FOR THE INTERIM PERIOD ENDED MARCH 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Parex Resources Inc. ("Parex" or the "Company") is dated May 24, 2011 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2011 and the MD&A and audited consolidated financial statements for the year ended December 31, 2010. The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Additional information related to Parex is available in the Annual Information Form dated March 9, 2011 on the Canadian Securities Administrators' website at www.sedar.com.

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

Change in Accounting Policies

On January 1, 2011, Parex adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The unaudited consolidated financial statements for the three months ended March 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. The adoption of IFRS has not had an impact on the Company's operations, strategic decisions and funds flow from operations.

Advisory on Forward-Looking Statements

Certain information regarding Parex set forth in this MD&A, including assessments by the Company's management of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur are intended to identify forward-looking statements. Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. These statements are only predictions and actual events or results may differ materially. Although the Company's management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Parex. In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to: the performance characteristics of the Company's oil properties; supply and demand for oil; treatment under governmental regulatory regimes and tax laws; financial and business prospects and financial outlook; results of operations, production, future costs, reserves and production estimates; drilling plans; activities to be undertaken in various areas including the fulfillment of exploration commitments; timing of drilling, completion and tie in of wells; tax horizon; access to infrastructure; timing of development of undeveloped reserves; planned capital expenditures, the timing thereof and the method of funding; financial condition and access to capital. In addition, statements relating to "reserves" or "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. The recovery and reserve estimates of Parex' reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward looking statements.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced, in Canada, Colombia and Trinidad & Tobago; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; the risks discussed under "*Risk Factors*" in the Company's Annual Information Form dated March 9, 2011 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: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of the reserves; royalty rates, future operating costs, and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves.

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

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

Non-GAAP Terms

Funds flow used in, or from operations, working capital and operating netback per barrel may from time to time be used by the Company, but do not have any standardized meaning under IFRS and Canadian GAAP and may not be comparable to similar measures presented by other companies. Funds flow used in, or from operations includes all cash generated from operating activities and is calculated before changes in non-cash working capital. Funds flow used in, or from operations is reconciled with net income (loss) in the Consolidated Statements of Cash Flows. Funds flow per share is calculated by dividing funds flow used in, or from operations by the weighted average number of shares outstanding. Working capital includes current assets less current liabilities. Operating netback per barrel equals sales revenue, less royalties, production expense and transportation expense, divided by total equivalent sales volume. Management uses these non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future growth expenditures.

Highlights

- For the first three months of 2011, Parex' sales volumes averaged approximately 1,146 bbl/d company working interest before royalties;
- On April 21, 2011, Parex has entered into a definitive agreement to acquire a company which will hold the 50 percent working interest Parex does not already own in four Llanos Basin blocks in Colombia, including Block LLA-16 and the Kona discovery, for total consideration of $255 million (the "Acquisition"). The Acquisition will be funded through a bought deal public offering of Cdn$189 million (before an over-allotment option of Cdn$28.4 million) of subscription receipts and Cdn$85 million of extendible convertible unsecured subordinated 5.25% debentures for total combined gross proceed of Cdn$274.0 million. The Acquisition is expected to close no later than June 29, 2011 and will be effective January 1, 2011. Upon the Acquisition closing on or before July 15, 2011, each subscription receipt will automatically be exchanged for one common share;
- On Block LLA-16 in Colombia, during the period ended March 31, 2011, the Company drilled three wells, Goroka-1, Kona-3 and Kopi-1, and commenced drilling Kona-4;
- Construction of the Kona oil treatment facility on the Kona-1 lease continues as programmed with a capacity of 25,000 bfpd. The Company expects to complete the facility in May, 2011;
- Parex deepened the Firecrown-1 well (Parex 50% working interest) in Trinidad & Tobago to a depth of 10,330 feet, and applied for and obtained earning status on the Moruga Block subsequent to quarter end; and
- Parex maintained a strong balance sheet with cash and cash equivalents of $105.2 million and working capital of $101.7 million at March 31, 2011.

For the three months ended March 31,		2011		2010
Average daily sales				
Oil (bbl/d)		**1,146**		-
Natural gas (boe/d)[1]		**-**		14
Total (boe/d)		**1,146**		14
Realized sales price ($/boe)		**95.54**		29.72
Oil and natural gas revenue	**$**	**9,853**	$	36
Net income (loss)		**1,023**		(3,571)
Per share – basic		**0.01**		(0.06)
Per share – diluted		**0.01**		(0.06)
Funds flow from (used in) operations		**2,960**		(3,325)
Per share – basic		**0.04**		(0.05)
Per share – diluted		**0.04**		(0.05)
Total assets (end of period)		**220,521**		128,164
Working capital (end of period)		**101,672**		86,487
Long-term debt (end of period)	**$**	**-**	$	-
Weighted average shares outstanding (000s)				
Basic		**77,123**		63,870
Diluted		**79,083**		63,870
Outstanding shares (end of period) (000s)				
Basic		**77,165**		63,870
Diluted		**82,608**		67,607

(1) Natural gas sales were attributed to minor Canadian non-operated oil and natural gas properties which were sold in October 2010.

Description of Business

Strategy

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

Principal Properties

As at March 31, 2011, the Company's principal land holdings and 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
Llanos Basin Block LLA-57[2]	100%	104,532	104,532
Trinidad & Tobago			
Central Range Blocks[3]	50%	211,478	105,739
Moruga Block[4]	50%	11,970	5,985
Total		817,113	460,823

(1) The initial exploration phase under the Company's exploration and production ("E&P") 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 for Blocks LLA-16 and LLA-20, and October 20, 2009 for Blocks LLA-29 and LLA-30. Exploration property deemed non-commercial will be released in due course.

(2) The initial exploration phase under the Company's E&P 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 Block LLA-57 contract is February 17, 2011. Exploration property deemed non-commercial will be released in due course.

(3) 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 was 48 months. However, on August 9, 2010, the Ministry of Energy and Energy Affairs ("MEEA") approved an extension of the first exploration phase to 60 months. 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.

(4) The Moruga Block is an exploration block with the final earning confirmed by the MEEA on April 27, 2011.

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

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 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 E&P 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, before reduction for the work incurred to date, total $46 million to the Company representing 19 gross wells and 900 square kilometres ("km^2") of three-dimensional ("3D") seismic (Parex 50 percent working interest, respectively), of which the 3D seismic commitment has been completed.

On April, 2011, Parex had entered into a definitive agreement to acquire a company which will hold the 50 percent working interest Parex does not already own in the four Llanos Basin blocks, LLA-16, LLA-20, LLA-29 and LLA-30, in Colombia, for total consideration of $255 million (the "Acquisition"), before adjustments. The Acquisition is expected to close no later than June 29, 2011 and will be effective January 1, 2011.

During the first quarter of 2011, the E&P contract for the Block LLA-57 (100 percent working interest) in the Llanos Basin was signed with the ANH. Block LLA-57 covers 104,532 acres and lies immediately north of the Parex-operated Block LLA-20. 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 1 percent over the base ANH royalty (see section "Colombian Royalties" on page 8). The block has a six-year exploration term divided into two 36-month exploration phases.

Central Range Blocks (Trinidad & Tobago)

Parex holds working interests 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 48 months. On August 9, 2010, the MEEA approved an extension of the first exploration phase to 60 months.

The PSCs have minimum work commitments during the initial 60-month exploration phase of the contracts. The work commitments total 100 kilometres of two-dimensional ("2D") seismic, 168 km^2 of 3D seismic, one deep well to be drilled to a minimum depth of 12,000 feet and two shallow wells to be 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 as at March 31, 2011. Petrotrin is carried through the minimum work commitments of the contracts.

The Company currently has no oil and natural gas production or published oil and natural gas reserves for the Central Range Blocks.

b) Moruga Block (Trinidad & Tobago)

On September 16, 2009, Parex entered into an agreement with Primera Oil and Gas Limited and Primera Energy Resources Ltd. (together, "Primera") (the "Farm-In") to farm-in to the interests of these companies in the Moruga Block Exploration and Production Licence located in South Central Trinidad & Tobago (the "Moruga Block"). The terms of the Farm-In 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. In connection with the Farm-In, an application has been made for Parex to become the operator of the Moruga Block. The Farm-In and transfer of operatorship are subject to approval by the MEEA and the Ministry of Finance of the Republic of Trinidad & Tobago. Parex will earn a 50 percent working interest in the Moruga Block by paying 95 percent of all costs, to a maximum of $13.3 million for drilling and evaluating these two exploration wells. The Moruga Block encompasses 11,970 gross acres and targets oil-prone prospects. On April 27, 2011, the Company received written communication from the MEEA that Parex fulfilled the earning requirement for the Moruga Block.

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

2011 Outlook

Parex had originally provided 2011 guidance that outlined exit rate production from Colombia of 7,000-9,000 bbl/d, net before royalties and capital expenditures of $93-$120 million in Colombia and Trinidad & Tobago. This outlook was based upon Parex' net working interest at the time prior to the Acquisition.

Further, prior to the announcement of the Acquisition and based on (i) the non-Kona exploration drilling results to date; (ii) not accounting for success at the new exploration prospects; and, (iii) anticipated deferral in the non-operated blocks LLA-29 and LLA-30 drilling schedule, Parex had disclosed that both capital expenditures and exit rate production from the pre-Acquisition asset base was anticipated to be at the lower end of the stated guidance range for 2011. The Company's exit rate guidance currently excludes any potential production associated with the 2011 Trinidad & Tobago exploration program. After well testing, the evaluation of exploration results, and the determination of marketing arrangements, Parex will be better positioned to include a 2011 Trinidad & Tobago production estimate.

Financial and Operational Results

Consolidated Results of Operations

Parex' operations are carried out in Colombia, Trinidad & Tobago and Canada which are the Company's reportable segments.

For the three months ended March 31,		**2011**		2010
Average daily sales				
Colombia – oil (bbl/d)		**1,146**		-
Canada – natural gas (boe/d)		**-**		14
Total (boe/d)		**1,146**		14
Operating netback ($000s)				
Oil and natural gas revenue	**$**	**9,853**	$	36
Royalties		**(682)**		-
Net revenue		**9,171**		36
Production expense		**(418)**		(19)
Transportation expense		**(2,245)**		-
Operating netback	**$**	**6,508**	$	17
Operating netback (per boe)				
Oil and natural gas revenue	**$**	**95.54**	$	29.72
Royalties		**(6.61)**		-
Net revenue		**88.93**		29.72
Production expense		**(4.06)**		(15.80)
Transportation expense		**(21.77)**		-
Operating netback	**$**	**63.10**	$	13.92

The Company's operating netback has increased along with the increase in world oil prices. The Company's operating netback for the three months ended March 31, 2011 was $63.10/bbl compared to $54.63/bbl reported for the fourth quarter of 2010. Realized sales price in Colombia was $95.54/bbl for the period with royalty charges of $6.61/bbl based on production. Royalties are calculated by deducting transportation costs from realized sales and applying the royalty percentage. Production expense for the Company was $4.06/bbl during the first quarter of 2011. Colombia production is currently on natural flow rates, without pumps. Transportation and marketing alternatives continue to be examined by the Company in an effort to maximize the net proceeds from monetizing production in Colombia. Comparative figures provided for the period ended March 31, 2010 relate to the minor non-operated Canadian properties which were not significant to the Company's historical operations and were sold in October, 2010.

Colombian Oil Revenue

For the three months ended March 31,		**2011**		2010
Oil revenue ($000s)	**$**	**9,853**	$	-
Realized sales price ($/bbl)	**$**	**95.54**	$	-

Oil sales began in the latter part of 2010 as a result of the Company commencing production from its Colombian Kona field in Block LLA-16. Oil revenue was recognized in the first quarter of 2011 in contrast to the first quarter of 2010, given the initiation of production and sales in Colombia in the latter part of 2010.

(a) Colombian Sales Volumes

For the three months ended March 31,	**2011**	2010
Average daily oil sales (bbl/d) – Kona Field	**1,146**	-

For the first three months of 2011, Parex' sales and production volumes averaged approximately 1,145 and 1,160 bbl/d net respectively. Light oil production from the Kona-1 well on Block LLA-16 in Colombia has averaged approximately gross 2,520 bbl/d (1,260 bbl/d net) with a water cut of approximately 5 percent, during March 2011. The Company commenced production and sales in Colombia in the fourth quarter of 2010.

(b) Colombian Commodity Prices

For the three months ended March 31,		2011		2010
WTI ($/bbl) [1]	$	**94.60**		-
Realized sales price ($/bbl)	$	**95.54**		-

[1] Average WTI price for the period from January 1, 2011 to March 31, 2011.

The Company's oil sales contracts during the first quarter of 2011 are primarily referenced to WTI. The Company's average realized oil sales price for the three months ended March 31, 2011was $95.54/bbl.

Colombian Royalties

For the three months ended March 31,		2011		2010
Royalties ($000s)	$	**682**	$	-
Per unit ($/bbl)	$	**6.61**	$	-
Percentage of revenue[1]		**9%**		-

[1] Net of transportation costs

The Company's Colombian government royalties are comprised of a fixed rate of 8 percent, supplemented with a 1 percent x-factor based upon the E&P contract terms. Royalties are paid in kind and valued at the realized sales price less transportation expenses incurred. Should monthly average daily production rates exceed 5,000 bbl/d, the Company's royalty rates will increase by 1 percent for each incremental 10,000 bbl/d of production per field. In addition, as accumulated production of any production area, inclusive of royalty volumes, exceeds 5 million barrels, and in the event international reference prices are exceeded by pricing determined in the contract, the Company's royalty percentage will increase to approximately 32 percent given current WTI prices.

Colombian Production Expense

For the three months ended March 31,		2011		2010
Production expense ($000s)	$	**418**	$	-
Per unit ($/bbl)	$	**4.06**	$	-

Production expense includes the cost of activities in the field to operate wells and facilities, lift to surface, gather, process, treat and store production. The first quarter cost per barrel of $4.06/bbl reflects the operating cost associated with having only one producing well in the Kona field.

Colombian Transportation Expense

For the three months ended March 31,		2011		2010
Transportation expense ($000s)	$	**2,245**	$	-
Per unit ($/bbl)	$	**21.77**	$	-

The Company's Colombian oil sales contracts for the first quarter of 2011 include an oil transportation tariff charged from delivery point at the Company's off-loading facility in the Kona field to the buyer's facility. During the first quarter of 2011 a total of 193,470 bbls were transported approximately 620 kilometers to the buyer's facility at an average cost of $21.77/bbl. Transportation expense increased in the first quarter of 2011 as a result of the Company commencing sales in Colombia in the latter part of 2010.

General and Administrative Expense ("G&A")

For the three months ended March 31, ($000s)		2011		2010
Gross G&A	$	**5,928**	$	4,135
G&A recoveries		**(1,878)**		(362)
Capitalized G&A		**(589)**		(116)
Net G&A expense	$	**3,461**	$	3,657

Net G&A was $3.5 million and $3.6 million for the period ended March 31, 2011 and 2010 respectively. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expenses. For the three months ended March 31, 2011, net G&A was mainly comprised of $2.2 million relating to staff, consultants and professional services, $0.6 million relating to office costs and various other expenses totaling $0.7 million. Net G&A expense for the period ended March 31, 2010 included $0.5 million relating to legal matters of a non-recurring nature, with the remaining G&A expenses amounting to $3.1 million. The net increase in recurring net G&A compared to the three months ended March 31, 2010 is mainly attributable to salaries and benefits for additional staff hired during the remainder of 2010 to support the increased activity given the start-up nature of the Company's operations. The Company engages local in-country staff at the earliest opportunity and engages local professional services to improve execution and manage costs. A total of 76 full-time-equivalents in three locations were working for Parex as at March 31, 2011 compared to 57 for the same period in 2010. As capital and operating activities increase it is expected that G&A will also increase primarily in Colombia and Trinidad & Tobago.

Share Based Compensation Expense

For the three months ended March 31, ($000s)		**2011**		2010
Stock options	**$**	**1,374**	$	712
Share appreciation rights		**480**		-
Share-based compensation expense	**$**	**1,854**	$	712

The Company calculates stock option expense using graded vesting. The determination of fair value for recording stock option expense is based upon assumptions including stock volatility, a risk-free interest rate, an expected dividend rate and expected life of the options. The Company uses Black-Scholes valuation methodology to value the stock options at the date of award. Stock options expense was $1.4 million for the period ended March 31, 2011 compared to $712,000 for the same period in 2010. The primarily reason for the increase in the expense relates to the graded vesting recognition of a higher number of options outstanding due to subsequent grants that took place in the fourth quarter of 2010. As at March 31, 2011, 5,442,256 stock options were granted, equaling 7 percent of the number of common shares outstanding. A total of 197,083 options were exercised and no options were granted during the first quarter of 2011. As at March 31, 2011, the weighted average fair value at the grant date of the options outstanding was Cdn$3.20 per option (period ended March 31, 2010 – Cdn$1.33 per option).

Parex Trinidad and Parex Colombia have a share appreciation rights ("SARs") plan that provides for the issuance of SARs to certain employees. The Company calculates SARs expense using graded vesting. The determination of fair value for recording SARs expense is based upon assumptions including stock volatility, a risk-free interest rate, an expected dividend rate and expected life of the SARs. The Company uses Black-Scholes valuation methodology to value SARs at the fair value at each reporting date. As at March 31, 2011, 830,208 SARs had been awarded, all to employees in Colombia and Trinidad & Tobago. The weighted average fair value at March 31, 2011 of the SARs outstanding was Cdn$4.20 per SAR (period ended March 31, 2010 – nil). The increase in SARs expense when comparing the first quarter of 2011with the first quarter of 2010, was due to the initiation of a SARs plan for the Company during the second quarter of 2010.

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

For the three months ended March 31, ($000s)		**2011**		2010
DD&A	**$**	**891**	$	276

DD&A is primarily associated with production assets in Colombia and also includes the amortization of corporate assets such as computer equipment, office furniture and leasehold improvements. The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the period over the related proven and probable reserves while also taking into account estimated future development costs necessary to bring those reserves into production. First quarter 2011 DD&A was $891,000 compared to $276,000 for the same period in 2010. The increase relates to the Company depleting the development and production assets associated with the Kona field due to the initiation of production from the Kona field in Colombia in the latter part of 2010. Depletion expense of $730,700 ($7.09/bbl) attributable to the Kona field was recognized as at March 31, 2011. The remaining DD&A relates to seismic equipment and office equipment which are depreciated over the assets estimated useful lives.

Foreign Exchange Gain

For the three months ended March 31, ($000s)		2011		2010
Foreign exchange gain	**$**	**1,388**	$	986

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's functional currency is the US dollar. 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 Canadian dollars and Canadian dollar-denominated short-term deposits to meet head-office general and administrative expenditures. All cash balances in Colombia must be held in Colombian pesos due to local currency exchange requirements. During the three months ended March 31, 2011, the total foreign exchange gain was $1.4 million due primarily to the appreciation of the Colombian peso and the Canadian dollar versus the US dollar. The Trinidad & Tobago dollar was relatively stable against the US dollar during first quarter of 2011. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statement of operations. 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

For the three months ended March 31, ($000s)		2011		2010
Colombia – deferred tax expense	**$**	**866**	$	-
Colombia – equity tax		**-**		-
Trinidad & Tobago		**-**		-
Canada and other foreign subsidiaries		**-**		-
Income and equity tax expense	**$**	**866**	$	-

As at March 31, 2011, the Company recognized a deferred tax expense of $866,000 for its Colombian temporary tax differences that were mostly associated with capital assets. The Company does not recognize any benefit for its Canadian tax losses nor its Trinidad & Tobago losses at this time.

Capital Expenditures

For the three months ended March 31, ($000s)		2011		2010
Geological and geophysical	**$**	**18**	$	2,647
Acquisition of unproved properties		**315**		82
Drilling and completion		**16,563**		3,769
Well equipment and facilities		**1,193**		-
Other		**63**		137
	$	**18,152**	$	6,635
Colombia		**14,726**		4,608
Trinidad & Tobago		**3,388**		2,009
Canada		**38**		18
	$	**18,152**	$	6,635

During the three months ended March 31, 2011, the Company incurred $18.2 million of capital expenditures compared to $6.6 million in 2010. Increased capital spending is integral to the Company's growth strategy. The activity by country is described below:

Colombia Capital Expenditures Summary

During the first quarter of 2011, in Block LLA-16, the Company drilled 3 gross (1.5 net) wells and spud 1 gross (0.5 net) well. In Block LLA-20, Parex drilled 1 gross (0.5 net) well. The Company also continued with the construction of an oil treatment facility on the Kona-1 lease with a capacity of 25,000 bfpd. Drilling and completion expenditures totaled $13.5 million for the period ended March 31, 2011. Well equipment, facilities and other fixed assets accounted for $1.0 million of expenditures and land costs amounted to $0.2 million during the initial quarter of 2011.

The following table summarizes the Company's inception to March 31, 2011 activities in Colombia:

	LLA-16	LLA-20	LLA-29	LLA-30	Total
Km^2 of 3D seismic acquired	319	254	195	180	948
Wells drilled	6	2	-	-	8
Wells in progress at the end of the period	1	-	-	-	1

Capital expenditures for the three months ended March 31, 2010 were primarily related to 3D seismic acquisition and pre-drilling expenditures.

2011 Colombian Operations and Exploration Update

On January 19, 2011 the Kopi-1 well was spud and was drilled to a depth of 10,993 feet. The C7 tested low swab rates of 31° API oil, however the testing results were deemed inconclusive, and the well was suspended. Parex is currently evaluating the potential to drill an exploratory sidetrack up-dip from Kopi-1.

The Kona-3 well was drilled in January, 2011 and was designed to evaluate the northern extent of the Kona field. Initial evaluation of well logs indicates potential net oil pay, measured as true vertical depth, of 20 feet in the C7 Formation and 40 feet in the Mirador Formation, which was consistent with the Company's pre-drill expectations. Cement bond logs indicated poor cement across the pay zone and therefore 40 feet of prospective oil pay section was not isolated from the underlying wet reservoir. The Company is of the opinion that the initial water production from the C7 Formation may be caused by poor cement isolation from water bearing zones.

In March, 2011 a drilling rig re-entered the Kona-2 well to drill out below the existing casing to the Gacheta Formation and to complete this deeper zone. The formation was tested in April, 2011 with a final flow rate of approximately 3,045 bfpd, comprised of 2,634 bbl/d gross of 32° API oil (1,317 bbl/d net) and approximately 411 bbls of water per day.

On March 1, 2011, the Kona-4 well was spud. Kona-4 is located approximately 420 metres south of Kona-2, and was drilled to a total measured depth of 12,827 feet and evaluated the C7, Mirador, and Gacheta formations. Logging-while-drilling tools indicated potential net oil pay of 20 feet and 30 feet in the C7 and Mirador formations respectively, consistent with the Company's pre-drill expectations.

As previously reported, notwithstanding that the Kona-4 well was deemed successful, the Company's independent engineer GLJ Petroleum Consultants Ltd. ("GLJ") had ascribed probable reserves in the Company's December 31, 2010 oil and gas reserve report ("December 31, 2010 Evaluation") that projected thicker potential pay zones in the C7 and Mirador and anticipated oil pay in the Gacheta Formation. GLJ has advised that, in their opinion as at March 31, 2011, taking into account the outcome of the Kona-4 well, and the Company's Kona field oil production year-to date, compared to the previously disclosed December 31, 2010 Evaluation, that the proved plus probable reserves volumes as of March 31, 2011 would be revised lower by approximately 11.9 percent, comprised of a technical revision of 10.1 percent and production of 1.8 percent; and the proved plus probable plus possible reserves would be revised lower by approximately 7.8 percent, comprised of a technical revision of 6.8 percent and production of 1.0 percent. GLJ also advised that their forecast of oil prices at April 1, 2011 has increased from that of January 1, 2011 (as used in the December 31, 2010 Evaluation) and accordingly the proved plus probable reserves net present value, before tax discounted at 10 percent as at March 31, 2011, is 15.2 percent higher than the December 31, 2010 Evaluation, excluding cash flow generated by the year-to date production. Calculated on the same basis, the proved plus probable plus possible reserves net present value, before tax discounted at 10 percent, is 21 percent higher as at March 31, 2011. The Company plans to drill south of the Kona-4 well to continue to delineate and appraise the Kona field and test the C7 and Mirador formations.

In April, 2011, Parex spud Kona-6. This well is being drilled as an appraisal well targeting the C7 and Mirador formations.

Southwest of the Kona field on Block LLA-16 along a separate fault trend, the Supremo-1 well is expected to commence oil production in May following the completion of a water disposal well and associated water handling facilities. This well had previously tested approximately 2,500 bfpd from the Mirador Formation, with a 31° API oil rate of 500 bbl/d gross (250 bbl/d net).

Trinidad & Tobago Capital Expenditure Summary

During the period ended March 31, 2011, the Company completed the testing program on the second farm-in exploratory well, Snowcap-1. Drilling and completions expenditures totaled $3.0 million, while expenditures on well equipment, facilities and other fixed assets were $0.3 million during the first quarter of 2011. Snowcap-1 well tested the primary Herrera zone in a multi-point test. The final four day gross rate of the test averaged 580 bbl/d of 35° API oil and 5.4 MMcf/d of natural gas under natural flow. The well is currently shut-in and a follow up location is under evaluation. At Firecrown-1, a drilling rig re-entered the well and drilled to the contract earning depth Completion and testing operations on Firecrown-1 are expected to commence in late May, 2011. Minor capital expenditures relating to the Central Range Block were incurred in the first quarter of 2011.

Capital expenditures for the period ended March 31, 2010 primarily related to costs associated with the lease construction for the exploratory wells on the Moruga Block.

Summary of Quarterly Results (Unaudited)

Three months ended	**Mar. 31, 2011**	Dec.31, 2010	Sept. 30, 2010	June 30, 2010
Average daily sales (boe/d)	**1,146**	306	11	11
Realized sales price ($/boe)	**95.54**	89.69	25.00	29.00
Financial ($000s except per share amounts)				
Net income (loss)	**$ 1,023**	$ (1,298)	$ (4,297)	$ (4,389)
Per share – basic	**0.01**	(0.02)	(0.07)	(0.07)
Per share – diluted	**0.01**	(0.02)	(0.07)	(0.07)
Funds flow from (used in) operations	**2,960**	360	(3,555)	(2,617)
Per share – basic	**0.04**	0.01	(0.06)	(0.04)
Per share – diluted	**0.04**	0.01	(0.06)	(0.04)
Total assets (end of period)	**220,521**	216,616	128,503	128,164
Working capital (end of period)	**101,672**	115,136	57,188	72,883
Long-term debt (end of period)	**$ -**	$ -	$ -	$ -

		Previous GAAP[1]		
Three months ended	Mar. 31, 2010	Dec. 31, 2009[2]	Sep. 30, 2009[2]	June 30, 2009[2]
Average daily sales (boe/d) [3]	14	6	-	-
Realized sales price ($/boe) [3]	29.72	25.93	-	-
Financial ($000s except per share amounts)				
Net loss	$ (3,571)	$ (2,316)	$ (1,445)	$ (624)
Per share – basic	(0.06)	(0.04)	(0.03)	(0.01)
Per share – diluted	(0.06)	(0.04)	(0.03)	(0.01)
Funds flow used in operations	(3,325)	(1,569)	(1,393)	(620)
Per share – basic	(0.05)	(0.03)	(0.03)	(0.01)
Per share – diluted	(0.05)	(0.03)	(0.03)	(0.01)
Total assets (end of period)	128,164	133,485	46,147	13,428
Working capital (end of period)	86,487	95,704	15,986	(5,429)
Long-term debt (end of period)	$ -	$ -	$ -	$ -

(1) As Parex' IFRS transition date was January 1, 2010, 2009 comparatives figures have not been restated.
(2) Determined by using continuity-of-interests accounting (EIC-89) for the 2009 comparative periods.
(3) Sales were generated by the minor non-operated Canadian properties that were transferred from Petro Andina to Parex through the Plan of Arrangement on November 6, 2009 and were sold in October, 2010 (see AIF dated March 9, 2011).

Liquidity and Capital Resources

As at March 31, 2011 Parex held $105.2 million of cash, compared to $123.5 at December 31, 2010. The Company's cash balances reside in current accounts and term deposits, the majority of which are held on account in Canada.

As at March 31, 2011 working capital was $101.7 million, with no long-term debt. Parex currently has no credit facility, but has signed a general security agreement with Export Development Canada ("EDC") to secure the guarantees provided by EDC to support the letters of credit issued to the ANH in connection with the initial exploration work commitments associated with the Company's Colombian properties.

Parex has estimated exploration and other commitments over the next two years of approximately $16.2 million in Trinidad & Tobago and approximately $28.7 million in Colombia. Parex has sufficient financial resources to fund all of its work commitments and other discretionary future capital costs based upon the Company's current working capital position and estimated 2011 funds flow from operations.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at March 31, 2011 the Company had 77,165,368 common shares outstanding.

The Company has a stock option plan. The plan 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 May 24, 2011 Parex has the following securities outstanding:

	Number	%
Common shares	77,165,368	93
Stock options	5,617,256	7
Fully diluted	82,782,624	100

As of the date of this MD&A, total stock options outstanding represent 7 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 the ANH totaling $23 million related to its 50 percent share of the initial exploration work commitments in respect of Block LLA-16, Block LLA-20, Block LLA-29 and Block LLA-30. The guarantees have been provided in the form of letters of credit for 24-month terms expiring in January, 2013 for Block LLA-16 and Block LLA-20 and May, 2013 for Block LLA-29 and Block LLA-30. In connection with the February 11, 2011 signed E&P contract with ANH for Block LLA-57, the Company provided letters of credit to the ANH totaling $3.85 million. The letters of credit expire in September, 2014 for the initial exploration program. EDC has provided the Company's bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH have not yet been reduced for work performed to date.

In Trinidad & Tobago, the Company has purchased a performance bond and provided a guarantee to the underwriters of the bond in the amount of approximately $33 million to cover its and Niko's share of the financial guarantees required under the Central Range Block 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 amount of the bond has not been reduced to reflect work performed to date.

The following table and footnotes summarize the Company's estimated commitments as at March 31, 2011:

($000s)	Total	<1 year	1-3 years	3-4 years	>5 years
Exploration[(1)]	$ 41,822	$ 17,235	$ 24,587	$ -	$ -
Office and accommodations[(2)]	2,927	1,146	1,207	574	-
Other	3,087	1,684	1,403	-	-
Total	$ 47,836	$ 20,065	$ 27,197	$ 574	$ -

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

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

The Company has entered into contracts for drilling rigs in Colombia and Trinidad & Tobago. Rig contracts in both countries included 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 for the duration of their contracts 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 or transportation to access markets and monetize reserves. The Company works to mitigate these risks by employing highly skilled personnel and utilizing available technology. The Company also maintains a corporate insurance program consistent with industry practices to protect against insurable losses.

The Company is exposed to normal financial risks inherent in the oil and natural gas industry including: commodity price risk, exchange rate risk, interest rate risk and credit risk. 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, changes in tax regulations, 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. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless the Company is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital-intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, Parex employs highly experienced geologists and geophysicists, uses technology such as 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. In addition, the Company takes a portfolio approach to exploration drilling by having drilling locations spread out among different exploration blocks and geological basins and by targeting multiple play-types.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the three months ended March 31, 2011.

Financial Instruments and Other Instruments

The Company did not utilize financial instruments such as hedges or swaps during the three months ended March 31, 2011.

Accounting Policies and Estimates

Adoption of International Financial Reporting Standards

The Company has prepared its unaudited consolidated financial statements for the three months ended March 31, 2011, including required comparative information, in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, and with IAS 34, Interim Financial Reporting, as issued by the IASB. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian GAAP. The adoption of IFRS has not had an impact on the Company's operations, strategic decisions and funds flow from operations.

The Company's IFRS accounting policies are provided in Note 3 to the Interim unaudited consolidated financial statements for the three months ended March 31, 2011 and, in addition, Note 18 presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and Consolidated Statements of Operations, Comprehensive Loss and Deficit for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

The following provides summary reconciliations of Parex' 2010 previous GAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes.

Summary Net losses reconciliation

	2010				
($000s)	Annual	Q4	Q3	Q2	Q1
Net losses – previous GAAP	$ (13,385)	$ (1,285)	$ (4,140)	$ (4,389)	$ (3,571)
After tax (addition)/deduction:					
Exploration and evaluation expense	(37)	(37)	-	-	-
Depletion, depreciation and amortization	135	135	-	-	-
Share based compensation – SARs	(244)	(25)	(157)	(62)	-
	(146)	73	(157)	(62)	-
Net losses – IFRS	$ (13,531)	$ (1,212)	$ (4,297)	$ (4,451)	$ (3,571)

Accounting Policies Changes

The following discussion explains the significant differences between Parex' previous Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

The most significant changes to the Company's accounting policies relate to the accounting for upstream costs. Under previous GAAP, the Company followed the Canadian Institute of Chartered Accountants ("CICA") guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company was required to adopt new accounting policies for oil and natural gas activities, including exploration and evaluation costs and development costs.

Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined. Parex adopted the IFRS 1 exemption whereby the Company deemed its January 1, 2010 IFRS upstream asset costs to be equal to its previous GAAP historical upstream property, plant and equipment net book value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance. Under IFRS, exploration and evaluation costs are presented as exploration and evaluation assets and development costs are presented within property, plant and equipment on the Consolidated Balance Sheet.

Exploration and evaluation

Exploration and evaluation assets at January 1, 2010 were deemed to be $25.9 million, representing the unproved properties balance under previous GAAP. This determination resulted in a reclassification of $25.9 million from property, plant and equipment to exploration and evaluation assets on Parex' Consolidated Balance Sheet as at January 1, 2010. As at December 31, 2010, the Company's exploration and evaluation assets were $55.9 million including $25.8 million in Colombia and $30.1 million in Trinidad & Tobago.

Under previous GAAP, exploration and evaluation costs were capitalized as property, plant and equipment in accordance with the CICA's full cost accounting guidelines. Under IFRS, the Company capitalizes these costs initially as exploration and evaluation assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from exploration and evaluation assets to property, plant and equipment. Under IFRS, unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore are expensed.

During the year ended December 31, 2010, Parex transferred $10.5 million of capitalized exploration and evaluation costs to property, plant and equipment. The application of IFRS for exploration and evaluation costs resulted in a $37,000 increase, after tax, to Parex' previous GAAP net losses for the year ended December 31, 2010.

Depreciation, depletion and amortization

Consistent with previous GAAP, development costs are capitalized as property, plant and equipment under IFRS. Under previous GAAP, development costs were depleted using unit-of-production method based on proved reserves for each country cost centre. Under IFRS, development costs are depleted using the unit of production method calculated based on proved and probable reserves at the established area level. This resulted in a $205,000 decrease to the Company's DD&A expense for the year ended December 31, 2010 and Parex' net losses decreased $135,000, after tax, compared to previous GAAP for the year ended December 31, 2010

Impairments

Under previous GAAP, an upstream impairment was recognized if the carrying amount exceeded the undiscounted cash flows from proved reserves for a country cost centre. An impairment was measured as the amount by which the carrying value exceeded the sum of the fair value of the proved and probable reserves and the costs of unproved properties.

Under IFRS, an upstream impairment is recognized if the carrying value exceeds the recoverable amount for a cash-generating unit. Upstream areas are aggregated into cash-generating units based on their ability to generate largely independent cash flows. If the carrying value of the cash-generating unit exceeds the recoverable amount, the cash-generating unit is written down with an impairment recognized in net income (loss). Impairments recognized under IFRS are reversed when there has been a subsequent increase in the recoverable amount. Impairment reversals are recognized in net income (loss) and the carrying amount of the cash-generating unit is increased to its revised recoverable amount as if no impairment had been recognized for the prior periods. There is no impairment impact to the Company's opening balance sheet as at January 1, 2010 and for the year ended December 31, 2010.

Decommissioning liabilities

Under previous GAAP, decommissioning liabilities were discounted using a credit adjusted risk free rate. Under IFRS, the company is discounting decommissioning liabilities using a risk free rate. As at December 31, 2010, the difference results in an increase to the decommissioning liability of $395,000 and a corresponding increase to property, plant and equipment.

Share appreciation rights

The Company's SARs plan was accounted for using the intrinsic value method under previous GAAP. Under IFRS, the Company will use a fair value method such as Black-Scholes to value the SARs liability under IFRS. This IFRS difference has no effect on the Company's opening balance sheet as the SARs plan was initiated in the second quarter of 2010. For year ended December 31, 2010, an increase to share based compensation of $347,000 was recognized with a corresponding increase to accounts payable of $190,000 and long term liability of $157,000. The application of IFRS for SARs valuation resulted in a $244,000 increase, after tax, to Parex' previous GAAP net losses for the year ended December 31, 2010.

Reduction of capital

Under previous GAAP, a deferred tax asset is recognized due to a Colombian government tax incentive that allows an additional 30 percent deduction on qualifying eligible capital expenditures. A taxable benefit of $3.2 million was recognized and recorded through a reduction of the carrying values of these expenditures as at December 31, 2010. Under IFRS, the after-tax effect of the tax incentive reduces the carrying value of the eligible capital at inception and the taxable benefit of the tax incentive is recognized to net income (loss) over the life of the asset. This results in a decrease to the deferred tax asset of $1.1 million and a corresponding increase to property, plant and equipment.

Income tax

Deferred taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and previous GAAP. For the year ended December 31, 2010, the application of the IFRS adjustments as discussed above resulted in a $53,000 increase to the Company's deferred tax recovery.

Recent Pronouncements Issued

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS. The following new IFRS pronouncements have been issued but are not effective and may have an impact on the Company:

As of January 1, 2013, Parex will be required to adopt IFRS 9, Financial Instruments, which is the result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by Parex: IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27, Separate Financial Statements, IFRS 13, Fair Value Measurement and amended IAS 28, Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Parex has not yet begun the process of assessing the impact that these new and amended standards will have on the Company's Consolidated Financial Statements or whether to early adopt any of the new requirements.

Critical Accounting Estimates

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

Upstream reserves

The Company retains qualified independent reserves evaluators to evaluate the Company's proved and probable oil and natural gas reserves. As at March 31, 2011, Parex' reserves were evaluated by GLJ, who are a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The Company's Operations and Reserves Committee is comprised of independent directors whose mandate is to steward the reserves evaluation process.

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

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

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

Decommissioning liabilities

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

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

Deferred tax

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred tax liabilities and assets is recognized in income (loss) in the period that the change occurs. Deferred tax assets are only recognized to the extent that it is more likely than not that sufficient future taxable income will be available in the applicable jurisdiction to allow the deferred tax assets to be realized.

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

Share-based compensation

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

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

Obligations for payments of cash under the subsidiaries' SARs plan are accrued as compensation expense over the vesting period based on the fair value of SARs, subject to appreciation limits specified in the plan. The fair value of share appreciation rights is measured using a Black-Scholes pricing model. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

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

Legal, environmental remediation and other contingent matters

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE		March 31, 2011		December 31, 2010		January 1, 2010
ASSETS							
Current assets							
Cash and cash equivalents	**5**	**$**	**105,193**	**$**	123,539	**$**	101,280
Accounts receivable	**6**		**25,162**		14,877		2,997
Prepaids and other current assets			**1,983**		744		350
			132,338		139,160		104,627
Deferred tax asset	**12**		**2,459**		3,325		-
Exploration and evaluation	**7**		**72,553**		55,852		25,902
Property, plant and equipment	**8**		**13,171**		12,365		2,562
		$	**220,521**	**$**	210,702	**$**	133,091
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Accounts payable and accrued liabilities		**$**	**30,115**	**$**	23,473	**$**	8,923
Current income and equity tax payable	**12**		**551**		551		-
			30,666		24,024		8,923
Other long term liabilities	**9**		**1,991**		2,082		-
Decommissioning liabilities	**10**		**905**		651		52
			33,562		26,757		8,975
Shareholders' equity							
Share capital	**11**		**199,743**		198,857		128,726
Contributed surplus			**5,105**		4,000		771
Deficit			**(17,889)**		(18,912)		(5,381)
			186,959		183,945		124,116
		$	**220,521**	**$**	210,702	**$**	133,091

Commitments (note 17)

See accompanying Notes to the Interim Consolidated Financial Statements

Approved by the Board:

Paul Wright
Director

Ron Miller
Director

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

For the three months ended March 31 (thousands of United States dollars, except per share amounts)	NOTE		2011		2010
Oil and natural gas sales		$	**9,853**	$	36
Royalties			**(682)**		-
Revenue, net			**9,171**		36
Expenses					
Production			**418**		19
Transportation			**2,245**		-
General and administrative			**3,461**		3,657
Share-based compensation	**11**		**1,854**		712
Depletion, depreciation and amortization	**8**		**891**		276
Foreign exchange gain			**(1,388)**		(986)
			7,481		3,678
Finance income			**207**		72
Finance expense			**(8)**		(1)
			199		71
Income (loss) before taxes			**1,889**		(3,571)
Income tax expense					
Deferred tax expense	**12**		**866**		-
			866		-
Net income (loss) and other comprehensive income (loss) for period			**1,023**		(3,571)
Basic net income (loss) per common share	**11**	**$**	**0.01**	$	(0.06)
Diluted net income (loss) per common share	**11**	**$**	**0.01**	$	(0.06)

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the three months ended March 31, (thousands of United States dollars)		2011		2010
Share Capital				
Balance, beginning of year	$	198,857	$	128,726
Issuance of common shares under option plans		886		-
Balance, end of period	$	199,743	$	128,726
Contributed Surplus				
Balance, beginning of year	$	4,000	$	771
Share-based compensation		1,374		712
Options exercised		(269)		-
Balance, end of period	$	5,105	$	1,483
Retained Earnings (Deficit)				
Balance, beginning of year	$	(18,912)	$	(5,381)
Net Income (loss) for the period		1,023		(3,571)
Balance, end of period	$	(17,889)	$	(8,952)
Total Equity				
Balance, beginning of year	$	183,945	$	124,116
Net Income (loss) for the period		1,023		(3,571)
Issuance of common shares under option plans		886		-
Share-based compensation		1,374		712
Options exercised		(269)		-
Balance, end of period	$	186,959	$	121,257

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31 (thousands of United States dollars)	NOTE		2011		2010
Operating activities					
Net income (loss)		**$**	**1,023**	$	(3,571)
Add (deduct) non-cash items					
Depletion, depreciation and amortization			**891**		276
Financing expense			**8**		1
Share-based compensation	**11**		**1,854**		712
Deferred tax expense	**12**		**866**		-
Unrealized foreign exchange gain			**(1,682)**		(743)
Funds flow from (used) in operations			**2,960**		(3,325)
Net change in non-cash working capital	**13**		**5,709**		813
			8,669		(2,512)
Investing activities					
Capital expenditures			**(18,152)**		(6,635)
Net change in non-cash working capital	**13**		**(10,954)**		1,526
			(29,106)		(5,109)
Financing activities					
Issue of common shares	**11**		**501**		-
Share issue costs	**13**		**-**		(2,498)
			501		(2,498)
Decrease in cash and cash equivalents for period			**(19,936)**		(10,119)
Impact of foreign exchange on foreign currency-denominated cash balances			**1,590**		778
Cash and cash equivalents, beginning of period			**123,539**		101,280
Cash and cash equivalents, end of period		**$**	**105,193**	**$**	91,939

Supplemental Disclosure of Cash Flow Information (note 13)

See accompanying Notes to the Interim Consolidated Financial Statements

Notes to the Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2011

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

1. Corporate Information

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

Parex Resources Inc. is a publicly traded company, incorporated and domiciled in Canada. The address of its registered office is 1400, 350-7th Avenue S.W., Calgary, Alberta T2P 3N9. The Company was incorporated as 1485196 Alberta Ltd. on August 17, 2009, pursuant to the Business Corporations Act (Alberta). On September 29, 2009 it filed Articles of Amendment to change its name to Parex Resources Inc.

The interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on May 24, 2011.

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

a) Statement of compliance

The Company prepares its financial statements in accordance with previous generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “previous GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 18, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flow, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of May 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company’s previous GAAP annual financial statements for the year ended December 31, 2010. Note 18 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these interim consolidated financial statements.

b) Basis of measurement

The interim consolidated financial statements have been prepared under the historical cost convention. The methods used to measure fair values are discussed in note 4 – Determination of fair values.

c) Use of management estimates, judgments and measurement uncertainty

The timely preparation of the interim consolidated financial statements requires that Management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the interim

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

(i) Reserves

Amounts recorded for depreciation, depletion and amortization ("DD&A") and amounts used for impairment calculations are based on estimates of oil and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact in the consolidated financial statements of future periods could be material.

(ii) Determination of cash-generating units ("CGU")

Property, plant and equipment are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to management's judgment.

(iii) Exploration and evaluation

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated proved and probable reserves used in the determination of an area's technical feasibility and commercial viability.

(iv) Decommissioning liabilities

Amounts recorded in decommissioning liabilities and the related accretion expense require the use of estimates with respect to the amount and timing of asset retirements, site remediation, discount rate, inflation rate and related cash flows. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

(v) Share –based compensation

Compensation costs accrued for share-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as the future volatility of the market price of Parex shares and expected term of the issued stock option.

(vi) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. Summary of Significant Accounting Policies

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

a) Consolidation

The interim consolidated financial statements include the accounts of Parex and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation. Interests in jointly controlled assets are accounted for using the proportionate consolidation method, whereby Parex' proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

b) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

c) Financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value. Currently, the Company does not have any derivative financial instruments.

d) Capital assets

(i) Exploration and evaluation ("E&E")

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

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income (loss) as exploration and evaluation expense.

(ii) Property, plant and equipment

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers of exploration and evaluation assets.

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

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

e) Impairment of long-term assets

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

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

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

E&E assets are allocated to related CGU's where they are assessed for impairment upon their eventual reclassification to property, plant and equipment.

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

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

f) Revenue recognition

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

g) Share based payments

The Company has an incentive stock option plan for employees, officers, directors and consultants as described in note 11. The Company records share-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date using a Black-Scholes pricing model, and expensed over the vesting period of the option. The Company determines an appropriate forfeiture rate by examining the history of its forfeitures. The Company records the cumulative share-based compensation as contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share-based compensation for the exercised option. Any consideration received on the exercise of stock options is credited to share capital.

Obligations for payments of cash under the subsidiaries' SARs plan are accrued as compensation expense over the vesting period based on the fair value of SARs, subject to appreciation limits specified in the plan. The fair value of share appreciation rights is measured using a Black-Scholes pricing model. In accordance with the fair value method, increases or decreases in the fair value of the SARs result in a corresponding change in the recorded liability. The accrued compensation for a right that is forfeited is adjusted by decreasing compensation cost in the period of forfeiture.

h) Provisions

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

i) Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning, abandoning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

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

j) Finance income and expense

Finance expense comprises interest expense on borrowings, accretion on decommissioning liabilities and impairment losses recognized on financial assets. Finance income comprises interest earned on cash and cash equivalents.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash in the bank and term deposits held with banks with original maturities of twelve months or less.

l) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Tax on taxable income in interim periods is accrued using the tax rate that would be applicable to expected annual taxable income for each subsidiary.

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

m) Per share information

Basic net income (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

n) New standards and interpretations not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

As of January 1, 2013, Parex will be required to adopt IFRS 9, “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on Parex’ consolidated financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by Parex: IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27, Separate Financial Statements, IFRS 13, Fair Value Measurement and amended IAS 28, Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Parex has not yet begun the process of assessing the impact that these new and amended standards will have on the Company’s Consolidated Financial Statements or whether to early adopt any of the new requirements.

4. Determination of Fair Values

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment and intangible exploration assets

The fair value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in property, plant and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The fair value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable, and accounts payable

The fair value of cash and cash equivalents, accounts receivable, and accounts payable are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

(iii) Stock options

The fair value of stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds) for the relevant expected life as described in note 11.

5. Cash and Cash Equivalents

		March 31, 2011		December 31, 2010		January 1, 2010
Bank balances	**$**	**80,187**	$	93,540	$	48,280
Term deposits [1]		**25,006**		29,999		53,000
Cash and cash equivalents	**$**	**105,193**	$	123,539	$	101,280

1. Term deposits are all less than 12 months duration.

6. Accounts Receivable

		March 31, 2011		December 31, 2010		January 1, 2010
Trade receivables	**$**	**5,666**	$	2,744	$	238
Colombia and Trinidad value added taxes (VAT)		**3,247**		4,342		289
Receivables from partners		**16,249**		7,791		2,470
	$	**25,162**	$	14,877	$	2,997

Trade receivables consist primarily of Colombian receivables related to the Company's oil sales for the three months ended March 31, 2011. VAT receivable in Colombia totalled $2.4 million as at March 31, 2011 and is recoverable in the remainder of 2011 as the Company's taxable oil sales are expected to exceed its taxable purchases. Accordingly, the balance is now classified as a current asset. In Trinidad & Tobago, the VAT receivable as at March 31, 2011 totalled $0.8 million. Receivables from partners consists of cash call receivables outstanding from joint venture partners in Colombia and Trinidad to recover ongoing capital costs and operating costs.

7. Exploration and Evaluation Assets

		Canada		Colombia		Trinidad		Total
Cost								
Balance at January 1, 2010	$	-	$	9,417	$	16,485	$	25,902
Additions		-		27,737		13,508		41,245
Transfers to property, plant and equipment		-		(10,525)		-		(10,525)
Abandonment costs		-		349		69		418
Other[1]		-		(1,188)		-		(1,188)
Balance at December 31, 2010	$	-	$	25,790	$	30,062	$	55,852
Additions		-		13,894		3,388		17,282
Transfers to property, plant and equipment				(827)		-		(827)
Abandonment costs		-		231		15		246
Balance at March 31, 2011	$	-	$	39,088	$	33,465	$	72,553

(1) Amount relates to a reduction in carrying values of qualifying eligible capital expenditures for a government incentive that allows a 30% deduction for Colombian tax purposes.

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. Amounts transferred to property, plant and equipment of $10.5 million for the year ended December 31, 2010 and $827,000 for the three months ended March 31, 2011 are associated with the Kona project.

8. Property, Plant and Equipment

		Canada		Colombia		Trinidad		Total
Cost								
Balance at January 1, 2010	$	2,154	$	633	$	67	$	2,854
Additions		31		1,326		162		1,519
Transfer from exploration & evaluation assets		-		10,525		-		10,525
Abandonment costs		(4)		237		-		233
Disposals[1]		(368)		-		-		(368)
Other[2]		-		(970)		-		(970)
Balance at December 31, 2010	$	1,813	$	11,751	$	229	$	13,793
Additions		38		832		-		870
Transfer from exploration & evaluation assets		-		827		-		827
Balance at March 31, 2011	$	1,851	$	13,410	$	229	$	15,490
Accumulated Depreciation, Depletion and Amortization								
Balance at January 1, 2010	$	178	$	101	$	13	$	292
Depletion and depreciation for the period		768		680		56		1,504
Disposals		(368)		-		-		(368)
Balance at December 31, 2010	$	578	$	781	$	69	$	1,428
Depletion and depreciation for the period		140		734		17		891
Disposals		-		-		-		-
Balance at March 31, 2011	$	718	$	1,515	$	86	$	2,319
Net book value:								
At January 1, 2010	$	1,976	$	532	$	54	$	2,562
At December 31, 2010		1,235		10,970		160		12,365
At March 31, 2010	$	1,133	$	11,895	$	143	$	13,171

(1) Amount relates to the disposition of insignificant Canadian properties.
(2) Amount relates to a reduction in carrying values of qualifying eligible capital expenditures for a government incentive that allows a 30% deduction for Colombian tax purposes.

During 2010, the Company determined the Kona project in Colombia was technically feasible and commercially viable. Accordingly, \$10.5 million of accumulated exploration and evaluation costs were transferred to property, plant and equipment ("PP&E"). Additional costs totaling \$827,000 relating to the Kona project were transferred to PP&E in the first quarter of 2011.

9. Other Long Term Liabilities

Other long term liabilities are comprised of the following:

		March 31, 2011		December 31, 2010
Long term SARs payable	**$**	**338**	$	429
Long term equity tax payable		**1,653**		1,653
	$	**1,991**	$	2,082

An equity tax provision of \$2.2 million has been accrued of which \$1.7 million is classified as long term due to the fact that equity tax is payable over four years starting in 2011.

10. Decommissioning Liabilities

		March 31, 2011		December 31, 2010	January 1, 2010
Balance, beginning of period	**$**	**651**	$	52	53
Liabilities incurred during period		**246**		650	-
Settlements of obligations during the period		**-**		(54)	(1)
Accretion expense		**8**		3	-
Balance, end of period	**$**	**905**	$	651	52

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at March 31, 2011, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle its

decommissioning liability is approximately $2.1 million as at March 31, 2011 (December 31, 2010 – $1.4 million) with the majority of these costs anticipated to occur in 2030 or later. A risk-free discount factor of 4% and an inflation rate of 3% were used in the valuation of the liabilities.

11. Share Capital

a) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2009	63,869,535	$	128,726
Issued for cash – bought deal	13,000,000		73,696
Issued for cash – exercise of options	98,750		297
Allocation of contributed surplus – exercise of options	-		130
Share issue costs	-		(3,992)
Balance, December 31, 2010	76,968,285	$	198,857
Issued for cash – exercise of options	197,083		617
Allocation of contributed surplus – exercise of options	-		269
Balance, March 31, 2011	77,165,368	$	199,743

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

On November 16, 2010 Parex closed a bought-deal equity financing with a syndicate of underwriters to issue 13,000,000 common shares at Cdn$5.80 raising gross proceeds Cdn$75.4 million (Cdn$71.2 million net).

b) 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$/option
Balance, December 31, 2010	5,639,339	4.64
Granted	-	-
Exercised	(197,083)	3.11
Forfeited	-	-
Balance, March 31, 2011	5,442,256	4.69

Stock options outstanding and the weighted average remaining life of the stock options at March 31, 2011 are as follows:

	Options outstanding			Options vested		
Exercise price Cdn$	Number	Weighted average remaining life (years)	Weighted average exercise price Cdn$/option	Number	Weighted average remaining life (years)	Weighted average exercise price Cdn$/option
$3.04 - $4.06	3,089,167	3.5	3.05	834,996	3.5	3.04
$4.30 - $6.20	765,000	4.0	4.95	115,000	3.8	4.36
$7.75 - $7.84	1,588,089	4.7	7.76	-	-	-
	5,442,256	3.9	4.69	949,996	3.6	3.20

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

For the three months ended March 31,	**2011 (1)**	2010
Risk-free interest rate (%)	**-**	2.08
Expected life (years)	**-**	3
Expected volatility (%)	**-**	64
Expected dividends	**-**	-

(1) Black-Scholes assumptions not noted for three months ended March 31, 2011 as no options were issued during this time.

The weighted average fair value at the grant date for the year ended December 31, 2010 was Cdn$3.08 per option. There were no options granted during the three months ended March 31, 2011.

c) Share appreciation rights

Parex Trinidad and Parex Colombia 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 SARs liability cannot be settled by the issuance of common shares.

	Number of SARs		Weighted average exercise price Cdn$/SAR
Balance, December 31, 2010	745,833	$	6.34
Granted	84,375		8.93
Balance, March 31, 2011	830,208	$	6.60

As at March 31, 2011, 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 fair value of SARs, subject to appreciation limits specified in the plan. The fair value of share appreciation rights is measured using a Black-Scholes pricing model at each reporting date based on weighted average pricing assumptions noted below:

For the three months ended March 31,	**2011**	2010
Risk-free interest rate (%)	**2.1**	-
Expected life (years)	**3**	-
Expected volatility (%)	**64**	-
Expected dividends	**-**	-

As at March 31, 2011, the total SARs liability accrued is $1.4 million (as at December 31, 2010 - $946,000) of which $338,000 (as at December 31, 2010 - $429,000) is classified as long-term in accordance with the three year vesting period. See note 11 (c) – Share appreciation rights. For the three months ended March 31, 2011, Parex recorded $480,000 of compensation costs related to the outstanding SARs (three months ended March 31, 2010 – nil).

d) Per share amounts

The following table summarizes the common shares used in calculating net income (loss) per common share:

For the three months ended March 31	2011	2010
Weighted average common shares outstanding		
Basic	77,123,497	63,869,535
Effect of stock options	1,959,642	126,776
Diluted	79,083,139	63,996,311

12. Income Tax

The provision for income tax expense is as follows:

For the three months ended March 31		**2011**		2010
Colombia - deferred tax expense	**$**	**866**	$	-
Colombia - equity tax expense		**-**		
Trinidad & Tobago		**-**		-
Canada and other foreign subsidiaries		**-**		-
	$	**866**	$	-

As at December 31, 2010 the Company recognized a deferred tax benefit of $2.1 million associated with qualifying eligible capital expenditures in Colombia. The Company has reduced the carrying value of these expenditures for this benefit.

As at March 31, 2011, the Company recognized a deferred tax expense of $0.9 million for its Colombian temporary tax differences that were mostly associated with capital assets. The Company does not recognize any benefit for its Canadian tax losses nor its Trinidad & Tobago losses at this time.

Colombian Equity Tax

Parex' Colombian subsidiary was subject to a one-time tax which was calculated based on the subsidiary's estimated net taxable equity as at January 1, 2011 at a rate of 6 percent. The equity tax is payable over four years (1.5 percent per year) starting in 2011. An equity tax provision of $2.2 million has been accrued, of which $551,000 is due within one year.

13. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the three months ended March 31,		2011		2010
Accounts receivable	**$**	**(10,284)**	**$**	2,024
Prepaids and other current assets		**(1,240)**		(75)
Accounts payable and accrued liabilities		**6,163**		(2,108)
Net change in non-cash working capital	**$**	**5,361**	**$**	(159)
Operating	**$**	**5,709**	$	813
Investing	**$**	**(10,954)**	$	1,526
Financing	**$**	**(116)**	$	(2,498)
Net change in non-cash working capital	**$**	**(5,361)**	$	(159)

b) Interest and taxes paid

For the three months ended March 31,		2011		2010
Cash interest paid	**$**	**-**	**$**	-
Cash income taxes paid	**$**	**-**	**$**	-

14. Capital Management

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

The Company manages its capital to achieve the following:

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

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 17 on commitments).

As at March 31, 2011, the Company's net working capital was $101.7 million (December 31, 2010 – $115.1 million), largely attributable to the November 16, 2010 bought-deal equity financing which raised gross proceeds of Cdn$75.4 million from the issuance of 13,000,000 common shares at Cdn$5.80 per share.

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 current commitments and it has no bank debt. The Company considers its capital structure to be common share capital at this time. As at March 31, 2011 common share capital was $199.7 million (December 31, 2010 - $198.9 million).

15. 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 marketing counterparties in its management of credit exposure.

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. As at March 31, 2011, the Company considers itself to be well-capitalized, with working capital in excess of current commitments and no debt.

The following are the contractual maturities of financial liabilities at March 31, 2011:

	Less than 1 year	**1-3 Years**	**4-5 Years**	**Thereafter**	**Total**
Accounts payable and accrued liabilities	29,028	-	-	-	29,028
Equity tax payable	551	1,653	-	-	2,204
SARs payable	1,087	338	-	-	1,425
Total	30,666	1,991	-	-	32,657

c) Commodity price risk

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

d) Foreign currency risk

The Company is exposed to foreign currency risk as a portion of its cash balances are held in Canadian dollars (Cdn$), Colombian pesos (COP$) and Trinidad & Tobago dollars (TT$) while its committed capital expenditures are expected to be primarily denominated in US dollars. The Company has not entered into any foreign currency hedges or swaps.

The table below summarizes the annualized sensitivities of the Company's net income to changes in the fair value of financial instruments outstanding as at March 31, 2011, 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 following depicts the impact to net income for the period had the exchange rate changed by 1 cent:

		Impact on net loss
Foreign currency exchange rate		
Cdn$/US$	$	11
COP$/US$	$	24
TT$/US$	$	576

16. Segmented Information

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

For the three months ended March 31, 2011

	Canada	Colombia	Trinidad & Tobago	Total
Oil and natural gas revenue	$ -	$ 9,853	$ -	$ 9,853
Royalties	-	(682)	-	(682)
Revenue, net	-	9,171	-	9,171
Expenses				
Production	-	418	-	418
Transportation	-	2,245	-	2,245
General and administrative	1,697	1,431	333	3,461
Share-based compensation	1,309	406	139	1,854
Depletion, depreciation and amortization	140	734	17	891
Foreign exchange gain	(1,552)	162	2	(1,388)
	1,594	5,396	491	7,481
Finance income	187	20	-	207
Finance expense	-	(7)	(1)	(8)
	187	13	(1)	199
Net income (loss) before tax	(1,407)	3,788	(492)	1,889
Deferred tax expense	-	866	-	866
Net income (loss)	$ (1,407)	$ 2,922	$ (492)	$ 1,023
Capital assets	$ 1,135	$ 50,882	$ 33,707	$ 85,724
Capital expenditures	$ 38	$ 14,726	$ 3,388	$ 18,152
Total assets	$ 92,060	$ 89,082	$ 39,379	$ 220,521

For the three months ended March 31, 2010

	Canada	Colombia	Trinidad & Tobago	Total
Revenue				
Oil and natural gas revenue	$ 36	$ -	$ -	$ 36
Royalties	-	-	-	-
	36	-	-	36
Expenses				
Production	19	-	-	19
Transportation	-	-	-	-
General and administrative	2,540	776	341	3,657
Share-based compensation	712	-	-	712
Depletion, depreciation and amortization	225	46	5	276
Foreign exchange gain	(632)	(361)	7	(986)
	2,864	461	353	3,678
Finance income	50	19	3	72
Finance expense	(1)	-	-	(1)
	49	19	3	71
Loss before taxes	(2,779)	(442)	(350)	(3,571)
Income tax expense	-	-	-	-
Net loss	$ (2,779)	$ (442)	$ (350)	$ (3,571)
Capital assets	$ 1,774	$ 18,542	$ 14,510	$ 34,826
Capital expenditures	$ 18	$ 4,608	$ 2,009	$ 6,635
Total assets	$ 81,476	$ 18,868	$ 27,820	$ 128,164

17. 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.

In Colombia, the Company has provided guarantees to the ANH totaling $23 million related to its 50 percent share of the initial exploration work commitments in respect of Block LLA-16, Block LLA-20, Block LLA-29 and Block LLA-30. The guarantees have been provided in the form of letters of credit for 24-month terms expiring in January, 2013 for Block LLA-16 and Block LLA-20 and May 2013 for Block LLA-29 and Block LLA-30.

During the first quarter of 2011, Parex signed an exploration contract for Block LLA-57 (100% working interest) with the ANH. Block LLA-57 covers 104,532 acres and lies immediately north of the Parex-operated Block LLA-20. 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. The exploration work commitments for the initial exploration phase total 2 wells and 102.5 square kilometres of three-dimensional ("3D") seismic. With Block LLA-57, Parex' total gross acreage in Colombia's Llanos Basin increases from approximately 489,000 acres (245,000 net acres) to 594,000 acres (349,000 net acres). In April 2011, Parex has provided guarantees to the ANH totaling $3.85 million in the form of letters of credit. The letters of credit for the initial exploration programs expires in September, 2014.

Export Development Canada has provided the Company's bank with performance security guarantees to support 100 percent of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH have not yet been reduced for work that has been performed to date.

The Company's share of exploration commitments remaining at March 31, 2011 in respect of the Llanos Basin blocks are estimated to be as follows:

2011	$	8,040
2012		20,625
Thereafter		-
	$	28,665

b) Central Range Blocks and Moruga Block (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 48 months. On August 9, 2010, the Ministry of Energy and Energy Affairs ("MEEA") approved an extension of the first exploration phase to 60 months.

The PSCs have minimum work commitments in the initial 60-month 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 had been incurred as at March 31, 2011. 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 approximately $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 but to perform the work obligation. The amount of the bond has not been reduced to reflect work that has been performed to date.

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 has fulfilled the earning requirements of the Moruga Block and the MEEA provided confirmation of earning on April 27, 2011.

The Company's share of exploration and other commitments in respect of the Central Range Blocks, including the remaining Niko carry and annual financial obligations in the Moruga block remaining at March 31, 2011, are estimated to be as follows:

	Exploration	Other	Total
2011	$ 1,000	$ 1,304	$ 2,304
2012	12,157	1,521	13,678
Thereafter	-	262	262
	$ 13,157	$ 3,087	$ 16,244

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

c) *Operating leases*

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

The existing minimum lease payment obligations associated with leases for office space and accommodations at March 31, 2011 are as follows:

	Total	2011	2012	2013	2014	2015
Office and accommodations	$ 2,927	$ 916	$ 717	$ 577	$ 574	$ 143

d) *Drilling rig contracts*

The Company has entered into contracts for drilling rigs in Colombia and Trinidad & Tobago. Rig contracts in both countries during the quarter included 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 for the duration of their contracts and no material additional charges will be incurred.

18. Transition to IFRS

As disclosed in Note 2, these interim consolidated financial statements represent Parex' initial presentation of the financial results of operations and financial position under IFRS for the period ended March 31, 2011 in conjunction with the Company's annual audited consolidated financial statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, the interim consolidated financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations

include the Company's Consolidated Balance Sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

(i) Reconciliation of equity and comprehensive income as reported under previous GAAP to IFRS

IFRS Opening Consolidated Balance Sheet

		IFRS Adjustments		
As at January 1, 2010	**Previous GAAP**	**E&E** *Note 18(ii)b*	**Pre-licensing costs** *Note 18(ii)a*	**IFRS**
Assets				
Currents assets				
Cash and cash equivalents	$ 101,280	$ -	$ -	$ 101,280
Accounts receivable	2,997	-	-	2,997
Prepaids and other current assets	350	-	-	350
	104,627	-	-	104,627
Exploration and evaluation	-	25,902	-	25,902
Property, plant and equipment	28,858	(25,902)	(394)	2,562
	$ 133,485	$ -	$ (394)	$ 133,091
Liabilities and Equity				
Current liabilities				
Accounts payable	$ 8,923	$ -	$ -	$ 8,923
	8,923	-	-	8,923
Decommissioning liability	52	-	-	52
	8,975	-	-	8,975
Shareholders' equity				
Share capital	128,726	-	-	128,726
Contributed surplus	771	-	-	771
Deficit	(4,987)	-	(394)	(5,381)
	124,510	-	(394)	124,116
	$ 133,485	$ -	$ (394)	$ 133,091

Consolidated Balance Sheet

		IFRS Adjustments		
As at March 31, 2010	**Previous GAAP**	**E&E** *Note 18(ii)b*	**Pre-licensing costs** *Note 18(ii)a*	**IFRS**
Assets				
Currents assets				
Cash and cash equivalents	$ 91,939	$ -	$ -	$ 91,939
Accounts receivable	974	-	-	974
Prepaids and other current assets	425	-	-	425
	93,338	-	-	93,338
Exploration and evaluation	-	32,400	-	32,400
Property, plant and equipment	35,220	(32,400)	(394)	2,426
	$ 128,558	$ -	$ (394)	$ 128,164
Liabilities and Equity				
Current liabilities				
Accounts payable	$ 6,851	$ -	$ -	$ 6,851
	6,851	-	-	6,851
Decommissioning liability	56	-	-	56
	6,907	-	-	6,907
Shareholders' equity				
Share capital	128,726	-	-	128,726
Contributed surplus	1,483	-	-	1,483
Deficit	(8,558)	-	(394)	(8,952)
	121,651	-	(394)	121,257
	$ 128,558	$ -	$ (394)	$ 128,164

Consolidated Balance Sheet

As at December 31, 2010	Previous GAAP	IFRS Adjustments: E&E *Note 18(ii)b*	Pre-licensing costs *Note 18(ii)a*	ARO *Note 18(ii)c*	DD&A *Note 18(ii)d*	SARs *Note 18(ii)e*	Reduction of Capital *Note 18(ii)f*	IFRS
Assets								
Currents assets								
Cash and cash equivalents	$ 123,539	$ -	$ -	$ -	$ -	$ -	$ -	$ 123,539
Accounts receivable	14,877	-	-	-	-	-	-	14,877
Prepaids and other current assets	744	-	-	-	-	-	-	744
	139,160	-	-	-	-	-	-	139,160
Deferred tax asset	4,335	-	20	-	(70)	103	(1,063)	3,325
Exploration and evaluation	-	55,852	-	-	-	-	-	55,852
Property, plant and equipment	67,005	(55,852)	(451)	395	205	-	1,063	12,365
	$ 210,500	$ -	$ (431)	$ 395	$ 135	$ 103	$ -	$ 210,702
Liabilities and Equity								
Current liabilities								
Accounts payable	$ 23,283	$ -	$ -	$ -	$ -	$ 190	$ -	$ 23,473
Current income and equity tax payable	551	-	-	-	-	-	-	551
	23,834	-	-	-	-	190	-	24,024
Other long term liabilities	1,925	-	-	-	-	157	-	2,082
Decommissioning liability	256	-	-	395	-	-	-	651
	26,015	-	-	395	-	347	-	26,757
Shareholders' equity								
Share capital	198,857	-	-	-	-	-	-	198,857
Contributed surplus	4,000	-	-	-	-	-	-	4,000
Deficit	(18,372)	-	(431)	-	135	(244)	-	(18,912)
	184,485	-	(431)	-	135	(244)	-	183,945
	$ 210,500	$ -	$ (431)	$ 395	$ 135	$ 103	$ -	$ 210,702

Consolidated Statement of Loss and Comprehensive Loss

Year ended December 31, 2010	Previous GAAP	IFRS Adjustments: Pre-licensing costs *Note 18(ii)a*	DD&A *Note 18(ii)d*	SARs *Note 18(ii)e*	IFRS
Oil and natural gas sales	$ 2,621	$ -	$ -	$ -	$ 2,621
Royalties	(175)	-	-	-	(175)
Revenue, net	2,446	-	-	-	2,446
Expenses					
Production	349	-	-	-	349
Transportation	526	-	-	-	526
Exploration and evaluation	-	57	-	-	57
Depletion, depreciation and amortization	1,709	-	(205)	-	1,504
General and administrative	11,735	-	-	-	11,735
Share based compensation	3,958	-	-	347	4,305
Foreign exchange gain	(3,160)	-	-	-	(3,160)
	$ 15,117	$ 57	$ (205)	$ 347	$ 15,316
Finance income	379	-	-	-	379
Finance expense	(4)	-	-	-	(4)
Net finance expense	$ 375	$ -	$ -	$ -	$ 375
Loss before tax	$ (12,296)	$ (57)	$ 205	$ (347)	$ (12,495)
Colombian equity tax	2,203	-	-	-	2,203
Deferred tax expense (recovery) note 18(ii)g	(1,114)	(20)	70	(103)	(1,167)
	1,089	-	70	(103)	1,036
Loss and comprehensive loss for the year	$ (13,385)	$ (37)	$ 135	$ (244)	$ (13,531)

For the period ended March 31, 2010, no IFRS adjustments were required that impacted comprehensive income (loss).

(ii) IFRS Adjustments

a) **Pre-license costs**

Under previous GAAP, the Company capitalized pre-license costs of $394,000 as at December 31, 2009. These expenditures were incurred prior to obtaining legal rights to explore in Trinidad and Columbia. Under IFRS, the Company is required to expense pre-license costs resulting in a $394,000 decrease in property, plant and equipment with a corresponding charge to retained earnings. For the year ended December 31, 2010 an additional $57,000 of pre-licensing costs were reclassified from property, plant and equipment to exploration and evaluation expense.

b) **Exploration and evaluation assets**

Exploration and evaluation assets at January 1, 2010 were deemed to be $25.9 million, representing the unproved properties balance under previous GAAP. The Company reclassified $25.9 million from property, plant and equipment to exploration and evaluation assets as at January 1, 2010. As at March 31, 2010, the Company's exploration and evaluation assets were $32.4 million including $14.0 million in Colombia and $18.4 million in Trinidad. As at December 31, 2010, the Company's exploration and evaluation assets were $55.9 million including $25.8 million in Colombia and $30.1 million in Trinidad.

c) **Decommissioning liability**

Under Previous GAAP, the decommissioning liabilities were discounted using a credit adjusted risk free rate. Under IFRS, the Company is discounting the decommissioning liability using a risk free rate. As at December 31, 2010, the difference results in an increase to decommissioning liability of $395,000 and corresponding increase to property, plant and equipment.

d) **Depreciation, depletion and amortization**

Under previous GAAP, development costs were depleted using unit-of-production method based on proved reserves for each country cost centre. Under IFRS, development costs are depleted using the unit of production method calculated based on proved and probable reserves at the established area level. This resulted in a $205,000 decrease to the Company's DD&A expense for the twelve months ended December 31, 2010.

e) **Share appreciation rights**

The Company's SARs plan was accounted for using the intrinsic value method under previous GAAP. Under IFRS, the Company will use a fair value method such as Black-Scholes to value the SARs liability. This IFRS difference has no effect on the Company's opening balance sheet as the SARs plan was initiated in the second quarter of 2010. For year ended December 31, 2010, an increase to share based compensation of $347,000 was recognized with a corresponding increase to accounts payable and accrued liabilities of $190,000 and other long term liabilities of $157,000.

f) **Reduction of capital**

Under previous GAAP, a deferred tax asset is recognized due to a Colombian government tax incentive that allows an additional 30 percent deduction on qualifying eligible capital expenditures. A taxable benefit of $3.2 million was recognized and recorded through a reduction of the carrying values of these expenditures as at December 31, 2010. Under IFRS, the after-tax effect of the tax incentive reduces the carrying value of the eligible capital expenditures at inception and the taxable benefit of the tax incentive is recognized into net income (loss) over the life of the asset. This results in a decrease to the deferred tax asset of $1.1 million and a corresponding increase to property, plant and equipment.

g) **Income tax**

Deferred taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and previous GAAP. For the year ended December 31, 2010, the application of the IFRS adjustments as discussed above resulted in a $53,000 increase to the Company's deferred tax recovery.

iii) Adjustments to the statement of cash flows

The transition from previous GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period. Under previous GAAP, cash flows relating to interest payments were classified as operating.

19. Subsequent Events

On April 20, 2011, Parex entered into a definitive agreement to acquire a company which will hold the 50 percent interest Parex does not already own in four Llanos Basin blocks in Colombia, including Block LLA-16 and the Kona discovery, for total consideration of $255.0 million (the "Acquisition"). The Acquisition will be funded through a bought deal public offering (the "Offering") with a syndicate of underwriters which closed on May 17, 2011. Pursuant to the Offering, the Company issued 27,000,000 subscription receipts at Cdn$7.00 for gross proceeds of Cdn$189.0 million (Cdn$179.0 million net) and Cdn$85.0 million of 5.25% extendible convertible unsecured subordinated debentures for a total combined gross proceed of Cdn$274.0 million (Cdn$264.0 million net). The proceeds from the subscription receipts will be held in escrow pending the closing of the Acquisition. Upon the Acquisition closing on or before July 15, 2011, the proceeds will be released to Parex and each Subscription Receipt will automatically be exchanged for one common share. The underwriters were also granted an over-allotment option exercisable in whole or in part, for a period commencing at closing of the Offering and ending 30 days following closing of the Offering, to purchase up to an additional 4,050,000 subscription receipts at the same Offering price which, if exercised in full, would bring an additional estimated gross proceeds of Cdn$28.4 million (Cdn$26.9 million net), and would increase the total gross proceeds to Cdn$302.4 million (Cdn$ 290.9 million net).. The Acquisition is expected to close no later than June 29, 2011 and will be effective January 1, 2011.

DIRECTORS

Norman F. McIntyre
Chairman of the Board

Curtis D. Bartlett

John F. Bechtold

Robert J. Engbloom

Wayne K. Foo

Ron D. Miller

W. A. (Alf) Peneycad

Paul D. Wright

OFFICERS AND SENIOR EXECUTIVES

Wayne K. Foo
President, Chief Executive Officer

Barry B. Larson
VP Operations, Chief Operating Officer

Kenneth G. Pinsky
VP Finance, Chief Financial Officer

David R. Taylor
VP Exploration & Business Development

CORPORATE HEADQUARTERS

Parex Resources Inc.
1900, Livingston Place, West Tower
250 Second Street S.W.,
Calgary, Alberta, Canada T2P 0C1

Tel: 403-265-4800
Fax: 403-265-8216
E-mail: info@parexresources.com

OPERATING OFFICES

Parex Resources Colombia Ltd. Sucursal
Calle 113 No. 7-21, Of. 706,
Edificio Teleport, Torre A,
Bogotá, Colombia

Tel: 571-629-1716
Fax: 571-629-1786

Parex Resources (Trinidad) Ltd.
67 Battoo Blvd, Battoo Lands,
Marabella, Trinidad & Tobago

Tel: 868-221-5868
Fax: 868-221-1486

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta

RESERVES EVALUATORS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

INVESTOR RELATIONS

Michael Kruchten

Tel: 403-517-1733
E-mail: mike.kruchten@parexresources.com
Fax: 403-265-8216

Kenneth G. Pinsky

Tel: 403-517-1729
E-mail: ken.pinsky@parexresources.com
Fax: 403-265-8216

Website: www.parexresources.com

ABBREVIATIONS

Oil and Natural Gas Liquids

bbls	barrels
mbbls	one thousand barrels
mmbbls	one million barrels
NGLs	natural gas liquids
bbls/d	barrels of oil or natural gas liquids per day
mbbls/d	one thousand barrels per day

Other

BOE or boe	barrel of oil equivalent, using the conversion factor of 6 Mcf: 1 bbl
mboe	one thousand barrels of oil equivalent
mmboe	one million barrels of oil equivalent
bfpd	barrels of fluid per day
boe/d	barrels of oil equivalent per day
bopd	barrels of oil per day
WTI	West Texas Intermediate

Natural Gas

mcf	one thousand cubic feet
mmcf	one million cubic feet
bcf	one billion cubic feet
Mcf/d	one thousand cubic feet per day
MMcf/d	one million cubic feet per day

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