



FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Parex Resources Inc. ("Parex" or the "Company") financial condition and operating results for the three months ended March 31, 2012 and 2011 is dated May 10, 2012 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex is available in the Annual Information Form dated March 28, 2012 on the Canadian Securities Administrators' website at www.sedar.com.

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

Company Profile

Parex is an oil and gas exploration and production company active in Colombia and onshore Trinidad & Tobago. Headquartered in Calgary, Canada, Parex through its foreign subsidiaries holds interests in ten onshore exploration blocks totaling 1,061,833 gross acres. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT. The Company's 5.25 percent convertible unsecured subordinated Debentures (the "Debentures") trade on the TSX under the symbol PXT.DB.

Accounting Policies

The condensed consolidated interim financial information for the three months ended March 31, 2012 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

Advisory on Forward-Looking Statements

Certain information regarding Parex set forth in this MD&A, including assessments by the Company's management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur are intended to identify forward-looking statements. Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. These statements are only predictions and actual events or results may differ materially. Although the Company's management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Parex. In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to: Company's operational strategy, including technologies used to execute its strategy; the Company's approach to manage subsurface and commercial risks; timing of release of exploration property deemed non-commercial pursuant to the Llanos Basin Blocks LLA-16, 20, 29, 30 and 57 E&P (as defined herein) contracts and the Central Range

Blocks PSCs (as defined herein); terms of the farm-in agreements with Petroamerica (as defined herein) for the Los Ocarros Block and the El Eden Block; terms of the PSCs on the Central Range Shallow and Central Range Deep Blocks; the Company's expected exit rate production for 2012; the Company's expected capital expenditures for 2012; expected sources of funds for the Company's 2012 capital program; effect of increased production on the Company's royalty rates; government interpretation of what constitutes a production area for royalty calculation purposes; treatment under governmental regulatory regimes and tax laws; drilling plans and timing of drilling, completion and tie-in of wells; availability and terms of contracts for drilling rigs and other services in Trinidad & Tobago and Colombia; activities to be undertaken in various areas including the fulfillment of exploration commitments; the performance characteristics of the Company's oil properties; the Company's plans to improve its access to resources; impact of new and revised accounting pronouncements and critical accounting estimates; financial and business prospects and financial outlook; results of operations, production, future costs, reserves and production estimates; access to infrastructure; planned capital expenditures, the timing thereof and the method of funding; financial condition and access to capital; and the potential service on Parex of a lawsuit brought in Texas and Parex' plans to defend such lawsuit if served. In addition, statements relating to "reserves" or "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. The recovery and reserve estimates of Parex' reserves provided herein or used in critical accounting assumptions are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced, in Canada, Colombia and Trinidad & Tobago; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; failure of counterparties to perform under the terms of their contracts; risk that the joint venture working interest and the operatorship of the Moruga Block will not be transferred to Parex by the Trinidad Government; the risks discussed under "Risk Factors" in the Company's Annual Information Form dated March 28, 2012; the risks described under the heading "Business Environment and Risks" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; future exchange rates; the price of oil; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of the reserves and future production rates; royalty rates, future operating costs; foreign exchange rates; that the joint venture working interest and the operatorship of the Moruga Block will be transferred to Parex by the Trinidad Government; timing of drilling and completion of wells; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves.

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

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

Non-GAAP Terms

Funds flow used in, or from operations, working capital, operating netback per barrel and adjusted net income may from time to time be used by the Company, but do not have any standardized meaning under IFRS 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 but may not include changes in non-cash working capital from one period to the next. Adjusted net income is determined by adding back any losses or deducting any gains associated with the Company's derivative financial liability. 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.

Three months ended March 31, 2012 ("first quarter or Q1") Highlights

- Achieved quarterly oil production of 11,679 bopd compared to 11,342 bopd for the fourth quarter of 2011;
- Quarterly Colombian oil sales of 12,219 bopd realized an average sales price of \$116.90 per barrel. Operating netback of \$81.79 per barrel as compared to \$71.24 per barrel in the previous quarter. The Company sells its oil production with a Brent reference price, realizing an approximate \$14 per barrel premium to WTI on average for the Company's first quarter oil sales;
- Generated funds flow from operations of \$83.8 million (\$0.77 per basic share), a 33 percent increase over the previous quarter. First quarter 2012 funds flow from operations was in excess of capital expenditures of \$59.4 million;
- Generated net income of \$27.3 million (\$0.25 per basic share), a 510 percent increase over the previous quarter;
- Drilled six wells in Colombia (6.0 net) and one well in Trinidad (0.5 net), of which five were successful; and
- Strengthened the Company's balance sheet with working capital increasing from \$92.9 million at December 31, 2011 to \$116.3 million at March 31, 2012.

Subsequent to the first quarter of 2012:

- Parex entered and closed an acquisition to acquire a Bermuda-based, Colombia-focused private company ("Bermuda Co.") employing 50 staff in Colombia and with operations including five exploration blocks located in Llanos Basin and two blocks located in Middle Magdalena Basin (the "Acquisition"). Total consideration paid was approximately \$72.6 million in cash, including closing adjustments. The company's independent reserve engineers ascribed probable oil reserves of 2.3 million barrels to the properties. The Acquisition was funded from existing cash reserves; and
- The Company is in the process of documenting a \$50 million revolving credit facility with a Canadian chartered bank.

Financial Summary

For the three months ended March 31 (Financial figures in 000s except per share amounts)	2012	2011
Average daily sales		
Oil (bopd) ⁽¹⁾	12,219	1,146
Realized sales price (/bbl)	\$ 116.90	\$ 95.54
Operating netback (/bbl)	\$ 81.79	\$ 63.10
Oil and natural gas sales	\$ 129,989	\$ 9,853
Funds flow from operations ⁽²⁾	83,754	2,960
Per share – basic	0.77	0.04
Per share – diluted	0.72	0.04
Adjusted net income ⁽²⁾⁽³⁾	26,934	1,023
Per share – basic	0.25	0.01
Per share - diluted	0.25	0.01
Net income	27,304	1,023
Per share – basic	0.25	0.01
Per share – diluted	0.25	0.01
Capital expenditures	59,395	18,152
Total assets (end of period)	703,343	220,521
Working capital surplus (end of period)	116,277	101,672
Debentures (end of period) ⁽⁴⁾	(62,148)	-
Bank debt (end of period)	-	-
Weighted average shares outstanding (000s)		
Basic	108,335	77,123
Diluted	117,597	79,083
Outstanding shares (end of period) (000s)		
Basic	108,410	77,165
Diluted ⁽⁵⁾	125,163	82,608

⁽¹⁾ Does not include approximately 232,300 bbls of oil delivered in the first quarter and largely sold in April 2012, see “Colombian Crude Oil Inventory in Transit” below.

⁽²⁾ Non-GAAP measure. See “Non-GAAP Measures”.

⁽³⁾ Net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three months ended March 31, 2012 adjusted net income includes a \$0.4 million reduction of the gain upon revaluation (March 31, 2011- \$nil).

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

⁽⁵⁾ Diluted outstanding shares include all potential common shares including potential dilution in respect of the Debentures.

Description of Business

Strategy

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

Principal Properties

As at March 31, 2012, 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 and 30 ⁽¹⁾	100%	489,133	489,133
Llanos Basin Blocks LLA-57 ⁽²⁾	100%	104,532	104,532
Llanos Basin Block Los Ocarros ⁽³⁾	25%	110,436	27,609
Llanos Basin Block El Eden ⁽⁴⁾	35%	109,249	38,237
Llanos Basin Block Cabrestero ⁽⁵⁾	50%	29,562	14,781
Trinidad & Tobago			
CRBs ⁽⁶⁾	50%	211,478	105,739
Moruga Block ⁽⁷⁾	50%	7,443	3,722
Total		1,061,833	783,753

- ⁽¹⁾ The initial exploration phase under these exploration and production ("E&P") contracts is 36 months. Subsequent to this period, there is an option to enter into a second 36-month exploration phase. The effective date of the Colombian contracts is April 20, 2009. The initial exploration phase commenced on July 2, 2009 for Block LLA-16, July 29, 2009 for Block LLA-20, and October 20, 2009 for blocks LLA-29 and LLA-30. All commitments have been fulfilled on Block LLA-16 and commitments will be fulfilled on Block LLA-20 in first half of 2012. Extensions for the initial phase were granted on blocks LLA-29 & LLA-30 to April 19, 2013. Exploration property deemed non-commercial will be released in due course.
- ⁽²⁾ The E&P contract has an initial exploration phase of 36 months, with an option to enter into a second 36-month exploration phase, subsequent to this period. The effective date of the contract is February 17, 2011.
- ⁽³⁾ In June, 2011, Parex fulfilled the farm-in work commitment to earn 50 percent interest in the Las Maracas Prospect which is within the Los Ocarros Block. The Company has a 25 percent working interest in the Los Ocarros Block excluding the area defined by the Las Maracas Prospect. In February 2012, the Company entered into an agreement to acquire an additional 25 percent for approximately \$1.5 million. Upon receiving regulatory approval Parex working interest would increase to 50 percent in the entire Block and Parex will receive operatorship.
- ⁽⁴⁾ Under the El Eden farm-in, Parex has paid US\$ 3.5 million for reimbursement of prior 3-D seismic costs and will fund the first 65 percent of an exploratory commitment well to be spud before June 9, 2012 to earn 35 percent working interest in the Block. In February 2012, Parex entered into an agreement to purchase an additional 25 percent working interest for approximately \$7.0 million, which, subject to regulatory approval, would increase Parex' working interest to 60 percent in the Block and provide for operatorship.
- ⁽⁵⁾ In March, 2012, Parex entered into a farm-in agreement on the Cabrestero Block located in the Llanos Basin. The Company will earn a 50 percent working interest in the Block and become operator after completing its farm-in obligations by paying 100 percent of the cost to drill and evaluate the Kitaro-1 exploration well and receiving regulatory approval.
- ⁽⁶⁾ 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 exploration phase under the Company's PSCs is 60 months to September 18, 2013. Exploration property deemed non-commercial will be released in due course.
- ⁽⁷⁾ The Moruga Block had the final earning confirmed on April 27, 2011. The Company has entered into an agreement to purchase an additional 33.8 percent interest in the Moruga Block which is before the Trinidad & Tobago Ministry of Energy and Energy Affairs ("MEEA") for approval. The Company is also awaiting MEEA approval for operatorship of the Block.

2012 Outlook

As previously reported, Parex had originally provided 2012 guidance that outlined exit rate production of 17,000 bopd, net before royalties and capital expenditures of \$230-\$275 million in Colombia and Trinidad & Tobago. Due to recent civil disruptions near blocks LLA-29, LLA-30 and LLA-57, the Company was unable to access exploration prospects prior to the start of the rainy season, thereby delaying capital plans into late 2012. Further, oil production from the Sulawesi field has been less than expected. As a result, planned capital expenditures in Colombia and Trinidad, excluding the Bermuda Co.'s future 2012 capital expenditures were reduced by \$30 million to \$200-\$245 million. Exit rate production for 2012, excluding Bermuda Co. assets and Trinidad & Tobago, has been reduced by 3,500 bopd to approximately 13,500 bopd, net before royalty. The 2012 exit rate guidance is currently under review, largely pending the evaluation of drilling on LLA-32, LLA-34 and Cabrestero blocks.

Financial and Operational Results

Consolidated Results of Operations

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

For the three months ended March 31,	2012	2011
Average daily production		
Colombia – oil (bopd)	11,679	1,146
Total (boe/d)	11,679	1,146
Average daily sales		
Colombia – oil (bopd) ⁽¹⁾	12,219	1,146
Total (boe/d)	12,219	1,146
Operating netback (000s)		
Oil and natural gas sales ⁽¹⁾	\$ 129,989	\$ 9,853
Royalties	(9,623)	(682)
Net revenue	120,366	9,171
Production expense	(7,752)	(418)
Transportation expense	(21,677)	(2,245)
Operating netback	\$ 90,937	\$ 6,508
Operating netback (per bbl)		
Oil and natural gas sales ⁽¹⁾	\$ 116.90	\$ 95.54
Royalties	(8.65)	(6.61)
Net revenue	108.25	88.93
Production expense	(6.94)	(4.06)
Transportation expense	(19.52)	(21.77)
Operating netback	\$ 81.79	\$ 63.10

⁽¹⁾ Sales included the net reduction of oil inventories of 49,200 barrels from December 31, 2011 to March 31, 2012.

The Company's operating netback on a per barrel basis for the three months ended March 31, 2012 was \$81.79 compared to \$71.24 for the fourth quarter of 2011. The average realized sales price in Colombia was \$116.90/bbl for this period compared to \$102.15/bbl for the fourth quarter of 2011. Royalty charges were \$8.04/bbl in the fourth quarter of 2011 in comparison to \$8.65/bbl for the first quarter of 2012. Royalty charge per barrel is calculated by applying the royalty percentage on sold oil and is valued at the realized price net of transportation costs. Production expense was \$6.94/bbl during the first quarter of 2012 and approximated the reported amount for the fourth quarter of 2011 which was \$6.97/bbl. Transportation expense per barrel for the three months ended March 31, 2012 was \$19.52 compared to \$15.90 for the fourth quarter of 2011. Transportation and marketing alternatives continue to be examined by the Company in an effort to maximize the net proceeds from production in Colombia.

The lower operating netback experienced in first quarter of 2011 was a result of higher operating expenses given low initial volumes coming online and higher transportation costs due to less than favourable trucking terms.

Colombian Oil Sales

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

For the three months ended March 31,	2012	2011	% Change
Colombia average daily oil sales	12,219	1,146	966
Colombia average daily oil production	11,679	1,146	919

Production for the three months ended March 31, 2012 averaged 11,679 bopd, an increase of approximately 3 percent from the fourth quarter of 2011. Sales volumes, during the first quarter of the year, averaged 12,219 bopd. During the three months ended March 31, 2012, inventory in transit decreased by an average of approximately 540 bopd as December 31, 2011 inventory volumes were cleared in January and February 2012.

The increase in oil sales in the first quarter of 2012 compared to the reported Colombian oil sales of 1,146 bopd for the three months ended March 31, 2011 was a result of drilling success and the increase in the Company's working interest given the purchase of partnered blocks LLA-16, 20, 29, and 30 on June 29th, 2011. For the period April 1 to June 30, 2012 Parex expects production to range between 10,000 to 11,000 bopd.

b) Average Reference and Realized Prices

For the three months ended March 31,	2012	2011	% Change
WTI (\$/bbl)	102.98	94.06	9
Brent (\$/bbl)	118.71	105.45	13
Realized sales price (\$/bbl)	116.90	95.54	22
Realized price discount as percentage of Brent (%)	(2)	(9)	84
Realized price premium as percentage of WTI (%)	14	2	744

The Company's oil sales contracts during the period ended March 31, 2012 were referenced to Brent. The discount to Brent narrowed to 2 percent in the first quarter compared to 7 percent in the fourth quarter of 2011, highlighting the value of light crude oil in a basin where significant third party heavy oil production exists and is expected to be increasing. However, while the differential to Brent narrowed, first quarter 2012 transportation costs on a per barrel basis also increased by approximately \$4/bbl.

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

Average price for the period	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Brent (\$/bbl)	118.71	109.42	113.24	117.01	105.45
Parex realized sales price (\$/bbl)	116.90	102.15	97.64	104.67	95.54
Parex realized price discount as percentage of Brent (%)	(2)	(7)	(14)	(11)	(9)

c) Oil Revenue

First quarter 2012 oil revenue increased \$120.1 million or 1,219 percent as reconciled in the table below as compared to the first quarter of 2011:

(000s)		
Oil revenue, three months ended March 31, 2011		\$ 9,853
Sales volume of produced oil, an increase of 966% (11,073 bopd)		96,270
Sales price increase of 22%		23,866
Oil revenue, three months ended March 31, 2012		\$ 129,989

In contrasting oil sales recognized in the first quarter of 2012 with sales in the same period in 2011, the primary difference related to significant 2011 production volumes coming on stream over the second half of 2011 and into 2012. Oil sales for the three months ended March 31, 2012 excluded approximately 232,300 bbls of crude oil produced in the first quarter of 2012 and largely sold in April, 2012. Oil sales in the first quarter included the fourth quarter 2011 inventory of 281,500 bbls, see "Colombian Crude Oil Inventory in Transit" below.

d) Colombian Crude Oil Inventory in Transit

(000s)	2012	2011
For the three months ended March 31,		
Crude oil in transit	15,617	\$ -

As at March 31, 2012, the Company had 232,300 bbls of crude oil inventory in transit, which was injected into the Colombian Ocesa and ODC pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, transportation costs, depletion expense and royalty expense) at approximately \$67.23/bbl incurred in bringing the crude oil to its existing condition and location. A reconciliation of the crude oil inventory in transit volumes is provided below:

(mmbbls)	2012	2011
For the three months ended March 31,		
Crude oil inventory in transit - beginning of period	281.5	-
Oil production	1,062.8	-
Oil sales	(1,112.0)	-
Crude oil inventory in transit - end of period	232.3	-

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

(mbls) For the periods ended,	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Crude oil inventory in transit - beginning of the period	281.5	179.5	90.0	10.0
Oil inventory acquired in the Remora acquisition ⁽¹⁾	-	-	-	35.0
Oil production	1,062.8	1,043.4	646.8	147.3
Oil sales	(1,112.0)	(941.4)	(557.3)	(102.3)
Crude oil inventory in transit— end of the period	232.3	281.5	179.5	90.0

⁽¹⁾ See AIF dated March 28, 2012.

The Company is experiencing, on average, two-thirds of ending crude oil inventory being sold within the following month.

Colombian Royalties

For the three months ended March 31,	2012	2011
Royalties (000s)	\$ 9,623	\$ 682
Per unit (\$/bbl)	\$ 8.65	\$ 6.61
Percentage of sales ⁽¹⁾	9%	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 exceed 5,000 bopd, the Company's royalty rate will increase by 1 percent for each incremental 10,000 bopd 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 such as a WTI price of \$105 per bbl, the production area's royalty percentage will increase by approximately 27 percent and total approximately 37 percent. At March 31, 2012 the Kona Production Area had produced 3.3 million bbls. It is expected that the 5 million barrel threshold for the Kona Production Area will be reached in the second half of 2012.

Colombian Production Expense

For the three months ended March 31,	2012	2011
Production expense (000s)	\$ 7,752	\$ 418
Per unit (\$/bbl) – based on sales volumes	\$ 6.94	\$ 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 of \$6.94 per bbl reflects the operating cost associated with the producing wells at Kona and Sulawesi and was calculated using sold volumes as opposed to produced volumes. Production expense for the current quarter stayed in line with that of the previous quarter at \$6.97 per bbl. Production expense on a per barrel basis has increased in the three months ended March 31, 2012 as compared to the same period in 2011 given production from multiple fields and increased water handling.

As the Company begins to operate additional oil fields in different blocks, the Company expects production costs will modestly increase based on fewer synergies being realized from operating on a single block.

Colombian Transportation Expense

For the three months ended March 31,	2012	2011
Transportation expense (000s)	\$ 21,677	\$ 2,245
Per unit (\$/bbl)	\$ 19.52	\$ 21.77

Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and in some instances an oil transportation tariff from delivery point to the buyer's facility. For the three months ended March 31, 2012, the cost of transportation increased to \$19.52 per bbl from \$15.90 per bbl in the fourth quarter of 2011. The increase is mainly a result of a change in billing practices by customers whereby all transportation

cost are now identified and not embedded as a price discount. Offsetting the increase in transportation costs on a per barrel basis, was the Company's first quarter 2012 realized price differential reducing from 7 percent in the previous quarter, to 2 percent in Q1 2012 off of Brent referenced pricing. Transportation expense on a per barrel basis decreased in the first quarter of 2012 as compared to the same period in 2011 as a result of increased production and more favorable transportation agreements.

General and Administrative Expense ("G&A")

(000s)		
For the three months ended March 31,	2012	2011
Gross G&A	\$ 7,022	\$ 5,928
G&A recoveries	(178)	(1,878)
Capitalized G&A	(2,329)	(589)
Net G&A expense	\$ 4,515	\$ 3,461

Net G&A was \$4.5 million for the three months ended March 31, 2012 compared to \$3.5 million for the same period in 2011. These costs primarily consist of management and administrative salaries, legal and professional fees, office rent, insurance, travel and other administrative expenses. For the first quarter of 2012 net G&A was mainly comprised of \$3.0 million relating to staff, consultants and professional services, \$0.6 million relating to office costs and \$0.9 million relating to various other expenses. The increase in net G&A in Q1 2012 over Q1 2011 was mainly attributable to salaries and benefits for additional staff hired to support increased operations. The Company engages local in-country staff at the earliest opportunity and local professional services to improve execution and manage costs. A total of 131 full-time-equivalents in three locations were working for Parex as at March 31, 2012 compared to 76 as at March 31, 2011. Joint venture recoveries decreased from \$1.9 million in the first quarter of 2011 to \$0.2 million in Q1 2012, as a result of the purchase of the Company's partner in Colombia which closed on June 29, 2011. Gross G&A is expected to increase with the expected rise in capital and operating activities in Colombia and Trinidad & Tobago and the costs of integrating the Bermuda Co's. operations in the coming months.

Share-Based Compensation and Share Appreciation Rights Expense

(000s)		
For the three months ended March 31,	2012	2011
Share-based compensation expense	\$ 1,870	\$ 1,374
Share appreciation rights expense	565	480
Share-based compensation and share appreciation rights expense	\$ 2,435	\$ 1,854

The Company calculates stock option expense using graded vesting. The determination of fair value for recording share-based compensation 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. Share-based compensation expense was \$1.9 million for the three months ended March 31, 2012 compared to \$1.4 million for the same period in 2011. The primary reason for the increase relates to a higher number of options outstanding period over period. As at March 31, 2012, stock options outstanding were 8,378,209 equaling 8 percent of the common shares outstanding at the end of the first quarter. A total of 110,033 options were exercised and 200,000 options were granted during Q1 2012. As at March 31, 2012, the weighted average fair value upon grant date of the options outstanding was Cdn\$2.41 per option (March 31, 2011 – Cdn\$3.20 per option). The weighted average grant price for the three months ended March 31, 2012 was Cdn\$7.38 per option (March 31, 2011 – nil).

Parex Trinidad and Parex Colombia have a share appreciation rights ("SARs") plan, for which obligations for cash payments are accrued as compensation expense over the vesting period based on its fair value. The Company calculates SARs expense using graded vesting. The determination of fair value for recording SARs expense is based on 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 each reporting date. For Q1 2012 SARs expense was \$0.6 million as compared to \$0.5 million in the first quarter of 2011. This increase is related to a higher number of SARs outstanding period over period and partially offset by a lower Parex' share price at March 31, 2012. As at March 31, 2012, 1,908,697 SARs were outstanding all of which were granted to employees in Colombia and Trinidad & Tobago. The weighted average exercise price at March 31, 2012 of the SARs outstanding was Cdn\$7.10 per SAR (March 31, 2011 – Cdn\$6.60 per SAR).

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

For the three months ended March 31,	2012	2011
DD&A (000s)	\$ 42,700	\$ 891
Per unit (\$/bbl)	\$ 38.40	\$ 8.64

DD&A is primarily associated with production assets in Colombia and also includes the depreciation and amortization of corporate assets such as computer equipment, office furniture and leasehold improvements. The net carrying value of production assets is depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves, while also taking into account estimated future development costs necessary to bring those reserves into production. First quarter 2012 DD&A was \$42.7 million compared to \$0.9 million for the same period in 2011. The increase relates to the Company depleting the development and production assets associated with the Kona, Sulawesi and Las Maracas fields with higher production volumes coming on stream during the second half of 2011. The depletion per barrel increase from the comparative period is related to the cost of acquiring reserves in 2011 and higher finding and development costs per barrel of oil reserves in 2012.

Foreign Exchange Loss (Gain)

(000s)	2012	2011
For the three months ended March 31,		
Foreign exchange loss (gain)	\$ 1,613	\$ (1,388)

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, 2012, the total foreign exchange loss was \$1.6 million due primarily to the appreciation of the Canadian dollar and the Colombian peso versus the US dollar. The main driver of the loss realized for the first quarter of 2012 was the Company’s Canadian dollar denominated monetary liabilities exceeding its Canadian dollar monetary assets. The Trinidad & Tobago dollar was relatively stable against the US dollar during the first quarter of 2012.

For the comparative 2011 period, foreign exchange gains were experienced mainly due to the appreciation of the Canadian dollar in both periods. During these periods the Company’s Canadian dollar denominated monetary assets in Canada exceeded Parex’ Canadian dollar denominated monetary liabilities.

Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of comprehensive income (loss).

The Company does not hedge against fluctuations in exchange rates, but reviews its exposure to foreign currency variations on an ongoing basis and maintains foreign denominated deposits in Canada, Colombia and Trinidad & Tobago.

Net Finance Expense

(000s)	2012	2011
For the three months ended March 31,		
Interest expense on Debentures	\$ 1,114	\$ -
Accretion on Debentures	844	-
Accretion on decommissioning liability	63	8
Gain on derivative financial liability	(369)	-
Amortization of debt issuance costs	127	-
Interest and other income	(616)	(207)
Net finance expense (income)	\$ 1,163	\$ (199)

Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded to the statement of comprehensive income (loss). Under IFRS, the conversion feature of the Debentures issued on June 29, 2011 is classified as a derivative financial liability given that, if converted, the Company has the option to deliver either common shares or cash equal to the market value. In the three months ended March 31, 2012 the derivative financial liability decreased by \$0.4 million and an equivalent non-cash derivative gain was recorded in net income (loss). The gain is a result of fair valuing the

derivative liability at March 31, 2012 which was as a result of the expected life of the Company's Debentures decreasing, offset by a slight increase in the Company's stock price.

Interest expense on Debentures for the three months ended March 31, 2012 of \$1.1 million (March 31, 2011 – nil) related to the annual 5.25 percent coupon on the outstanding Debentures. The accretion expense of \$ 0.8 million for three months ended March 31, 2012 (March 31, 2011 – nil) is related to the Debenture liability portion being accreted under the effective interest rate method. The liability portion of the Debentures is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method. The resulting accretion is charged to finance expense in the consolidated statement of comprehensive income (loss).

Income Tax

The components of tax expense for the three months ended March 31, 2012 and 2011 were as follows:

(000s)	2012		2011	
For the three months ended March 31,				
Current income tax expense	\$	2,509	\$	-
Deferred income tax expense		8,698		886
Total income tax expense	\$	11,207	\$	886

Factors affecting tax expense for the year

The standard Colombian corporate income tax rate for 2012 is expected to be 33 percent. The following is a reconciliation of income taxes calculated at the Colombian corporate tax rate to the tax expense for the three months ended March 31, 2012 and 2011:

(000s)	2012		2011	
For the three months ended March 31,				
Income before tax	\$	38,511	\$	1,889
Income before tax multiplied by the standard rate of Colombian corporate tax of 33% (2011 – 33%)		12,709		623
Effects of:				
Income taxes recorded at rates different from the Colombian tax rate		170		458
Expenses not deductible for tax purposes		(150)		48
Share based compensation		616		453
Deferred tax assets not recognized		1,594		1,352
Foreign exchange gain on Colombian non-monetary assets		(3,732)		(2,068)
Total tax expense	\$	11,207	\$	866

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value in Canada, Colombia and Trinidad & Tobago. Only the Colombian benefit associated with these losses and deductions has been recognized in the financial statements as the recoverability of the tax benefit in Trinidad & Tobago and Canada is uncertain. Losses can be carried forward indefinitely in Colombia and Trinidad & Tobago, while in Canada they expire after 20 years. Amounts denominated in foreign currency have been translated at the March 31, 2012 exchange rate.

Capital Expenditures

(000s)	Colombia		Trinidad & Tobago		Canada		Total	
For the three months ended March 31,	2012	2011	2012	2011	2012	2011	2012	2011
Geological and geophysical	\$ 7,883	\$ 25	\$ (503)	\$ (7)	\$ -	\$ -	\$ 7,380	\$ 18
Acquisition of unproved properties	2,060	186	454	129	-	-	2,514	315
Drilling and completion	40,313	13,521	6,858	3,042	-	-	47,171	16,563
Well equipment and facilities	1,382	969	88	224	-	-	1,470	1,193
Other	731	25	6	-	123	38	860	63
	\$ 52,369	\$ 14,726	\$ 6,903	\$ 3,388	\$ 123	\$ 38	\$ 59,395	\$ 18,152

During the first quarter of 2012, the Company incurred \$59.4 million of capital expenditures compared to \$18.1 million in the same period of 2011. Increased capital spending is integral to the Company's growth strategy. The activity by country is described below.

Capital Expenditures Summary

In the first quarter of 2012 the Company drilled six net wells in Colombia, five of which were located on Block LLA-16 with one located on Block LLA-20. The Company's geological and geophysical costs in the first quarter are mainly composed of seismic acquisition costs of \$7.8 million for 3-D seismic on Block LLA-16, Block LLA-20, and Block LLA-57.

In Trinidad & Tobago for the three months ended March 31, 2012, \$6.9 million of costs related to the drilling and completion of Mapepire-1 and the spudding of the Moruga Block Firecrown-1 sidetrack, and Green Hermit-1 wells.

Minor capital expenditures in Canada during the first quarter related to office and other equipment.

Colombian Update

2012 Colombia Acquisition

Parex, through a wholly owned subsidiary, has entered into a purchase and sale agreement with a Bermuda based subsidiary (the "Seller") of Nabors Industries Ltd., to acquire its Bermuda based wholly owned subsidiary, the operations of which include interests in five exploration blocks located in Llanos Basin and two blocks located in Middle Magdalena Basin in Colombia for a total of approximately 567,000 gross acres (276,000 net acres). The Acquisition closed on April 12, 2012 with an effective date of February 29, 2012. The consideration paid for Bermuda Co. Class A shares was approximately US\$72.6 million in cash, including customary closing adjustments. Bermuda Co. has no bank debt and an estimated working capital deficiency as at February 29, 2012 of \$2.4 million. Subsequent to the first quarter, Parex assumed \$17.7 million of letters of credit related to the Colombian interests. The Acquisition was fully funded by Parex' working capital.

Bermuda Co.'s current production is approximately 100 bopd from the Middle Magdalena Basin. In the Llanos Basin operational activities include two currently drilling exploratory wells, the planned completion of one standing exploratory well, and the long term testing of a recently completed well. Bermuda Co. operates in Colombia and has approximately 50 Colombian domiciled employees. An independent reserves evaluation was prepared by GLJ Petroleum Consultants Ltd. ("GLJ") with an effective date of March 31, 2012 ("GLJ Evaluation") in respect of certain of Bermuda Co's non-producing properties. GLJ evaluated existing well data related to such properties and assigned probable reserves of 2.3 million barrels. The GLJ Evaluation was prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National Instrument 51-101, Standards of Disclosure for Oil and Gas 2 Activities ("NI 51-101"). GLJ was not asked to conduct a review of the producing properties at this time.

Colombian Exploration Update

Block LLA-16 (100 percent working interest)

During the first quarter of 2012 three Kona wells were drilled. Two wells were drilled to test the down dip limits of the Gacheta Formation tested wet and were converted to water disposal wells. The third well was completed as an oil producer in the Mirador formation. Kona recompletion activities are ongoing. The next well scheduled to be drilled on the Kona field is Kona-16, a Mirador delineation well targeting a southern extension of the field.

The Java-1 well was drilled, cased and commenced production on April 1, 2012 at a rate of approximately 400 bopd from the C7 Formation. The Java-2 well was drilled subsequent to quarter end and encountered the target reservoir lower than expected and tested wet. The Company plans to re-evaluate its geological interpretation of the Java structure to determine the potential for follow-up drilling locations.

Also on Block LLA-16, the Malawi prospect located immediately south of the Sulawesi field was spud in May 1, 2012. The Merida-1 well was drilled and cased in the fourth quarter of 2011. Parex plans to complete and test Merida-1 during May, 2012. At the Sulawesi field, a workover rig is moving to the field to reactivate zones that were previously suspended due to water handling limitations along with completing a water disposal zone. After commissioning of the water disposal well, the field is expected to be on production at a rate of 500 to 700 bopd.

Block LLA-20 (100 percent working interest)

The Cumbre-1 well was drilled and cased to a total depth of 9,646 feet. The well was perforated and short production tests were conducted separately on the C7 and Gacheta formations with the drilling rig on location. Cumbre-1 commenced production at a rate of approximately 500 bopd from the C7 Formation through a temporary facility in April. Subsequently, the Cumbre-2 well was drilled and encountered 10 feet of net pay in the C7A Formation. The well was

completed and tested at a rate of 515 bopd at a 39 percent water cut. The Cumbre-2 well will remain on production and the drilling rig on location will skid to drill the Cumbre-3 well targeting both the C7 and Gacheta formations.

Los Ocarros Block (50 percent working interest)

The Las Maracas-2 side-track well was drilled to the Mirador Formation and tested rates of approximately 1,000 bopd of 37 degree API oil from the Mirador Formation. Parex now operates the Block and has commenced construction of the long-term production facility which is expected to be completed in May 2012. Parex has brought the well on stream in April at 1,000 bopd with approximately 3% BS&W.

Cabrestero Block (Farm-in 50 percent working interest)

The farm-in earning well, Kitaro-1, was spud on April 16, 2012 and is expected to drill to a target depth of 12,000 feet to test the Mirador, Gacheta and Une formations.

Block LLA-29, LLA-30 & LLA-57 (100 percent working interest)

Due to civil disruptions in the eastern Llanos region and now the onset of the rainy season, Parex has elected to defer the commencement of its exploration program to the next dry season, with activity likely to commence in the fourth quarter of 2012 or early 2013. Parex has received a contract extension for blocks LLA-29 and LLA-30 to April 19, 2013.

Trinidad & Tobago Operations and Exploration Update

On the onshore Moruga Block, the Company re-entered Firecrown-1 and sidetracked the well to evaluate two Herrera objectives that it was unable to test in the original wellbore. Both Herrera objectives have been drilled and intermediate casing set. Parex tested the secondary deeper objective without recovering any hydrocarbons and has chosen to defer testing the shallower primary objective until an appropriate service rig can be found to perform the operation. Also on the Moruga Block, located between the Carapal Ridge field and the Snowcap fault block is the Green Hermit prospect. Green Hermit-1 has reached a total depth of approximately 7,500 feet and is expected to be cased and evaluated in May, 2012. Parex' working interest for the Moruga Block is 83.8 percent subject to closing of the purchase of the additional 33.8 percent working interest.

The Company plans to start drilling its first high-impact Central Range Block ("CRB") Deep well during the third quarter of 2012. Construction activities are ongoing.

Legal Update

Parex has been named as a defendant in a lawsuit (the "Lawsuit") filed in the 61st Judicial District Court of Harris County, Texas (the "Texas Court") by a Texas based private company (the "Plaintiff"). The Lawsuit relates to a share purchase agreement entered into by the Plaintiff and the Seller (prior to the agreement entered into by Parex and the Seller) respecting the proposed purchase by the Plaintiff of the shares of Bermuda Co, which prior agreement the Plaintiff claims was improperly terminated by the Seller. In the Lawsuit, the Plaintiff is seeking an order of specific performance against the Seller to enforce the contract between the Seller and the Plaintiff, as well as an award of damages from the Seller. The Plaintiff is also seeking an undisclosed amount of damages from Parex alleging Parex' "tortious interference" with the Plaintiff's alleged contractual relationship with the Seller. Parex has not been served with the Lawsuit and until served Parex has no obligation to respond to or defend the Lawsuit. Parex believes that the Lawsuit and the Plaintiff's claims against it are baseless and without merit and assuming Parex is ultimately served with the Lawsuit and jurisdiction over Parex in Texas is properly established by the Plaintiff, Parex will vigorously defend the Lawsuit.

Summary of Quarterly Results (Unaudited)

Three months ended	March 31, 2012	Dec. 31, 2011	Sep. 30, 2011	June 30, 2011
Average daily sales volumes(bopd)	12,219	10,233	6,058	1,125
Realized sales price volumes (\$/bbl)	116.90	102.15	97.64	104.67
Financial (000s except per share amounts)				
Funds flow from operations ⁽²⁾	\$ 83,754	\$ 63,135	\$ 31,814	\$ 334
Per share – basic	0.77	0.58	0.29	0.00
Per share – diluted	0.72	0.56	0.27	0.00
Adjusted net income (loss) ⁽²⁾⁽³⁾	\$ 26,934	\$ 6,470	\$ 7,740	\$ (4,688)
Per share – basic	0.25	0.06	0.07	(0.06)
Per share - diluted	0.25	0.06	0.07	(0.06)
Net income (loss)	\$ 27,304	\$ 4,477	\$ 14,823	\$ (4,688)
Per share – basic	0.25	0.04	0.14	(0.06)
Per share – diluted	0.25	0.04	0.13	(0.06)
Total assets (end of period)	703,343	660,177	619,240	593,699
Working capital surplus (end of period) ⁽²⁾	116,277	92,893	77,890	101,422
Debentures (end of period) ⁽⁴⁾	62,148	60,001	57,226	61,200
Bank debt (end of period)	-	-	-	-

Three months ended	March 31, 2011	Dec. 31, 2010	Sep. 30, 2010	June 30, 2010
Average daily sales (boe/d) ⁽¹⁾	1,146	306	11	11
Realized sales price (\$/boe) ⁽¹⁾	95.54	89.69	25.00	29.00
Financial (000s except per share amounts)				
Funds flow from (used) in operations ⁽²⁾	\$ 2,960	\$ 1,797	\$ (3,555)	\$ (2,617)
Per share – basic	0.04	0.03	(0.06)	(0.04)
Per share – diluted	0.04	0.02	(0.06)	(0.04)
Adjusted net income (loss) ⁽²⁾⁽³⁾	\$ 1,023	\$ (1,298)	\$ (4,297)	\$ (4,451)
Per share – basic	0.01	(0.02)	(0.07)	(0.07)
Per share - diluted	0.01	(0.02)	(0.07)	(0.07)
Net income (loss)	\$ 1,023	\$ (1,298)	\$ (4,297)	\$ (4,451)
Per share – basic	0.01	(0.02)	(0.07)	(0.07)
Per share – diluted	0.01	(0.02)	(0.07)	(0.07)
Total assets (end of period)	220,521	216,616	128,503	127,789
Working capital surplus (end of period) ⁽²⁾	101,672	115,136	57,188	72,883
Debentures (end of period)	-	-	-	-
Bank debt (end of period)	-	-	-	-

⁽¹⁾ Prior to the three months ended December 31, 2010, average daily sales volumes were from 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 28, 2012).

⁽²⁾ Non-GAAP measure. See “Non-GAAP Measures” above.

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

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

Funds flow from Operations per Share

For the three months ended March 31,	2012	2011
Funds flow from operations (000s)		
Funds flow from (used in) operations for the purpose of basic funds flow	\$ 83,754	\$ 2,960
Debt interest expense	1,114	-
Funds flow from operations for diluted funds flow	\$ 84,868	\$ 2,960
Weighted average number of shares for the purposes of basic funds flow (000s)	108,335	77,123
Dilutive effect of share options on potential common shares	888	1,960
Dilutive effect of Debentures on potential common shares	8,374	-
Weighted average number of shares for the purposes of diluted funds flow	117,597	79,083

Liquidity and Capital Resources

As at March 31, 2012, working capital was \$116.3 million with no bank debt. Parex held \$120.7 million of cash at March 31, 2012, compared to \$103.9 million at December 31, 2011. The Company's cash balances reside in current accounts and term deposits, the majority of which are held on account in Canada and Barbados.

On April 12, 2012 the Company completed the Acquisition for consideration of US\$72.6 million in cash, including customary closing adjustments.

Parex 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. The amount outstanding in respect of the EDC guarantees as at March 31, 2012 was \$38 million (December 31, 2011 - \$45 million) and as at May 9, 2012 the amount was \$46.5 million which includes guarantees associated with the Acquisition on April 12, 2012 which are currently being processed by EDC.

Funds flow from operations in the first quarter of 2012 was \$83.8 million which fully funded capital expenditures of \$59.4 million in the period with the surplus adding to working capital.

Debentures

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

The Debentures were split between the liability and the equity conversion feature (which is classified as a derivative financial liability under IFRS). The amount of the financial liability was determined by subtracting issuance costs and the fair value of the conversion feature from the principal amount of the Debentures. As at June 29, 2011, the \$87.5 million (Cdn\$85.0 million) gross issuance proceeds resulted in \$64.3 million (Cdn\$62.4 million) being classified as a liability and \$23.3 million (Cdn\$22.6 million) being classified as a derivative financial liability. The fair value of the conversion feature is estimated every balance sheet date with changes in the fair value estimate between periods recognized in the statement of comprehensive income (loss) as finance expense. As at March 31, 2011 the fair value of the derivative financial liability was valued at \$16.8 million with an unrealized gain being recorded in finance income. The fair value of the derivative financial liability will fluctuate each period based on the revaluation of the conversion option using Black-Scholes methodology.

The following table summarizes the accounting for the Debentures:

(000s)	Liability	Derivative Liability	Total
Issuance of Debentures on June 29, 2011 (net of \$3.5 million of issuance costs)	\$ 60,809	\$ 23,266	\$ 84,075
Accretion	1,738	-	1,738
Amortization of debt issuance costs	262	-	262
Derivative gain	-	(5,091)	(5,091)
Foreign exchange gain	(2,808)	(1,354)	(4,162)
Balance as at December 31, 2011	\$ 60,001	\$ 16,821	\$ 76,822
Accretion	844	-	844
Amortization of debt issuance costs	127	-	127
Derivative gain	-	(369)	(369)
Foreign exchange loss	1,176	329	1,505
Balance as at March 31, 2012	\$ 62,148	\$ 16,781	\$ 78,929

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at March 31, 2012 the Company had 108,410,401 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 10, 2012 Parex has the following securities outstanding:

	Number	%
Common shares	108,410,401	93
Stock options	8,378,209	7
	116,788,610	100

As of the date of this MD&A, total stock options outstanding represent approximately 7 percent of the total issued and outstanding common shares plus issued stock options.

Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will affect the Company's future operations and liquidity. These commitments primarily relate to exploration work commitments including seismic and drilling activities. The Company has discretion regarding the timing of capital spending for exploration work commitments, provided that the work is completed by the end of the exploration periods specified in the contracts or the Company can negotiate extensions of the exploration periods. The Company's exploration commitments are described 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 which on May 3, 2012 are approximately \$28.8 million to support the initial exploration work commitments in respect of blocks LLA-16, 20, 29, 30, and 57 for which the Company has a 100 percent working interest. The guarantees have been provided in the form of letters of credit for varying terms. 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 letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

In conjunction with the Acquisition, the Company has associated additional guarantees to the ANH for approximately \$17.7 million to support exploration work commitments in respect of blocks LLA- 34, 32, 17 and 40 for which the Company has a variety of different working interests. The guarantees have been provided in the form of letters of credit for varying terms. EDC is in the process of providing the Company's bank with performance security guarantees to support 100 percent of these letters of credit. There has been no reduction to date of these letters of credit to reflect the work already performed on these blocks.

In Trinidad & Tobago, the Company has purchased a performance bond and provided a guarantee to the underwriters for approximately \$33.0 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 summarizes the Company's estimated commitments as at March 31, 2012:

(000s)	Total	<1 year	1-3 years	3-4 years	>5 years
Exploration ⁽¹⁾	\$ 63,364	\$ 54,869	\$ 8,495	\$ -	\$ -
Office and accommodations ⁽²⁾	2,139	711	1,289	139	-
Decommissioning expenditures	11,372	-	-	-	11,372
Other	5,046	743	4,303	-	-
Total	\$ 81,921	\$ 56,323	\$ 14,087	\$ 139	\$ 11,372

⁽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 include commitments to use the rigs for a minimum period on terms consistent with normal industry practice. The Company anticipates that, given its planned level of drilling activity to meet exploration commitments in both countries, the rigs will be fully utilized for the duration of their contracts and no material additional charges will be incurred.

Decommissioning liabilities

(000s)	March 31, 2012	December 31, 2011
For the three months ended March 31,		
Balance, beginning of the period	\$ 5,105	\$ 651
Additions	1,769	4,253
Corporate Acquisition	-	470
Liabilities incurred during the period	-	-
Settlements of obligations during the period	-	(467)
Change in estimates	(106)	101
Accretion expense	63	97
Balance, end of the period	\$ 6,831	\$ 5,105

The decommissioning liability is estimated based on the Company's net ownership in wells drilled as at March 31, 2012, 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 Parex' decommissioning liability is approximately \$11.4 million as at March 31, 2012 (December 31, 2011 – \$11.9 million) with the majority of these costs anticipated to occur in 2030 or later in Trinidad and 2020 or later in Colombia. A risk-free discount factor of 4.4 percent and an inflation rate of 3.0 percent were used in the valuation of the liabilities (December 31, 2011 – 4.0 percent risk free discount factor and a 3.0 percent inflation rate).

Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures and the impact on the financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. The main factors that can cause expected estimated cash flows in respect of decommissioning liabilities to change are:

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

Reserves Reconciliation (revised from Annual Information Form dated March 28, 2012)

The following table sets forth a reconciliation of the Company's total gross proved, gross probable and total gross proved plus probable reserves as at December 31, 2011 against such reserves as at December 31, 2010 based on forecast prices and cost assumptions. This table has been revised from that provided in the March 28, 2012 Annual Information Form with brackets added on the 1,329,000 barrels of technical negative revisions. There was no impact on December 31, 2011 ending balances.

FACTORS	Light And Medium Oil			Heavy Oil			Coalbed Methane		
	Proved (Mbbl)	Probable (Mbbl)	Proved Plus	Proved (Mbbl)	Probable (Mbbl)	Proved Plus	Proved (Mbbl)	Probable (Mbbl)	Proved Plus
			Probable (Mbbl)			Probable (Mbbl)			
December 31, 2010	1,066	4,788	5,854	-	-	-	-	-	-
Extensions	2,374	(2,374)	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Infill Drilling	-	-	-	-	-	-	-	-	-
Technical Revisions	-	(1,329)	(1,329)	-	-	-	-	-	-
Discoveries	1,816	1,324	3,140	-	-	-	-	-	-
Acquisitions	1,649	3,350	4,999	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(1,952)	-	(1,952)	-	-	-	-	-	-
December 31, 2011	4,953	5,759	10,712	-	-	-	-	-	-

FACTORS	Natural Gas (non-associated and associated)			Natural Gas Liquids			Total Oil Equivalent		
	Proved (MMcf)	Probable (MMcf)	Proved Plus	Proved (Mbbl)	Probable (Mbbl)	Proved Plus	Proved (Mboe)	Probable (Mboe)	Proved Plus
			Probable (MMcf)			Probable (Mbbl)			
December 31, 2010	-	-	-	-	-	-	1,066	4,788	5,854
Extensions	-	-	-	-	-	-	2,374	(2,374)	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Infill Drilling	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	(1,329)	(1,329)
Discoveries	-	-	-	-	-	-	1,816	1,324	3,140
Acquisitions	-	-	-	-	-	-	1,649	3,350	4,999
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	(1,952)	-	(1,952)
December 31, 2011	-	-	-	-	-	-	4,953	5,759	10,712

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. Depending on market conditions at the time, however, 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 infrastructure and sales contracts, 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, and complex regulatory regimes. The Company focuses its foreign operations in countries where management has prior experience and/or engages local in-country staff as soon as possible. The Company engages local, Canadian and international legal, accounting and tax professionals. The Company may also, from time to time, arrange for insurance to mitigate specific risks. The Company is also exposed to potential delay of its operations due to waiting on permits or obtaining surface access to drilling locations.

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 by dispersing drilling locations among different exploration blocks and geological basins and by targeting multiple play-types. The Company may also choose to mitigate exploration risk through acquisitions that may require raising funds.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the three months ended March 31, 2012.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized in the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and Debentures (excluding the derivative financial liability associated with the Debentures). Non-derivative financial instruments are recognized initially at fair value. The fair values of the current financial instruments approximate their carrying value due to their short-term maturity.

Accounting Policies and Estimates

The accounting policies adopted are consistent with those of the previous financial year, except as described below:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income or loss.

In preparing this Management Discussion and Analysis, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011 with the exception of changes in estimates that are required in determining the provision for income taxes.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	March 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	5	\$ 120,731	\$ 103,884
Accounts receivable	6	46,205	35,947
Prepays and other current assets		4,058	5,202
Crude oil inventory		15,617	17,321
		186,611	162,354
Goodwill	10	61,252	61,252
Exploration and evaluation	7	170,282	136,715
Property, plant and equipment	8	285,198	299,856
		\$ 703,343	\$ 660,177
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 66,762	\$ 68,398
Current income and equity tax payable	16	3,572	1,063
		70,334	69,461
Convertible debenture	15	62,148	60,001
Derivative financial liability	15	16,781	16,821
Other long-term liabilities	12	2,073	1,816
Decommissioning liabilities	13	6,831	5,105
Deferred tax liability	16	97,811	89,114
		255,978	242,318
Shareholders' equity			
Share capital	14	412,403	411,921
Contributed surplus		10,935	9,215
Retained earnings (deficit)		24,027	(3,277)
		447,365	417,859
		\$ 703,343	\$ 660,177

Commitments (note 22)

Subsequent Event (note 23)

See accompanying Notes to the Interim Consolidated Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Interim Consolidated Statements of Comprehensive Income (unaudited)

For the three months ended March 31,

(thousands of United States dollars, except per share amounts)	NOTE	2012	2011
Oil sales		\$ 129,989	\$ 9,853
Royalties		(9,623)	(682)
Revenue		120,366	9,171
Expenses			
Production		7,752	418
Transportation		21,677	2,245
General and administrative		4,515	3,461
Share-based compensation	14	2,435	1,854
Depletion, depreciation and amortization	8	42,700	891
Foreign exchange loss (gain)		1,613	(1,388)
		80,692	7,481
Finance income	11	(616)	(207)
Finance expense	11	1,779	8
Net finance expense (income)		1,163	(199)
Net income before taxes		38,511	1,889
Income tax expense			
Current income tax expense	16	2,509	-
Deferred income tax expense	16	8,698	866
		11,207	866
Net income and comprehensive income for the period		\$ 27,304	\$ 1,023
Basic net income per common share	17	\$ 0.25	\$ 0.01
Diluted net income per common share	17	\$ 0.25	\$ 0.01

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)

		2012		2011
Share Capital				
Balance, beginning of period	\$	411,921	\$	198,857
Issuance of common shares under option plans		482		886
Issuance of common shares		-		-
Balance, end of period	\$	412,403	\$	199,743
Contributed Surplus				
Balance, beginning of year	\$	9,215	\$	4,000
Share-based compensation		1,866		1,374
Options exercised		(146)		(269)
Balance, end of period	\$	10,935	\$	5,105
Retained earnings (deficit)				
Balance, beginning of year	\$	(3,277)	\$	(18,912)
Net income for the period		27,304		1,023
Balance, end of period	\$	24,027	\$	(17,889)

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31,
(thousands of United States dollars)

	NOTE	2012	2011
Operating activities			
Net income		\$ 27,304	\$ 1,023
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	42,700	891
Non-cash finance (income) loss	11	667	8
Share-based compensation	14	2,435	1,854
Deferred tax expense	16	8,698	866
Unrealized foreign exchange loss (gain)		1,950	(1,682)
		83,754	2,960
Net change in non-cash working capital	18	(7,044)	5,709
		76,710	8,669
Investing activities			
Capital expenditures		(59,395)	(18,152)
Net change in non-cash working capital	18	(1,550)	(10,954)
		(60,945)	(29,106)
Financing activities			
Issuance of common shares	14	335	617
Net change in non-cash working capital	18	-	(116)
		335	501
Increase (decrease) in cash and cash equivalents for the period		16,100	(19,936)
Impact of foreign exchange on foreign currency-denominated cash balances		747	1,590
Cash and cash equivalents, beginning of period		103,884	123,539
Cash and cash equivalents, end of period		\$ 120,731	\$ 105,193

Supplemental Disclosure of Cash Flow Information (note 18)

See accompanying Notes to the Interim Consolidated Financial Statements

Notes to the Interim Consolidated Financial Statements

For the period ended March 31, 2012

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

1. Corporate Information

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

Parex Resources Inc. is a publicly traded company, incorporated and domiciled in Canada. Its registered office is at 2400, 525-8th Avenue S.W., Calgary, Alberta T2P 1G1. The Company was incorporated 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 condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 10, 2012.

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

a) *Statement of compliance*

The condensed consolidated interim financial information for the three months ended March 31, 2012 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 10, 2012, the date of approval by the Board of Directors.

b) *Basis of measurement*

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

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

The timely preparation of the interim consolidated financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the 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 could differ from estimated amounts as future confirming events occur.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011 with the exception of changes in estimates that are required in determining the provision for income taxes (see note 3).

3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except as described below:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income or loss.

4. Determination of Fair Values

The methods used in the determination of fair value, for financial and non-financial assets and liabilities have not changed from the previous financial year. Refer to the December 31, 2011 financial statements for details concerning determination of fair values.

5. Cash and Cash Equivalents

	March 31, 2012		December 31, 2011	
Bank balances	\$	90,887	\$	74,134
Term deposits ⁽¹⁾		29,844		29,750
Cash and cash equivalents	\$	120,731	\$	103,884

(1) Term deposits are all less than 3 months duration.

6. Accounts Receivable

	March 31, 2012		December 31, 2011	
Trade receivables	\$	25,041	\$	26,360
Colombia income taxes receivable		9,579		5,368
Receivables from partners		8,596		2,502
Trinidad value added taxes (VAT)		2,989		1,717
	\$	46,205	\$	35,947

Trade receivables consist primarily of Colombian receivables related to the Company's oil sales. Colombia income tax receivable is a result of withholding tax incurred on Colombia oil sales. The balance can either be received in cash or applied to Colombian income tax payable. Receivables from partners consist of cash calls outstanding from joint venture partners in Trinidad & Tobago to recover ongoing capital costs and operating costs, or overhead recoveries outstanding from joint venture partners. VAT receivable in Trinidad totalled \$3.0 million as at March 31, 2012 and is expected to be recovered in the first half of 2012. All accounts receivable are expected to be received within twelve months and are classified as current assets.

7. Exploration and Evaluation Assets

	Colombia		Trinidad & Tobago		Total	
Cost						
Balance at December 31, 2010	\$	25,790	\$	30,062	\$	55,852
Additions		39,349		14,496		53,845
Transfers to PP&E		(53,404)		-		(53,404)
Abandonment costs		93		183		276
Corporate acquisition – note 9		80,146		-		80,146
Balance at December 31, 2011	\$	91,974	\$	44,741	\$	136,715
Additions		26,586		6,897		33,483
Transfers to PP&E		-		-		-
Abandonment costs		-		84		84
Balance at March 31, 2012	\$	118,560	\$	51,722	\$	170,282

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions represent the Company's share of costs incurred on E&E assets during the period. For the three months ended March 31, 2012 no transfers from E&E to PP&E were made. In the prior year an amount of \$53.4 million was transferred from E&E to PP&E for costs associated with the Kona, Sulawesi and Las Maracas fields. At March 31, 2012 and December 31, 2011 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

	Canada	Colombia	Trinidad & Tobago	Total
Cost				
Balance at December 31, 2010	\$ 1,813	\$ 11,751	\$ 229	\$ 13,793
Additions	2,594	93,141	63	95,798
Transfer from E&E assets	-	53,404	-	53,404
Abandonment costs	-	4,080	-	4,080
Corporate acquisition – note 9	-	197,706	-	197,706
Balance at December 31, 2011	\$ 4,407	\$ 360,082	\$ 292	\$ 364,781
Additions	123	25,783	6	25,912
Transfer from E&E assets	-	-	-	-
Abandonment costs	-	1,579	-	1,579
Balance at March 31, 2012	\$ 4,530	\$ 387,444	\$ 298	\$ 392,272
Accumulated Depreciation, Depletion and Amortization				
Balance at December 31, 2010	\$ 578	\$ 781	\$ 69	\$ 1,428
Depletion and depreciation for the year	598	53,101	73	53,772
Disposals	-	-	-	-
DD&A included in crude oil inventory costing	-	9,725	-	9,725
Balance at December 31, 2011	\$ 1,176	\$ 63,607	\$ 142	\$ 64,925
Depletion and depreciation for the year	185	42,500	15	42,700
Disposals	-	-	-	-
DD&A included in crude oil inventory costing	-	(551)	-	(551)
Balance at March 31, 2012	\$ 1,361	\$ 105,556	\$ 157	\$ 107,074
Net book value:				
At December 31, 2010	\$ 1,235	\$ 10,970	\$ 160	\$ 12,365
At December 31, 2011	\$ 3,231	\$ 296,475	\$ 150	\$ 299,856
At March 31, 2012	\$ 3,169	\$ 281,888	\$ 141	\$ 285,198

In the three months ended March 31, 2012 additions mainly relate to development expenditures in Colombia.

In the prior year ended December 31, 2011 Parex increased PP&E by \$197.7 million and E&E assets by \$80.1 million related to recording the fair values of the assets acquired in the corporate acquisition (see note 9 – Business Combination) including the net costs in excess of the net revenue associated with the acquired assets since the January 1, 2011 effective date to the date of the acquisition closing on June 29, 2011.

9. Business Combination

On June 29, 2011, Parex acquired Remora Energy Colombia Ltd. (“Remora”) which held the other 50 percent interest Parex did not already own in four Llanos Basin blocks in Colombia, including Block LLA-16 and the Kona discovery (the “Acquisition”). The Acquisition was funded through a bought deal public offering of Cdn\$217.35 million of subscription receipts and Cdn\$85.0 million of extendible convertible unsecured subordinated debentures (the “Offering”). With the close of the Acquisition, Parex has increased its working interest from 50 percent to 100 percent. The Acquisition is underpinned by the Kona multi-zone light oil field and an inventory of exploration prospects.

The statement of comprehensive income (loss) includes Remora’s results of operation since the Acquisition date June 29, 2011 and expensed transaction costs associated with the acquisition of \$2.1 million. This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, are recorded at fair values. The following table summarizes the recognizable assets acquired and consideration transferred pursuant to the acquisition:

Assets acquired and liabilities assumed		
PP&E	\$	197,706
E&E assets		80,146
Working capital deficiency		(21,246)
Deferred tax liability		(64,401)
Goodwill		61,252
Decommissioning liabilities		(470)
	\$	252,987

Consideration for the acquisition		
Cash paid	\$	254,335
Cash acquired		(1,348)
Total consideration paid net of cash acquired	\$	252,987

Included in the working capital deficiency of assets acquired are accounts receivable of \$2.0 million. The receivables are trade receivables for which the fair value approximates its carrying value.

The goodwill recognized on acquisition is attributed to the strategic benefit of the significant undeveloped land in the Llanos Basin. The goodwill recognized is not deductible for tax purposes.

10. Goodwill

	March 31, 2012		December 31, 2011	
Balance, beginning of period	\$	61,252	\$	-
Remora acquisition		-		61,252
Balance, end of period	\$	61,252	\$	61,252

Impairment test of goodwill

The impairment test of goodwill completed at December 31, 2011 concluded that the estimated recoverable amount exceeded the carrying amount. As such, no goodwill impairment existed.

11. Net Finance Expense

For the three months ended March 31,	2012		2011	
Interest expense on convertible debentures	\$	1,114	\$	-
Accretion on convertible debentures		844		-
Accretion on decommissioning liability		63		8
Gain on derivative financial liability		(369)		-
Amortization of debt issuance costs		127		-
Interest and other income		(616)		(207)
Net finance expense	\$	1,163	\$	(199)

For the three months ended March 31,	2012		2011	
Non-cash finance expense (income)	\$	667		8
Cash finance expense		496	\$	(207)
Net finance expense	\$	1,163		(199)

12. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	March 31, 2012	December 31, 2011
Long-term SARs payable	\$ 759	\$ 502
Long-term equity tax payable	1,314	1,314
	<u>\$ 2,073</u>	<u>\$ 1,816</u>

The outstanding amount of the equity tax provision is \$2.0 million. Included in this amount is \$1.3 million which is classified as long term, as the equity tax is payable over a four year period.

13. Decommissioning Liabilities

	March 31, 2012	December 31, 2011
Balance, beginning of period	\$ 5,105	\$ 651
Additions	1,769	4,253
Corporate acquisition	-	470
Liabilities incurred during the period	-	-
Settlements of obligations during the period	-	(467)
Change in estimates	(106)	101
Accretion expense	63	97
Balance, end of period	<u>\$ 6,831</u>	<u>\$ 5,105</u>

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at March 31, 2012, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$11.4 million as at March 31, 2012 (December 31, 2011 – \$11.9 million) with the majority of these costs anticipated to occur in 2030 or later in Trinidad and 2020 or later in Colombia. A risk-free discount rate of 4.4 % and an inflation rate of 3.0 % were used in the valuation of the liabilities (December 31, 2011 – 4.0% percent risk free discount rate and a 3.0% percent inflation rate).

14. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2010	76,968,285	\$ 198,857
Issued for cash	31,050,000	223,958
Issued for cash – exercise of options	282,083	870
Allocation of contributed surplus – exercise of options	-	379
Share issuance costs	-	(12,143)
Balance, December 31, 2011	108,300,368	\$ 411,921
Issued for cash	-	-
Issued for cash – exercise of options	110,033	335
Allocation of contributed surplus – exercise of options	-	147
Share issuance costs	-	-
Balance, March 31, 2012	108,410,401	\$ 412,403

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

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's directors, officers, certain employees and certain 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, 2011	8,288,242	5.79
Granted	200,000	7.38
Exercised	(110,033)	3.04
Forfeited	-	-
Balance, March 31, 2012	8,378,209	5.86

Stock options outstanding and the weighted average remaining life of the stock options at March 31, 2012 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$3.04 - \$3.55	2,694,134	2.5	3.04	1,704,542	2.5	3.04
\$3.56 - \$7.50	1,390,000	3.6	5.84	381,663	3.0	4.75
\$7.51 - \$7.62	2,593,486	4.6	7.56	-	-	-
\$7.63 - \$7.77	1,413,089	3.7	7.75	454,344	3.7	7.75
\$7.78 - \$7.95	287,500	4.1	7.83	50,000	3.7	7.84
	8,378,209	3.6	5.86	2,590,549	2.8	4.21

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,	2012	2011
Risk-free interest rate (%)	1.07	2.08
Expected life (years)	3	3
Expected volatility (%)	48	64
Expected dividends	-	-

The weighted average fair value at the grant date for the three months ended March 31, 2012 was Cdn\$2.41 per option (three months ended March 31, 2011 – Cdn\$3.08 per option). The weighted average share price on the exercise date for options exercised in the three months ended March 31, 2012 was Cdn\$7.12 (three months ended March 31, 2011 – Cdn\$9.21)

c) Share appreciation rights

Parex Trinidad and Parex Colombia initiated a SARs plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company's common shares at the time of exercise over the grant price. At any time, if the current market price of the Company's common shares exceeds four times the grant price, Parex has the option to require the holders to exercise all vested SARs. SARs typically vest over a three-year period and expire 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, 2011	1,817,422	\$ 7.10
Granted	91,275	7.45
Forfeited	-	-
Balance, March 31, 2012	1,908,697	\$ 7.10

As at March 31, 2012, 684,555 SARs were vested (December 31, 2011 – 631,376).

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

For the three months ended March 31,	2012	2011
Risk-free interest rate (%)	1.33	2.10
Expected life (years)	3	3
Expected volatility (%)	48	64
Expected dividends	-	-

As at March 31, 2012, the total SARs liability accrued was \$2.5 million (December 31, 2011 - \$1.8 million) of which \$759,000 (December 31, 2011 - \$502,000) is classified as long-term in accordance with the three year vesting period. For the three months ended March 31, 2012, Parex recorded \$569,000 of compensation cost related to the outstanding SARs (three months ended March 31, 2011 - \$499,000)

d) Stock-based compensation and SARs expense

For the year three months ended March 31,	2012	2011
Stock-based compensation expense	\$ 1,866	\$ 1,355
SARs expense	569	499
	\$ 2,435	\$ 1,854

15. Convertible Debenture

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

On issuance, the Debentures were split between the financial liability and the equity conversion feature (which is classified as a derivative financial liability under IFRS). The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature from the principal of the Debentures. At the date of issue the \$87.5 million (Cdn\$85.0 million) gross issuance proceeds resulted in \$64.3 million (Cdn\$62.4 million) being classified as a liability and \$23.3 million (Cdn\$22.6 million) being classified as a derivative financial liability. The fair value of the conversion feature is estimated every balance sheet date with changes in the fair value estimate between periods recognized in the statement of comprehensive income (loss) as finance expense.

The following table summarizes the accounting for the debentures:

	Liability	Derivative financial liability	Total
Issuance of Debentures on June 29, 2011 (net of \$3.5 million of issuance costs)	\$ 60,809	\$ 23,266	\$ 84,075
Accretion	1,738	-	1,738
Amortization of debt issuance costs	262	-	262
Derivative gain	-	(5,091)	(5,091)
Foreign exchange gain	(2,808)	(1,354)	(4,162)
Balance at December 31, 2011	\$ 60,001	\$ 16,821	\$ 76,822
Accretion	844	-	844
Amortization of debt issuance costs	127	-	127
Derivative gain	-	(369)	(369)
Foreign exchange loss	1,176	329	1,505
Balance at March 31, 2012	\$ 62,148	\$ 16,781	\$ 78,929

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

The fair value of the derivative financial liability is determined using the Black Scholes valuation model and with the following assumptions:

For the period ended March 31,	2012
Risk-free interest rate (%)	1.33
Expected life (years)	4.25
Expected volatility (%)	48
Expected dividends	-

16. Income Tax

The components of tax expense for the three months ended March 31, 2012 and 2011 were as follows:

For the three months ended March 31,	2012		2011
Current income tax expense	\$	2,509	\$ -
Deferred income tax expense		8,698	866
Total income tax expense	\$	11,207	\$ 866

Factors affecting tax expense for the year

The standard Colombian corporate income tax rate for 2012 is expected to be 33 percent. The following is a reconciliation of income taxes calculated at the Colombian corporate tax rate to the tax expense for the three months ended March 31, 2012 and 2011:

For the three months ended March 31,	2012		2011
Income before tax	\$	38,511	\$ 1,889
Income before tax multiplied by the standard rate of Colombian corporate tax of 33% (2011 – 33%)		12,709	623
Effects of:			
Income taxes recorded at rates different from the Colombian tax rate		170	458
Expenses not deductible for tax purposes		(150)	48
Share based compensation		616	453
Deferred tax assets not recognized		1,594	1,352
Foreign exchange gain on Colombian non-monetary assets		(3,732)	(2,068)
Total tax expense	\$	11,207	\$ 866

Colombian Equity Tax

Parex' Colombian subsidiary was subject to a one-time tax which was calculated based on the subsidiary's net taxable equity as at January 1, 2011 at a rate of 6 percent. The equity tax is payable over four years (1.5 percent per year) in eight equal installments every May and September starting in 2011. The outstanding amount is \$2.0 million, to be paid over the remaining six installments of which \$657,000 is due within one year.

17. Net Income per Share

a) Basic net income per share

For the three months ended March 31,	2012	2011
Net income		
Net income for the purpose of basic net income per share	\$	27,304
		1,023
Weighted average number of shares for the purposes of basic net income per share (000s)		108,335
		77,123
Basic net income (loss) per share	\$	0.25
		\$ 0.01

b) Adjusted diluted net income per share

For the three months ended March 31,	2012	2011
Net income		
Net income for the purpose of basic net income per share	\$ 27,304	\$ 1,023
Elimination of interest and accretion expense and the gain on changes in fair value and foreign exchange, net of tax, on the Debentures and derivative financial liability	2,107	-
Net income used to calculate diluted net income per share	\$ 29,411	\$ 1,023
Weighted average number of shares for the purposes of basic net income per share (000s)	108,335	77,123
Dilutive effect of share options on potential common shares	888	1,960
Dilutive effect of Debentures on potential common shares	8,374	-
Weighted average number of shares for the purposes of diluted net income per share	117,597	79,083
Diluted net income per share	\$ 0.25	\$ 0.01

At March 31, 2012, 4,369,075 (December 31, 2011 - 2,199,987) share options had an exercise price in excess of the average market value of the shares from the option grant date to the end of the period. As a result, these share options are excluded from the calculation of diluted earnings per share.

18. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the three months ended March 31,	2012	2011
Accounts receivable	\$ (10,258)	\$ (10,284)
Prepays and other current assets	1,144	(1,240)
Oil inventory	1,704	-
Accounts payable and accrued liabilities	(633)	6,163
Depletion related to oil inventory	(551)	-
Net change in non-cash working capital	\$ (8,594)	\$ (5,361)
Operating	\$ (7,044)	\$ 5,709
Investing	(1,550)	(10,954)
Financing	-	(116)
Net change in non-cash working capital	\$ (8,594)	\$ (5,361)

b) Interest and taxes paid

For the three months ended March 31,	2012	2011
Cash interest paid	\$ -	\$ -
Cash income and equity taxes paid	\$ -	\$ -

19. 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.

As at March 31, 2012 the Company has not arranged a banking credit facility. The Company has, however provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the initial exploration work commitments (see note 22 - Commitments).

As at March 31, 2012, the Company's net working capital was \$116.3 million (December 31, 2011 – \$92.9 million), attributable to the May 17, 2011 offering which provided approximately \$41.3 million (Cdn\$40.1 million) of additional funds beyond those required to close the Acquisition (see note 9 – Business Combination). Further, during the three months ended March 31, 2012 the Company's funds flow from operations was in excess of its capital expenditures, and accordingly net working capital during the period increased.

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company's working capital is in excess of its current commitments and the Company has no bank debt. The Company considers its capital structure at this time to include shareholders equity plus Debentures (excluding the associated derivative financial liability). As at March 31, 2012 shareholders equity was \$447.4 million (December 31, 2011 - \$417.9 million) and the Debentures' face value balance was Cdn\$85.0 million (December 31, 2011 – Cdn\$85.0 million).

20. Financial Instruments and Risk Management

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

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

a) Credit risk

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money do not meet their obligations. The Company assesses the financial strength of its joint venture partners and marketing counterparties in its management of credit exposure.

The Company, for the three months ended March 31, 2012, had the majority of its oil sales to four counterparties. Accounts receivable balance at March 31, 2012 is substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. Accounts receivable reported in the Company's balance sheet are aged at or under thirty days. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. As at March 31, 2012, the Company considers itself to be well-capitalized, with working capital in excess of current commitments. The Debentures are unsecured and subordinated with expiry on June 30, 2016.

The following are the contractual maturities of financial liabilities at March 31, 2012:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 66,762	\$ -	\$ -	\$ -	\$ 66,762
SARs payable	1,766	759	-	-	2,525
Debentures ⁽¹⁾	-	-	85,213	-	85,213
Interest on Debentures ⁽¹⁾	4,474	8,947	5,592	-	19,013
Total	\$ 73,002	\$ 9,706	\$ 90,805	\$ -	\$ 173,513

⁽¹⁾ Balances denominated in Canadian dollars have been translated at the March 31, 2012 exchange rate.

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

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 68,398	\$ -	\$ -	\$ -	\$ 68,398
SARs payable	1,328	502	-	-	1,830
Debentures ⁽¹⁾	-	-	83,581	-	83,581
Interest on Debentures ⁽¹⁾	4,463	8,925	6,693	-	20,081
Total	\$ 74,189	\$ 9,427	\$ 90,274	\$ -	\$ 173,890

⁽¹⁾ Balances denominated in Canadian dollars have been translated at the December 31, 2011 exchange rate.

c) Commodity price risk

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

d) Foreign currency risk

The Company is exposed to foreign currency risk as various portions of its cash balances are held in Canadian dollars (Cdn\$), Colombian pesos (COP\$) and Trinidad & Tobago dollars (TT\$) while its committed capital expenditures are expected to be primarily denominated in US dollars. The 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, 2012, 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 year had the exchange rate changed by 5 cents:

	Impact on net income	
Foreign currency exchange rate		
Cdn\$/US\$	\$	5,003
COP\$/US\$	\$	1,796
TT\$/US\$	\$	398

21. Segmented Information

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

For the three months ended March 31, 2012

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	129,989	\$	-	\$ 129,989
Royalties		-		(9,623)		-	(9,623)
Revenue		-		120,366		-	120,366
Expenses							
Production		-		7,752		-	7,752
Transportation		-		21,677		-	21,677
General and administrative		1,680		2,131		704	4,515
Transaction costs		-		-		-	-
Share-based compensation		1,775		516		144	2,435
Depletion, depreciation and amortization		185		42,494		21	42,700
Foreign exchange loss (gain)		1,119		494		-	1,613
		4,759		75,064		869	80,692
Finance income		607		582		(573)	616
Finance expense		(1,716)		(60)		(3)	(1,779)
		(1,109)		522		(576)	(1,163)
Net income (loss) before taxes		(5,868)		45,824		(1,445)	38,511
Current and equity tax expense		-		2,509		-	2,509
Deferred tax expense		-		8,698		-	8,698
Net income (loss)	\$	(5,868)	\$	34,617	\$	(1,445)	\$ 27,304
Capital assets (end of period)	\$	3,169	\$	400,455	\$	51,856	\$ 455,480
Capital expenditures	\$	123	\$	52,369	\$	6,903	\$ 59,395
Total assets (end of period)	\$	85,788	\$	548,232	\$	69,323	\$ 703,343

For the three months ended March 31, 2011

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	9,853	\$	-	\$ 9,853
Royalties		-		(682)		-	(682)
Revenue		-		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 loss before taxes		(1,407)		3,788		(492)	1,889
Deferred tax expense		-		866		-	866
Net loss	\$	(1,407)	\$	2,922	\$	(492)	\$ 1,023
Capital assets (end of period)	\$	1,135	\$	50,882	\$	33,707	\$ 85,724
Capital expenditures	\$	38	\$	14,726	\$	3,388	\$ 18,152
Total assets (end of period)	\$	92,060	\$	89,082	\$	39,379	\$ 220,521

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

22. Commitments

a) Llanos Basin (“LLA”) Blocks (Colombia)

At March 31, 2012 guarantees to the ANH totalled \$38.0 million (December 31, 2011 – \$45.0 million) to support the initial exploration work commitments in respect of the five blocks in Colombia. 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; May 2013 for Block LLA-29 and Block LLA-30 and September 2014 for Block LLA-57.

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 been reduced to reflect the seismic work on Blocks LLA-16, LLA-20, LLA-29 and the exploratory drilling of the Kona-1 and Kona-2a wells on Block LLA-16, and seismic and exploratory drilling of Cumbre-1 on Block LLA-20.

The value of the Company’s exploration commitments as at March 31, 2012 in respect of the Llanos Basin blocks are estimated to be as follows:

(000s)		
2012	\$	47,458
Thereafter		-
	\$	47,458

b) Central Range Blocks and Moruga Block (Trinidad & Tobago)

The Company has purchased a performance bond and provided a guarantee to the underwriters in the amount of approximately \$33 million to cover both its and Niko Resources Ltd. (“Niko”) share of the financial guarantees required under the Production Sharing Contracts (“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.

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, 2012, are estimated to be as follows:

(000s)		Exploration		Other		Total
2012	\$	4,579	\$	346	\$	4,925
2013		11,329		1,589		12,918
2014		-		3,111		3,111
Thereafter		-		-		-
	\$	15,908	\$	5,046	\$	20,954

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

c) Operating leases

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

The existing minimum lease payments for office space and accommodations at March 31, 2012 are as follows:

	Total	2012	2013	2014	2015	2016
Office and accommodations	\$ 2,139	\$ 711	\$ 725	\$ 564	\$ 139	\$ -

d) Drilling rig contracts

The Company has entered into contracts for drilling rigs in Colombia and Trinidad & Tobago on terms consistent with normal industry practice for a minimum period of time. 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. The drilling rig commitments have been entered into to fulfill the exploration drilling commitments in both Colombia and Trinidad and Tobago as described above along with the companies 2012 budgeted work program.

23. Subsequent Event

On April 12, 2012 Parex, through a wholly owned subsidiary, entered into a purchase and sale agreement with a Bermuda based subsidiary (the "Seller") of Nabors Industries Ltd., to acquire its wholly owned subsidiary ("Bermuda Co") (the "Acquisition"). The Acquisition has an effective date of February 29, 2012. The consideration paid for Bermuda Co. Class A shares was approximately US\$72.6 million in cash, including customary closing adjustments. Bermuda Co has no bank debt and an estimated working capital deficiency as at February 29, 2012 of \$2.4 million. Parex assumed \$17.7 million in letters of credit related to Bermuda Co's interests post closing. Bermuda Co's assets are interests in five blocks located in Colombia's Llanos Basin and two blocks located in the Middle Magdalena Basin in Colombia.

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbbls	barrels
mbbls	one thousand barrels
mmbbls	one million barrels
NGLs	natural gas liquids
bbbls/d	barrels of oil 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
WTI	West Texas Intermediate

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