenses ("G&A")

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Gross G&A	\$ 4,581	\$ 525	\$ 8,690	\$ 888
G&A recoveries	(1,105)	-	(1,467)	-
Capitalized G&A	(864)	(14)	(980)	(38)
Net G&A	\$ 2,612	\$ 511	\$ 6,243	\$ 850

Net G&A expenses were \$6.2 million and \$0.9 million for the six months ended June 30, 2010 and 2009, respectively. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expenses. Geographically, 55 percent of the Company's net G&A for the six months ended June 30, 2010 related to Canadian-based head-office activity, while 30 percent related to Colombia and the remainder to Trinidad & Tobago. For the six months ended June 30, 2010, G&A was mainly comprised of \$2.9 million relating to staff and consultants, \$1.1 million relating to legal matters of a non-recurring nature and \$0.7 million relating to office rent. Staff and consultant costs increased from 2009 given the start-up nature of the Company's operations and associated 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. A total of 52 full-time-equivalents were working at Parex as at June 30, 2010. As capital activity increases it is expected that G&A costs will also increase.



Bank Taxes

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Bank taxes	\$ 10	\$ 2	\$ 36	\$ 2

Colombian bank taxes are levied at a rate of 0.4 percent on the value of every payment. All bank taxes relate to the Company's Colombian operations and with the increasing capital activity in Colombia are expected to increase in 2010.

Stock-Based Compensation Expense ("SBC")

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Stock-based compensation expense	\$ 836	\$ -	\$ 1,548	\$ -

SBC relates to the Company's stock option plan for employees, officers, directors and consultants. The Company records SBC using graded vesting. Parex options typically vest over a three-year period and expire five years from the date of grant. The determination of fair value for recording SBC is based upon assumptions regarding stock volatility, risk-free interest rates, expected dividend rates and the expected life of the options. The Company uses Black-Scholes option valuation methodology to value the options at the date of award. 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. As at June 30, 2010 3,987,500 stock options or 6 percent of the number of common shares outstanding had been issued. The increase in SBC from 2009 to 2010 was the result of the initiation of a stock option plan for the Company in late 2009. The majority of stock options outstanding as at June 30, 2010 were valued at Cdn\$1.33 at the time of grant.

During the second quarter of 2010, PATL and PACL initiated a share appreciation rights ("SARs") plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company's common shares at the time of exercise over the grant price. SARs typically vest over a three-year period and expire five years from the date of grant. The maximum number of SARs that can be outstanding is equal to 10 percent of the number of the Company's common shares outstanding. The SARs liability cannot be settled by the issuance of common shares. As at June 30, 2010 365,625 SARs had been awarded.

For the six months ended June 30, 2010, no liability in respect of the SARs plan was recorded as the closing price of a Parex share at June 30, 2010 was lower than the exercise price.

Interest Expense and Income

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Related party interest expense	\$ -	\$ 121	\$ -	\$ 127
Interest income	(87)	(1)	(159)	(1)
Net interest (income) expense	\$ (87)	\$ 120	\$ (159)	\$ 126

In 2009, prior to the Arrangement, interest expense was charged from Petro Andina to PATL and PACL and accordingly, interest expense was not eliminated upon consolidation as Petro Andina was not part of the Parex consolidated group. Subsequent to November 6, 2009, the related inter-company loans were transferred to Parex and intercompany interest charges were eliminated in the consolidated financial statements for the three and six months ended June 30, 2010. Interest income was earned on cash balances held during the quarter.



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

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Depletion, depreciation and accretion expense	\$ 484	\$ 13	\$ 761	\$ 13

The majority of DD&A relates to seismic acquisition and office equipment which are depreciated over their estimated useful lives. Through the Arrangement, the Company also acquired minor non-operated properties in Canada from Petro Andina and has recorded DD&A relating to these properties. However, these properties are not significant to the Company’s current or future operations.

Foreign Exchange Loss (Gain)

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Foreign exchange loss (gain)	\$ 545	\$ (22)	\$ (441)	\$ (23)

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 expenditures. Due to local currency exchange requirements, all cash balances in Colombia must be held in Colombian pesos. These exchanges of currencies give rise to gains and losses. In the six months ended June 30, 2010, the total foreign exchange gain was \$441,000 (\$291,000 unrealized) due primarily to the appreciation of the Colombian peso versus the US dollar and slightly offset by the depreciation of the Canadian dollar versus the US dollar. In the three months ended June 30, 2010, the total foreign exchange loss was \$545,000 (\$452,000 unrealized) due primarily to the depreciation of the Canadian dollar versus US dollar in the second quarter. Foreign exchange gains and losses may be reversed as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of operations given the integrated nature of its operations. 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 Canadian, Colombian and US-denominated deposits.

Income Tax Expense

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
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 was uncertain as at June 30, 2010. The Company has not yet booked significant oil and natural gas reserves or significant oil and natural gas production, nor does it have history of net income.



Capital Expenditures

(\$000s)	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Land	\$ 331	\$ 297	\$ 413	\$ 487
Geological and geophysical	2,092	4,698	4,628	6,369
Drilling	7,614	-	11,506	-
Facilities	272	-	272	-
Well equipment	52	-	52	-
Completions	11	-	11	-
Office and other equipment	100	370	225	434
	\$ 10,472	\$ 5,365	\$ 17,107	\$ 7,290
Trinidad & Tobago	\$ 6,294	\$ 4,727	\$ 8,303	\$ 6,529
Colombia	4,165	638	8,773	761
Canada	13	-	31	-
	\$ 10,472	\$ 5,365	\$ 17,107	\$ 7,290

Six months ended June 30, 2010

(\$000s)	Colombia	Trinidad & Tobago	Canada	Total
Land	\$ 4	\$ 409	\$ -	\$ 413
Geological and geophysical	4,058	570	-	4,628
Drilling	4,643	6,863	-	11,506
Facilities	-	272	-	272
Well equipment	-	52	-	52
Completions	5	6	-	11
Office and other equipment	63	131	31	225
	\$ 8,773	\$ 8,303	\$ 31	\$ 17,107

Colombia

In Colombia, capital expenditures generally reflect a working interest of 50 percent.

During the first six months of 2010 the Company processed 216 km² and 49 km² of 3D seismic on Blocks LLA-20 and LLA-16, respectively. Though its joint venture partner, Parex also acquired, processed and evaluated 180 km² of 3D seismic on Block LLA-30. As at June 30, 2010, the Company has acquired a total of 715 km² of 3D seismic. In July 2010, the Company acquired an additional 38 km² of 3D seismic on Block LLA-20 which is currently being processed and evaluated. During the first six months of 2010 Parex commenced civil work and lease construction at five drilling prospects on Block LLA-16. These construction costs totaled \$1.5 million and are included in drilling expenditures above. Also included in drilling expenditures is \$0.5 million of inventory which includes items purchased for future drilling locations in 2010. Parex signed a six-well drilling commitment with Petrex S.A. and a new hydraulic rig was moved to Colombia, rigged up, tested and mobilized to the Kona-1 location, which was spud on May 16, 2010 and reached a final total depth of 13,250 feet on June 18, 2010.

Capital expenditures in the first six months of 2009 were capitalized start-up costs.

Trinidad & Tobago

In Trinidad & Tobago, land costs include various PSC bonus payments and other related costs. Parex completed the lease construction on the Moruga Block for two wells and the Firecrown-1 well commenced drilling on April 16, 2010. The well reached a total measured depth of 8,701 feet on June 14, 2010. Under the terms of the Moruga farm-in agreement, drilling costs for the two earning wells, to a maximum of \$13.3 million are 100 percent to Parex's account. After \$13.3 million of expenditures or when earning occurs, whichever occurs first, Parex's share of capital expenditures will decline to 50 percent. As at June 30, 2010, the Company has incurred \$6.5 million relating to the two wells and the Company estimates that satisfaction of the earning requirements can be achieved for total expenditures in the range of \$10 million; as previously disclosed. Also included in drilling costs are inventory costs of \$0.9 million which includes items purchased for the remaining 2010 drilling campaign. Facilities costs incurred relate to the purchase of a test separator.

Capital expenditures in 2009 primarily relate to acquiring and processing 216 kilometres of 2D seismic on the Central Range Block.



Summary of Quarterly Results (Unaudited)

Three months ended ⁽¹⁾	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sep. 30, 2009
Financial (\$000s except per share amounts)				
Net loss	(4,389)	(3,571)	(2,316)	(1,445)
Per share – basic	\$ (0.07)	\$ (0.06)	\$ (0.04)	\$ (0.03)
Per share – diluted	\$ (0.07)	\$ (0.06)	\$ (0.04)	\$ (0.03)
Funds flow used in operations	(2,617)	(3,325)	(1,569)	(1,393)
Per share – basic	\$ (0.04)	\$ (0.05)	\$ (0.03)	\$ (0.03)
Per share – diluted	\$ (0.04)	\$ (0.05)	\$ (0.03)	\$ (0.03)
Total assets (end of period)	128,183	128,558	133,485	46,147
Working capital (end of period)	72,945	86,487	95,704	15,773

⁽¹⁾ Determined by using continuity-of-interests accounting (EIC-89) for the periods pre-December 31, 2009.

Three months ended ⁽¹⁾	June 30, 2009	March 31, 2009	Dec. 31, 2008	Sep. 30, 2008
Financial (\$000s except per share amounts)				
Net loss	(624)	(344)	(167)	(23)
Per share – basic	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00
Per share – diluted	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00
Funds flow used in operations	(620)	(344)	(167)	(23)
Per share – basic	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00
Per share – diluted	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00
Total assets (end of period)	13,428	12,740	7,993	3,924
Working capital (end of period)	(5,429)	(1,992)	(4,723)	(3,624)

⁽¹⁾ Determined by using continuity-of-interests accounting (EIC-89) for the periods pre-December 31, 2009.

Liquidity and Capital Resources

At June 30, 2010 Parex had \$80.6 million of cash on hand, compared to \$101 million at December 31, 2009. The Company's cash balances reside in current accounts and term deposits. Of the current total, \$66.7 million of cash on hand was deposited with a large Canadian chartered bank at the end of the period. At the end of the quarter, the Company had cash on hand of \$9.1 million in Colombia and \$4.8 million in Trinidad & Tobago with significant international banking institutions.

As at June 30, 2010 working capital was approximately \$72.9 million, with no long-term debt. The Company had no credit facility as of June 30, 2010.

The Company's 2010 work program continues to be over-funded. Parex anticipates that it will have access to sufficient financial resources to fund all of its existing work commitments as described in this MD&A in the amount of \$59.8 million, as current working capital is in excess of estimated exploration 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. Therefore the estimated balance remaining to be invested in the second half of 2010 is \$31.9 million, of which \$25.2 million relates to Colombia and \$6.7 million relates to Trinidad. Key assumptions underlying the Company's capital expenditure plans are the continuity of current fiscal regimes in Colombia and Trinidad & Tobago and obtaining required regulatory approvals. Facility costs contingent upon exploration success of \$9 million are also included in the capital budget. This plan is unchanged from the outlook provided in the MD&A for the year ended December 31, 2009 dated March 29, 2010.



Parex plans to drill eight wells targeting oil in Colombia in 2010. Five wells are planned to be drilled on Block LLA-16, two on Block LLA-20, and one on Block LLA-30 to depths ranging from 6,000 feet to 14,000 feet. The seven wells on Blocks LLA-16 and LLA-20 are to be operated by Parex, with one well on Block LLA-30, being operated by the Company's partner. In addition to Parex's currently contracted Colombian rig, the Company has executed a letter of intent to secure two additional drilling rigs through the remainder of 2010.

Kona-1, the Company's first Colombian exploration well reached a final total depth of 13,250 feet on June 18, 2010. The well penetrated multiple objectives as programmed and encountered shows of hydrocarbons during drilling from the Upper C7, Mirador, and Gacheta Formations. Wireline logs were run to the base of the Mirador and indicated potential net oil pay, measured as true vertical depth, of 82 feet consisting of 35 feet in the Upper C7, and 47 feet in the Mirador.

Based on the encouraging Kona-1 Mirador test, Kona-2 was spud on July 26, 2010. Kona-2 is on the same surface pad as Kona-1 and will drill through the Upper C7 and Mirador Formations to the deeper Gacheta and Une Formations. The ultimate bottom-hole location of Kona-2 will be approximately 600 metres away from the bottom-hole location of Kona-1. The objective of Kona-2 is to provide additional structural and reservoir information to program 2011 development activity. After drilling Kona-2, the drilling rig will be moved to the next exploration prospect on Block LLA-16, named Goroka. Parex has contracted a service rig to move onto the Kona location. The service rig will attempt to complete remediation work and final testing on the Kona-1 well and will complete the Kona-2 well if required.

The Company has begun to acquire another 195 km² of 3D seismic on Block LLA-29 during 2010. After completion of the Company's 2010 Colombian seismic acquisition plan, Parex will have acquired 948 km² of 3D seismic on its Colombian blocks fulfilling the Company's seismic acquisition requirements under the 2008 exploration and production licences. Parex will continue to examine opportunities to obtain seismic data based upon prospectivity.

In Trinidad & Tobago, the Company has drilled two wells on the Moruga Block and plans to drill one to two wells on the Central Range Shallow Block. Firecrown-1, the Company's first exploration well on the Moruga Block reached a total measured depth of 8,701 feet on June 14, 2010. Parex's second exploration well on the Moruga Block, Snowcap-1, reached a total measured depth of 8,600 feet on August 15, 2010. Upon obtaining regulatory approvals, Parex expects to have a service rig move onto the Firecrown-1 and Snowcap-1 locations to conduct multi-zone testing programs. Due to delays in receiving regulatory approval, Parex plans to contract out the drilling rig from the Moruga Block until November 2010 when the lease construction for the Central Range Block shallow horizon prospect should be complete.

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 public release of 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.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at June 30, 2010 the Company had 63,869,535 common shares outstanding.

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 August 25, 2010 Parex has the following securities outstanding:

	Number	%
Common shares	63,869,535	94
Stock options	4,012,500	6
Fully diluted	67,882,035	100

As of the date of this MD&A, total stock options outstanding represent 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 periods 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 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 letters of credit issued to ANH have not yet been reduced for either the 3D seismic work performed in 2009 or the drilling activity and 3D seismic work costs that were incurred during the first six months of 2010.

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 Niko's share of the financial guarantees required under the PSCs for the initial four-year exploration phase. In the event of default by Niko, the joint venture agreement provides that Niko'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 obligation to spend the actual amount guaranteed. The guarantee amount of the bond has not been reduced to reflect either the 2D seismic commitment work performed in 2009 or the first quarter pre-drilling exploratory work that was performed as at June 30, 2010.

The following table and footnotes summarizes the Company's commitments as at June 30, 2010:

(\$000s)	Total	<1 year	1-3 years	3-4 years	>5 years
Exploration ⁽¹⁾	\$ 53,743	\$ 20,934	\$ 32,809	\$ -	\$ -
Office and accommodations ⁽²⁾	3,367	1,066	1,387	914	-
Other	2,731	1,137	1,594	-	-
Total	\$ 59,841	\$ 23,137	\$ 35,790	\$ 914	\$ -

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

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

The Company has entered into contracts for 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. In Trinidad & Tobago, the Company has a commitment to drill three wells and the Company's second well, Snowcap-1 has recently reached a total depth of 8,600 feet. In Colombia, Kona-2 is the second well of a six well drilling rig commitment. Parex has executed a letter of intent to secure two additional drilling rigs through the remainder of 2010. 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.



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 funds to finance 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 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: changes in policy environments related to changes in government, price controls, renegotiation of land tenure agreements, nationalization, amendments or changes to 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. At present the Company has no established reserves. The Company's future proved reserves, to the extent discovered or acquired, will decline as reserves are produced from its properties unless the Company is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital-intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, Parex employs highly experienced geologists and geophysicists, uses technology such as 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. In addition, the Company takes a portfolio approach to exploration drilling by having drilling locations spread out among different exploration blocks and geological basins and by 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 obtaining financing to develop reserves.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements in the six months ended June 30, 2010.



Financial Instruments and Other Instruments

The Company did not utilize financial instruments such as hedges or swaps in the six months ended June 30, 2010.

Related-Party Transactions

The Company did not enter into any related-party transactions in the six months ended June 30, 2010.

In the consolidated statements of cash flows for the six months ended June 30, 2009 there is an increase in related-party receivables of \$7.5 million, which are amounts due from PABL, PACL and PATL to Petro Andina through loan advances, interest and charges under technical service agreements. On November 6, 2009, the time of the Arrangement, the accumulated amount was \$36.1 million. This receivable held by Petro Andina was transferred to Parex along with all the issued and outstanding shares of PACL, PABL and indirectly PABL's subsidiary PATL, pursuant to the Arrangement and was eliminated upon consolidation at December 31, 2009.

Similar to the related-party receivable noted above, included in the consolidated statement of operations, comprehensive loss and deficit for the six months ended June 30, 2009 is \$127,000 of related-party interest expense. Interest was charged by Petro Andina to PACL and PATL until November 6, 2009, on loan balances and technical service agreement invoices. However, after November 6, 2009, the intercompany interest expense was eliminated upon consolidation.

During the six months ended June 30, 2009, \$286,000 relating to technical service agreements was charged by Petro Andina to PACL and PATL. After the Arrangement, the charge relating to the technical service agreements was also eliminated upon consolidation.

Prior to November 6, 2009, interest on the intercompany loan advances and charges under the technical service agreements were not eliminated in the Company's financial statements as Petro Andina was not part of the Parex consolidated group consistent with continuity-of-interests accounting (EIC-89).

Critical Accounting Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires the Company's 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 changes in estimated amounts or actual results that differ materially from current estimates. For a discussion of the Company's critical accounting estimates and policies, please refer to the MD&A for the year ended December 31, 2009 which is available on the Canadian Securities Administrators' website, www.sedar.com.

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 completed a diagnostic analysis of the differences between Canadian GAAP and IFRS. As a result of this analysis, management identified key differences based upon complexity and materiality in the consolidated financial statements.



The Company subsequently developed a conversion plan which is resourced and supported by technically competent personnel with IFRS knowledge and training. Critical milestones and expected completion dates from the conversion plan include:

Milestone	Proposed Timing
Diagnostic analysis of key IFRS differences	Completed
Training of staff and Company personnel	Ongoing
Completion of a draft IFRS opening balance sheet as at December 31, 2009	Opening balance sheet and transition note disclosure drafted
Completion of position paper evaluations for potential significant GAAP differences	Ongoing
Review of position paper evaluations by the Company's auditors	Ongoing
Review of opening balance sheet by the Company's auditors	Ongoing
Audit of the opening balance sheet by the Company's auditors	Audit opinion on January 1, 2010 balance sheet expected to be issued in March 2012 with the release of December 31, 2011 audited IFRS financial statements
Determine impact of IFRS on the control environment	Ongoing

The Company's conversion plan recognizes that a variety of stakeholders will be impacted by the transition to IFRS. The Finance and Audit Committee of the Board of Directors and the Company's auditors will provide support and guidance throughout the conversion. The Company will continue to ensure that adequate training is provided to staff and that the Company's control environment is appropriately considered during conversion.

During the second quarter of 2010, the Company commenced preparation of a variety of position papers in support of its December 31, 2009 balance sheet. The development of Parex' position papers will continue in conjunction with the evolution of the Company's financial statements in 2010.

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 as the Company is in the development stage. 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. Exploration and evaluation ("E&E") costs typically include 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, costs incurred by Parex prior to the acquisition of the legal rights to explore an area may no longer be capitalized. The Company has identified costs that have been capitalized in accordance with Accounting Guideline – 16 "Oil and Gas Accounting – Full Cost", that may be treated differently under IFRS 6. Parex is conducting further analysis to support any potential opening balance sheet adjustments which are presently not viewed as being material.

Parex conducts exploration activity in two key areas, Colombia and Trinidad & Tobago, and plans to examine the need for defining cash generating units below the cost centre level in the coming year. 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 has also examined the impact conversion to IFRS will have on foreign currency reporting. The Company's preliminary assessment would indicate that the functional currency of Parex would continue to be the US dollar. The Company has also conducted a preliminary assessment of stock-based compensation, asset retirement obligations and income taxes. Despite the initial conclusion that no significant differences would exist, the Company believes in a complete and fulsome process including the completion of key position papers on critical account balances to be certain of this conclusion.

Management recognizes that IFRS note disclosures are generally more detailed than current note disclosure.

Information technology system requirements and geographical specificities have also been considered in the conversion plan. Trinidad & Tobago and Colombia have robust information technology systems. The Company's accounts in Trinidad & Tobago are currently IFRS-compliant pursuant to Trinidad & Tobago's GAAP. The Company's information technology systems have the associated functionality that can meet the IFRS needs for the Parex Colombian entity. IFRS reporting and training needs have also been considered in the conversion plan.



At this time, Management is in the process of finalizing its chosen IFRS accounting policies and as such cannot wholly quantify the impact that the adoption of IFRS will have on the future results of operations or financial position. In accordance with its transition plan, the Company is continuing the process of evaluating its accounting policy choices and making recommendations to senior management for approval. Parex continues to monitor the development of new standards and any changes will be incorporated into the plan as required. 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.



CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	June 30, 2010 (note 2)	December 31, 2009 (note 2)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 80,643	\$ 101,280
Accounts receivable	1,889	2,997
Prepays and other current assets	444	350
	<u>82,976</u>	<u>104,627</u>
Property, plant and equipment (note 5)	45,207	28,858
	<u>\$ 128,183</u>	<u>\$ 133,485</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,031	\$ 8,923
	<u>10,031</u>	<u>8,923</u>
Asset retirement obligation (note 7)	54	52
	<u>10,085</u>	<u>8,975</u>
Shareholders' equity		
Share capital (note 8)	128,726	128,726
Contributed surplus (note 12)	2,319	771
Deficit	(12,947)	(4,987)
	<u>118,098</u>	<u>124,510</u>
	<u>\$ 128,183</u>	<u>\$ 133,485</u>

Commitments (notes 18)

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 (unaudited)

(thousands of United States dollars, except per share amounts)	For the three months ended June 30,		For the six months ended June 30,	
	2010 (note 2)	2009 (note 2)	2010 (note 2)	2009 (note 2)
Revenue				
Oil and natural gas revenue	\$ 32	\$ -	\$ 68	\$ -
Interest income	87	1	159	1
	119	1	227	1
Expenses				
Production	21	-	40	-
General and administrative	2,612	511	6,243	850
Bank taxes	10	2	36	2
Stock-based compensation (note 10)	836	-	1,548	-
Related-party interest expense (note 6)	-	121	-	127
Depletion, depreciation and accretion	484	13	761	13
Foreign exchange loss (gain)	545	(22)	(441)	(23)
	4,508	625	8,187	969
Loss before taxes	(4,389)	(624)	(7,960)	(968)
Income tax expense (note 13)				
Current	-	-	-	-
Future	-	-	-	-
	-	-	-	-
Net and comprehensive loss	(4,389)	(624)	(7,960)	(968)
Deficit, beginning of period	(8,558)	(602)	(4,987)	(258)
Deficit, end of period	\$ (12,947)	\$ (1,226)	\$ (12,947)	\$ (1,226)
Basic and diluted net loss per common share	\$ (0.07)	\$ (0.01)	\$ (0.12)	\$ (0.02)

See accompanying Notes to the Consolidated Financial Statements



Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	For the three months ended June 30,		For the six months ended June 30,	
	2010 (note 2)	2009 (note 2)	2010 (note 2)	2009 (note 2)
Operating activities				
Net loss	\$ (4,389)	\$ (624)	\$ (7,960)	\$ (968)
Add (deduct) non-cash items				
Depletion, depreciation and accretion	484	13	761	13
Stock-based compensation	836	-	1,548	-
Unrealized foreign exchange loss (gain)	452	(9)	(291)	(9)
Funds flow used in operations	(2,617)	(620)	(5,942)	(964)
Net change in non-cash working capital (note 14)	(412)	672	401	1,014
	(3,029)	52	(5,541)	50
Investing activities				
Property, plant and equipment expenditures	(10,472)	(5,365)	(17,107)	(7,290)
Net change in non-cash working capital (note 14)	2,710	(1,981)	4,236	(2,783)
	(7,762)	(7,346)	(12,871)	(10,073)
Financing activities				
Increase in related-party receivables (note 6)	-	2,499	-	7,499
Issue of common shares	-	40	-	40
Net change in non-cash working capital (note 14)	-	-	(2,498)	-
	-	2,539	(2,498)	7,539
Decrease in cash and cash equivalents	(10,791)	(4,755)	(20,910)	(2,484)
Impact of foreign exchange on foreign currency-denominated cash balances	(505)	9	273	9
Cash and cash equivalents, beginning of period	91,939	5,101	101,280	2,830
Cash and cash equivalents, end of period	\$ 80,643	\$ 355	\$ 80,643	\$ 355

Supplemental Disclosure of Cash Flow Information (note 14)

See accompanying Notes to the Consolidated Financial Statements



Notes to the Consolidated Financial Statements (unaudited)

For the six months ended June 30, 2010

(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 it filed Articles of Amendment to change its name to Parex Resources Inc. ("Parex" or the "Company"). 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"). See note 4 "Plan of Arrangement".

Under the terms of the Arrangement, Parex acquired from Petro Andina all of the issued and outstanding shares of Petro Andina (Barbados) Ltd. ("PABL") (now Parex Resources (Barbados) Ltd.), Petro Andina (Colombia) Ltd. ("PACL") (now Parex Resources (Colombia) Ltd.) and indirectly all of the issued and outstanding shares of Petro Andina (Trinidad) Ltd. ("PATL") (now Parex Resources (Trinidad) Ltd.); inter-company loans and other receivables from PABL, PATL and PACL; 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.

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 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. Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries. They have been prepared following the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2009. The disclosures provided below are incremental to those included in the annual audited financial statements. They do not include all disclosures required under Canadian generally accepted accounting principles ("GAAP") for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2009.

a) *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' ("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.

Continuity-of-interests accounting requires that the results of operations presented in the consolidated financial statements of Parex for the 2009 comparative period include the operations of PABL and PACL for the first six months of the 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.



b) Accounting Guideline 11 – Enterprises in the development stage

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 its oil and natural gas properties. The Company has considered the conditions in CICA Accounting Guideline-11 for impairment, which include significant unfavourable economic, legal, regulatory, environmental, political and other factors. 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 its properties. Capitalized costs are written down to the estimated recoverable amount whenever events or changes in circumstances indicate that the carrying amount of a property in the development stage may be impaired.

3. 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. Key information will be disclosed as it becomes available during the transition period.

4. Plan of Arrangement

The Arrangement among Parex, Petro Andina and Pluspetrol closed on November 6, 2009. Pursuant to the Arrangement, in exchange for the issuance 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, PACL and indirectly all the issued and outstanding shares of PATL;
- Inter-company loans and other receivables from PABL, PATL and PACL; 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 licences.

The consolidated financial statements of Parex for the 2009 comparative period 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 for the 2009 comparative period include the operations of PABL and PACL for the first six months of the 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 ⁽¹⁾	\$	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

⁽¹⁾ As part of the working capital acquired under the Arrangement, Parex (non-consolidated) received \$52.5 million 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 Cdn\$68.6 (\$63.8 million, converted using the November 6, 2009 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 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 (\$18.9 million) and net of underwriters' fees Cdn\$18.8 million (\$17.5 million). 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 issued to the Petro Andina shareholders pursuant to the Arrangement were exercised at a price of Cdn\$3.00 per share by the December 6, 2009 expiry date for total proceeds of approximately Cdn\$14 million (\$13.3 million).



5. Property, Plant and Equipment

As at June 30, 2010	Cost	Accumulated depletion, depreciation & amortization	Net book value
Oil and natural gas properties	\$ 45,066	\$ 498	\$ 44,568
Office and other equipment	1,108	469	639
	\$ 46,174	\$ 967	\$ 45,207

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

During the six months ended June 30, 2010 the Company capitalized \$980,000 (six months ended June 30, 2009 – \$38,000) of general and administrative expenses related to exploration and development activities.

Included in oil and natural gas properties at June 30, 2010 is \$43,167,000 (June 30, 2009 – \$11,545,000) in respect of unproved property that is not subject to depletion as it represents 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 these properties, no ceiling test has been performed.

6. Related Parties

The comparative consolidated financial statements of Parex were presented to reflect the financial position and results of operations as if Parex, PABL and PACL had been combined since their inception. See note 2, “Basis of Presentation”. The following table summarizes related-party inter-company charges as they appear in the comparative period:

For the six months ended June 30,	2010	2009
PACL and PATL loan interest ⁽¹⁾	\$ -	\$ 127
Technical services agreement charges ⁽¹⁾⁽²⁾	-	286
Increase in related-party receivables ⁽³⁾	-	7,499

⁽¹⁾Included in the Company’s consolidated statements of operations, comprehensive loss and deficit.

⁽²⁾Included in the Company’s consolidated balance sheets.

⁽³⁾Included in the Company’s consolidated statements of cash flows.

There have been no related-party transactions in 2010.

In the consolidated statements of cash flows for the six months ended June 30, 2009 there is an increase in related-party receivables of \$7.5 million, which are amounts due by PABL, PACL and PATL to Petro Andina through loan advances, interest and charges under technical services agreements. At the time of the Arrangement, the accumulated amount of these types of loan advances, interest and charges under technical services agreements amounted to \$36.1 million. This receivable held by Petro Andina was transferred to Parex along with all the issued and outstanding shares of PACL, PABL and indirectly PABL’s subsidiary PATL, pursuant to the Arrangement and eliminated upon consolidation at December 31, 2009. See note 4, “Plan of Arrangement”.

Similar to the related-party payable noted above, included in the consolidated statement of operation, comprehensive loss and deficit for the six months ended June 30, 2009 is \$127,000 of related-party interest expense. Interest was charged by Petro Andina to PACL and PATL until November 6, 2009 on loan balances and technical services agreement invoices. However, after November 6, 2009 the inter-company interest expense was eliminated upon consolidation. During the six months ended June 30, 2009 \$286,000 relating to technical services agreements was charged by Petro Andina to PACL and PATL. After the Arrangement, the charge relating to the technical services agreements was eliminated upon consolidation. Prior to November 6, 2009, interest on the inter-company loan advances and charges under the technical services agreements were not eliminated in Parex’ financial statements as Petro Andina was not part of the Parex consolidated group, consistent with continuity-of-interests accounting.



7. Asset Retirement Obligation

	June 30, 2010	
Balance, beginning of period	\$	52
Liabilities incurred during period		-
Settlements of obligations during the period		1
Accretion expense		1
Balance, end of period	\$	54

The ARO liability as at June 30, 2010 relates to minor non-operated properties in Canada which are not significant to the Company's current or future operations.

8. 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 4)	49,213,718	\$	91,254
Issued – subscription receipts (note 4)	6,670,000		18,937
Issued – management private placement (note 4)	3,333,333		9,300
Issued – exercise of warrants (note 4)	4,652,484		13,271
Share issue costs	-		(7,495)
Allocation of contributed surplus – exercise of warrants (note 9)	-		3,459
Balance, December 31, 2009 and June 30, 2010	63,869,535	\$	128,726

b) *Per share amounts*

The weighted average number of basic and diluted common shares outstanding for the six months ended June 30, 2010 was 63,869,535 (year ended December 31, 2009 – 51,054,797).

9. 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 issuance date of the warrants, the Black-Scholes-calculated fair value was \$0.74 per warrant. The following table summarizes the assumptions used:

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

The following table presents the continuity of warrants for the periods ended June 30, 2010 and December 31, 2009:

	Number of Warrants		Amount
Opening Balance issued on November 6, 2009	4,921,372	\$	3,659
Exercised	(4,652,484)		(3,459)
Expired	(268,888)		(200)
Balance at December 31, 2009 and June 30, 2010	-	\$	-

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. There are no warrants outstanding as of June 30, 2010.



10. 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 Cdn\$
Balance, December 31, 2009	3,475,000	\$ 3.08
Granted	512,500	\$ 4.81
Balance, June 30, 2010	3,987,500	\$ 3.31

Stock options outstanding and the weighted average remaining life of the stock options at June 30, 2010 are as follows:

Number	Weighted average remaining life (years)	Weighted average exercise price Cdn\$
3,362,500	4.29	\$ 3.04
150,000	4.61	\$ 4.30
225,000	4.52	\$ 4.40
250,000	4.80	\$ 5.30
3,987,500	4.34	\$ 3.31

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

For the six months ended June 30,	2010	2009
Risk-free interest rate (%)	2.07	-
Expected life (years)	3	-
Expected volatility (%)	64	-
Expected dividends	-	-

For options granted during the six months ended June 30, 2010, the weighted average fair value at the grant date was Cdn\$2.13 per option (year ended December 31, 2009 – Cdn\$1.33 per option).

11. Share Appreciation Rights

During the second quarter of 2010, PATL and PACL initiated a share appreciation rights (“SARs”) plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company’s common shares at the time of exercise over the grant price. At any time, if the current market price of the Company’s common shares exceeds four times the grant price, Parex has the option to require the holders to exercise all vested SARs. SARs typically vest over a three-year period and expire five years from the date of grant. The maximum number of SARs that can be outstanding is equal to 10 percent of the number of the Company’s common shares outstanding. The SARs liability cannot be settled by the issuance of common shares.

	Number of SARs	Weighted average exercise price Cdn\$
Balance, December 31, 2009	-	\$ -
Granted	365,625	\$ 5.25
Balance, June 30, 2010	365,625	\$ 5.25

As at June 30, 2010, no SARs were vested.



Obligations for payments of cash under the SARs plan are accrued as compensation expense over the vesting period based on the amount by which the quoted market value of the Company's shares exceeds the SARs exercise price, subject to appreciation limits specified in the plan. In accordance with the intrinsic value method, increases or decreases in the quoted market value of the Company's shares between the date of grant and the measurement date result in a corresponding change in the recorded liability of the SARs. The accrued compensation for a right that is forfeited or cancelled is adjusted by decreasing compensation cost in the period of forfeiture.

For the six months ended June 30, 2010, no liability was recorded as the closing price of a Parex share at June 30, 2010 was lower than the exercise price of any of the outstanding SARs.

12. Contributed Surplus

	June 30, 2010	
Balance, beginning of period	\$	771
Stock-based compensation expense		1,548
Fair value of expired warrants		-
Balance, end of period	\$	2,319

13. 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 six months ended June 30,	2010		2009	
Loss before taxes	\$	(7,960)	\$	(968)
Canadian statutory income tax rate		29%		29%
Income tax at statutory rate		(2,308)		(281)
Effect on income taxes of:				
Canadian statutory income tax rate change		77		-
Non-deductible costs		771		-
Foreign tax rate differential		(265)		(203)
Valuation allowance for losses not recognized		1,725		484
	\$	-	\$	-

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value. The 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 June 30, 2010 exchange rate. At June 30, 2010 the Company had non-capital losses of \$3.5 million in Canada, \$3.3 million in Colombia and \$5.3 million in Trinidad & Tobago.

14. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Accounts receivable	\$ (916)	\$ (84)	\$ 1,108	\$ (618)
Prepays and other current assets	(19)	2	(94)	(15)
Accounts payable and accrued liabilities	3,233	(1,923)	1,125	(2,414)
Due to related party	-	696	-	1,278
Net change in non-cash working capital	\$ 2,298	\$ (1,309)	\$ 2,139	\$ (1,769)
Operating	\$ (412)	\$ 672	\$ 401	\$ 1,014
Investing	2,710	(1,981)	4,236	(2,783)
Financing	-	-	(2,498)	-
Net change in non-cash working capital	\$ 2,298	\$ (1,309)	\$ 2,139	\$ (1,769)



b) Interest and taxes paid

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Cash interest paid	\$ -	\$ -	\$ -	\$ -
Cash income taxes paid	\$ -	\$ -	\$ -	\$ -

15. Capital Management

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

The Company manages its capital to achieve the following:

- 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.

The Company has not arranged a banking credit facility. However, the Company has provided a general security agreement to Export Development Canada (“EDC”) in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency (“ANH”) related to its 50 percent share of the initial exploration work commitments (see note 18 on 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. The Company’s working capital is in excess of its present commitments and it has no debt. The Company considers its capital structure to include common share capital, contributed surplus and deficits. As at June 30, 2010 and December 31, 2009 common share capital was \$128,726.

16. 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 do not meet their underlying obligations. A substantial portion of the Company’s accounts receivable is with joint venture partners in the countries in which the Company operates. The Company assesses the 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 4, the Company considers itself to be well-capitalized, with working capital in excess of current commitments and no debt.



c) Foreign currency risk

The Company is exposed to foreign currency risk as a portion of its cash balances are held in Canadian dollars, 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 at this time.

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 June 30, 2010, 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 loss for the period had the exchange rate changed by 1 cent.

	Impact on net loss	
Foreign currency exchange rate		
Cdn\$/US\$	\$	121
COP\$/US\$	\$	36
TT\$/US\$	\$	2

17. Segmented Information

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

For the six months ended June 30, 2010

	Canada	Trinidad & Tobago	Colombia	Total
Revenue				
Oil and natural gas revenue	\$ 68	\$ -	\$ -	\$ 68
Interest income	103	3	53	159
	171	3	53	227
Expenses				
Production	40	-	-	40
General and administrative	3,408	983	1,852	6,243
Stock-based compensation	1,548	-	-	1,548
Bank taxes	-	-	36	36
Depletion, depreciation and accretion	444	22	295	761
Foreign exchange loss (gain)	(41)	11	(411)	(441)
	5,399	1,016	1,772	8,187
Loss before taxes	(5,228)	(1,013)	(1,719)	(7,960)
Income tax expense	-	-	-	-
Net loss	\$ (5,228)	\$ (1,013)	\$ (1,719)	\$ (7,960)
Property, plant and equipment	\$ 1,566	\$ 25,066	\$ 18,575	\$ 45,207
Property, plant and equipment expenditures	\$ 31	\$ 8,303	\$ 8,773	\$ 17,107
Total assets	\$ 68,637	\$ 31,768	\$ 27,778	\$ 128,183



For the six months ended June 30, 2009

	Canada	Trinidad & Tobago	Colombia	Total
Revenue				
Interest income	\$ -	\$ 1	\$ -	\$ 1
Expenses				
General and administrative	-	285	565	850
Bank taxes	-	-	2	2
Related-party interest expense	-	122	5	127
Depletion, depreciation and accretion	-	5	8	13
Foreign exchange loss (gain)	-	(2)	(21)	(23)
	-	410	559	969
Loss before taxes	-	(409)	(559)	(968)
Income tax expense	-	-	-	-
Net loss	\$ -	\$ (409)	\$ (559)	\$ (968)
Property, plant and equipment	\$ -	\$ 11,199	\$ 753	\$ 11,952
Property, plant and equipment expenditures	\$ -	\$ 6,529	\$ 761	\$ 7,290
Total assets	\$ -	\$ 12,496	\$ 932	\$ 13,428

For the three months ended June 30, 2010

	Canada	Trinidad & Tobago	Colombia	Total
Revenue				
Oil and natural gas revenue	\$ 32	\$ -	\$ -	\$ 32
Interest income	53	1	33	87
	85	1	33	119
Expenses				
Production	21	-	-	21
General and administrative	868	642	1,102	2,612
Stock-based compensation	836	-	-	836
Bank taxes	-	-	10	10
Depletion, depreciation and accretion	218	17	249	484
Foreign exchange loss (gain)	591	4	(50)	545
	2,534	663	1,311	4,508
Loss before taxes	(2,449)	(662)	(1,278)	(4,389)
Income tax expense	-	-	-	-
Net loss	\$ (2,449)	\$ (662)	\$ (1,278)	\$ (4,389)
Property, plant and equipment	\$ 1,566	\$ 25,066	\$ 18,575	\$ 45,207
Property, plant and equipment expenditures	\$ 13	\$ 6,294	\$ 4,165	\$ 10,472
Total assets	\$ 68,637	\$ 31,768	\$ 27,778	\$ 128,183



For the three months ended June 30, 2009

	Canada	Trinidad & Tobago	Colombia	Total
Revenue				
Interest income	\$ -	\$ 1	\$ -	\$ 1
Expenses				
General and administrative	-	129	382	511
Bank taxes	-	-	2	2
Related-party interest expense	-	116	5	121
Depletion, depreciation and accretion	-	5	8	13
Foreign exchange loss (gain)	-	(1)	(21)	(22)
	-	249	376	625
Loss before taxes	-	(248)	(376)	(624)
Income tax expense	-	-	-	-
Net loss	\$ -	\$ (248)	\$ (376)	\$ (624)
Property, plant and equipment	\$ -	\$ 11,199	\$ 753	\$ 11,952
Property, plant and equipment expenditures	\$ -	\$ 4,727	\$ 638	\$ 5,365
Total assets	\$ -	\$ 12,496	\$ 932	\$ 13,428

18. Commitments

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 are operated by Columbus. The exploration and production contracts consist of an initial exploration phase of 36 months with the option for the parties to enter into a second exploration phase of 36 months. The exploration work commitments for the initial exploration phase total 19 wells and 900 square kilometres of three-dimensional (“3D”) seismic.

The Company has provided guarantees to the ANH totalling \$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. EDC has provided the Company’s bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to ANH have not been reduced to reflect either the 3D seismic commitment work performed in 2009 or the drilling activity and 3D seismic work that was conducted during the first six months of 2010.

The Company’s share of exploration commitments remaining at June 30, 2010 in respect of the Llanos Basin blocks are estimated to be as follows:

2010	\$	16,422
2011		20,642
	\$	37,064

Parex has been advised by the ANH that following their comprehensive review of bidder qualifications and bids submitted on June 22, 2010 in the 2010 Colombia Bid Round, Parex was deemed to be the successful bidder for Block LLA-57. The Company expects to receive final confirmation from the ANH on the block award shortly. The Company’s bid terms for Block LLA-57 (100 percent working interest) were a Phase 1 work program of \$10.1 million and a supplemental royalty (x-factor) of one percent over the base ANH royalty. The Company may be required to place a guarantee of approximately \$3.85 million with the ANH in the event of final confirmation being received.



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 Niko Resources Ltd. (formerly Voyager Energy Ltd.) (“Niko”), and is operator of the blocks. During the exploration phase of the PSCs, Parex and Niko will each hold a 50 percent working interest. The Petroleum Company of Trinidad & Tobago (“Petrotrin”) has the right to participate at a 35 percent working interest in any development on the Central Range Shallow Block and at 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 Niko, Parex will pay 100 percent of the first \$10 million of seismic acquisition costs during the exploration phase, of which approximately \$8.5 million has been incurred to June 30, 2010. Petrotrin is carried through the minimum work commitments of the contracts.

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 Niko’s share of the financial guarantees required under the PSCs for the initial four-year exploration phase. In the event of default by Niko, the joint venture agreement provides that Niko’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 obligation to spend the actual amount guaranteed. The guarantee amount of the bond has not been reduced to reflect either the 2D seismic commitment work performed in 2009 or the exploratory drilling work that was performed in the first six months of 2010.

The Company’s share of exploration and other commitments in respect of the Central Range Blocks remaining at June 30, 2010, including the remaining Niko carry, are estimated to be as follows:

	Exploration		Other		Total
2010	\$ 1,000	\$	1,137	\$	2,137
2011	12,167		1,594		13,761
	\$ 13,167	\$	2,731	\$	15,898

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

c) 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 earning terms of the Moruga Block require Parex to drill one exploratory well to a depth of 8,600 feet or the top of the Cretaceous, whichever occurs first, and one exploratory well to 10,500 feet. 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 exploration term of the Moruga Block exploration licence expires on August 29, 2013.

The Company estimates that its remaining costs to meet the commitment are approximately \$3.5 million as at June 30, 2010.

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 include leases for office space and accommodations.

The existing minimum lease payment obligations associated with leases for office space and accommodations at June 30, 2010 are as follows:

	Total	2010	2011	2012	2013	2014	Thereafter
Office and accommodations	\$ 3,367	\$ 593	\$ 936	\$ 660	\$ 526	\$ 522	\$ 130



e) *Drilling rig contracts*

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 the minimum commitments will be incurred by December 31, 2010.



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Wayne K. Foo

Ron D. Miller

W. A. (Alf) Peneycad

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Abbreviations

bbl	barrel
bbls	barrels
mbbls	thousand barrels
mbbls	million barrels
bbls/d	barrels per day
boe	barrels of oil equivalent *
boe/d	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mbboe/d	thousand barrels of oil equivalent per day
mmboe	million barrels of oil equivalent

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