MANAGEMENT'S REPORT

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that management make estimates and assumptions and use judgment. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP were appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for overseeing that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Finance & Audit Committee. The Finance & Audit Committee recommends appointment of the external auditors to the Board, evaluates their independence and approves their fees. The Finance & Audit Committee meets regularly with management and the external auditors to oversee that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Finance & Audit Committee to discuss their audit and their findings.

Wayne K. Foo President, Chief Executive Officer	Kenneth G. Pinsky Chief Financial Officer

March 10, 2015

March 10, 2015

Independent Auditor's Report

To the Shareholders of
Parex Resources Inc.

We have audited the accompanying consolidated financial statements of Parex Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parex Resources Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at (thousands of United States dollars)	NOTE	**December 31, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash		**$ 39,000**	$ 56,492
Accounts receivable	**5**	**125,262**	121,969
Prepaids and other current assets		**8,559**	4,880
Crude oil inventory	**6**	**10,959**	8,695
Assets held for sale	**10**	**2,933**	-
		186,713	192,036
Goodwill	**11**	**73,452**	61,252
Exploration and evaluation	**7**	**132,048**	70,038
Property, plant and equipment	**8**	**642,202**	531,482
		$ 1,034,415	$ 854,808
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 137,437**	$ 118,841
Current income and equity tax payable	**18**	**43,201**	47,548
Current portion of decommissioning and environmental liabilities	**15**	**2,143**	1,642
Liabilities held for sale	**10**	**671**	-
		183,452	168,031
Long-term debt	**12**	**35,000**	8,530
Convertible debenture	**17**	**-**	66,060
Derivative financial liability	**17**	**-**	8,375
Other long-term liabilities	**14**	**639**	7,081
Decommissioning and environmental liabilities	**15**	**31,946**	19,446
Deferred tax liability	**18**	**122,740**	92,222
		373,777	369,745
Shareholders' equity			
Share capital	**16**	**694,110**	414,176
Contributed surplus		**26,106**	21,692
(Deficit) Retained earnings		**(59,578)**	49,195
		660,638	485,063
		$ 1,034,415	$ 854,808

Commitments (note 25)

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board:

Paul Wright
Director

Ron Miller
Director

Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31, (thousands of United States dollars, except per share amounts)	NOTE		2014		2013
Oil sales		$	**752,022**	$	636,577
Royalties			**(90,888)**		(77,425)
Revenue			**661,134**		559,152
Commodity risk management contracts	23		**8,054**		(2,698)
			669,188		556,454
Expenses					
Production			**90,213**		57,268
Transportation			**149,454**		110,523
Purchased oil			**33,187**		33,633
General and administrative			**32,531**		30,354
Transaction costs	9		**593**		-
Impairment of exploration and evaluation assets	7		**44,387**		-
Impairment of property, plant and equipment	8		**113,264**		-
Share-based compensation	16		**12,325**		6,874
Depletion, depreciation and amortization	8		**218,471**		214,093
Loss (gain) on settlement of decommissioning liabilities	15		**134**		(419)
Foreign exchange gain			**(9,740)**		(7,270)
			684,819		445,056
Finance income	13		**(1,332)**		(1,039)
Finance expense	13		**39,639**		16,629
Net finance expense			**38,307**		15,590
Income (loss) from continuing operations before income taxes			**(53,938)**		95,808
Income tax expense					
Current tax expense	18		**52,184**		46,274
Deferred tax recovery	18		**(19,539)**		(2,994)
			32,645		43,280
Net income (loss) and comprehensive income (loss) from continuing operations after income taxes		$	**(86,583)**	$	52,528
Loss from discontinued operations after income taxes	10		**(22,190)**		(39,856)
Net income (loss) and comprehensive income (loss) for the year			**(108,773)**		12,672
Basic net income per common share – continuing operations	19	$	**(0.72)**	$	0.48
Diluted net income per common share – continuing operations	19	$	**(0.72)**	$	0.42
Basic and diluted net income per common share – discontinued operations	19	$	**(0.18)**	$	(0.36)

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Changes in Equity

For the year ended December 31, (thousands of United States dollars)	NOTE		2014		2013
Share Capital					
Balance, beginning of year		**$**	**414,176**	$	412,736
Issuance of common shares under option plans			**13,450**		2,824
Issued on the acquisition of Verano Energy Limited (“Verano”)	**9**		**169,333**		-
Share issue costs			**(180)**		-
Issued on conversion of convertible debentures	**17**		**97,331**		-
Repurchase of shares	**16**		**-**		(1,384)
Balance, end of year		**$**	**694,110**	$	414,176
Contributed Surplus					
Balance, beginning of year		**$**	**21,692**	$	16,015
Share-based compensation			**8,491**		6,530
Options exercised			**(4,077)**		(853)
Balance, end of year		**$**	**26,106**	$	21,692
(Deficit) Retained Earnings					
Balance, beginning of year		**$**	**49,195**	$	36,645
Net income (loss) for the year			**(108,773)**		12,672
Repurchase of shares	**16**		**-**		(122)
Balance, end of year		**$**	**(59,578)**	$	49,195
		$	**660,638**	$	485,063

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the year ended December 31, (thousands of United States dollars)	NOTE	2014	2013
Operating activities			
Net income from continuing operations		**$ (86,583)**	$ 52,528
Add (deduct) non-cash items			
Depletion, depreciation and amortization	**8**	**218,471**	214,093
Non-cash finance expense	**13**	**29,925**	10,155
Share-based compensation	**16**	**12,325**	6,874
Deferred tax recovery	**18**	**(19,539)**	(2,994)
Impairment of exploration and evaluation assets	**7**	**44,387**	-
Impairment of property, plant and equipment	**8**	**113,264**	-
Unrealized foreign exchange (gain) loss		**(6,122)**	(6,983)
Unrealized (gain) loss on commodity risk management contracts	**23**	**-**	1,459
Loss (gain) on settlement of decommissioning liabilities	**15**	**134**	(419)
Abandonment costs paid	**15**	**(1,794)**	(1,400)
Colombia equity tax paid	**18**	**(1,667)**	(1,494)
Stock appreciation rights paid	**16**	**(2,516)**	(149)
Settlement of cross currency interest rate swap	**23**	**(6,432)**	-
		293,853	271,670
Net change in non-cash working capital – continuing operations	**20**	**(43,025)**	(61,374)
Cash provided by operating activities – continuing operations		**250,828**	210,296
Cash used in operating activities – discontinued operations		**(1,926)**	(1,747)
Cash provided by operating activities		**248,902**	208,549
Investing activities			
Property, plant and equipment expenditures	**8**	**(176,489)**	(158,331)
Exploration and evaluation expenditures	**7**	**(119,670)**	(60,931)
Corporate and property acquisitions	**9**	**(27,131)**	(12,489)
Net change in non-cash working capital – continuing operations	**20**	**23,276**	48,973
Cash used in investing activities – continuing operations		**(300,014)**	(182,778)
Cash provided by (used in) investing activities – discontinued operations		**118**	(121)
Cash used in investing activities		**(299,896)**	(182,899)
Financing activities			
Issuance of common shares under option plans	**16**	**9,373**	1,971
Redemption of convertible debentures	**17**	**(316)**	-
Common share repurchase		**-**	(1,506)
Share issue costs		**(180)**	-
Long-term debt (repaid) issued	**12**	**26,470**	(570)
Cash provided by (used in) financing activities - continuing operations		**35,347**	(105)
Increase (decrease) in cash for the year		**(15,647)**	25,545
Impact of foreign exchange on foreign currency-denominated cash balances		**(1,845)**	(1,003)
Cash, beginning of year		**56,492**	31,950
Cash, end of year		**$ 39,000**	$ 56,492

Supplemental Disclosure of Cash Flow Information (note 20)

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

(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 in South America.

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 on August 17, 2009, pursuant to the Business Corporations Act (Alberta).

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 10, 2015.

2. Basis of Preparation, Critical Accounting Estimates and Judgements

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standard Boards ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 10, 2015, the date the Board of Directors approved the consolidated financial statements.

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

(i) Depletion, depreciation and reserves

Depletion is based on the proved plus probable reserves as evaluated in accordance with National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and incorporating the estimated future cost of developing and extracting those. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates may also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions of reserve estimates are often required due to changes in well performance, prices, economic conditions and governmental regulations.

Although every reasonable effort is made to determine that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 8).

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

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

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

The decision to transfer assets from E&E to property, plant and equipment ("PP&E") is primarily based on the estimated proved plus probable reserves used in the determination of an area's technical feasibility and commercial viability (see note 7).

(iv) Decommissioning and environmental liabilities

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves, laws and regulations or their interpretation, the timing and likelihood of the settlement of the obligation, discount rates, and future interest rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The Company uses a risk-free discount rate.

Liabilities for environmental costs are recognized in the period in which they are incurred, normally when the asset is developed and the associated costs can be estimated. These liabilities are in addition to the decommissioning liabilities due to government regulations that require the Company to perform additional mitigation against the environmental issues attributed to water usage and deforestation from oil and gas activities performed. In addition, the timing of expected settlement of the environmental liabilities differs from the timing of expected settlement of the decommissioning liabilities. Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Refer to note 15 – Decommissioning and environmental liabilities.

(v) Impairment indicators and discount rate

The recoverable amounts of CGUs and individual assets have been determined as the greater of either an asset's or CGU's value in use or fair value less costs of disposal. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, quantity of reserves and discount rates as well as future development and operating costs. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the oil and natural gas reserves and the recoverable economical reserves and may require a material adjustment to the carrying value of oil and natural gas assets. The Company monitors internal and external indicators of impairment relating to its property, plant and equipment and exploration and evaluation assets. Refer to note 7 – Exploration and Evaluation Assets, note 8 – Property, Plant and Equipment and note 11 – Goodwill.

(vi) Share-based compensation

Compensation costs accrued for share-based compensation plans and the Company's Share Appreciation Rights ("SAR") plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of Parex shares and expected term of the issued stock option or SAR. Compensation costs accrued for the Company's Restricted Share Unit ("RSU') plan are measured at fair value based on the market price of Parex shares on the date of issuance. Refer to note 16.

(vii) Derivative financial asset/liability

The estimated fair value of derivative instruments resulting derivative assets and liabilities depends on estimated forward prices and volatility in those prices and by their nature are subject to measurement uncertainty.

(viii) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. The Company follows the liability method for calculating deferred taxes. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

Business combinations, corporate and property acquisitions

Business combinations, corporate and property acquisitions are accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The determination of fair value often requires management to make assumptions and estimates about future events. The fair value of property, plant and equipment ("PPE") recognized in a business combination, corporate or property acquisition is based on market values. The market value of property, plant and equipment is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The market value of E&E assets are estimated with reference to the market values of current arm's length transactions in comparable locations. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment or goodwill impairment.

3. Summary of Significant Accounting Policies

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

a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2014. The principal operating subsidiaries and their activities are:

Entity	Country of incorporation	Country of principle business activity	Ownership %	Principle business activity
Parex Resources Colombia Ltd.	Barbados	Colombia	100	Oil and natural gas exploration and development
Ramshorn International Limited	Bermuda	Colombia	100	Oil and natural gas exploration and development
Verano Energy Limited S.C.	Barbados	Colombia	100	Oil and natural gas exploration and development
Parex Resources (Trinidad) Ltd.	Trinidad	Trinidad	100	Oil and natural gas exploration and development

The above listing does not include the wholly-owned holding company subsidiaries of Parex. All companies in the Parex group are wholly-owned subsidiaries.

On February 13, 2015, the Company entered into an agreement with a third party in Trinidad to purchase from the Company all of the issued and outstanding shares in the capital of Parex Resources (Trinidad) Ltd. Refer to note 10 – Assets held for sale and discontinued operations.

Inter-company balances and transactions are eliminated on consolidation. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. A significant portion of the Company's operating cash flows is derived through joint operations which are involved in the development and production of crude oil in Colombia. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

b) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

c) *Financial instruments*

The Company initially measures financial instruments at estimated fair value. The Company's loans and receivables, comprised of cash and accounts receivables, are included in current assets due to their short-term nature. Financial liabilities are categorized as "other financial liabilities" consisting of accounts payable and accrued liabilities, the convertible debentures and long-term debt.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are recognized at the amount expected to be received less any discount or rebate to reduce the loan and receivables to estimated fair value. Loans and receivables are subsequently measured at amortized cost using the effective interest method. For loans and receivables that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature. Loans and receivables are comprised of cash and accounts receivable in the consolidated balance sheet.

Other financial liabilities

Other financial liabilities are financial liabilities that are not quoted on an active market and with no intention of being traded. They are included in current liabilities, except for the convertible debentures and long-term debt as these instruments have maturities greater than 12 months after the balance sheet date and are classified as non-current liabilities. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable are subsequently measured at amortized cost using the effective interest method. For accounts payable that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature. The convertible debentures were recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

Derivative instruments

Derivatives may be used by the Company to manage economic exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. Parex' 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 (loss) and are recorded on the consolidated 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.

Financial derivative instruments are included in current assets (liabilities) except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets (liabilities).

Convertible Debenture

On issuance, the convertible debenture ("the Debenture") was split between the financial liability and the equity conversion feature. The Debenture represented a liability in its entirety, as the conversion feature failed the fixed-for-fixed requirement for equity classification as the convertible debenture is denominated in Canadian dollars, whereas the functional currency of Parex is US dollars. Prior to the redemption of the Debenture on September 24, 2014, the convertible feature of the Debenture was required to be fair-valued at each balance sheet date. As a result, the convertible debenture conversion feature was classified at fair value through comprehensive income (loss) and is recorded on the consolidated balance sheet at fair value. Prior to the redemption of the Debenture, the financial liability portion was initially recorded at fair value and accreted to the debenture face value over the term of the Debenture.

d) *Capital assets*

(i) Exploration and evaluation

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to comprehensive income (loss) as impairment of exploration and evaluation assets.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to PP&E, where they are depleted. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income (loss) as impairment of exploration and evaluation assets. Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible assets.

(ii) Property, plant and equipment

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include proved property acquisitions, development drilling, completion of wells, gathering facilities and infrastructure, decommissioning and restoration costs and transfers of E&E assets.

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

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

e) Impairment of long-term assets

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

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

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

E&E assets are allocated to related CGUs where they are assessed for impairment upon their eventual reclassification to PP&E. E&E assets not reclassified to PP&E are assessed for impairment on a block by block basis.

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

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

f) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the consolidated statement of comprehensive income (loss) in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

Income and expenses related to discontinued operations are classified as income (loss) from discontinued operations within the consolidated statement of comprehensive income (loss) and the consolidated statement of cash flows.

g) Crude oil inventory

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.

h) Purchased oil

Purchased oil includes costs to buy third party oil. These costs are initially recorded in inventory until the crude oil title is transferred.

i) Goodwill

Goodwill is recorded on a business acquisition when the purchase price is in excess of the fair values assigned to assets acquired and liabilities assumed. Goodwill is not amortized and an impairment test is performed annually or as events occur that could indicate impairment. To test for impairment, goodwill is allocated to each of the Company's CGUs, groups of CGUs, or an operating segment expected to benefit from the acquisition. Goodwill is tested by combining the carrying amounts of property, plant and equipment and exploration and evaluation assets and goodwill and comparing this to the recoverable amount. Fair value less costs of disposal, is derived by estimating the discounted after-tax future net cash flows as described in the property, plant and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Impairment charges, which are not tax affected, are recognized in comprehensive income (loss) and are not reversed. Goodwill is reported at cost less any impairment.

j) Revenue recognition

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

k) Repurchase of shares

Pursuant of the Normal Course Issuer Bid ("NCIB"), repurchased common shares reduce share capital for the average book value with any excess or deficiency charged to retained earnings (deficit).

l) Share-based compensation

The Company has an incentive stock option plan and a restricted unit plan for certain employees, officers and directors as described in note 16. The Company records share-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date using the Black-Scholes pricing model, and expensed over the vesting period of the option. The fair value of an RSU is calculated using the market price of Parex shares on the date of issuance, and expensed over the vesting period of the RSU. The Company determines an appropriate forfeiture rate by examining the history of its forfeitures. The Company records the cumulative share-based compensation as contributed surplus. When options or RSUs are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share-based compensation for the exercised security. Any consideration received on the exercise of stock options or RSUs is credited to share capital.

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

m) Provisions

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

n) Decommissioning and environmental liabilities

The Company's activities give rise to dismantling, decommissioning, environmental, abandonment and site disturbance remediation activities. Provisions are made for the estimated cost of the future site restoration and capitalized in the relevant asset category.

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

o) Operating Segments

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by the Company's chief operating decision makers. The operating segments are Canada, Colombia and Trinidad & Tobago. The Company evaluates the financial performance of its operating segments primarily based on operating cash flow.

p) Finance income and expense

Finance expense comprises interest expense on borrowings, accretion on other provisions and convertible debentures, amortization of debt issuance costs, revaluation of derivative financial liabilities and impairment losses recognized on financial assets. Finance income comprises interest earned on cash and other income.

q) Cash

Cash is comprised of cash held in chartered banks in Canada and recognized financial institutions abroad with BBB+ credit ratings or higher.

r) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in comprehensive income (loss).

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

s) Per share information

Basic net income per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and convertible debentures, except when the effect would be anti-dilutive.

t) Accounting policies adopted

The Company has reviewed new and revised accounting pronouncements that have been issued effective January 1, 2014 and determined the following impacts on the Company:

(i) IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendment is effective retrospectively for annual periods beginning on or after January 1, 2014. As allowed by the standard, the Company early adopted the

amendment in the year ended December 31, 2013. The retrospective adoption of these amendments impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss is recognized.

(ii) IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The adoption of this interpretation did not have an impact to the Company's financial statements.

(iii) IAS 32, "Financial Instruments: Presentation" ("IAS 32") has been amended to clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of this interpretation did not have an impact to the Company's financial statements.

u) New standards and interpretations not yet adopted

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements, and that may have an impact on the disclosures and financial position of the Company, are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

(i) On May 28, 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

(ii) On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Parex does not currently apply hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the consolidated financial statements.

4. Determination of Fair Values

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

a) PP&E and intangible exploration assets

The fair value of PP&E and intangible exploration assets are determined if there are indicators of impairment. The fair value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. All level 3 inputs.

b) Cash, accounts receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2014 and 2013 the fair value of these balances approximated their carrying value due to their short-term to maturity.

c) Stock options

The fair value of stock options is measured using the Black-Scholes pricing model. Measurement inputs include the share price on measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 16.

d) Share appreciation rights

The fair value of SARs is measured using the Black-Scholes pricing model. Measurement inputs include the share price on each balance sheet date, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general SAR-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 16.

e) Restricted share units

The fair value of stock RSUs are measured based on the market price of Parex shares on the date of issuance. Refer to note 16.

f) Derivative financial asset /liability

The conversion feature of the convertible debentures is required to be fair-valued at each balance sheet date. The fair value of this derivative liability is calculated using the Black-Scholes pricing model which is based on significant assumptions such as volatility of the market price of Parex' shares, the risk-free interest rate (based on government of Canada Bonds), and the share price of Parex' stock at the measurement date.

Risk management 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. The fair value of the risk management contract on initial recognition is normally the transaction price. Subsequent to initial recognition, the fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated based on market prices at the reporting date for similar assets or liabilities with similar terms and conditions.

5. Accounts Receivable

		December 31, 2014		December 31, 2013
Trade receivables	**$**	**74,064**	$	91,729
Colombia income taxes receivable		**35,557**		24,608
Receivables from partners		**7,616**		3,228
Value added taxes (VAT)		**8,025**		2,404
	$	**125,262**	$	121,969

Trade receivables consist primarily of oil sale 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 cash income tax payable. Receivables from partners consist of cash calls outstanding from joint venture partners in Colombia to recover ongoing capital costs and operating costs, or overhead recoveries outstanding from joint venture partners. VAT receivable is $8.0 million as at December 31, 2014 (December 31, 2013 - $2.4 million) and is recoverable in 2015. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Inventory

		December 31, 2014		December 31, 2013
Crude oil inventory	**$**	**10,959**	$	8,695

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. During 2014 $8.7 million (December 31, 2013 - $7.5 million) of produced crude oil inventory cost was expensed to the consolidated statement of comprehensive income (loss).

Purchased crude oil is sold immediately. The cost associated with purchased oil is shown in the consolidated statement of comprehensive income (loss) as purchased oil expense. At December 31, 2014 and 2013 the Company did not have any third party purchased oil in inventory.

7. Exploration and Evaluation Assets

		Colombia		Trinidad& Tobago		Total
Cost						
Balance at December 31, 2012	$	83,452	$	61,720	$	145,172
Additions		60,931		2,121		63,052
Transfers to PP&E		(96,666)		-		(96,666)
Change in decommissioning liability		(948)		(267)		(1,215)
Farm-out proceeds		-		(2,000)		(2,000)
Exploration and evaluation impairment		-		(38,305)		(38,305)
Balance at December 31, 2013	$	46,769	$	23,269	$	70,038
Additions		119,670		706		120,376
Transfers to PP&E		(12,457)		-		(12,457)
Disposition of tangible assets		-		(849)		(849)
Changes in decommissioning liability		5,768		-		5,768
Corporate acquisitions – note 9		15,081		-		15,081
Intercompany transfer of assets		1,604		(1,604)		-
Exploration and evaluation impairment		(44,387)		(19,633)		(64,020)
Balance at December 31, 2014	**$**	**132,048**	**$**	**1,889**	**$**	**133,937**
Reclassified to assets held for sale – note 10		-		(1,889)		(1,889)
Balance at December 31, 2014	**$**	**132,048**	**$**	**-**	**$**	**132,048**

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. Amounts transferred to PP&E of $12.5 million for the year ended December 31, 2014 are primarily associated with the Cebucan Block, Cerrero Block, Block LLA-40 and Block LLA-57. In the prior year amounts of $96.7 million were transferred from E&E to PP&E for costs associated with Block LLA-30, Block LLA-17 and El Eden Block. E&E assets increased by $15.1 million for the year ended December 31, 2014 relating to the fair value of the assets acquired in the corporate acquisitions as described in note 9.

The Company completed an impairment review for certain E&E assets associated with Block LLA-40 in the Northern Llanos CGU prior to its transfer to PP&E and determined that the carrying amount of the project assets was unlikely to be recovered by successful development or sale. The impairment review compared the carrying value of the assets to the recoverable amount. The recoverable amount was calculated based on discounted after-tax cash flows of proved and probable reserves using forecast prices and cost estimates, consistent with the Company's independent qualified reserves evaluators. This approach requires assumptions about revenue, future oil prices, tax rates and discount rates, all of which are level 3 inputs. It was determined that the impairment was $23.6 million which is recorded in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2014. The recoverable amount was determined to be $5.9 million using an after-tax discount rate of eleven percent, and was subsequently transferred to property, plant and equipment.

The Company also completed an impairment review for certain E&E assets associated with Block LLA-29 located in the Llanos basin in the fourth quarter of 2014 due to extended community problems that have forced the block into force majeure. The impairment review compared the carrying value of assets to the recoverable amount. The recoverable amount was estimated using fair value less costs of disposal (level 3 inputs). It was determined that the impairment was $20.8 million which is recorded in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2014. The recoverable amount was determined to be $nil as there is no certainty the block can be accessed in a normal course manner.

During the fourth quarter of 2014, the Company entered into negotiations with a third party to purchase from the Company all of the issued and outstanding shares in the capital of Parex Resources (Trinidad) Ltd, refer to note 10 - Assets held for sale and discontinued operations. Associated with this, the Company completed an impairment review of the exploration and evaluation assets in Trinidad & Tobago. The impairment review compared the carrying value of the assets to the recoverable amount. The recoverable amount was estimated using fair value less costs of disposal based on the above noted indications from third parties in the Company's interest in the assets (level 3 inputs). It was determined that the impairment was $19.6 million on E&E assets which is recorded in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2014 as part of discontinued operations. The recoverable amount of the assets was determined to be $1.9 million, net of associated decommissioning liabilities of $0.4 million, and was transferred to assets held for sale.

In 2013 the Company had completed an impairment review for the exploration and evaluation assets in Trinidad & Tobago due to the relinquishment of the Central Range Blocks. The impairment review compared the carrying value of the Central Range Blocks to the recoverable amount at that time. The Company notified the Trinidad & Tobago Ministry of Energy and Energy Affairs (MEEA) that it had relinquished both Central Range Blocks and as such the Company concluded that the recoverable amount of the blocks is $nil. An impairment of the full carrying value of $38.3 million was recorded in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2013.

At December 31, 2014 and December 31, 2013 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

		Canada		Colombia		Trinidad& Tobago		Total
Cost								
Balance at December 31, 2012	$	4,653	$	702,102	$	318	$	707,073
Additions		128		158,203		-		158,331
Transfer from E&E assets		-		96,666		-		96,666
Changes in decommissioning liability		-		10,946		-		10,946
Property acquisition – note 9 (c)		-		13,298		-		13,298
Balance at December 31, 2013	$	4,781	$	981,215	$	318	$	986,314
Additions		515		175,974		11		176,500
Changes in decommissioning liability		-		7,569		-		7,569
Verano acquisition – note 9 (a)		-		247,617		-		247,617
Transfer from E&E assets		-		12,457		-		12,457
Intercompany transfer of assets		(1,903)		1,903		-		-
Dispositions		-		(624)		(91)		(715)
Balance at December 31, 2014	**$**	**3,393**	**$**	**1,426,111**	**$**	**238**	**$**	**1,429,742**
Accumulated Depreciation, Depletion and Amortization								
Balance at December 31, 2012	$	2,043	$	238,217	$	181	$	240,441
Depletion and depreciation for the year		585		213,508		38		214,131
DD&A transferred to crude oil inventory costing		-		260		-		260
Balance at December 31, 2013	$	2,628	$	451,985	$	219	$	454,832
Depletion and depreciation for the year		187		218,284		19		218,490
DD&A transferred to crude oil inventory costing		-		954		-		954
Impairment		-		113,264		-		113,264
Balance at December 31, 2014	**$**	**2,815**	**$**	**784,487**	**$**	**238**	**$**	**787,540**
Net book value:								
At December 31, 2012		2,610		463,885		137		466,632
At December 31, 2013		2,153		529,230		99		531,482
At December 31, 2014	**$**	**578**	**$**	**641,624**	**$**	**-**	**$**	**642,202**

In the year ended December 31, 2014 property, plant and equipment ("PP&E") additions mainly relate to development and appraisal expenditures in Colombia at Block LLA-32 and Block LLA-34. In the year ended December 31, 2014, $12.5 million (December 31, 2013 - $96.7 million) was transferred from E&E assets. PP&E increased by $247.6 million for the year ended December 31, 2014 relating to the fair value of the assets acquired in the corporate acquisitions as described in note 9.

At December 31, 2014, the Company determined that the carrying amount of the Northern Llanos Basin CGU exceeded its recoverable amount. An impairment of $113.3 million was recorded in the consolidated statement of comprehensive income (loss). The recoverable amount was determined using fair value less costs of disposal. The fair value for the producing properties in the Northern Llanos Basin CGU was calculated based on discounted after-tax cash flows of proved and probable reserves using forecast prices and cost estimates, consistent with the Company's independent qualified reserves evaluators. This approach requires assumptions about revenue, future oil prices, tax rates and discount rates, all of which are level 3 inputs. Refer to note 12 – Goodwill for the future crude oil prices used by Parex' independent reserve evaluator. There are no E&E assets associated with this CGU. Future cash flows were discounted using a rate of 11 percent. As at December 31, 2014, the recoverable amount of the Northern Llanos CGU was estimated to be $61.7 million. The impairment is due to lower crude prices assumed in the fair value calculation as compared to the prior year.

Changes to the assumed discount rate or forward price estimates over the life of the reserves independently would have the following impact on the impairment of the Northern Llanos Basin CGU:

	One Percent Increase in the Discount Rate	Five Percent Decrease in the Forward Price Estimates
Impairment of property, plant and equipment	$ 1,807	$ 12,838

There were no impairments of property, plant and equipment in the year ended December 31, 2013.

For the year ended December 31, 2014 $8.6 million of general and administrative costs (year ended December 31, 2013 - $8.4 million) have been capitalized in respect of development and production activities during the current period.

During the year ended 2013, additions mainly related to development expenditures in the amount of $158.2 million in Colombia at the Las Maracas, Tua, Tarotaro and Tigana fields. Amounts transferred from E&E were $96.7 million for the year ended December 31, 2013. PP&E increased by $13.3 million for the year ended December 31, 2013 relating to the fair values of the assets acquired in the property acquisition, refer to note 9.

9. Acquisitions

a) Verano acquisition

On June 25, 2014, Parex acquired all of the outstanding shares of Verano Energy Limited ("Verano") which assets primarily consist of interests in three exploration blocks located in Colombia's Llanos Basin (the "Verano Acquisition"). The Company paid total net consideration of $186.2 million. The Verano Acquisition increased the Company's working interest in Block LLA-32 to 70%, in Block LLA-17 to 63% working interest and in Block LLA-34 to 55% working interest.

The consolidated statement of comprehensive income (loss) includes results of operation of Verano since the closing date of June 25, 2014 and expensed transaction costs associated with the Verano Acquisition of $0.6 million.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to be less than the purchase price, goodwill of $12.2 million arose on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed[(1)]		
Working capital deficiency	$	(31,537)
PP&E		247,617
E&E assets		9,863
Deferred tax liability		(50,057)
Decommissioning and environmental liabilities		(1,852)
Goodwill		12,200
	$	**186,234**

(1) The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Consideration for the acquisition		
Issuance of common shares	$	169,333
Cash paid		75,415
Cash acquired		(53,115)
Settlement of pre-existing relationship		(5,399)
Total net consideration paid	**$**	**186,234**

An adjustment has been made to the fair values of assets acquired and liabilities assumed during the year ended December 31, 2014 resulting in an increased working capital deficiency and goodwill.

Included in the working capital deficiency of assets acquired are accounts receivable of $9.1 million. The receivables are joint venture and trade receivables for which the fair value approximates carrying value.

The settlement of pre-existing relationship related to an outstanding payable balance between Verano and the Company that was no longer owed as a result of the Acquisition.

The pro forma results for period ended December 31, 2014 are shown below, as if the Verano Acquisition had occurred on January 1, 2014. Pro forma results are not indicative of actual results or future performance.

Oil sales	$	115,889

The consolidated statement of comprehensive income (loss) for the period ended December 31, 2014 includes $78.3 million of oil sales attributable to the assets acquired since the Verano Acquisition. Revenue less direct costs for the period ended December 31, 2014 attributable to the assets acquired since the Verano Acquisition is $44.8 million. The pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. Pro forma results are not indicative of actual results or future performance.

b) Sorgenia Acquisition

On April 7, 2014, Parex, through a foreign subsidiary, acquired Sorgenia E&P Colombia BV ("Sorgenia") which assets primarily consist of interests in four exploration blocks located in Colombia's Llanos Basin (the "Sorgenia Acquisition"). The Sorgenia acquisition consolidates the Company's interests in Blocks LLA-24 and LLA-26 to 100%. In addition, the Company acquired an additional 25% working interest in the Cerrero Block and 10% working interest in the Balay development area. Total net consideration paid was $4.8 million in cash.

The consolidated statement of comprehensive income (loss) includes the results of operation of Sorgenia since the closing date of April 7, 2014. This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to equal the purchase price, no goodwill arose on the transaction. The following table summarizes the recognizable assets acquired and consideration paid pursuant to the acquisition:

Assets acquired and liabilities assumed[(1)]		
Working capital surplus	$	7
E&E assets		5,218
Decommissioning and environmental liabilities		(394)
	$	**4,831**

(1) The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Consideration for the acquisition		
Cash paid	$	5,000
Cash acquired		(169)
Total net consideration paid	**$**	**4,831**

Included in the working capital surplus of assets acquired are accounts receivable of $0.4 million. The receivables are joint venture and trade receivables for which the fair value approximates carrying value.

The consolidated statement of comprehensive income (loss) for the period ended December 31, 2014 includes $1.0 million in oil sales attributable to the assets acquired since the Sorgenia Acquisition. Revenue less direct costs for the period ended December 31, 2014 attributable to the assets acquired since the Sorgenia Acquisition is $0.6 million. As there was no production from the assets purchased prior to the Acquisition date, pro forma revenue for the period ended December 31, 2014, as if the Sorgenia Acquisition had occurred on January 1, 2014, are the same as actual. Pro forma net income and pro forma net income per share, basic and diluted, are considered impracticable to calculate and therefore not included. Pro forma results are not indicative of actual results or future performance.

c) Cabrestero Acquisition

On May 31, 2013, Parex, through a foreign subsidiary, acquired an additional 50% working interest in the Cabrestero Block (the "Cabrestero Acquisition"). The Company paid cash consideration of $12.5 million. The Cabrestero Acquisition gives the Company 100% working interest in the Block.

The consolidated statement of comprehensive income (loss) includes results of operation of the property since the closing date of May 31, 2013.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair values. As the fair value of the identifiable assets was determined to equal the purchase price, no goodwill arose 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	$	13,298
Decommissioning liabilities		(809)
	$	**12,489**

Consideration for the acquisition		
Cash paid	$	12,489
Total consideration paid	**$**	**12,489**

No working capital was included in the assets acquired.

The pro forma results for year ended December 31, 2013 are shown below, as if the Cabrestero Acquisition had occurred on January 1, 2013. Pro forma results are not indicative of actual results or future performance.

Oil sales	$	5,859

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 consolidated statement of comprehensive income (loss) for the year ended December 31, 2013 includes $3.5 million of oil sales attributable to the assets acquired since the Acquisition. Net income for the year ended December 31, 2013 attributable to the assets acquired since the Acquisition is considered impracticable to calculate.

10. Assets held for sale and discontinued operations

In 2014, Parex Resources (Barbados) Ltd. ("Parex Barbados") began an agreement (the "Agreement") with a third party pursuant to which, subject to the terms and conditions of the Agreement, the third party has agreed to purchase from Parex Barbados all of the issued and outstanding shares of Parex Trinidad Ltd. for $1.5 million in cash, plus the assumption of certain liabilities and adjusted working capital. The Agreement was entered into on February 13, 2015 and closed on February 19, 2015. During the reclassification of operations for sale, assets of $20.0 million were identified as being impaired.

The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet are as follows:

Assets held for sale		
Cash	$	286
Accounts Receivable		424
Prepaids and other current assets		334
E&E assets		1,889
	$	**2,933**

Liabilities held for sale		
Accounts payable and accrued liabilities	$	270
Decommissioning liabilities		389
Long-term SARs payable		12
	$	**671**

The combined results of the discontinued operations which have been included in the consolidated statement of comprehensive income (loss) are as follows. The comparative period income and cash flows from discontinued operations have been reclassified to include those operations classified as discontinued in the current period:

		2014		2013
Expenses	**$**		$	
General and administrative		**1,273**		1,747
Depletion, depreciation and amortization		**19**		38
Share-based compensation expense		**171**		-
Gain on settlement of decommissioning liabilities		**-**		(293)
Loss on sale of tangible assets		**731**		25
Accretion on decommissioning liabilities		**12**		-
Foreign exchange (gain) loss		**(2)**		34
Impairment of exploration and evaluation assets		**19,633**		38,305
Loss on settlement of other assets and liabilities		**353**		-
	$	**22,190**	$	39,856

11. Goodwill

Balance – December 31, 2013	$	61,252
Additions related to the Verano Acquisition – note 9		12,200
Balance – December 31, 2014	**$**	**73,452**

Associated with the Verano Acquisition, $12.2 million of goodwill has been recorded in the year ended December 31, 2014. Refer to note 9 – Acquisitions.

Impairment test of goodwill

The Company performed its annual test for goodwill impairment at the balance sheet date in accordance with its policy described in note 3. The Company has allocated goodwill to the Colombia operating segment.

The estimated fair value less costs of disposal of the Colombia operating segment exceeded the carrying value. As a result, no goodwill impairment was recorded.

Valuation Techniques

The recoverable amount of the group of CGUs to which the goodwill was assigned is based on fair value less costs of disposal. The technique used in determining the recoverable amount is based on the net present value of the after-tax cash flows from oil and gas reserves of the group of CGU's based on reserves estimated by Parex' independent reserve evaluator and the fair value of undeveloped land based on estimates with consideration given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant group of CGU's. The discounting process uses a rate of return that is commensurate with the risk associated with the assets and the time value of money. This approach requires assumptions about revenue, future oil prices, tax rates and discount rates, all of which are level 3 inputs.

Significant Assumptions

Oil Reserves

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Future Oil Prices

Oil forward price estimates are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors. The future oil prices used in the model are based on a forecast of crude oil prices by Parex' independent reserve evaluator. Prices used are as follows:

	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Brent ($US/bbl)	67.50	82.50	87.50	90.00	95.00	2% increase per year

Discount Rate

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in similar industries, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Its determination requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the group of Colombia CGU's. The discount rate used in performing the impairment test was 11 percent.

The fair value of the group of Colombian CGU's was in excess of its carrying value. Based on sensitivity analysis, no reasonably possible change in discount rate assumptions would cause the carrying amount of the group of Colombia CGUs to exceed its recoverable amount.

12. Long-Term Debt

		December 31, 2014		December 31, 2013
Long-term debt (syndicate credit facility)	**$**	**35,000**	$	8,530

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. At December 31, 2014 the credit facility consists of a reserve-based revolving facility of $175.0 million including an operating line of $20.0 million. The revolving facility is a rolling facility maturing on May 22, 2016, and may be extended for an additional 365 days after attaining syndicate approval. The credit facility is subject to re-determination of the borrowing base semi-annually on November 30 and May 31 of each year. The borrowing base is determined based on, among other things, the Company’s current reserve report, results of operations, the lenders’ view of the current and forecasted commodity prices and the current economic environment. In the event that the syndicate reduces the borrowing base below the amount drawn at the time of the redetermination, the Company has 180 days to eliminate any shortfall by providing additional security or guarantees satisfactory to the lenders or repaying amounts in excess of the new re-determined borrowing base. 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 2.50% - 3.50% per annum, dependent on utilization. Canadian prime rate loan advances, drawn on the operating line only, bear interest at rates ranging from Canadian prime plus 1.50% - 2.50% per annum, dependent on utilization. Undrawn amounts under the revolving facility bear a commitment fee ranging from 0.5% to 0.7% 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 of 1:1 adjusted for undrawn amounts on the credit facility plus fair value of inventoried oil, a rolling four quarter total funded debt to EBITDA test of 3:50: 1, and other standard business operating covenants. The authorized borrowing amount is subject to an interim review as discussed above. As at December 31, 2014, 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.

13. Net Finance Expense (Income)

For the year ended December 31,		**2014**		2013
Interest expense and bank charges	**$**	**7,042**	$	6,883
Accretion on convertible debentures - note 17		**3,210**		4,163
Accretion on decommissioning and environmental liabilities - note 15		**1,127**		581
Loss (gain) on derivative financial liability - note 17		**23,707**		(885)
Gain on settlement of convertible debentures – note 17		**(557)**		-
Amortization of debt issuance costs - note 17		**475**		627
Realized loss (gain) on foreign currency risk management contracts – note 23		**2,672**		(409)
Unrealized loss on foreign currency risk management contracts – note 23		**1,975**		5,694
Loss on disposition of tangible assets		**731**		-
Interest and other income		**(1,332)**		(1,039)
Net finance expense	**$**	**39,050**	$	15,615
Finance expenses reclassified to discontinued operations		**(743)**		(25)
Net finance expense - continuing operations	**$**	**38,307**	$	15,590

For the year ended December 31,		**2014**		2013
Non-cash finance expense	**$**	**30,668**	$	10,180
Cash finance expense		**8,382**		5,435
Net finance expense	**$**	**39,050**	$	15,615

14. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

		December 31, 2014		December 31, 2013
Long-term SARs payable	**$**	**639**	$	638
Financial derivative liability related to the cross currency interest rate swap (“CCIRS”)		**-**		6,443
	$	**639**	$	7,081

15. Decommissioning and Environmental Liabilities

		Decommissioning		Environmental		Total
Balance, December 31, 2012	$	12,079	$	-	$	12,079
Additions		5,140		3,017		8,157
Property acquisition – note 9		809		-		809
Settlements of obligations during the year		(1,400)		-		(1,400)
Gain on settlements of obligations during the year		(712)		-		(712)
Change in estimates		(2,570)		4,144		1,574
Accretion expense		447		134		581
Balance, December 31, 2013	$	13,793	$	7,295	$	21,088
Additions		9,479		3,201		12,680
Corporate acquisitions – note 9		1,300		946		2,246
Settlements of obligations during the year		(1,369)		(425)		(1,794)
Loss on settlements of obligations during the year		134		-		134
Accretion expense		864		263		1,127
Additions related to change in estimate		-		657		657
Foreign exchange gain		-		(1,660)		(1,660)
Balance, December 31, 2014	**$**	**24,201**	**$**	**10,277**	**$**	**34,478**
Current obligation		-		(2,143)		(2,143)
Decommissioning liabilities reclassified to liabilities held for sale		(389)		-		(389)
Long-term obligation	**$**	**23,812**	**$**	**8,134**	**$**	**31,946**

The total environmental, decommissioning and restoration obligations were determined by management based on the estimated costs to settle environmental impact obligations incurred and to reclaim and abandon the wells and well sites based on contractual requirements. The obligations are expected to be funded from the Company's internal resources available at the time of settlement.

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2014, the estimated costs to abandon and reclaim the wells and well sites 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 $37.0 million as at December 31, 2014 (December 31, 2013 – $19.4 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5 percent and an inflation rate of 2 percent were used in the valuation of the liabilities (December 31, 2013 – 5 percent weighted average risk-free discount rate and a 2 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately $14.0 as at December 31, 2014 (December 31, 2013 – $8.4 million) with the majority of these costs anticipated to occur in 2015 or later in Colombia. A risk-free discount rate of 7 percent and an inflation rate of 3 percent were used in the valuation of the liabilities (December 31, 2013 – 6 percent risk-free discount rate and a 3 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is $2.1 million (December 31, 2013 – $1.6 million) that is classified as a current obligation.

16. Share Capital

a. Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2012	108,476,451	$	412,736
Issued for cash – exercise of options and RSUs	587,598		1,971
Allocation of contributed surplus – exercise of options and RSUs	-		853
Repurchase of shares	(352,400)		(1,384)
Balance, December 31, 2013	108,711,649	$	414,176
Issued for cash – exercise of options and RSUs	2,949,574		9,373
Issued in Verano Acquisition – note 9(a)	14,688,724		169,333
Issued on conversion of convertible debentures – note 17	8,339,991		97,331
Share issue costs	-		(180)
Allocation of contributed surplus – exercise of options and RSUs	-		4,077
Balance, December 31, 2014	**134,689,938**	**$**	**694,110**

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

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn$85.0 million Convertible Debentures (the "Debentures"), with the redemption date set as September 24, 2014. During August and September 2014, the Cdn$85.0 million principal amount of

Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for $0.3 million in cash; refer to note 17 – Convertible Debentures.

In 2014, a total of 2,949,574 options were exercised for proceeds of $9.4 million (December 31, 2013 - 587,598 options were exercised for $2.0 million).

In 2014, the Company repurchased nil (December 31, 2013 – 352,400) common shares pursuant to its Normal Course Issuer Bid at a cost of $nil (December 31, 2014 - $1.5 million, average cost per share of Cdn$4.39). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

b. Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's directors, officers, and certain employees to acquire common shares. The option plan is subject to shareholder re-approval at the Annual Shareholders' Meeting, to be held in May 2014. The maximum number of options and restricted share units reserved for issuance under the option and restricted share unit plans may not exceed 10 percent of the number of common shares issued and outstanding. The options vest over a three-year period and expire 5 years from the date of grant.

	Number of options	Weighted average exercise price Cdn$/option
Balance, December 31, 2013	8,695,363	4.94
Granted	1,889,375	10.16
Exercised	(2,923,478)	3.53
Forfeited	(84,250)	5.83
Balance, December 31, 2014	**7,577,010**	**6.78**

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2014 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
$4.06 - $5.64	1,530,851	2.37	4.53	984,851	2.18	4.57
$5.65 - $6.06	119,500	3.68	5.89	37,499	3.72	5.89
$6.07 - $6.12	3,953,534	3.79	6.07	1,310,054	3.79	6.07
$6.13 - $9.90	196,250	3.26	7.06	71,250	1.58	6.19
$9.91 - $13.93	1,776,875	4.85	10.31	-	-	-
	7,577,010	3.74	6.78	2,403,654	3.06	5.46

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 year ended December 31,	**2014**	2013
Risk-free interest rate (%)	**1.23**	1.46
Expected life (years)	**4**	4
Expected volatility (%)	**46**	48
Forfeiture rate (%)	**3**	3
Expected dividends	**-**	-

The weighted average fair value at the grant date for the year ended December 31, 2014 was Cdn$3.75 per option (year ended December 31, 2013 – Cdn$2.32 per option). The weighted average share price on the exercise date for options exercised in 2014 was Cdn$10.44 (year ended December 31, 2013 – Cdn$6.07)

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 5 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, 2013	3,070,731	5.77
Granted	729,054	10.82
Exercised	(487,064)	6.22
Forfeited	(706,078)	5.53
Balance, December 31, 2014	**2,606,643**	**7.12**

As at December 31, 2014, 730,945 SARs were vested (year ended December 31, 2013 – 769,754).

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 year ended December 31,	**2014**	2013
Risk-free interest rate (%)	**1.11**	1.38
Expected life (years)	**4**	4
Expected volatility (%)	**47**	47
Share price	**7.58**	6.58
Expected dividends	**-**	-

As at December 31, 2014, the total SARs liability accrued is $4.4 million (December 31, 2013 - $3.2 million) of which $0.6 million (December 31, 2013 - $0.6 million) is classified as long-term in accordance with the three year vesting period and $0.1 (December 31, 2013 - $nil) is classified as liabilities held for sale, refer to note 10. For the year ended December 31, 2014, Parex recorded $4.0 million of compensation costs related to the outstanding SARs (year ended December 31, 2013 – $0.3 million) of which $0.2 million (year ended December 31, 2013 – $nil) is included in loss in discontinued operations. The intrinsic value of vested SARs at December 31, 2014 was $1.4 million (December 31, 2013 – $0.9 million).

d. Restricted share units

The Company has in place a restricted share unit plan pursuant to which the Company may grant restricted shares to directors and certain employees. The restricted shares vest at 33 percent on each of the first, second and third anniversaries of the grant date and expire five years from date of grant.

	Number of RSU's	Weighted average exercise price Cdn$/RSU
Balance, December 31, 2013	868,800	0.01
Granted	789,050	0.01
Exercised	(26,096)	0.01
Forfeited	(5,869)	0.01
Balance, December 31, 2014	**1,625,885**	**0.01**

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the year ended December 31, 2014 was Cdn$10.16 per RSU (year ended December 31, 2013 – Cdn$5.95 per RSU). For the year ended December 31, 2014 a weighted average forfeiture rate of 3% was applied (December 31, 2013 – 3%).

e. Share-based compensation and SARs expense

For the year ended December 31,		**2014**		2013
Share-based compensation expense	**$**	**8,491**	$	6,530
SARs expense		**4,005**		344
Total	**$**	**12,496**	$	6,874
SARs expense reclassified as discontinued operations		**(171)**		-
Total – continuing operations	**$**	**12,325**	$	6,874

17. Convertible Debenture

On August 12, 2014 the Company issued a notice of redemption to holders of its then outstanding Cdn$85.0 million Convertible Debentures (the "Debentures"), with the redemption date set as September 24, 2014. The Debentures had a face value of $1,000 per debenture, and were convertible into common shares at the option of the holder at a conversion price of Cdn$10.15 per share representing a conversion rate of approximately 98.52 common shares per Debenture. Parex had the right to redeem the Debenture at par anytime after July 1, 2014 if the volume weighted average price of a common share of the Company was in excess of 125% of the conversion price. During August and September 2014, the Cdn$85.0 million principal amount of Debentures was converted by the Debenture holders for an aggregate of 8,339,991 common shares of the Company and Debentures not converted were redeemed for $0.3 million in cash. The annual coupon on the debentures was 5.25 percent paid semi-annually in arrears on June 30 and December 31 of each year. The holders of the debentures received accrued and unpaid interest for the period from July 1, 2014 to the date of conversion. A gain of $0.6 million on the settlement of the Debentures and the related derivative financial liability was recognized in the consolidated statement of comprehensive income (loss) during the year ended December 31, 2014.

The following table summarizes the accounting for the debentures:

		Liability		Derivative financial liability		Total
Balance, December 31, 2012	$	65,657	$	9,899	$	75,556
Accretion		4,163		-		4,163
Amortization of debt issuance costs		627		-		627
Derivative gain		-		(885)		(885)
Foreign exchange gain		(4,387)		(639)		(5,026)
Balance, December 31, 2013	$	66,060	$	8,375	$	74,435
Accretion		3,210		-		3,210
Amortization of debt issuance costs		475		-		475
Derivative loss		-		23,707		23,707
Foreign exchange gain		(3,596)		(27)		(3,623)
Debentures converted or redeemed		(66,149)		(32,055)		(98,204)
Balance at December 31, 2014	**$**	**-**	**$**	**-**	**$**	**-**

The accretion, interest paid, amortization of Debenture issuance costs, derivative loss and gain on the settlement of the Debenture are charged to finance expense in the consolidated statement of comprehensive income (loss).

Prior to the settlement of the Debenture, the derivative financial liability was measured at fair value using the Black-Scholes valuation model, with the change to the fair value being recorded in finance expense as a loss (gain) on the derivative financial liability. For the year ended December 31, 2014, the loss on the derivative liability was $23.7 million (year ended December 31, 2013 – gain of $0.9 million). The fair value of the derivative financial liability was determined using the following level 2 assumptions:

For the year ended December 31,	September 24, 2014	December 31, 2013
Risk-free interest rate (%)	1.26	1.38
Expected life (years)	1.75	2.5
Expected volatility (%)	45	47
Expected dividends	-	-

The foreign exchange gain on the Debenture is offset by a corresponding loss on the Cross Currency Interest Rate Swap the Company entered into on December 30, 2012. In association with the settlement of the Debenture, the Cross Currency Interest Rate Swap has also been terminated in the current period (Refer to note 23 (d)).

18. Income Tax

The components of tax expense for 2014 and 2013 were as follows:

For the year ended December 31,		**2014**		2013
Current tax expense	**$**	**52,184**	$	46,274
Deferred tax recovery		**(19,539)**		(2,994)
Total tax expense	**$**	**32,645**	$	43,280

Factors affecting tax expense for the year

The standard Colombian corporate income tax rate for 2014 was 34 percent (year ended December 31, 2013 – 34 percent). The following is a reconciliation of income taxes calculated at the Colombian corporate tax rate to the tax expense for 2014 and 2013:

For the year ended December 31,		**2014**		2013
Income (loss) before tax from continuing operations	**$**	**(53,938)**	$	95,808
Income before tax multiplied by the standard rate of Colombian corporate tax of 34% (2013 – 34%)		**(18,337)**		32,575
Effects of:				
Income taxes recorded at rates different from the Colombian tax rate		**5,722**		1,530
Impact of Colombian rate changes		**13,257**		-
Expenses not deductible for tax purposes		**8,186**		1,850
Share based compensation		**2,123**		1,633
Deferred tax assets not recognized		**(9,838)**		1,241
Adjustment in respect of prior period		**3,625**		(2,351)
Foreign exchange impact on tax pools denominated in foreign currency		**27,907**		6,802
Total tax expense	**$**	**32,645**	$	43,280

In the December of 2014, the Colombian government enacted new legislation containing tax rate changes effective January 1, 2015. These increases will result in a consolidated income tax of: 39% for 2015; 40% for 2016; 42% for 2017; and 43% for 2018. Under current legislation, the consolidated rate is set to revert to 34% in 2019 and onwards. As a result of the increase in these rates the Company's deferred tax liability increased by approximately $13.3 million.

The analysis of deferred income tax liabilities (assets) as follows:

		December 31, 2014		December 31, 2013
Deferred tax liabilities to be settled within 12 months	**$**	**(1,157)**	$	-
Deferred tax liabilities to be settled after more than 12 months		**123,897**		92,222
Net deferred income tax liability	**$**	**122,740**	$	92,222

For the purposes of the above table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same entity and jurisdiction. The deferred income tax liabilities and assets to be settled (recovered) within 12 months represents management's estimate of the timing of the reversal of temporary differences and does not correlate to the current income tax expense of the subsequent year.

The movement during the year in the deferred income tax (liabilities) assets and the net components is as follows:

Deferred Tax (Liability) Asset		**December 31, 2014**	(Charged) credited to the statement of comprehensive income (loss)	Corporate Acquisition	December 31, 2013	(Charged) credited to the statement of comprehensive income (loss)
PP&E	**$**	**(143,268)**	29,023	(71,712)	(100,579)	5,446
Loss carry forwards		**5,547**	(15,476)	21,023	-	(6,187)
Decommissioning liability		**9,092**	1,419	632	7,041	2,234
SARs		**1,670**	672	-	998	(638)
Other		**4,219**	3,901	-	318	2,139
Balance, end of period	**$**	**(122,740)**	19,539	(50,057)	(92,222)	2,994

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value in Canada, the recoverability of which is uncertain and therefore has not been recognized in the financial statements. The losses available in Colombia have been recognized in the financial statements, with the exception of $8.0 million. The Company did not recognize deferred income tax asset on the total gross temporary differences (including non-capital losses) in Canada of $86.0 million. Losses can be carried forward indefinitely in Colombia, while in Canada they expire in 20 years. Amounts denominated in foreign currency have been translated at the December 31, 2014 exchange rate. At December 31, 2014 the Company had the following non-capital losses:

		Canada	Colombia
Expiry			
2030		3,610	-
2031		12,149	-
2032		27,819	-
2033		21,145	-
2034		21,309	-
Indefinitely		-	47,252
Total	**$**	**86,032**	**47,252**

Earnings retained by subsidiaries amounted to $218.5 million at December 31, 2014 (December 31, 2013 - $173.0 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

Colombian Equity Tax

Parex' Colombian subsidiaries were subject to a 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 was payable over four years (1.5 percent per year) in eight equal installments every May and September starting in 2011. The final payments of $1.7 million have been made during the year ended December 31, 2014 and accordingly there is no remaining balance outstanding.

On December 23, 2014 the Colombian government passed a law imposing a Net Wealth Tax ("NWT") levied on Colombian companies. The tax is assessed and becomes payable on the opening equity as at January 1st of each year beginning in 2015 extending until 2017, at rates from 1.15% in 2015 to 0.4% in 2017. The Company's NWT for 2015 is expected to be $3.5 million and will be paid in two equal semi-annual installments in 2015.

19. Net Income (loss) per Share

a) Basic net income (loss) per share

For the year ended December 31,		**2014**		2013
Net income (loss)				
Net income (loss) for the purpose of basic net income per share – continuing operations	**$**	**(86,583)**	$	52,528
Net loss for the purpose of basic net income per share – discontinued operations		**(22,190)**		(39,856)
Net income (loss) for the year		**(108,773)**		12,672
Weighted average number of shares for the purposes of basic net income (loss) per share (000's)		**120,379**		108,421
Basic net income (loss) per share – continuing operations	**$**	**(0.72)**	$	0.48
Basic net income (loss) per share – discontinued operations		**(0.18)**		(0.36)
Basic net income (loss) per share	**$**	**(0.90)**	$	0.12

b) Diluted net income (loss) per share

For the year ended December 31,		**2014**		2013
Net income (loss) – continuing operations				
Net income (loss) for the purpose of basic net income per share – continuing operations	**$**	**(86,583)**	$	52,528
Elimination of interest and accretion expense and the gain on changes in fair value and foreign exchange, net of tax, on the Debentures and derivative financial liability		**-**		(1,121)
Net income (loss) used to calculate diluted net income per share – continuing operations	**$**	**(86,583)**	$	51,407
Weighted average number of shares for the purposes of basic net income (loss) per share (000's)		**120,379**		108,421
Dilutive effect of share options and RSUs on potential common shares		**-**		1,134
Dilutive effect of Debentures on potential common shares		**-**		13,980
Weighted average number of shares for the purposes of diluted net income (loss) per share		**120,379**		123,535
Diluted net income (loss) per share – continuing operations	**$**	**(0.72)**	$	0.42
Net loss – discontinued operations				
Net loss for the purpose of basic net loss per share – discontinued operations	**$**	**(22,190)**	$	(39,856)
Net loss used to calculate diluted net loss per share – discontinued operations	**$**	**(22,190)**	$	(39,856)
Weighted average number of shares for the purposes of basic net loss per share (000's)		**120,379**		108,421
Weighted average number of shares for the purposes of diluted net loss per share		**120,379**		108,421
Diluted net loss per share – discontinued operations	**$**	**(0.18)**	$	(0.36)

At December 31, 2014 1,801,875 (December 31, 2013 - 4,509,325) 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. The Company has reported a net loss for the year ended December 31, 2014 and therefore stock options and the effect of Debentures that are otherwise dilutive are anti dilutive and therefore excluded from the diluted earnings per share.

20. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the year ended December 31,		2014		2013
Accounts receivable	$	**(3,293)**	$	(19,527)
Prepaids and other current assets		**(3,679)**		1,399
Crude oil inventory		**(2,264)**		(1,221)
Accounts payable and accrued liabilities		**17,972**		6,690
Depletion related to crude oil inventory		**954**		258
Net non-cash working capital on assets held for sale - note 10		**(3,310)**		-
Net non-cash working capital on corporate acquisitions - note 9		**(26,129)**		-
Net change in non-cash working capital	$	**(19,749)**	$	(12,401)
Operating	$	**(43,025)**	$	(61,374)
Investing		**23,276**		48,973
Financing		**-**		-
Net change in non-cash working capital	$	**(19,749)**	$	(12,401)

b) Interest and taxes paid

For the year ended December 31,		2014		2013
Cash interest paid	$	**4,340**	$	4,990
Cash income and equity taxes paid	$	**47,298**	$	44,790

21. Employee Salaries and Benefit Expenses

For the year ended December 31,		2014		2013
Salaries, bonuses and other short term benefits	$	**31,349**	$	26,856
Share-based compensation expense		**8,491**		6,530
SARs expense		**4,005**		344
	$	**43,845**	$	33,730

Employee salaries, bonuses and short-term benefits are included in general and administrative expenses in the consolidated statement of comprehensive income (loss). Stock-based compensation and SARs and RSUs expense is included in share-based compensation expense in the consolidated statement of comprehensive income (loss).

22. 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 a senior secured credit facility (see note 12 - Long-Term Debt) which as at December 31, 2014 had a borrowing base in the amount of $175.0 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at December 31, 2014, $35.0 million (December 31, 2013 - $8.5 million) was drawn on the credit facility.

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 concessions (see note 25 - Commitments).

As at December 31, 2014 the Company's net working capital surplus is $3.3 million (December 31, 2013 – working capital surplus of $24.0 million), of which $39.0 million (December 31, 2013 - $56.5 million) was cash. This excludes the undrawn amount available under the credit facility of $140.0 million (December 31, 2013 - $91.5 million). During the year ended December 31, 2014 the Company reduced its corporate debt by the early redemption and conversion of its convertible debenture (see note 17 – Convertible Debenture).

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 and the credit facility. As at December 31, 2014 shareholders' equity was $660.6 million (December 31, 2013 - $485.1 million).

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

23. Financial Instruments and Risk Management

The Company's non-derivative financial instruments recognized on the consolidated balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities, the liability portion of the Debentures, and the long-term debt. 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 fair value of the revolving credit facility is equal to its carrying amount as the facility bears interest at floating rates and the credit spreads within the facility are indicative of market rates.

Long-term financial instruments of the Company carried on the consolidated balance sheet are carried at amortized cost with the exception of financial derivative instruments, specifically fixed price contracts and foreign currency risk management contracts, which are carried at fair value. There are no significant differences between the carrying amount of derivative financial instruments and their estimated fair values as at December 31, 2014.

The conversion feature associated with Debentures is a derivative financial liability. Prior to the redemption of the debenture that occurred in the current period, this derivative financial liability was recorded upon recognition and subsequently at each balance sheet date at fair value, with changes in fair value being recognized in the consolidated statement of comprehensive income (loss).

The fair value of the Company's financial derivative instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

Level 1 – quoted prices in active markets for identical financial instruments.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. The Company's financial derivative instruments have been classified as level 2 based on the fair value hierarchy described above. The Company used the following techniques to determine the fair value measurements:

Crude oil contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price for the same commodity, using quoted market prices or the period end forward price for the same commodity extrapolated to the end of the contract term. The Company has no crude oil contracts in place at December 31, 2014.

Prior to the extinguishment of the Cross Currency Interest Rate Swap ("CCIRS") in the current period, the fair value was determined using the forward exchange rates at each measurement date.

Prior to its redemption in the current period, the convertible debenture had two components of value – a conventional bond and a call on the equity of the Company through conversion. Based on its terms disclosed in note 17 – Convertible Debenture, the conversion option was an embedded derivative and had been separated from the host contract and classified as a financial liability through profit and loss. The valuation technique and key assumptions used in determining the fair value of the bond and the derivative liability conversion feature are disclosed in note 17 – Convertible Debenture.

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 oil marketing counterparties in its management of credit exposure.

The Company for the year ended December 31, 2014 had the majority of its oil sales to 14 counterparties. Accounts receivable balance as at December 31, 2014 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At December 31, 2014 there are $0.5 million of accounts receivable past due, all of which are considered collectible (December 31, 2013 - $1.2 million).

As at December 31, 2014 and 2013 the Company's accounts receivable are aged as follows:

For the year ended December 31,		**2014**		2013
Current (less than 90 days)	**$**	**124,720**	$	120,725
Past due (more than 90 days)		**542**		1,244
Total	**$**	**125,262**	$	121,969

None of the Company's receivables are impaired at December 31, 2014. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

b) *Liquidity risk*

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. In the current year the Company has maintained a robust capital program funded from funds flow from operations and has executed an early redemption of the Debentures that had an original expiry date of June 30, 2016. The Company is committed to maintaining a strong balance sheet and has the ability to change its capital program based on expected operating cash flows. The Company's credit facility at December 31st, 2014 was drawn by $35.0 million; the undrawn amount was $140.0 million.

The following are the contractual maturities of financial liabilities at December 31, 2014:

		Less than 1 year	**2-3 Years**	**4-5 Years**	**Thereafter**		**Total**
Accounts payable and accrued liabilities	$	133,826	-	-	-	$	133,826
SARs payable		3,611	639	-	-		4,250
Current income and equity tax payable (1)		7,156	-	-	-		7,156
Credit Facility including interest (2)		1,050	36,050	-	-		37,100
Total	$	145,643	36,689	-	-	$	182,332

(1) Net of withholding tax receivable in the amount of $35.6 million.

(2) Balances denominated in Canadian dollars have been translated at the December 31, 2014 exchange rate.

The following are the contractual maturities of financial and other liabilities at December 31, 2013:

		Less than 1 year	**2-3 Years**	**4-5 Years**	**Thereafter**		**Total**
Accounts payable and accrued liabilities	$	116,238	-	-	-	$	116,238
SARs payable		2,603	638	-	-		3,241
Current income and equity tax payable (1)		22,940	-	-	-		22,940
Credit Facility including interest (2)		282	8,812	-	-		9,094
Debentures(2)		-	85,686	-	-		85,686
Interest on Debentures(2)		3,813	5,720	-	-		9,533
Total	$	145,876	100,856	-	-	$	246,732

(1) Net of withholding tax receivable in the amount of $24.6 million.

(2) Balances denominated in Canadian dollars have been translated at the December 31, 2013 exchange rate, except for the Debenture which is denominated in its USD hedged amount.

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. As at December 31, 2014, the Company had no outstanding crude contracts in place.

The table below summarizes (gain) loss on the commodity risk management contracts that were in place during the years ended December 31, 2014 and 2013:

For the year ended December 31,		**2014**		2013
Realized loss (gain) on commodity risk management contracts	**$**	**(8,054)**	$	1,239
Unrealized loss on commodity risk management contracts		**-**		1,459
Total	**$**	**(8,054)**	$	2,698

Subsequent to December 31, 2014, Parex entered into the following ICE Brent priced crude oil risk management contracts:

Period Hedged	**Reference**	**Type**	**Volume bbls/d**	**Price/bbl**
March 1, 2015 to March 31, 2015	ICE Brent	Collar	5,000	$55.00-$66.60
March 1, 2015 to March 31, 2015	ICE Brent	Collar	3,000	$55.00-$68.00
April 1, 2015 to April 30, 2015	ICE Brent	Collar	5,000	$55.00-$68.25
April 1, 2015 to April 30, 2015	ICE Brent	Collar	3,000	$55.00-$69.75
April 1, 2015 to April 30, 2015	ICE Brent	Collar	2,000	$55.00-$67.00
May 1, 2015 to May 31, 2015	ICE Brent	Collar	5,000	$55.00-$68.75

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$) and Colombian pesos (COP$) while its committed capital expenditures are expected to be primarily denominated in US dollars.

The following is a summary of the foreign currency risk management contracts in place as at December 31, 2014:

Period Hedged	**Reference**	**Type**	**Amount USD**	**Price (COP)**
September 5, 2014 to April 30, 2015	Colombian Peso	Put	$15 million	1,850
September 5, 2014 to April 30, 2015	Colombian Peso	Call	$15 million	2,100

Associated with the Cdn$85.0 million of Debentures, on December 30, 2012 the Company entered into a Cross Currency Interest Rate Swap ("CCIRS") with two financial institutions who are members of the Company's credit facility. Under the terms of the CCIRS, the US dollar amount of the Debenture was fixed for purposes of interest and principal repayment at a notional amount of $85.7 million as follows:

	Type	**Receive Notional Principal (Cdn$)**	**Fixed annual rate (Cdn%)**	**Pay Notional Principal (US$)**	**Fixed annual rate (US%)**
December 30, 2012 – June 30, 2016	Swap	85,000,000	5.25%	85,685,565	4.45%

In association with the settlement of the Debenture (see note 17 – Convertible Debentures), the CCIRS has also been terminated in the current period.

The table below summarizes the (gain) loss on the foreign currency risk management contracts:

For the year ended December 31,		**2014**		2013
Realized (gain) loss on foreign currency risk management contracts	**$**	**2,672**	$	(409)
Unrealized loss on foreign currency risk management contracts		**1,975**		5,694
Total	**$**	**4,647**	$	5,285

The Company recorded a $4.6 million loss on these contracts in the year ended December 31, 2014 (year ended December 31, 2013 - $5.3 million loss) which is recorded in the financial statement line item "Finance expense" in the consolidated statements of comprehensive income (loss). Refer to note 13.

The following sensitivity show the resulting unrealized (gain) loss and impact on income before tax for the foreign exchange risk management contracts for the respective changes in the period end foreign exchange rates at December 31, 2014:

	Impact on net income before tax for the year ended December 31, 2014	
Exchange Rate USD/COP	Increase of 10%	Decrease of 10%
Total	**$ 1,229**	**$ (1,188)**

e) Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its credit facility. Currently the Company has not entered into any agreements to manage this risk. The following sensitivity shows the resulting (gain) loss on net income before tax if the interest expense increased /decreased by 1% as at December 31, 2014:

	Impact on net income before tax for the year ended December 31, 2014	
Interest rate	Increase of 1%	Decrease of 1%
Total	**$ 298**	**$ (298)**

24. Segmented Information

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

For the year ended December 31, 2014

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	$ -	$ 752,022	$ -	$ 752,022
Royalties	-	(90,888)	-	(90,888)
Revenue	-	661,134	-	661,134
Risk management contracts	877	7,177	-	8,054
	877	668,311	-	669,188
Expenses			-	
Production	-	90,213	-	90,213
Transportation	-	149,454	-	149,454
Purchased oil	-	33,187	-	33,187
General and administrative	15,351	17,180	-	32,531
Share-based compensation	8,491	3,834	-	12,325
Depletion, depreciation and amortization	186	218,285	-	218,471
Transaction costs	593	-	-	593
Foreign exchange gain	(3,459)	(6,281)	-	(9,740)
Loss on settlement of decommissioning liabilities	-	134	-	134
Exploration and evaluation impairment	-	44,387	-	44,387
Property, plant and equipment impairment		113,264		113,264
	21,162	663,657	-	684,819
Finance income	(20)	(1,312)	-	(1,332)
Finance expense	34,836	4,803	-	39,639
	34,816	3,491	-	38,307
Net income (loss) before taxes from continuing operations	(55,101)	1,163	-	(53,938)
Current tax expense	-	52,184	-	52,184
Deferred tax recovery	-	(19,539)	-	(19,539)
Net loss from continuing operations	$ (55,101)	$ (31,482)	$ -	$ (86,583)
Net loss from discontinued operations	-	-	(22,190)	(22,190)
Net loss	$ (55,101)	$ (31,482)	$ (22,190)	$ (108,773)
Capital assets (end of year)	$ 578	$ 773,672	$ -	$ 774,250
Capital expenditures, excluding corporate acquisitions	$ 515	$ 295,644	$ 717	$ 296,876
Total assets (end of year)	$ 8,097	$ 1,023,385	$ 2,933	$ 1,034,415

For the year ended December 31, 2013

	Canada	Colombia	Trinidad & Tobago	Total
Oil sales	$ -	$ 636,577	$ -	$ 636,577
Royalties	-	(77,425)	-	(77,425)
Revenue	-	559,152	-	559,152
Risk management contracts	(2,478)	(220)	-	(2,698)
	(2,478)	558,932	-	556,454
Expenses		-	-	
Production	-	57,268	-	57,268
Transportation	-	110,523	-	110,523
Purchased oil	-	33,633	-	33,633
General and administrative	13,438	16,916	-	30,354
Share-based compensation	6,530	344	-	6,874
Depletion, depreciation and amortization	585	213,508	-	214,093
Foreign exchange gain	(5,388)	(1,882)	-	(7,270)
Gain on settlement of decommissioning liabilities	-	(419)	-	(419)
	15,165	429,891	-	445,056
Finance income	(300)	(739)	-	(1,039)
Finance expense	16,073	556	-	16,629
	15,773	(183)	-	15,590
Net income (loss) before taxes from continuing operations	(33,416)	129,224	-	95,808
Current tax expense	-	46,274	-	46,274
Deferred tax recovery	-	(2,994)	-	(2,994)
Net income (loss) from continuing operations	$ (33,416)	$ 85,944	$ -	$ 52,528
Net loss from discontinued operations	-	-	(39,856)	(39,856)
Net income (loss)	$ (33,416)	$ 85,944	$ (39,856)	$ 12,672
Capital assets (end of year)	$ 2,153	$ 575,999	$ 23,368	$ 601,520
Capital expenditures, excluding corporate acquisitions	$ 128	$ 231,623	$ 2,121	$ 233,872
Total assets (end of year)	$ 6,990	$ 818,059	$ 29,759	$ 854,808

In Colombia in the year 2014 the majority of oil sales were with fourteen counterparties (year ended December 31, 2013 – nine counterparties) in the oil and gas industry and are subject to normal industry credit risks.

25. Commitments

a) Colombia

At December 31, 2014 guarantees in place with ANH are in the form of issued letters of credit totaling $103.4 million (December 31, 2013 - $32.7 million) to support the exploration work commitments in respect of the 23 blocks in Colombia.

EDC has provided the Company's bank with performance security guarantees to support approximately 71 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 from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at December 31, 2014 in respect of the Colombia blocks are estimated to be as follows:

(000s)		
2015	$	47,985
2016		125,387
Thereafter		12,008
	$	185,380

b) 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 December 31, 2014 are as follows:

(000s)		Total	2015	2016	2017	2018	2019
Office and accommodations	$	6,714	2,202	1,506	1,049	1,017	940

26. Related Party Disclosures

a) Significant Subsidiaries

The consolidated financial statements include the financial statements of Parex Resources Inc. at December 31, 2014. Transactions between subsidiaries are eliminated upon consolidation.

b) Compensation of Key Management Personnel

Key management personnel compensation, including directors, is as follows:

For the year ended December 31,		**2014**		2013
Salaries, directors fees and other benefits	**$**	**3,109**	$	2,939
Share-based compensation[(1)]		**3,313**		2,191
	$	**6,422**	$	5,130

(1) Non-cash share-based compensation expense for the year.

Key management personnel are comprised of the Company's directors and five executive officers. As at December 31, 2014, there is a $5.8 million commitment (December 31, 2013 - $5.1 million) relating to change of control or termination of employment of the key management personnel.

c) Other transactions

During the year ended December 31, 2014, the Company rented office space to certain directors of the Company at market rental rates. The Company earned $2 thousand dollars related to rent earned for the month of December 2014. At December 31, 2014, the entire balance from these related parties was outstanding and has subsequently been collected.

Other than the above noted transaction, the Company did not have any related party transactions with entities outside the consolidated group for the years ended December 31, 2014 and 2013.

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

David R. Taylor
Executive VP Exploration & Business Development

Stu R. Davie
VP Human Resources & Administration

Barry B. Larson
Chief Operating Officer

Kenneth G. Pinsky
Chief Financial Officer

CORPORATE HEADQUARTERS

Parex Resources Inc.
2700, Eighth Avenue Place, West Tower
585 8 Avenue S.W.,
Calgary, Alberta, Canada T2P 1G1

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. 611,
Edificio Teleport, Torre A,
Bogotá, Colombia

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

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
VP, Corporate Planning and Investor Relations
Tel: 403-517-1733
Fax: 403-265-8216

E-mail:
investor.relations@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 or bopd	barrels of oil per day
mbbls/d	one thousand barrels per day
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

Other

WTI	West Texas Intermediate
Brent	Brent Ice

"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.