FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 onshore exploration blocks totaling approximately 1,567,662 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 period ended September 30, 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:

- terms of the Company's Debentures; terms of the Company's secured credit facility;
- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- activities to be undertaken in various areas including the fulfillment of exploration commitments;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- terms of the farm-in agreements for the Los Ocarros Block; terms of agreement to acquire an additional 25 percent interest in the Los Ocarros Block and the effect of completion of such transaction on Parex' interest in the Block and operatorship;
- terms of the farm-in agreements for the El Eden and Cabrestero blocks and the effect of completion of such transaction on Parex's interest in the blocks and operatorship;
- terms of agreement to acquire an additional 25 percent interest in the El Eden Block and the effect of completion of such transaction on Parex' interest in the Block and operatorship;
- terms of the PSCs (as defined herein) on the Central Range Shallow and Central Range Deep Blocks and the timing of release of exploration property deemed non commercial;
- the Company's expected exit rate production for 2012 and for the period October 1 to December 31, 2012 and the Company's review of such exit rate pending the evaluation of drilling on LLA-32, LLA-34 and Cabrestero Blocks;

- the Company's expected capital expenditures for 2012; the status of the Company's review of transportation and marketing alternatives in an effort to maximize the net proceeds from production in Colombia;
- effect of increased production and pricing on the Company's royalty rates;
- anticipated timing of reaching the five million barrel threshold for the Kona Production Area;
- expected average production costs and effect of additional productive fields on such costs;
- effect of operating additional oil fields in different blocks on the Company's production costs;
- anticipated effect of a rise in capital and operating activities in Colombia and Trinidad & Tobago and the costs of integrating the operations of Ramshorn International Ltd. in the coming months on gross general and administrative expenses;
- terms of stock option plan and share appreciation rights plan;
- foreign currency risk;
- ability to reverse unrealized foreign exchange gains and losses in the future;
- expected effective Colombian corporate income tax rate for 2012;
- effect of capital spending on the Company's growth strategy;
- status of lawsuit brought in Texas against Parex and certain foreign subsidiaries and Parex' plans to defend such lawsuit in the event the Texas Court determines that it has jurisdiction over Parex;
- planned capital expenditures, the timing thereof and the method of funding;
- the Company's ability to fund its capital program and meet its financial obligations;
- financial condition and access to capital;
- terms of guarantees to the ANH (as defined herein);
- drilling plans and timing of drilling, completion and tie-in of wells;
- rig utilization; impact of new and revised accounting pronouncements and critical accounting estimates;
- effect of business environment and risks on the Company; and
- financial and business prospects and financial outlook.

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

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada, Colombia and Trinidad & Tobago; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced, in Canada, Colombia and Trinidad & Tobago; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada, Colombia and Trinidad & Tobago; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; volatility in market prices for oil and natural gas; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; failure of counterparties to perform under the terms of their contracts; the risks discussed under "*Risk Factors*" in the Company's Annual Information Form dated March 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; the successful completion of the agreements to acquire additional interests in the El Eden Block and the Los Ocarros Block; the status of litigation; 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 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 and does not include any undrawn credit facility amount. 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 capital expenditures.

Three months ended September 30, 2012 (“third quarter or Q3”) Highlights

- Achieved quarterly oil production of 10,874 bopd, a four percent increase over the second quarter of 2012;
- Realized quarterly Brent referenced sales price of $107.53 per barrel (“bbl”) and an operating netback of $70.57 per bbl;
- Generated third quarter funds flow from operations of $42.0 million ($0.39 per share basic) and adjusted net income of $7.5 million ($0.07 per share basic). Funds flow in the quarter was reduced because the current tax provision was increased by $15 million over the previous quarter due to continued strong operating netbacks, production growth and exploration success;
- Participated in 5 wells (2.5 net) in Colombia during the third quarter including one new discovery;
- Increased the current borrowing base of a reserve base facility from $50 million to $75 million. This reserve based facility was undrawn at September 30, 2012; and
- Continued to increase monthly production with October production of approximately 12,400 bopd primarily driven by production increases from Kona, Las Maracas, Maniceno and Tua fields. Las Maracas-5 and Tua-3 are expected to be added to production prior to year-end 2012.

Financial Summary

	For the three months ended September 30,		For the nine months ended September 30,	
(Financial figures in 000s except per share amounts)	**2012**	2011	**2012**	2011
Average daily oil production (bopd)	**10,874**	7,031	**10,960**	3,324
Realized sales price (/bbl)	$ **107.53**	$ 97.64	$ **110.61**	$ 98.30
Operating netback (/bbl)	$ **70.57**	$ 67.40	$ **75.17**	$ 67.30
Oil sales	$ **130,824**	$ 54,429	$ **373,900**	$ 75,001
Funds flow from operations [(1)]	**42,012**	31,814	**187,123**	35,109
Per share – basic	**0.39**	0.29	**1.73**	0.42
Per share – diluted [(6)]	**0.39**	0.27	**1.61**	0.40
Adjusted net income (loss)[(1) (2)]	**7,490**	22,955	**46,078**	18,241
Per share – basic	**0.07**	0.06	**0.43**	0.05
Per share – diluted	**0.07**	0.06	**0.39**	0.04
Net Income	**7,538**	14,823	**55,762**	11,158
Per share – basic	**0.07**	0.14	**0.51**	0.13
Per share – diluted [(7)]	**0.07**	0.13	**0.44**	0.12
Capital Expenditures, excluding corporate acquisitions	**50,902**	54,485	**202,811**	95,966
Total assets (end of period)	**789,546**	619,240	**789,546**	619,240
Working capital (deficit) surplus [(5)] (end of period)	**(9,014)**	77,890	**(9,014)**	77,890
Debenture (end of period) [(3)]	**65,251**	57,226	**65,251**	57,226
Bank debt (end of period)	**-**	-	**-**	-
Weighted average shares outstanding (000s)				
Basic	**108,422**	108,215	**108,390**	87,843
Diluted	**109,340**	118,064	**118,183**	92,105
Outstanding shares (end of period) (000s)				
Basic	**108,422**	108,215	**108,422**	108,215
Diluted[(4)]	**126,638**	122,295	**126,638**	122,295

(1) Non GAAP measure. See “Non GAAP Measures”.
(2) Adjusted net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three and nine months ended September 30, 2012 adjusted net income excludes a $0.5 million and $9.7 million reduction of the gain upon revaluation of the derivative liability associated with the Company’s convertible debenture (Three and nine months ended September 30, 2011 includes an $8.1 million and 7.1 million addition of the loss upon revaluation of the derivative liability).
(3) Debentures will accrete up to the face value amount of Cdn $85.0 million over the remaining term of the Debenture to June 30, 2016.
(4) Diluted outstanding shares include all potential common shares including potential dilution in respect of the Debentures.
(5) Working capital calculation does not take into consideration the undrawn $75 million available under the secured credit facility.
(6) Includes cash interest on the convertible debenture in the funds flow from operations balance.

(7) Net income diluted has been adjusted for the IFRS accounting effects of changes in the convertible debenture. For the three months ended September 30, 2012 the effect of the convertible debenture is anti dilutive and for the nine months ended September 30, 2012 there is a $4.2 million reduction relating to accretion, interest, foreign exchange and gain upon revaluation of the derivative liability (Three and nine months ended September 30, 2011 is nil)

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 September 30, 2012, the Company's principal land holdings and interests in exploration blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
Operated Properties			
Blocks LLA-16, 20, 29 and 30 [1]	100%	489,137	489,137
Block LLA-57[2]	100%	104,532	104,532
Block Los Ocarros[3]	50%	110,436	55,218
Block LLA-17[4]	40%	108,726	43,491
Block El Eden[5]	60%	109,249	65,549
Block Cabrestero[6]	50%	29,562	14,781
Block LLA-40 [7]	50%	163,090	81,545
Non-Operated Properties			
Block LLA-32 [4]	30%	100,325	30,097
Block LLA-34 [4]	45%	82,286	37,029
Colombia Middle Magdelena			
Non-Operated Properties			
Morpho[4]	50%	51,398	25,699
Trinidad & Tobago			
Operated Properties			
CRBs[8]	50%	211,478	105,739
Moruga Block[9]	83.80%	7,443	6,237
Total		1,567,662	1,059,054

Exploration properties that are deemed non-commercial will be released in due course.

(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 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 Block LLA-20. Extensions for the initial phase were granted on Blocks LLA-29 and LLA-30 to June 8, 2013 and April 20, 2013 respectively. Exploration property deemed non-commercial will be released in due course. The Company has entered into the second phase in LLA-16 and LLA-20 on July 2, 2012 and July 29, 2012 respectively.

(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 initial exploration phase commenced on March 23, 2011.

(3) In September, 2011, Parex fulfilled the farm-in work commitment to earn 50 percent interest in the Las Maracas discovery 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 Las Maracas. In February 2012, the Company entered into an agreement to acquire an additional 25 percent for approximately $1.5 million. Parex' working interest will increase to 50 percent in the entire Block and Parex will receive operatorship subject to regulatory approval.

(4) Block LLA -17, Block LLA -32, Block LLA 34, and Morpho have had their initial exploration commitments satisfied as of July 31, 2012.

(5) Under the El Eden farm-in, Parex has paid US$3.5 million for reimbursement of prior 3D seismic costs and will fund the first 65 percent of an exploratory commitment well that was spud on September 4, 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 pending approval, will increase Parex' working interest to 60 percent in the Block and provide for operatorship.

(6) In March, 2012, Parex entered into a farm-in agreement on the Cabrestero Block located in the Llanos Basin. The Company has earned a 50 percent working interest in the Block by paying 100 percent of the cost to drill and evaluate the Kitaro-1 exploration well. Parex will become operator upon receiving regulatory approval of the farm in.

(7) Remaining obligations for Block LLA-40 in the initial exploration phase of the E&P contract is to drill four exploration wells. Parex has acquired 308 kilometers of 3D seismic. The initial phase is a period of 36 months, with an option to enter into a second 36 month exploration phase. The initial exploration phase commenced June 14, 2011.

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

20 percent interest in any development on the Central Range Deep Block. The initial exploration phase under the Company's PSCs has been extended to September 18, 2014.

(9) The Moruga Block had the final earning confirmed on April 27, 2011. The initial phase exploration commitments are satisfied.

2012 Outlook

For the fourth quarter of 2012, Parex currently plans a self-funding capital investment program of approximately $45-50 million and a 2012 exit rate of 13,000-14,000 bopd.

In early 2013, after evaluating the results of ongoing exploration and appraisal activity, and finalizing partner budgets, Parex expects to be in a position to update shareholders on 2013 capital expenditure plans and production guidance.

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 September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Average daily production				
Colombia – oil (bopd)	**10,874**	7,031	**10,960**	3,324
Total (bopd)	**10,874**	7,031	**10,960**	3,324
Average daily sales of produced oil				
Colombia – oil (bopd)	**10,833**	6,058	**11,534**	2,795
Total (bopd)	**10,833**	6,058	**11,534**	2,795
Operating netback ($000s)[1]				
Oil and natural gas sales	**$ 130,824**	$ 54,429	**$ 373,900**	$ 75,001
Royalties	**(8,041)**	(4,480)	**(26,531)**	(6,357)
Net revenue	**122,783**	49,949	**347,369**	68,644
Production expense	**(9,242)**	(3,426)	**(24,164)**	(4,661)
Transportation expense	**(23,872)**	(8,949)	**(65,544)**	(12,633)
Purchased oil expense	**(15,896)**	-	**(17,409)**	-
Operating netback	**$ 73,773**	$ 37,574	**$ 240,252**	$ 51,350
Operating netback (per bbl) [1]				
Oil and natural gas sales	**107.53**	97.64	**110.61**	98.30
Royalties	**(8.07)**	(8.04)	**(8.40)**	(8.33)
Net revenue	**99.46**	89.60	**102.21**	89.97
Production expense	**(9.27)**	(6.15)	**(7.65)**	(6.11)
Transportation expense	**(19.62)**	(16.05)	**(19.39)**	(16.56)
Operating netback	**$ 70.57**	$ 67.40	**$ 75.17**	$ 67.30

(1) Operating netback calculation includes the Company's working interest sales volumes and excludes purchased oil sales volumes.

The Company's operating netback on a per barrel basis for the three and nine months ended September 30, 2012 was $70.57 and $75.17 compared to $73.28 for the second quarter of 2012. The average realized sales price in Colombia for the three and nine months ended was $107.53/bbl and $110.61/bbl compared to $107.54/bbl for the second quarter of 2012. Royalty charges were $8.07/bbl and $8.40/bbl for the three and nine months ended in comparison to $8.43/bbl for the second quarter of 2012. Royalty charge per barrel is calculated by applying the royalty percentage on produced oil sold and is valued at the realized price net of transportation costs. Production expense was $9.27/bbl and $7.65/bbl for the three and nine months ended compared to $6.82/bbl for the second quarter of 2012. Increase is mainly related to non-op partner production and increased water handling costs associated with the operated Kona field. Transportation expense per barrel for the three and nine months ended was $19.62/bbl and $19.39/bbl compared to $19.01/bbl for the second quarter of 2012. Transportation and marketing alternatives continue to be examined by the Company in an effort to maximize the net proceeds from production in Colombia. Overall the price of the Company's benchmark Brent price increased by $1.59/bbl in the third quarter as compared to the second quarter of 2012 while the operating netback declined by $2.71/bbl in the same period.

Colombian Oil Sales

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Block LLA–16 (Kona, Sulawesi, Java, and Malawi fields)	**6,977**	7,031	**9,249**	3,324
Block LLA–20 (Cumbre field)	**1,012**	-	**596**	-
Block Los Ocarros (Las Maracas field)	**1,388**	-	**595**	-
Block Cabrestero (Kitaro field)	**452**	-	**164**	-
Block LLA–32 (Maniceno field)	**529**	-	**185**	-
Block LLA–34 (Max field)	**473**	-	**161**	-
Other	**43**	-	**10**	-
Total Production	**10,874**	7,031	**10,960**	3,324
Inventory changes	**(41)**	(973)	**574**	(529)
Colombia average daily oil sales of produced oil	**10,833**	6,058	**11,534**	2,795

Production for the third quarter of the year averaged 10,874 bopd, an increase of approximately 4 percent from the second quarter average of 2012. Production in the third quarter includes production attributable to the acquisition of Block LLA-32, Block LLA-34 offset by a decrease in production in Block LLA - 16 related to natural declines. There have been no new wells drilled at the Kona field since February 2012 and drilling at Kona will commence again in the fourth quarter with the drilling from the Kona Sur pad. During the three months ended September 30, 2012, inventory in transit decreased by an average of approximately 280 bopd as ending June 30, 2012 inventory volumes were cleared in July and August 2012.

The increase in oil sales in the third quarter of 2012 compared to the reported Colombian oil sales of 6,058 bopd for the three months ended September 30, 2011 was a result of drilling success at Cumbre and Las Maracas, and the Ramshorn acquisition completed in April 2012.

Production in October 2012 has increased by approximately 1,500 bopd from the third quarter and has averaged approximately 12,400 bopd. The production increase in October is primarily a result of net new volumes being added at Kona, Las Maracas, Maniceno and Tua fields.

b) Average Reference and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
WTI ($/bbl)	**92.17**	89.44	**96.11**	95.12
Brent ($/bbl)	**109.63**	113.26	**112.17**	111.98
Realized sales price ($/bbl)	**107.53**	97.64	**110.61**	98.30
Realized hedging loss ($/bbl)	**(0.07)**	-	**(0.02)**	-
Realized price after hedging ($/bbl)	**107.46**	97.64	**110.59**	98.30
Realized price discount as percentage of Brent (%)	**(2)**	(14)	**(1)**	(12)
Realized price premium as percentage of WTI (%)	**17**	7	**15**	3

The Company’s oil sales contracts during the period ended September 30, 2012 were referenced to Brent. The discount to Brent was two percent in the third quarter compared to one percent in the second quarter of 2012.

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

Average price for the period	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Brent ($/bbl)	**109.63**	108.04	118.71	109.42	113.24
Parex realized sales price after hedge gain (loss) ($/bbl)	**107.46**	107.54	116.90	102.15	97.64
Parex realized price discount as percentage of Brent (%)	**(2)**	(1)	(2)	(7)	(14)

c) Oil Revenue

Third quarter 2012 oil revenue increased $76.4 million or 140 percent as reconciled in the table below to the third quarter of 2011:

(000s)		
Oil revenue, three months ended September 30, 2011	$	54,429
Sales volume of produced and purchased oil, an increase of 118% (7,167 bopd)		64,362
Sales price increase of 10%		12,033
Oil revenue, three months ended September 30, 2012	$	130,824

Oil sales increased in the three months ended September 30, 2012 compared to the same period in 2011 due to significant 2011 production volumes coming on stream over the fourth quarter of 2011 and into 2012. Oil sales for the three months ended September 30, 2012 included a drawdown of 25,700 bbls from the second quarter of 2012, see "Colombian Crude Oil Inventory in Transit" below.

d) Colombian Crude Oil Inventory in Transit

(000s) For the nine months ended September 30,		2012		2011
Crude oil in transit	**$**	**10,047**	$	10,261

As at September 30, 2012, the Company had 139,100 bbls of crude oil inventory in transit, which was injected into the Colombian Ocensa and ODC pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately $72.25/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:

(mbbls) For the nine months ended September 30,	2012	2011
Crude oil inventory in transit - beginning of period	**281.5**	-
Oil production	**3,008.5**	942.5
Oil sales	**(3,380.3)**	(763.0)
Purchased oil	**229.4**	-
Crude oil inventory in transit - end of period	**139.1**	179.5

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

(mbbls) For the three months periods ended,	Sept 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011
Crude oil inventory in transit - beginning of the period	**164.8**	232.3	281.5	179.5
Oil production	**1,000.4**	945.3	1,062.8	1,043.4
Oil sales	**(1,216.7)**	(1,051.6)	(1,112.0)	(941.4)
Purchased oil	**190.6**	38.8	-	-
Crude oil inventory in transit– end of the period	**139.1**	164.8	232.3	281.5

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

e) Purchased Oil

	For the three months ended September 30,		For the nine months ended September 30,	
(mbbls)	**2012**	2011	**2012**	2011
Oil purchased	**190.6**	-	**229.4**	-
Purchased oil sales	**(219.9)**	-	**(213.6)**	-
Purchased oil net change in inventory	**(29.3)**	-	**15.8**	-

From time to time the Company will purchase crude oil from partners. The purchases are done as a service as some partners have difficulty selling to other third parties. The preceding table shows the effect of purchased oil on ending inventory balances.

	For the three ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Purchased oil expense ($000's)	**15,896**	-	**17,409**	-
	15,896	-	**17,409**	-

Purchased oil expense for the three months ended September 30, 2012 was $15.9 million as compared to $1.5 million in the preceding quarter and nil for the comparative periods. The average cost per barrel for these respective periods was $83.62/bbl as compared to $65.18/bbl for the period ending June 30, 2012. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Colombian Royalties

	For the three months ended September 30,				For the nine months ended September 30,			
		2012		2011		**2012**		2011
Royalties ($000s)	**$**	**8,041**	$	4,480	$	**26,531**	$	6,357
Per unit ($/bbl) [(1)]	**$**	**8.07**	$	8.04	$	**8.40**	$	8.33
Percentage of sales[(2)]		**9.3%**		10.0%		**8.6%**		10.0%

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

(2) Net of transportation costs

The Company's Colombian government royalties are generally comprised of a fixed rate of 8 percent, supplemented with an x-factor based upon the E&P contract terms. Parex has an additional 1 percent x- factor on Blocks LLA -16, 20,29,30,57,17,32,34 and 40. Las Maracas and Cabrestero blocks have a fixed 8% royalty rate. 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 $90 per bbl, the production area's royalty percentage will increase by approximately 22 percent and total approximately 31 percent. At September 30, 2012 the Kona Production Area had produced 4.4 million bbls. It is expected that the 5 million barrel threshold for the Kona Production Area will be reached in late 2012 to early 2013.

Colombian Production Expense

	For the three months ended September 30,				For the nine months ended September 30,			
		2012		2011		**2012**		2011
Production expense ($000s)	**$**	**9,242**	$	3,426	**$**	**24,164**	$	4,661
Per unit ($/bbl) [(1)]	**$**	**9.27**	$	6.15	**$**	**7.65**	$	6.11

A breakdown of the production expense on a per bbl basis between operated and non-operated fields are provided below:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Per unit ($/bbl) – based on sales volumes - operated [(1)]	**$ 8.58**	$ 6.15	**$ 7.41**	$ 6.11
Per unit ($/bbl) – based on sales volumes - non-operated [(1)]	**$ 16.84**	$ -	**$ 15.95**	$ -

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

Production expense includes the cost of activities in the field to operate wells and facilities, lift to surface, gather, process, treat and store production. Production expense for the current quarter on a per barrel basis is higher in comparison of the second quarter of $6.82/bbl. Operated properties production expense in the third quarter was $8.58/bbl and non operated properties production expense was $16.84/bbl. The increase in the operated properties relate to increased water handling costs in the Kona field, which we expect to be reduced with the implementation of gas powered electrification facilities currently being introduced.

Production expense on a per barrel basis has increased in the three months ended September 30, 2012 as compared to the same period in 2011 due to higher non-operated property expenses and increased water handing costs associated with the Kona field.

Colombian Transportation Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Transportation expense ($000s)	**$ 23,872**	$ 8,949	**$ 65,544**	$ 12,633
Per unit ($/bbl)	**$ 19.62**	$ 16.05	**$ 19.39**	$ 16.56

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 September 30, 2012, the cost of transportation on a per barrel basis has increased to $19.62/bbl from the second quarter of $19.01/bbl. The increase relates to a pipeline tariff increase effective July 2012. Transportation costs may fluctuate from period to period dependent upon the mix of delivery point and purchaser of crude oil.

General and Administrative Expense ("G&A")

	For the three months ended September 30,		For the nine months ended September 30,	
($000s)	**2012**	2011	**2012**	2011
Gross G&A	**$ 8,393**	$ 5,820	**$ 26,780**	$ 15,871
G&A recoveries	**(557)**	(148)	**(814)**	(1,942)
Capitalized G&A	**(1,027)**	(1,434)	**(5,880)**	(2,575)
Net G&A expense	**$ 6,809**	$ 4,238	**$ 20,086**	$ 11,354

Net G&A was $20.1 million for the nine months ended September 30, 2012 compared to $11.3 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 expense and employee costs. Costs were higher than the comparative period as a result of increased activity levels. For the third quarter of 2012 net G&A was mainly comprised of $4.7 million relating to staff, consultants and professional services, $0.7 million relating to office costs, $0.7 million relating to legal fees and $0.7 million relating to various other expenses. The Company engages local in-country staff at the earliest opportunity and local professional services to improve execution and manage costs. A total of 185 full-time-equivalents in three locations were working for Parex as at September 30, 2012 compared to 157 as at June 30, 2012 and 86 as at September 30, 2011.

Share Based Compensation Expense

($000s)	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Stock options	**$ 1,870**	$ 1,329	**$ 5,548**	$ 4,038
Share appreciation rights	**749**	(486)	**(70)**	221
Share-based compensation expense	**$ 2,619**	$ 843	**$ 5,478**	$ 4,259

Share-based compensation expense was $5.5 million for the nine months ended September 30, 2012 compared to $4.3 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 September 30, 2012, stock options outstanding were 9,842,429 equaling nine percent of the common shares outstanding at the end of the third quarter. A total of 121,283 options were exercised and 1,750,470 options were granted during the nine months ended September 30, 2012. As at September 30, 2012, the weighted average fair value upon grant date of the options outstanding based upon the Black Scholes option value methodology was Cdn$1.68 per option (September 30, 2011 – Cdn$2.65 per option). The weighted average grant price for the nine months ended September 30, 2012 was Cdn$4.85 per option (September 30, 2011 – Cdn$7.23).

Share appreciation rights (“SARs”) expense was $0.1 million for the nine months ended September 30, 2012 compared to $0.2 million for the same period in 2011. As at September 30, 2012, 2,679,212 SARs were outstanding all of which were granted to employees in Colombia and Trinidad & Tobago. The weighted average exercise price at September 30, 2012 of the SARs outstanding was Cdn$6.40 per SAR (September 30, 2011 – Cdn$6.92 per SAR).

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

	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
DD&A expense ($000s)	**$ 41,975**	$ 14,787	**$ 132,313**	$ 17,429
Per unit ($/bbl) (1)	**$ 41.96**	$ 22.86	**$ 44.06**	$ 19.14

(1) DDA per unit ($/bbl) is calculated using Company working interest production volumes.

DD&A is primarily associated with production assets in Colombia and also includes the depreciation and amortization of corporate assets such as computer equipment, office furniture and leasehold improvements. The net carrying value of production assets are depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves, while also taking into account estimated future development costs necessary to bring those reserves into production. Third quarter 2012 DD&A was $42.0 million compared to $14.8 million for the same period in 2011. Year to date depletion expense of $132.3 million ($44.06/bbl) is attributable to the seven producing fields in comparison to one producing field for the nine month period ended September 30, 2011. Third quarter 2012 DD&A rate of $41.96/bbl is lower than Q2, 2012 rate of $45.30/bbl due to an increase in proved and probable reserves and a change in the CGU production mix. The remaining DD&A relates to seismic equipment and office equipment which is depreciated over the assets estimated useful lives.

Foreign Exchange Loss (Gain)

	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Foreign exchange loss (gain) ($000s)	**$ 2,607**	**$** (3,519)	**$ 2,289**	**$** (3,932)

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 to meet head-office general and administrative expenditures. The Company’s convertible debenture is held in Canadian dollars. All cash balances in Colombia must be held in Colombian pesos due to local currency exchange requirements. During the nine months ended September 30, 2012, the total foreign exchange loss was $2.3 million due primarily to the Canadian dollar exchange rate at September 30, 2012 being higher than the opening January 1, 2012 exchange rate with the main driver being the conversion of the CAD denominated debenture to USD. For the three month period

ended September 30, 2012 the Canadian dollar strengthened resulting in a $2.6 million loss as a result of 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 third quarter of 2012.

For the nine month period ended September 30, 2011, a foreign exchange gain of $3.9 million was recognized as a result of the depreciation of the Colombian peso and the Canadian dollar versus the US dollar. 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.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Interest expense	**1,171**	$ 1,149	**3,390**	$ 1,701
Bank fees	**750**	-	**750**	-
Accretion on Debentures	**954**	850	**2,718**	858
Accretion on decommissioning liability	**106**	28	**249**	47
Gain on derivative financial liability	**(47)**	(8,131)	**(9,683)**	(7,083)
Gain on risk management contract	**(4)**	-	**(4)**	-
Amortization of debt issuance costs	**144**	128	**409**	129
Interest and other income	**(212)**	(263)	**(982)**	(922)
Net finance expense (income)	**$ 2,862**	$ (6,239)	**$ (3,153)**	$ (5,270)

Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded to the statement of comprehensive income.
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 nine months ended September 30, 2012 the derivative financial liability decreased by $9.7 million and an equivalent non-cash derivative gain was recorded in comprehensive income. The gain is a result of fair valuing the derivative liability at September 30, 2012 and specifically the decrease in the Company`s stock price from December 31, 2011 to September 30, 2012.

Interest expense on Debentures for the nine months ended September 30, 2012 of $3.3 million (September 30, 2011 – $1.7 million) related to annual 5.25 percent coupon on the outstanding Debentures. The accretion expense of $2.7 million for the nine months ended September 30, 2012 (September 30, 2011 – $858,000) 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.

Risk Management Contracts

Parex has entered into these forward contracts for the purpose of protecting a portion of its future oil revenues from the volatility of oil prices. In order to minimize counterparty risk, these contracts are executed with financial institutions that are members of Parex's credit facility. The following is a summary of the risk management contracts in place as at September 30, 2012:

Risk managment contract	Type	Volume bbls/d	Brent Price $/bbl
September 1- December 31, 2012	Fixed price	2,000	$ 111.70

The table below summarizes the loss (gain) on financial derivative contracts:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Realized loss on risk managment contract	**$ 77**	$ -	**$ 77**	$ -
Unrealized gain on risk managment contract	**(81)**	-	**(81)**	-
Net (gain) on risk management contract	**$ (4)**	$ -	**$ (4)**	$ -

The realized loss represents the risk management contract settled during the period. The unrealized gain represents the fair value change of the underlying risk management contract to be settled in the future.

Subsequent to September 30, 2012 Parex entered into a crude oil swap arrangement or collar for 2,000 bbls/d for a term of November 1, 2012 to March 31, 2013 at a collar price range of $100/bbl to $123/bbl.

Income Tax

The components of tax expense for the three and nine months ended September 30, 2012 and 2011 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Current tax expense	**$ 19,282**	$ 1,174	**$ 25,950**	$ 3,034
Future tax expense (recovery)	**(10,124)**	11,467	**418**	11,517
Tax expense	**$ 9,158**	$ 12,641	**$ 26,368**	$ 14,551

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 September 30, 2012 exchange rate.

The current and future tax expense relates to the Company's operations in Colombia. The increase in current tax expense in the third quarter of 2012 is a result of non operating losses being substantially utilized as of September 30, 2012. Future tax expense in the third quarter of 2012 was a recovery of $10.1 million, mainly a result of a narrowing between the book and tax basis in Colombian subsidiaries. The calculation of current and future income tax in Colombia is based on a number of variables which can cause swings in current and future income tax. These variables include the year end producing reserves used in calculating depletion for tax purposes and the timing and number of dry hole write offs permissible for Colombian tax purposes. In respect of dry hole write offs, the Company did not drill a dry hole in the third quarter. Accordingly estimating tax expense during the year is inheritantly difficult.

The effective current tax rate for the nine months ended September 30, 2012 on Colombian segmented operating cash flows was 11%.

Capital Expenditures

For the nine months ended September 30,	Colombia [1]		Trinidad & Tobago		Canada		Total	
($000s)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Geological and geophysical	**$ 3,031**	$ 1,425	**$ 9,294**	$ 194	**$ -**	$ -	**$ 12,325**	$ 1,619
Acquisition of unproved properties	**12,577**	6,885	**15,000**	731	**-**	-	**27,577**	7,616
Drilling and completion	**135,771**	68,635	**11,625**	7,750	**-**	-	**147,396**	76,385
Well equipment and facilities	**14,104**	9,202	**43**	822	**-**	-	**14,147**	10,024
Other	**1,122**	131	**32**	21	**212**	170	**1,366**	322
	$ 166,605	$ 86,278	**$ 35,994**	$ 9,518	**$ 212**	$ 170	**$ 202,811**	$ 95,966

[1] Excludes corporate acquisition costs.

For the three months ended September 30,	Colombia [1]		Trinidad & Tobago		Canada		Total	
($000s)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Geological and geophysical	**$ 601**	$ 4,929	**$ (1,967)**	$ 62	**$ -**	$ -	**$ (1,366)**	$ 4,991
Acquisition of unproved properties	**1,154**	221	**158**	471	**-**	-	**1,312**	692
Drilling and completion	**37,969**	41,420	**5,297**	3,827	**-**	-	**43,266**	45,247
Well equipment and facilities	**7,115**	3,149	**43**	222	**-**	-	**7,158**	3,371
Other	**527**	69	**-**	9	**5**	106	**532**	184
	$ 47,366	$ 49,788	**$ 3,531**	$ 4,591	**$ 5**	$ 106	**$ 50,902**	$ 54,485

Capital Expenditures Summary

During the nine months ended September 30, 2012 the Company incurred $202.8 million of capital expenditures compared to $96.0 million in the same period of 2011. The majority of the increase is attributed to increased drilling activity from the prior period and a higher average working interest.

In the third quarter of 2012 the Company drilled 5 wells (2.5 net) in Colombia. Total drilling and completion costs during the third quarter totaled $43.3 million of which $38 million related to drilling and completion costs in Colombia and $5.3 million related to drilling costs incurred in Trinidad. Spending on well equipment and facilities was $7.2 million in the quarter, primarily all focused in Colombia.

In the third quarter of 2012 the Company's Colombian operations utilized three drilling rigs and two service rigs. The level of activity decreased as planned in the third quarter of 2012 from the second quarter of 2012 as Parex invested $50.1 million in the third quarter as compared to $92.5 million in the previous quarter. Parex expects to have participation in three to four drilling rigs and two service rigs active on its concessions for the balance of 2012.

Minor capital expenditures in Canada during the nine months ended September 30, 2012 related to office and other equipment.

Business Combination

On April 12, 2012 Parex, through a foreign subsidiary, acquired Ramshorn International Limited ("Ramshorn") which assets primarily consist of interests in four exploration blocks located in Colombia's Llanos Basin and one block located in Colombia's Middle Magdalena Basin (the "Acquisition"). Total net consideration paid was $71.8 million in cash and the assumption of a working capital deficiency at close, primarily relating to post effective date adjustments. The Acquisition was funded from existing cash. The Company's independent reserve engineers ascribed probable oil reserves of 2.3 million barrels to the properties effective March 31, 2012.

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

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, are recorded at fair values. No goodwill was recorded on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed	
PP&E	$ 66,382
E&E assets	34,312
Working capital deficiency	(13,269)
Deferred tax liability	(14,946)
Decommissioning liabilities	(705)
	$ 71,774

Consideration for the acquisition	
Cash paid	$ 72,636
Cash acquired	(862)
	$ 71,774

Summary of Quarterly Results (Unaudited)

Three months ended		Sept 30, 2012		June 30, 2012		March 31, 2012		Dec. 31, 2011
Average daily production volumes (bopd)		**10,874**		10,389		11,679		11,342
Realized sales price ($/bbl)		**107.53**		107.54		116.90		102.15
Financial (000s except per share amounts)								
Funds flow from operations [1]	**$**	**42,012**	$	61,357	$	83,754	$	63,135
Per share – basic		**0.39**		0.57		0.77		0.58
Per share – diluted		**0.39**		0.53		0.72		0.56
Adjusted net income [1] [3]	**$**	**7,490**	$	11,654	$	26,934	$	6,470
Per share – basic		**0.07**		0.11		0.25		0.06
Per share – diluted		**0.07**		0.10		0.25		0.06
Net income	**$**	**7,538**	$	20,920	$	27,304	$	4,477
Per share – basic		**0.07**		0.19		0.25		0.04
Per share – diluted		**0.07**		0.09		0.25		0.04
Total assets (end of period)	**$**	**789,546**	$	768,498	$	703,343	$	660,177
Working capital (deficit) surplus (end of period) [2]	**$**	**(9,014)**	$	(555)	$	116,277	$	92,893
Debentures (end of period) [4]	**$**	**65,251**	$	61,940	$	62,148	$	60,001
Bank debt (end of period)		**-**		-		-		-

Three months ended		Sep. 30, 2011		June 30, 2011		March 31, 2011		Dec. 31, 2010
Average daily production volumes (bopd)		7,031		1,619		1,146		306
Realized sales price ($/bbl)		97.64		104.67		95.54		89.69
Financial (000s except per share amounts)								
Funds flow from operations [1]	$	31,814	$	334	$	2,960	$	1,797
Per share – basic		0.29		-		0.04		0.03
Per share – diluted		0.27		-		0.04		0.02
Adjusted net income [1] [3]	$	7,740	$	(4,688)	$	1,023	$	(1,298)
Per share – basic		0.07		(0.06)		0.01		(0.02)
Per share – diluted		0.07		(0.06)		0.01		(0.02)
Net income	$	14,823	$	4,688	$	1,023	$	(1,298)
Per share – basic		0.14		(0.06)		0.01		(0.02)
Per share – diluted		0.13		(0.06)		0.01		(0.02)
Total assets (end of period)	$	619,240	$	593,699	$	220,521	$	216,616
Working capital (deficit) surplus (end of period) [2]	$	77,890	$	101,422	$	101,672	$	115,136
Debentures (end of period) [4]	$	57,226	$	61,200	$	-	$	-
Bank debt (end of period)		-		-		-		-

(1) Non GAAP measure. See "Non GAAP Measures" above.
(2) The September 30, 2012 working capital surplus does not include the undrawn $75 million available from the credit facility which was completed in third quarter of 2012.
(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.

Reconciliation of Non-GAAP terms

Adjusted net income

The following table reconciles net income to adjusted net income:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Net income (GAAP)	**$ 7,538**	$ 14,823	**$ 55,762**	$ 11,158
Non cash (gain) loss on derivative financial liability	**(48)**	8,132	**(9,684)**	7,083
Adjusted net income (Non-GAAP)	**$ 7,490**	$ 22,955	**$ 46,078**	$ 18,241

Funds flow from Operations

The following table reconciles cash flow from operations to funds flow from operations:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Cash flow from operating activities (GAAP)	**$ 71,802**	$ 34,662	**$ 212,570**	$ 55,974
Changes in non-cash working capital including interest and taxes payable	**(29,790)**	(2,847)	**(25,447)**	(20,865)
Funds flow from operations (Non-GAAP)	**$ 42,012**	$ 31,815	**$ 187,123**	$ 35,109

[1] For the three months ended September 30, 2012 the effect of the convertible debenture is antidilutive.

The following table shows the variables used in the calculation of diluted funds flow from operations per share:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Funds flow from operations (000s)				
Funds flow from (used in) operations for the purpose of basic funds flow	**$ 42,012**	$ 31,815	**$ 187,123**	$ 35,109
Debenture interest expense	**1,122**	1,149	**3,341**	1,701
Funds flow from operations for diluted funds flow	**$ 43,134**	$ 32,964	**$ 190,464**	$ 36,810
Weighted average number of shares for the purposes of basic funds flow (000s)	**108,422**	108,215	**108,390**	87,843
Dilutive effect of share options on potential common shares	**918**	1,475	**1,419**	1,440
Dilutive effect of Debentures on potential common shares [1]	**-**	8,374	**8,374**	2,822
Weighted average number of shares for the purposes of diluted funds	**109,340**	118,064	**118,183**	92,105

Liquidity and Capital Resources

As at September 30, 2012, the Company had a working capital deficiency of $9.0 million. excluding amounts available under the credit facility, as compared to working capital deficit at June 30, 2012 of $0.6 million. The decrease in working capital is mainly related to the higher Colombian corporate tax accrual. As at September 30, 2012 the Company had a $50 million senior credit facility available and undrawn. Subsequent to September 30, 2012, the credit facility was increased to $75 million. At September 30, 2012 Parex held $26.5 million of cash, compared to $50.5 million at June 30, 2012. The Company's cash balances reside in current accounts and term deposits, the majority of which are held on account in Canada and Barbados.

The Company values its crude oil inventory on hand using weighted average cost for the inventoried barrels. On a fair market value basis the inventory on hand would have a value of approximately $15.6 million or a fair value adjustment of approximately $5.6 million.

Debentures

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

The following table summarizes the accounting for the Debentures:

(000s)	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 as at December 31, 2011	**$ 60,001**	**$ 16,821**	**$ 76,822**
Accretion	2,718	-	2,718
Amortization of debt issuance costs	409	-	409
Derivative gain	-	(9,683)	(9,683)
Foreign exchange loss	2,123	244	2,367
Balance as at September 30, 2012	**$ 65,251**	**$ 7,382**	**$ 72,633**

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at September 30, 2012 the Company had 108,421,651 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 November 13, 2012 Parex has the following securities outstanding:

	Number	%
Common shares	108,421,651	91.5%
Stock options	9,842,429	8.3%
Restricted share units [(1)]	240,800	0.2%
	118,504,880	100.0%

(1) Restricted share unit plan is subject to shareholder approval.

As of the date of this MD&A, total stock options outstanding represent approximately 8.3 percent of the total issued and outstanding common shares plus issued stock options and restricted share units.

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 Colombian energy regulator ("ANH") which on September 30, 2012 are approximately $44.5 million to support the exploration work commitments on its Blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada (" EDC") has provided 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. The Company has made applications to have the existing letter of credits reduced for work completed by $20 million.

In Trinidad & Tobago, under the initial exploration phase of the Central Range Block PSCs the Company's remaining work commitment is to drill an exploration well to 12,000 feet and acquire 340 kilometers of 2D seismic. 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 following table summarizes the Company's estimated commitments as at September 30, 2012:

(000s)	Total	<1 year	1 - 3 years	3 - 4 years	>5 years
Exploration[(1)]	$ 71,248	$ 45,498	$ 25,750	$ -	$ -
Office and accommodations[(2)]	2,356	1,433	923	-	-
Decommissioning expenditures	16,820	-	-	-	16,820
Other	3,604	1,313	2,291	-	-
Total	$ 94,028	$ 48,244	$ 28,964	$ -	$ 16,820

(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.

Decommissioning liabilities

(000s) For the period ended	**September 30, 2012**	December 31, 2011
Balance, beginning of the period	**$ 5,105**	$ 651
Additions	**4,462**	4,253
Corporate Acquisition	**705**	470
Settlements of obligations during the period	**-**	(467)
Change in estimates	**(106)**	101
Accretion expense	**246**	97
Balance, end of the period	**$ 10,412**	$ 5,105

The decommissioning liability is estimated based on the Company's net ownership in wells drilled as at September 30, 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's decommissioning liability is approximately $16.8 million as at September 30, 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 commodity price;
- Change in the estimate of oil reserves and the resulting amendment to the life of reserves; and
- Changes in technology.

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 advisors. The Company may also, from time to time, arrange for insurance to mitigate specific risks. The Company is also exposed to potential delay of its operations due to waiting on permits or obtaining surface access to drilling locations.

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.

Internal Controls over Financial Reporting

Except as noted below, concerning the Company’s corporate acquisition, there was no change in the Company’s internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Limitation on Scope of Design – Corporate acquisition

In accordance section 3.3 (1)(b) of National Instrument 52-109, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period, the controls, policies and procedures of Ramshorn International Limited ("Ramshorn"), acquired by the Company effective April 12, 2012, have been excluded from the control design assessments discussed above. The scope limitation is based on the time required to document and assess the DC&P and ICFR of Ramshorn in a manner consistent with the Company's other operations. The Company's management is currently in the process of integrating Ramshorn into the existing internal controls and procedures of Parex. For the nine months ended September 30, 2012, Ramshorn constitutes 22% of net assets, 18% of total assets, 2.3% of net revenues, and 0.5% of income before income taxes of the consolidated financial statements amounts.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the nine months ended September 30, 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.
- Derivatives may be used by the Company to manage economic exposure to market risk relating to commodity prices. Parex's policy is not to utilize derivative financial instruments for speculative purposes. The Company does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, all financial derivative contracts are classified at fair value through Comprehensive Income and are recorded on the Balance Sheet at fair value. Financial derivative contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date.

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		September 30, 2012		December 31, 2011
ASSETS					
Current assets					
Cash and cash equivalents	5	$	26,542	$	103,884
Accounts receivable	6		67,258		35,947
Prepaids and other current assets			7,540		5,202
Crude oil inventory	7		10,047		17,321
			111,387		162,354
Goodwill			61,252		61,252
Exploration and evaluation	8		163,834		136,715
Property, plant and equipment	9		453,073		299,856
		$	789,546	$	660,177
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	92,879	$	68,398
Current income and equity tax payable	17		27,522		1,063
			120,401		69,461
Convertible debenture	16		65,251		60,001
Derivative financial liability	16		7,382		16,821
Other long-term liabilities	13		1,989		1,816
Decommissioning liabilities	14		10,412		5,105
Deferred tax liability	17		104,573		89,114
			310,008		242,318
Shareholders' equity					
Share capital	15		412,451		411,921
Contributed surplus			14,602		9,215
Retained earnings (deficit)			52,485		(3,277)
			479,538		417,859
		$	789,546	$	660,177

Credit Facility (note 12)

Commitments (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 September 30,		For the nine months ended September 30,	
(thousands of United States dollars, except per share amounts)	NOTE	**2012**	2011	**2012**	2011
Oil sales		**$ 130,824**	$ 54,429	**$ 373,900**	$ 75,001
Royalties		**(8,041)**	(4,480)	**(26,531)**	(6,357)
Revenue		**122,783**	49,949	**347,369**	68,644
Expenses					
Production		**9,242**	3,426	**24,164**	4,661
Transportation		**23,872**	8,949	**65,544**	12,633
Purchased oil		**15,896**	-	**17,409**	-
General and administrative		**6,809**	4,238	**20,086**	11,354
Transaction costs		**205**	-	**1,109**	1,801
Share-based compensation	**15**	**2,619**	843	**5,478**	4,259
Depletion, depreciation and amortization	**9**	**41,975**	14,787	**132,313**	17,429
Foreign exchange loss (gain)		**2,607**	(3,519)	**2,289**	(3,932)
		103,225	28,724	**268,392**	48,205
Finance income		**(216)**	(297)	**(986)**	(956)
Finance expense		**3,078**	(5,942)	**(2,167)**	(4,314)
Net finance expense	**11**	**2,862**	(6,239)	**(3,153)**	(5,270)
Net income before taxes		**16,696**	27,464	**82,130**	25,709
Tax expense					
Current and equity tax expense	**17**	**19,282**	1,174	**25,950**	3,034
Deferred tax expense (income)	**17**	**(10,124)**	11,467	**418**	11,517
		9,158	12,641	**26,368**	14,551
Net income and other comprehensive income for period		**$ 7,538**	$ 14,823	**$ 55,762**	$ 11,158
Basic net income per common share	**18**	**$ 0.07**	$ 0.14	**$ 0.51**	$ 0.13
Diluted net income per common share	**18**	**$ 0.07**	$ 0.13	**$ 0.44**	$ 0.12

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the nine months ended September 30, (thousands of United States dollars)		2012		2011
Share Capital				
Balance, beginning of period	**$**	**411,921**	$	198,857
Issuance of common shares under option plans		**161**		886
Issuance of common shares		**369**		211,815
Balance, end of period	**$**	**412,451**	$	411,558
Contributed Surplus				
Balance, beginning of year	**$**	**9,215**	$	4,000
Share-based compensation		**5,548**		4,038
Options exercised		**(161)**		(269)
Balance, end of period	**$**	**14,602**	$	7,769
Retained earnings (deficit)				
Balance, beginning of year		**(3,277)**		(18,912)
Net income for the period	**$**	**55,762**	$	11,158
Balance, end of period		**52,485**		(7,754)

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Operating activities					
Net income		**7,538**	14,823	**55,762**	11,158
Add (deduct) non-cash items					
Depletion, depreciation and amortization	**9**	**41,975**	14,787	**132,313**	17,429
Non-cash finance (income) loss	**11**	**1,158**	(7,125)	**(6,305)**	(6,049)
Share-based compensation	**15**	**1,933**	843	**5,478**	4,259
Deferred tax expense	**17**	**(10,124)**	11,467	**418**	11,517
Equity tax expense		**-**	-	**-**	95
Unrealized foreign exchange loss (gain)		**1,834**	(2,980)	**1,118**	(3,300)
Unrealized gain on risk management contract	**21**	**(81)**	-	**(81)**	-
Equity tax paid		**(2,221)**	-	**(1,580)**	-
		42,012	31,815	**187,123**	35,109
Net change in non-cash working capital	**19**	**29,790**	2,847	**25,447**	20,865
		71,802	34,662	**212,570**	55,974
Investing activities					
Capital expenditures		**(50,902)**	(54,485)	**(202,811)**	(95,966)
Acquisition	**10**	**-**	-	**(71,774)**	(252,987)
		(50,902)	(54,485)	**(274,585)**	(348,953)
Net change in non-cash working capital	**19**	**(44,886)**	1,922	**(16,446)**	(30,672)
		(95,788)	(52,563)	**(291,031)**	(379,625)
Financing activities					
Issuance of common shares	**15**	**-**	-	**369**	224,575
Share issuance costs	**15**	**-**	(290)	-	(12,143)
Convertible debenture	**16**	**-**	-	-	84,244
		-	(290)	**369**	296,676
Net change in non-cash working capital	**19**	**-**	1,174	**-**	(116)
		-	884	**369**	296,560
(Decrease) in cash and cash equivalents for the period		**(23,986)**	(17,017)	**(78,092)**	(27,091)
Impact of foreign exchange on foreign currency-denominated cash balance		**$ (1)**	$ (5,209)	**$ 750**	$ (3,175)
Cash and cash equivalents, beginning of period		**$ 50,529**	$ 115,499	**$ 103,884**	$ 123,539
Cash and cash equivalents, end of period		**$ 26,542**	$ 93,273	**$ 26,542**	$ 93,273

Supplemental Disclosure of Cash Flow Information (note 19)

See accompanying Notes to the Interim Consolidated Financial Statements

Notes to the Interim Consolidated Financial Statements

For the period ended September 30, 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 November 13, 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 and nine months ended September 30, 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 November 13, 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 taxable income or loss.
- Derivatives may be used by the Company to manage economic exposure to market risk relating to commodity prices. Parex's policy is not to utilize derivative financial instruments for speculative purposes. The Company does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, all financial derivative contracts are classified at fair value through Comprehensive Income and are recorded on the Balance Sheet at fair value. Financial derivative contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date.

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 with the exception of the calculation of fair value of the risk management contracts (see note 3- Summary of Significant Accounting Policies). Refer to the December 31, 2011 financial statements for details concerning determination of fair values.

5. Cash and Cash Equivalents

	September 30, 2012	December 31, 2011
Bank balances	**$ 26,542**	$ 74,134
Term deposits[(1)]	**-**	29,750
Cash and cash equivalents	**$ 26,542**	$ 103,884

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

6. Accounts Receivable

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 Colombia and Trinidad & Tobago to recover ongoing capital costs and operating costs, or overhead recoveries outstanding from joint venture partners. VAT receivable in Trinidad totalled $4.5 million as at September 30, 2012 and is expected to be recovered in late 2012. All accounts receivable are expected to be received within twelve months and are classified as current assets.

	September 30, 2012	December 31, 2011
Trade receivables	**$ 34,373**	$ 26,360
Colombia income taxes receivable	**11,086**	5,368
Receivables from partners	**17,348**	2,502
Trinidad value added taxes (VAT)	**4,451**	1,717
	$ 67,258	$ 35,947

7. Inventory

	September 30, 2012	December 31, 2011
Crude oil inventory	**$ 10,047**	$ 17,321

Crude oil inventory consists of crude oil in transit at the balance sheet date and is valued at the lower of cost, using the weighted average cost method and net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude oil to its existing condition and location as well as associated DD&A.

8. 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
Transfer to PP&E	(53,404)	-	(53,404)
Abandonment costs	93	183	276
Corporate acquisition	80,146	-	80,146
Balance at December 31, 2011	$ 91,974	$ 44,741	$ 136,715
Corporate acquisition - note 10	34,312	-	34,312
Additions	60,987	35,963	96,950
Transfer to PP&E	(104,710)	-	(104,710)
Abandonment costs	222	345	567
Balance at September 30, 2012	$ 82,785	$ 81,049	$ 163,834

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 nine months ended September 30, 2012 $104.7 million was transferred from E&E to Property, Plant and Equipment ("PP&E") and the Company increased E&E by $34.3 million related to the recording of the fair value of assets acquired in the Corporate acquisition (see Note 10 - Business Combination) and $15 million relating to the acquisition of additional working interest on the Moruga block in Trinidad and Tobago.

In the prior year an amount of $53.4 million was transferred from E&E to PP&E. Also in the prior year $80.1 million was recorded in relation to the fair value associated with the Remora Corporate acquisition which occurred on June 29, 2011.

At September 30, 2012 and December 31, 2011 the Company did not have E&E assets in Canada.

9. 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		-		197,706		-		197,706
Balance at December 31, 2011	$	4,407	$	360,082	$	292	$	364,781
Corporate acquisition - note 10		-		66,382		-		66,382
Additions		212		105,618		31		105,861
Transfer from E&E assets		-		104,710		-		104,710
Abandonment costs		-		3,208		-		3,208
Balance at September 30, 2012	$	4,619	$	640,000	$	323	$	644,942
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		653		131,596		64		132,313
Disposals		-		-		-		-
DD&A transferred from crude oil inventory		-		(5,369)		-		(5,369)
Balance at September 30, 2012	$	1,829	$	189,834	$	206	$	191,869
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 September 30, 2012	$	2,790	$	450,166	$	117	$	453,073

In the nine months ended September 30, 2012 additions mainly relate to development expenditures in Colombia. Also in the nine months ended September 30, 2012 Parex increased PP&E by $66.4 million related to the recording of the fair values of the assets acquired in the corporate acquisition (see note 10 – Business Combination).

10. Business Combination

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

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

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed, excluding goodwill, are recorded at fair values. No goodwill was recorded on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed		
PP&E	$	**66,382**
E&E assets		**34,312**
Working capital deficiency		**(13,269)**
Deferred tax liability		**(14,946)**
Decommissioning liabilities		**(705)**
	$	**71,774**

Consideration for the acquisition		
Cash paid	$	**72,636**
Cash acquired		**(862)**
	$	**71,774**

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

The pro forma results for the nine months ended September 30, 2012 are shown below, as if the Acquisition had occurred on January 1, 2012. Pro forma results are not indicative of actual results or future performance.

Oil sales	$	14,090

The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included.

The statement of comprehensive income for the nine months ended September 30, 2012 includes $8.8 million of oil sales attributable to the assets acquired since the Acquisition on April 12, 2012. Net income for the period ended September 30, 2012, since the Acquisition, is considered impracticable to calculate.

11. Net Finance Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Interest expense	**1,171**	$ 1,149	**3,390**	**$** 1,701
Bank fees	**750**	-	**750**	-
Accretion on convertible debenture	**954**	850	**2,718**	858
Accretion on decommissioning liability	**106**	28	**249**	47
Gain on derivative liability	**(47)**	(8,131)	**(9,683)**	(7,083)
Gain on risk management contract	**(4)**	-	**(4)**	-
Amortization of debt issuance costs	**144**	128	**409**	129
Interest and other income	**(212)**	(263)	**(982)**	(922)
Net finance expense (income)	**$ 2,862**	$ (6,239)	**$ (3,153)**	**$** (5,270)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Non cash finance expense	**$ 1,158**	$ (7,125)	**$ (6,305)**	**$** (6,049)
Cash finance expense	**1,704**	886	**3,158**	779
Net finance expense (income)	**$ 2,862**	$ (6,239)	**$ (3,153)**	**$** (5,270)

12. Credit Facility

On May 23, 2012, Parex entered into a $200 million senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank. The initial borrowing base of $50 million of the credit facility consists of a reserve-based revolving facility of $50 million including an operating line of $5 million. The revolving facility has a two year term, maturing on May 23, 2014, and may be extended for an additional 365 days. The facility is subject to re-determination of the borrowing base semi-annually on November 30 and May 31 of each year, beginning on November 30, 2012. The borrowing base is determined based on, among other things, the Corporation's current reserve report, results of operations, the lenders view of the current and forecasted commodity prices and the current economic environment. US base rate and LIBOR base rate loan advances under the revolving facility bear interest at rates ranging from US base rate or LIBOR plus 2.75% - 3.50% per annum, depending on utilization. Canadian prime rate loan advances, drawn on the operating line only, bear interest at rates ranging from Canadian prime plus 1.75% - 2.50% per annum, dependent on utilization. Undrawn amounts under the revolving facility bear a commitment fee ranging from 0.5% to 0.75% per annum, dependent on utilization.

Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. Key covenants include a current ratio test, and a total funded debt to EBITDA test and other standard business operating covenants. The authorized borrowing amount is subject to an interim review. As at September 30, 2012, the Company is in compliance with all covenants. Security is provided for by a first fixed and floating charge debenture over all assets of Parex Resources Inc., a pledge of the shares of material subsidiaries and general assignment of book debts.

As at September 30, 2012 the outstanding amount owing on the credit facility was nil. Subsequent to September 30, 2012 the borrowing base was increased to $75 million.

13. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	September 30, 2012	December 31, 2011
Long-term SARs payable	**$ 416**	$ 502
Long-term equity tax payable	**1,573**	1,314
	$ 1,989	$ 1,816

The outstanding amount of the equity tax provision is $3.2 million. Included in this amount is $1.6 million which is classified as long term, as the equity tax is payable over a four year period.

14. Decommissioning Liabilities

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at September 30, 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 $16.8 million as at September 30, 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% risk free discount rate and a 3.0% inflation rate).

(000s) For the period ended		**September 30, 2012**		December 31, 2011
Balance, beginning of the period	**$**	**5,105**	$	651
Additions		**4,462**		4,253
Corporate Acquisition		**705**		470
Settlements of obligations during the period		-		(467)
Change in estimates		**(106)**		101
Accretion expense		**246**		97
Balance, end of the period	**$**	**10,412**	$	5,105

15. 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	121,283		369
Allocation of contributed surplus – exercise of options	-		161
Share issuance costs	-		-
Balance, September 30, 2012	108,421,651	$	412,451

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	1,750,470		4.85
Exercised	(121,283)		3.04
Forfeited	(75,000)		7.34
Balance, September 30, 2012	9,842,429	$	5.64

Stock options outstanding and the weighted average remaining life of the stock options at September 30, 2012 are as follows:

	Options outstanding			Options vested		
Exercise price Cdn$	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	2,682,884	2.0	3.04	1,693,292	2.0	3.04
$3.56 - $4.77	1,830,470	4.3	4.43	256,666	2.3	4.34
$4.78 - $7.50	1,035,000	3.5	6.25	391,658	3.0	6.01
$7.51 - $7.62	2,593,486	4.1	7.56	-	-	-
$7.63 - $7.95	1,700,589	3.3	7.76	534,510	3.2	7.76
	9,842,429	3.4	5.64	2,876,126	2.4	4.44

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 nine month period ended September 30,	**2012**	2011
Risk-free interest rate (%)	**1.16**	1.44
Expected life (years)	**3**	3
Expected volatility (%)	**50**	53
Expected dividends	-	-

The weighted average fair value at the grant date for the period ended September 30, 2012 was Cdn$1.68 per option (September 30, 2011 – Cdn$2.65 per option). The weighted average share price on the exercise date for options exercised for the period ended September 30, 2012 was Cdn$4.85 (September 30, 2011 – Cdn$7.23).

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	874,290	5.14
Forfeited	(12,500)	8.90
Balance, September 30, 2012	2,679,212	$ 6.40

As at September 30, 2012 560,069 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 nine month period ended September 30,	**2012**	2011
Risk-free interest rate (%)	**1.16**	1.08
Expected life (years)	**3**	3
Expected volatility (%)	**50**	48
Closing share price (Cdn$)	**4.83**	6.97
Expected dividends	**-**	**-**

As at September 30, 2012, the total SARs liability accrued was $1.8 million (December 31, 2011 - $1.8 million) of which $416,000 (December 31, 2011 - $502,000) is classified as long-term in accordance with the three year vesting period. For the nine months ended September 30 2012, Parex recorded $70,000 of compensation cost related to the outstanding SARs (nine months ended September 30, 2011 – $221,000).

d) *Stock-based compensation and SARs expense*

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Stock-based compensation expense	**$ 1,870**	$ 1,329	**$ 5,548**	**$** 4,038
SARs expense	**749**	(486)	**(70)**	221
	$ 2,619	$ 843	**$ 5,478**	**$** 4,259

16. Convertible Debenture

On June 29, 2011, Parex had issued and had 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.

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 as at December 31, 2011	**$ 60,001**	**$ 16,821**	**$ 76,822**
Accretion	2,718	-	2,718
Amortization of debt issuance costs	409	-	409
Derivative gain	-	(9,683)	(9,683)
Foreign exchange loss	2,123	244	2,367
Balance as at September 30, 2012	**$ 65,251**	**$ 7,382**	**$ 72,633**

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. 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:

	September 30, 2012	December 31, 2011
Risk-free interest rate (%)	**1.16**	1.08
Expected life (years)	**3.75**	4.5
Expected volatility (%)	**50**	48
Closing share price ($)	**4.83**	6.97
Expected dividends	-	-

17. Tax Expense

The components of tax expense for the three and nine months ended September 30, 2012 and 2011 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Current tax expense	**$ 19,282**	$ 1,174	**$ 25,950**	$ 3,034
Future tax expense (recovery)	**(10,124)**	11,467	**418**	11,517
Tax expense	**$ 9,158**	$ 12,641	**$ 26,368**	$ 14,551

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 $3.1 million, to be paid over the remaining four installments of which $1.6 million is due within one year.

18. Net Income per Share

a) Basic net income per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Net income				
Net income for the purpose of basic net income per share	**$ 7,538**	$ 14,823	**$ 55,762**	$ 11,158
Weighted average number of shares for the purposes of basic net income per share (000s)	**108,422**	108,215	**108,390**	87,843
Basic net income per share	**$ 0.07**	$ 0.14	**$ 0.51**	$ 0.13

b) Diluted net income per share

At September 30, 2012, 3,372,884 (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.

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Net income				
Net income for the purpose of basic net income per share	**$ 7,538**	$ 14,823	**$ 55,762**	$ 11,158
Elimination of interest, accretion expense, gain on changes in fair value, foreign exchange, net of tax, on the Debentures and derivative financial liability [(1)]	**-**	-	**(4,189)**	-
Net income used to calculate diluted net income per share	**7,538**	14,823	**51,573**	11,158
Weighted average number of shares for the purposes of basic net income per share (000s)	**108,422**	108,215	**108,390**	87,843
Dilutive effect of share options on potential common shares	**918**	1,475	**1,419**	1,440
Dilutive effect of Debentures on potential common shares	**-**	8,374	**8,374**	2,822
Weighted average number of shares for the purposes of diluted net income per share	**109,340**	118,064	**118,183**	92,105
Diluted net income per share	**$ 0.07**	$ 0.13	**$ 0.44**	$ 0.12

[(1)] The effect of the convertible debenture for the three months ended September 30, 2012 is anti dilutive.

19. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Accounts receivable	**$ (35,217)**	$ (2,368)	**$ (31,311)**	$ (11,581)
Prepaids and other current assets	**322**	(3,620)	**(2,338)**	(4,884)
Oil inventory	**1,289**	(7,120)	**7,274**	(10,261)
Accounts payable and accrued liabilities	**20,719**	15,815	**54,014**	32,898
Depletion related to oil inventory	**(2,209)**	4,687	**(5,369)**	5,151
Net non-cash working capital on acquisition	**-**	(1,451)	**(13,269)**	(21,246)
Net change in non-cash working capital	**$ (15,096)**	$ 5,943	**$ 9,001**	$ (9,923)
Operating	**29,790**	2,847	**25,447**	20,865
Investing	**(44,886)**	1,922	**(16,446)**	(30,672)
Financing	**-**	1,174	**-**	(116)
Net change in non-cash working capital	**$ (15,096)**	$ 5,943	**$ 9,001**	$ (9,923)

b) Interest and taxes paid

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Cash interest paid	**$ 1,171**	$ -	**$ 3,390**	$ -
Cash income and equity tax paid	**$ 2,221**	$ -	**$ 1,580**	$ -

20. Capital Management

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

The Company manages its capital to achieve the following:

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

Parex has secured a senior credit facility (see note 12 - Credit Facility) in the amount of $50 million. The facility is intended to serve as means to increase liquidity and fund short term cash needs as they arise. No amount was drawn on the facility as at September 30, 2012. Subsequent to September 30, 2012 the borrowing base of the credit facility was increased to $75 million.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the exploration work commitments on its Colombian concession (see note 23 - Commitments).

As at September 30, 2012, the Company's net working capital deficit was $9.0 million excluding amounts available under the credit facility of $75 million (December 31, 2011 – $92.9 million working capital surplus), attributable to the close of the Corporate Acquisition (see note 10 – Business Combination), the close of the purchase of additional working interest in Trinidad and Tobago, the Company's robust capital program in the nine month period ended September 30, 2012 and an increase in the current income tax provision. The net working capital deficit also reflects The Company's crude oil inventory recorded at cost.

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders equity plus Debentures (excluding the associated derivative financial liability and the credit facility). As at September 30, 2012 shareholders' equity was $479.5 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).

21. 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, and accounts payable and accrued liabilities, current income and equity tax payable 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.

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 nine months ended September 30, 2012, had the majority of its oil sales to four counterparties. Accounts receivable balance as at September 30, 2012 is substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. Trade 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 available credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. In the current year the Company has completed a Corporate acquisition and maintained a robust capital program. The Company's Debentures are unsecured and subordinated with expiry on June 30, 2016.

The following are the contractual maturities of financial liabilities at September 30, 2012:

	Less than 1 year	2-3 years	4-5 years	Thereafter	Total
Accounts payable and accrued liabilities	$ 91,535	$ -	$ -	$ -	$ 91,535
SARs payable	1,344	416	-	-	1,760
Current income tax payable[(1)]	14,864	-	-	-	14,864
Equity tax payable	1,572	1,573	-	-	3,145
Debentures[(2)]	-	-	86,454	-	86,454
Interest on Debentures[(2)]	2,237	8,947	4,474	-	15,658
Total	$ 111,552	$ 10,936	$ 90,928	$ -	$ 213,416

(1) Net of withholding tax receivable.

(2) Balances denominated in Canadian dollars have been translated at the September 30, 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.

Risk Management Contracts

In the third quarter of 2012, The Company entered into a fixed price oil contract to manage its exposure to fluctuations in the price of crude oil.

The following is a summary of the derivative contracts in place as at September 30, 2012**:**

Oil Period Hedged	Type	Volume bbls/d		Price -Brent Ice $/bbl
September 1- December 31, 2012	Fixed price	2,000	$	111.70

Loss (Gain) on Risk Management Contract

The table below summarizes the loss (gain) on financial derivative contracts:

	For the three months ended September 30,				For the nine months ended September 30,			
		2012		2011		**2012**		2011
Realized loss on risk management contract	$	**77**	$	-	$	**77**	$	-
Unrealized gain on risk management contract		**(81)**		-		**(81)**		-
Net (gain) on risk management contract	$	**(4)**	$	-	$	**(4)**	$	-

As at September 30, 2012, Parex had committed to the future sale of 184,000 barrels of oil at a fixed price of $111.70/bbl. If the Brent oil price on September 30, 2012 were to increase by $10/bbl, the unrealized loss would increase by approximately $1.8 million. An opposite change in commodity prices rates would result in an opposite impact on comprehensive income.

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 September 30, 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:

Foreign currency exchange rate		Impact on net income
Cdn$/US$	$	4,217
COP$/US$	$	1,769
TT$/US$	$	83

22. Segmented Information

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

For the three months ended September 30, 2012

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	$ -	$ 130,824	$ -	$ 130,824
Royalties	-	(8,041)	-	(8,041)
Revenue	-	122,783	-	122,783
Expenses				
Production	-	9,242	-	9,242
Transportation	-	23,872	-	23,872
General and administrative	2,978	3,405	426	6,809
Transaction costs	-	205	-	205
Purchased oil	-	15,896	-	15,896
Share-based compensation	1,833	475	311	2,619
Depletion, depreciation and amortization	234	41,720	21	41,975
Foreign exchange loss (gain)	2,468	127	12	2,607
	7,513	94,942	770	103,225
Finance income	(7)	(209)	-	(216)
Finance expense	2,970	102	6	3,078
Net finance expense	2,963	(107)	6	2,862
Net income (loss) before taxes	(10,476)	27,948	(776)	16,696
Current and equity tax expense	-	19,282	-	19,282
Deferred tax expense (income)	-	(10,124)	-	(10,124)
Net income (loss)	$ (10,476)	$ 18,790	$ (776)	$ 7,538
Capital assets (end of period)	$ 2,790	$ 532,951	$ 81,166	$ 616,907
Capital expenditures	$ 5	$ 47,366	$ 3,531	$ 50,902
Total assets (end of period)	$ 12,881	$ 680,398	$ 96,267	$ 789,546

For the three months ended September 30, 2011

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	$ -	$ 54,429	$ -	$ 54,429
Royalties	-	(4,480)	-	(4,480)
Revenue, net	-	49,949	-	49,949
Expenses				
Production	-	3,426	-	3,426
Transportation	-	8,949	-	8,949
General and administrative	1,743	1,955	540	4,238
Transaction costs	-	-	-	-
Share-based compensation	1,263	(428)	8	843
Depletion, depreciation and amortization	152	14,617	18	14,787
Foreign exchange loss (gain)	(3,444)	(69)	(6)	(3,519)
	(286)	28,450	560	28,724
Finance income	(190)	(71)	(36)	(297)
Finance expense	(6,006)	26	38	(5,942)
	(6,196)	(45)	2	(6,239)
Net income (loss) before taxes	6,482	21,544	(562)	27,464
Current and equity tax expense	-	1,174	-	1,174
Deferred tax expense	-	11,467	-	11,467
Net income (loss)	$ 6,482	$ 8,903	$ (562)	$ 14,823
Capital assets (end of period)	$ 968	$ 381,424	$ 39,976	$ 422,368
Capital expenditures	$ 106	$ 49,788	$ 4,591	$ 54,485
Total assets (end of period)	$ 71,402	$ 499,116	$ 48,722	$ 619,240

For the nine months ended September 30, 2012

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	$ -	$ 373,900	$ -	$ 373,900
Royalties	-	(26,531)	-	(26,531)
Revenue	-	347,369	-	347,369
Expenses				
Production	-	24,164	-	24,164
Transportation	-	65,544	-	65,544
General and administrative	6,139	11,236	2,711	20,086
Transaction costs	-	1,109	-	1,109
Purchased oil	-	17,409	-	17,409
Share-based compensation	5,153	(32)	357	5,478
Depletion, depreciation and amortization	653	131,596	64	132,313
Foreign exchange loss (gain)	2,050	227	12	2,289
	13,995	251,253	3,144	268,392
Finance income	(1,005)	(945)	964	(986)
Finance expense	(2,416)	236	13	(2,167)
Net finance expense	(3,421)	(709)	977	(3,153)
Net income (loss) before taxes	(10,574)	96,825	(4,121)	82,130
Current and equity tax expense	-	25,950	-	25,950
Deferred tax expense	-	418	-	418
Net income (loss)	$ (10,574)	$ 70,457	$ (4,121)	$ 55,762
Capital assets (end of period)	$ 2,790	$ 532,951	$ 81,166	$ 616,907
Capital expenditures	$ 212	$ 166,605	$ 35,994	$ 202,811
Total assets (end of period)	$ 12,881	$ 680,398	$ 96,267	$ 789,546

For the nine months ended September 30, 2011

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	$ -	$ 75,001	$ -	$ 75,001
Royalties	-	(6,357)	-	(6,357)
Revenue, net	-	68,644	-	68,644
Expenses				
Production	-	4,661	-	4,661
Transportation	-	12,633	-	12,633
General and administration	4,840	5,194	1,320	11,354
Transaction costs	-	1,801	-	1,801
Share-based compensation	3,846	189	224	4,259
Depletion, depreciation and amortization	437	16,939	53	17,429
Foreign exchange loss (gain)	(3,765)	(174)	7	(3,932)
	5,358	41,243	1,604	48,205
Finance income	(626)	(140)	(190)	(956)
Finance expense	(4,399)	43	42	(4,314)
Net finance expense	(5,025)	(97)	(148)	(5,270)
Net income (loss) before taxes	(333)	27,498	(1,456)	25,709
Current and equity tax expense	-	3,034	-	3,034
Deferred tax expense	-	11,517	-	11,517
Net income (loss)	$ (333)	$ 12,947	$ (1,456)	$ 11,158
Capital assets (end of period)	$ 968	$ 381,424	$ 39,976	$ 422,368
Capital expenditures	$ 170	$ 86,278	$ 9,518	$ 95,966
Total assets (end of period)	$ 71,402	$ 499,116	$ 48,722	$ 619,240

23. Commitments

a) Colombia

At September 30, 2012 guarantees in place with ANH are in the form of issued letters of credit totaling $44.5 million (June 30, 2012 – $44.5 million) to support the exploration work commitments in respect of the 15 blocks in Colombia.

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 are reduced to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at September 30, 2012 in respect of the Colombia blocks are estimated to be as follows:

(000s)		
2012	$	9,750
2013		29,250
2014		15,500
Thereafter		-
	$	54,500

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

The Company's share of exploration and financial obligation in respect of the Central Range Blocks Production Sharing Contracts includes the remaining carry for its partners and annual financial obligations in the Moruga block remaining at September 30, 2012, are estimated to be as follows:

(000s)		Exploration		Other		Total
2012	$	4,999	$	-	$	4,999
2013		11,749		1,751		13,500
2014		-		1,853		1,853
Thereafter		-		-		-
	$	16,748	$	3,604	$	20,352

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 September 30, 2012 are as follows:

(000s)		Total		2012		2013		2014		2015		2016
Office and accommodations	$	2,356	$	456	$	1,153	$	611	$	136	$	-

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 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.

DIRECTORS

Norman F. McIntyre
Chairman of the Board

Curtis D. Bartlett

John F. Bechtold

Robert J. Engbloom

Wayne K. Foo

Ron D. Miller

W. A. (Alf) Peneycad

Paul D. Wright

OFFICERS AND SENIOR EXECUTIVES

Wayne K. Foo
President, Chief Executive Officer

Stuart R. Davie
VP Human Resources & Administration

Barry B. Larson
VP Operations, Chief Operating Officer

Kenneth G. Pinsky
VP Finance, Chief Financial Officer

David R. Taylor
VP Exploration & Business Development

CORPORATE HEADQUARTERS

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

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

OPERATING OFFICES

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

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

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

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

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta

RESERVES EVALUATORS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

INVESTOR RELATIONS

Michael Kruchten

Tel: 403-517-1733
Fax: 403-265-8216

Kenneth G. Pinsky

Tel: 403-517-1729
Fax: 403-265-8216

E-mail:
investorrelations@parexresources.com

Website: www.parexresources.com

ABBREVIATIONS

Oil and Natural Gas Liquids

bbls	barrels
mbbls	one thousand barrels
mmbbls	one million barrels
NGLs	natural gas liquids
bbls/d	barrels of oil 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.