



CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and related financial information are the responsibility of management, and have been prepared in accordance with International Financial Reporting Standards. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The independent external auditors, KPMG LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors, currently composed of three independent directors, carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of two members. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review and approve interim financial statements prior to their release and recommend their approval to the Board of Directors.

The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements and information as presented.

(signed)

Chris Reid
President
& Chief Executive Officer

April 27, 2018
Calgary, Canada

(signed)

Lynn Chapman
Vice President of Finance
& Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Petrodorado Energy Ltd.

We have audited the accompanying consolidated financial statements of Petrodorado Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising 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, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 our 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, we consider internal control relevant to the Company'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 Company'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 consolidated financial position of Petrodorado Energy Ltd. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Petrodorado Energy Ltd. incurred a loss for the period and used cash in operating activities with no revenue generated for the year ended December 31, 2017. Petrodorado Energy Ltd. has insufficient working capital available to meet its future operational needs. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that casts significant doubt about Petrodorado Energy Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 27, 2018
Calgary, Canada

PETRODORADO ENERGY LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| <i>(Expressed in U.S. Dollars)</i> | December 31, 2017 | December 31, 2016 |
|--|--------------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,535,163 | \$ 241,804 |
| Short-term investments | - | 801,522 |
| Accounts receivable | 1,025 | 2,654 |
| | \$ 1,536,188 | \$ 1,045,980 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 41,721 | \$ 60,247 |
| Shareholders' Equity | | |
| Share capital (Note 9) | 87,920,755 | 87,213,177 |
| Warrants (Note 9) | 30,259 | - |
| Contributed surplus | 29,967,591 | 29,951,681 |
| Deficit | (111,879,346) | (111,538,610) |
| Accumulated other comprehensive loss | (4,544,792) | (4,640,515) |
| | 1,494,467 | 985,733 |
| | \$ 1,536,188 | \$ 1,045,980 |

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

(signed)

Christopher Reid
Chairman of the Board of Directors

(signed)

David Hergenhein
Chairman of the Audit Committee

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

| <i>(Expressed in U.S. Dollars)</i> | 2017 | 2016 |
|--|---------------------|---------------------|
| Revenue: | | |
| Interest and other | \$ 10,404 | \$ 25,419 |
| Expenses: | | |
| General and administrative | 380,237 | 865,969 |
| Gain on investment | - | (312,430) |
| Foreign exchange loss | 32,287 | 978,864 |
| Stock-based compensation (Note 9) | 15,910 | 13,612 |
| | 428,434 | 1,546,015 |
| Loss from continuing operations | (418,030) | (1,520,596) |
| Income from discontinued operations (Note 10) | 77,294 | 714,731 |
| Net loss | \$ (340,736) | \$ (805,865) |
| Other comprehensive income: | | |
| Currency translation adjustment | 95,723 | 979,935 |
| Transfer of translation loss realized on disposal of foreign operations | - | 159,340 |
| | 95,723 | 1,139,275 |
| Comprehensive income (loss) for the period | \$ (245,013) | \$ 333,410 |
| Loss per share – basic and diluted (Note 9) | \$ (0.02) | \$ (0.08) |
| Loss per share, continuing operations – basic and diluted (Note 9) | \$ (0.02) | \$ (0.15) |
| Weighted average number of common shares outstanding | 17,064,222 | 9,937,219 |

See accompanying notes to the consolidated financial statements.

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

| <i>(Expressed in U.S. Dollars)</i> | 2017 | 2016 |
|--|---------------------|---------------------|
| Cash flows provided by (used in): | | |
| Operating activities | | |
| Loss from continuing operations | \$ (418,030) | \$ (1,520,596) |
| Adjustments for: | | |
| Gain on investment | - | (312,430) |
| Unrealized foreign exchange loss | 22,997 | 945,829 |
| Stock-based compensation | 15,910 | 13,612 |
| Change in non-cash working capital (Note 16) | (7,212) | (458,854) |
| Continuing operations | (386,335) | (1,332,439) |
| Discontinued operations (Note 10) | (35,326) | (13,916) |
| | (421,661) | (1,346,355) |
| Investing activities | | |
| Short-term investments | 801,522 | 12,808,356 |
| Marketable securities | - | 3,584,395 |
| Continuing operations | 801,522 | 16,392,751 |
| Discontinued operations (Note 10) | 104,401 | 314,073 |
| | 905,923 | 16,706,824 |
| Financing activities | | |
| Shares issued, net of cost | 707,578 | - |
| Warrants issued, net of cost | 30,259 | - |
| Options exercised | - | 13,599 |
| Special distribution (Note 8) | - | (16,014,095) |
| | 737,837 | (16,000,496) |
| Change in cash and cash equivalents during the year | | |
| Continued operations | 1,153,024 | (940,184) |
| Discontinued operations | 69,075 | 300,157 |
| Foreign exchange gain on cash | 71,260 | 294,106 |
| Cash and cash equivalents, beginning of year | 241,804 | 587,725 |
| Cash and cash equivalents, end of year | \$ 1,535,163 | \$ 241,804 |

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)

| | Number of Shares | Share Capital | Warrants | Contributed Surplus | Deficit | AOCL ⁽¹⁾ | Total |
|--|---------------------|----------------|----------|------------------------|------------------|---------------------|---------------|
| Balance at December 31, 2015 | 9,920,935 | \$ 103,203,242 | \$ - | \$ 29,948,500 | \$ (110,732,745) | \$ (5,779,790) | \$ 16,639,207 |
| Net loss from continuing operations | | | | | (1,520,596) | | (1,520,596) |
| Net income from discontinued operations | | | | | 714,731 | | 714,731 |
| Currency translation adjustment | | | | | | 979,935 | 979,935 |
| Transfer of translation loss realized on disposal of foreign operations | | | | | | 159,340 | 159,340 |
| Special distribution | | (16,014,095) | | | | | (16,014,095) |
| Stock-based compensation | | | | 13,612 | | | 13,612 |
| Exercise of stock options | 20,000 | 24,030 | | (10,431) | | | 13,599 |
| Balance at December 31, 2016 | 9,940,935 | \$ 87,213,177 | \$ - | \$ 29,951,681 | \$ (111,538,610) | \$ (4,640,515) | \$ 985,733 |

| | Number of Shares | Share Capital | Warrants | Contributed Surplus | Deficit | AOCL ⁽¹⁾ | Total |
|---|---------------------|----------------------|------------------|------------------------|-------------------------|-----------------------|---------------------|
| Balance at December 31, 2016 | 9,940,935 | \$ 87,213,177 | \$ - | \$ 29,951,681 | \$ (111,538,610) | \$ (4,640,515) | \$ 985,733 |
| Shares issued, net of cost (Note 9) | 13,333,333 | 707,578 | | | | | 707,578 |
| Warrants issued, net of cost (Note 9) | | | 30,259 | | | | 30,259 |
| Net loss from continuing operations | | | | | (418,030) | | (418,030) |
| Net income from discontinued operations | | | | | 77,294 | | 77,294 |
| Currency translation adjustment | | | | | | 95,723 | 95,723 |
| Stock-based compensation | | | | 15,910 | | | 15,910 |
| Balance at December 31, 2017 | 23,274,268 | \$ 87,920,755 | \$ 30,259 | \$ 29,967,591 | \$ (111,879,346) | \$ (4,544,792) | \$ 1,494,467 |

See accompanying notes to the consolidated financial statements.

(1) Accumulated other comprehensive loss

PETRODORADO ENERGY LTD.
Notes to the Consolidated Financial Statements
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1. REPORTING ENTITY

Petrodorado Energy Ltd. (“Petrodorado” or the “Company”) is a public company that was previously engaged in exploration and development activities in Colombia. The Company’s head office is located in Calgary, Alberta, Canada. The Company’s shares are listed and publicly traded on the TSX Venture Exchange (the “Exchange”) under the trading symbol “PDQ”.

The Company underwent a strategic reassessment during 2015 and 2016 which resulted in the disposal of or withdrawal from all exploration blocks wherein the Company had a participating interest. The Company is currently evaluating future strategic opportunities that may require additional financing to execute.

In September 2016, the Company received final approval from the TSX Venture Exchange, and filed Articles of Amendment in the days that followed, to perform a consolidation of the issued and outstanding Class B common shares of the Company (the “Consolidation”) on a basis of five pre-Consolidation common shares for one post-Consolidation common share. The completed Consolidation followed ratification and approval for the Board of Directors to perform such a Consolidation on a basis of up to ten pre-Consolidation common shares for one post-Consolidation common share as given by the shareholders at the annual general and special meeting of shareholders held in January 2016. As a result, Petrodorado’s shares commenced trading on the TSX Venture Exchange on a consolidated basis. All share and per share amounts including those related to stock options have been restated for all periods to reflect this five for one consolidation.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future. In 2015, the Company commenced a strategic reassessment which resulted in the aforementioned disposals and/or operational renunciation of the Company’s participating interests in existing exploration blocks. These events enabled the Company to eliminate existing operational obligations and future exploration and development commitments that were well in excess of capital available to the Company and that would have required additional financial resources. In April 2016, the Company completed a return of capital distribution of \$16.0 million (C\$20.9 million) to Company shareholders (see Note 8) leaving minimal working capital to sustain future operations.

During the year ended December 31, 2017, the Company incurred a loss from continuing operations for the year of \$418,030 and used \$421,661 of cash flows in its operating activities, which were financed principally from proceeds from past share issuances. In June 2017, the Company successfully completed a non-brokered private placement for gross proceeds of \$756,400 (C\$1,000,000) (see Note 9), which funds are to be used for general corporate purposes of the Company. As at December 31, 2017, the Company maintains working capital of \$1,494,467.

As the Company has no assets capable of generating cash flow, it will continue to exhaust its remaining financial resources to fund existing administrative budgets and potential strategic transactions for the foreseeable future. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern as it will be contingent upon the Company’s ability to successfully identify and procure necessary capital, which may be by way of strategic transactions to obtain financing and/or generate profitable operations that are beneficial to the Company and its shareholders.

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will be able to meet its budgeted administrative costs during the upcoming year and beyond when considering the Company’s current financial forecast. However, there is no certainty as to the timing and likelihood of realizing a strategic transaction that would provide additional financial resources beyond those currently retained by the Company. Should the going concern assumption not be appropriate and the Company is

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not able to realize its assets and settle its liabilities, these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities.

3. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). A summary of significant accounting policies is presented in Note 4.

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 27, 2018.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except that financial instruments, which include marketable securities, are measured at fair value through profit or loss. The methods used to measure fair values are discussed in Note 6.

Functional and presentation currency

Unless otherwise stated, these consolidated financial statements are presented in United States (US) dollars. The Company's functional currency is the Canadian (C\$) dollar while each of its subsidiaries has a US dollar functional currency, which is the primary economic environment in which each subsidiary operates.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The following table summarizes the Company's subsidiaries, their country of incorporation, and the Company's ownership interest.

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| Subsidiaries | Country of Incorporation | Ownership Interest | |
|---|--------------------------|--------------------|------|
| | | 2017 | 2016 |
| Bolivar Energy (Colombia) Inc. ¹ | Barbados | - | 100% |
| Bolivar Energy Colombia Inc. Sucursal Colombia ¹ | Colombia | - | 100% |
| Petrodorado Antilles Holdings N.V. ² | Netherland Antilles | - | 100% |
| Petrodorado Peru N.V. ² | Netherland Antilles | - | 100% |
| Petrodorado Paraguay N.V. ² | Netherland Antilles | - | 100% |
| 1128014 BC Ltd. ³ | Canada | 100% | - |

- 1) In February 2017, the subsidiary Bolivar Energy (Colombia) Inc. and its Colombian branch were sold to a third party private company (see Note 10).
- 2) In January 2017, the subsidiaries Petrodorado Antilles Holdings N.V., Petrodorado Peru N.V., and Petrodorado Paraguay N.V. were sold to a third party private company.
- 3) In July 2017, the subsidiary 1128014 BC Ltd. was incorporated as a wholly-owned subsidiary of the Company.

Jointly owned assets

Many of the Company's oil and natural gas activities involve jointly owned assets. The consolidated financial statements include the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

Transactions eliminated on consolidation

All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements.

b) Foreign currency

As previously stated, the Company's functional currency is the Canadian dollar while each of its subsidiaries has a US dollar functional currency. Transactions in currencies other than each entity's functional currency are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. All differences are recorded in net earnings or loss. Non-monetary items are translated using the historical exchange rates prevailing at the dates of the initial transactions.

The Company's consolidated financial statements are presented in US dollars. Management selected the US dollar as the presentation currency as it best facilitated comparability with industry peers. Assets and liabilities of entities with functional currencies other than US dollars are translated at the period end exchange rates, results of their operations are translated at average exchange rates for the period, and shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

c) Financial instruments

Non-derivative financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, transaction costs. The Company considers whether a contract contains an embedded derivative when the Company first becomes a party to the contract. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. The Company determines the

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classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial period end.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that is classified as held for trading or designated as such upon initial recognition. After initial measurement, such financial assets are subsequently fair valued at each period end with changes in fair value recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of loss as a finance cost.

The Company's cash and cash equivalents, short-term investments, and accounts receivable are classified as loans and receivables.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Non-derivative financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other liabilities, net of directly attributable transaction costs.

Other liabilities

After initial recognition, other liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs. The amortization is included in finance cost in the consolidated statement of loss.

Accounts payable and accrued liabilities are classified as other liabilities.

Share Capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, net of any tax effects.

d) Exploration and evaluation assets

All license acquisition, exploration and appraisal costs of technical services and studies, seismic acquisition, exploratory drilling and testing were initially capitalized by well, field, unit of account or specific exploration unit as appropriate. Expenditures incurred during the various exploration and appraisal phases were carried forward, until the existence of commercial reserves and when the technical feasibility and commercial viability were demonstrable. Commercial reserves were typically considered to have been achieved when proven and/or probable reserves had

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been assigned. Commercial viability and technical feasibility was often demonstrated through the receipt by the Company of development licenses on oil and gas assets previously being evaluated under exploration licenses. If commercial reserves had been discovered and technical feasibility and commercial viability were demonstrable, the carrying value of the exploration and evaluation assets, after any impairment loss, were reclassified as oil and gas properties. If technical feasibility and commercial viability could not be demonstrated upon completion of the exploration phase, the carrying value of the exploration and evaluation costs incurred were expensed in the period this determination was made. Exploration and evaluation assets were not depleted or depreciated.

Exploration and evaluation assets were allocated to related cash-generating units ("CGUs") and were tested for impairment when indicators of impairment were present, and when exploration and evaluation assets were transferred to oil and gas properties.

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area were expensed to the consolidated statement of income as they were incurred.

Farm-outs within the exploration and evaluation phase

The Company did not record any expenditure made by the farmee on its account. It also did not recognize any gain or loss on its exploration and evaluation farm-out arrangements, but re-designated any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee was credited against costs previously capitalized in relation to the whole interest with any excess over those costs accounted for by the farmor as a gain on disposal.

e) Oil and gas properties and other property, plant and equipment

Property, plant and equipment were stated at cost, less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of an asset comprised its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, including costs transferred from exploration and evaluation assets, the initial estimate of the decommissioning obligation, directly attributable general and administrative costs, and for qualifying assets, finance costs. The purchase price or construction cost was the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, was capitalized in oil and gas properties when they increased the future economic benefits embodied in the specific asset to which they related. The costs of day to day servicing were expensed as incurred. Property, plant and equipment are grouped into CGUs for impairment testing purposes.

Depletion, depreciation and amortization

Oil and gas properties were depleted using the unit-of-production method by reference to the ratio of production in the year, before royalties, to the related proven and probable reserves as determined by independent petroleum engineers, taking into account estimated future development costs necessary to bring those reserves into production. The Company's reserves were determined pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities. For purposes of this calculation, natural gas was converted to equivalent volumes of crude petroleum based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Future development costs were estimated taking into account the level of development required to produce the reserves. When significant parts of an item of property, plant and equipment have different useful lives, then they were accounted for and depreciated as separate components.

Furniture and equipment were depreciated over their estimated remaining lives using the declining balance method of depreciation. Gains and losses on disposal of an item of property, plant and equipment were determined by comparing the proceeds from disposal with the carrying amount with any gain or loss recognized in earnings.

Farm-outs outside the exploration and evaluation phase

In accounting for a farm-out arrangement, the Company derecognized the proportion of the asset that it had sold to the farmee and recognized the consideration received or receivable from the farmee. The Company recognized a gain or loss on the transaction for the difference between the net disposal proceeds, being the consideration received, and the carrying amount of the asset disposed of.

Assets held for sale

Non-current assets, or disposal groups consisting of assets and liabilities, were 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 was highly probable and the asset was available for immediate sale in its present condition.

Non-current assets classified as held for sale were measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets and disposal groups held for sale were presented in current assets and liabilities on the statement of financial position.

f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that financial asset. An impairment loss in respect of a financial asset, measured at amortized cost, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Material financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

For financial assets, an impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

All impairment losses are recognized in the consolidated statement of loss.

Non-financial assets

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. Exploration and evaluation assets are assessed for impairment when they are reclassified to oil and gas properties and also if facts and circumstances suggest that the carrying amount exceeds the recoverable value, at which point the Company estimates the asset's recoverable amount. Exploration and evaluation assets are allocated to related CGU when they are assessed for impairment, both at the time of triggering events as well as at the time of their transfer to oil and gas properties. For non-financial assets, the recoverable amount is the higher of an asset's or CGU fair value less costs to sell and its value-in-use. Individual non-financial assets are grouped into CGU for impairment assessment purposes, which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of non-financial assets. Where the carrying amount of a CGU exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties, adjusted for incremental costs that would be directly attributable to the disposal of the asset. In assessing value-in-use, the estimated future cash flows expected to arise from the continued use of the CGU including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of loss.

g) Provisions

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

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. 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.

Changes in the estimated timing of decommissioning or decommissioning cost estimates, or discount rate are recognized prospectively by recording an adjustment to the decommissioning obligation, and a corresponding adjustment to the corresponding asset. The increase in the provision due to the passage of time is recognized as a finance cost. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

h) Revenue recognition

Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership have been transferred. This generally occurs when product is physically delivered and the title passes to the buyers and collection is reasonably assured. Revenue is stated after deducting royalties, sales taxes, excise duties and similar levies.

i) Share based payments

The Company follows the fair-value method for valuing stock options and other dilutive instruments granted to employees and directors. Under this method, the compensation cost is measured at the grant date using the Black-Scholes option pricing model and expensed over the vesting period of the instrument granted as stock-based compensation expense with a corresponding increase to contributed surplus. The contributed surplus balance is reduced as stock options and other dilutive instruments are exercised with the amount previously recognized plus any consideration received credited to share capital. The portion of stock-based compensation directly attributable to exploration and evaluation activities is capitalized to the corresponding asset. The Company has included an estimated forfeiture rate for stock options that will not vest, which is adjusted to reflect actual forfeitures upon final vesting of the award.

j) Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income taxes are recognized for all taxable temporary differences, except:

- Where deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable earnings will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable earnings will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

k) Earnings per share

Basic earnings per share information is computed by dividing the earnings by the weighted average number of shares outstanding during the reporting period. The Company utilizes the treasury stock method in the determination of the diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase common shares of the Company at their average market price for the period. The weighted average number of shares outstanding is then adjusted by the net change.

l) Inventory

The Company recognizes crude oil inventory held in storage tanks. They are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and relates to the direct cost of production on an actual basis.

m) Business combinations and goodwill

On the acquisition of a subsidiary, the acquisition method of accounting is used whereby the purchase consideration transferred is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the fair value attributable to the Company's share of the identifiable net assets exceeds the fair value of the consideration, the Company reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognizes any additional assets or liabilities that are identified in that review. If an excess remains after reassessment, the Company recognizes the resulting gain in profit or loss on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

n) Finance costs and interest income

Finance costs comprise of interest expense on borrowings, accretion of the discount on the decommissioning obligation and equity tax payable, and any impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

o) Use of estimates and judgements

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

i) Identification of cash-generating units

The Company's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

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ii) Income taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

ii) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

iii) Tax provisions

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

5. FUTURE ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Revenue Recognition

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company currently has no revenue-generating activities.

Financial Instruments

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with required retrospective application and early adoption permitted. The Company does not anticipate a change with the adoption of this standard.

Leases

In January 2016, the IASB issued the complete IFRS 16 “Leases,” which replaces IAS 17 “Leases.” Under IFRS 16, a single recognition and measurement model will apply for lessees which will require recognition of assets and liabilities for most leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company plans to adopt the new standard and is in the process of assessing the impact of the standard on its consolidated financial statements.

Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22 “Foreign Currency Transactions and Advance Consideration”. The standard is effective for annual periods beginning on or after January 1, 2018 and addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Company does not anticipate a change with the adoption of this standard.

6. DETERMINATION OF FAIR VALUES

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

Property, plant and equipment and exploration and evaluation assets

The fair value of property, plant and equipment and exploration and evaluation assets recognized in a business combination and in assessing the recoverable value for impairment testing, is based on market values. The market value of property, plant and equipment and exploration and evaluation assets is the estimated amount for which the assets 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 property, plant and equipment is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value for exploration and evaluation assets is determined based on quoted market prices for similar assets, if available, or discounted cash flows expected to be derived from oil and natural gas production based on available resource reports. The discount rate is specific to the exploration and evaluation asset with reference to general market conditions.

Financial assets and other liabilities

The fair value of financial assets and other liabilities (see Note 4) is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date, except for marketable securities which are fair valued based on quoted trading prices.

Stock options

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option and warrant behaviour), expected dividends, expected forfeiture rate and the risk-free interest rate (based on government bonds).

7. DIVESTITURES

a) Talora Block

In February 2016, the Company announced the signing of a definitive agreement with a third party private company (the "Purchaser") that resulted in the divestiture of its participating interest in the Talora Block. Under the terms of the agreement, the Company retained a Back In After Payout Option ("BIAPO") of 2% on the first well drilled and a Right of First Refusal ("ROFR") of 2% on any subsequent wells drilled in the Talora Block. Furthermore, the Company's existing term deposit plus accrued interest of \$310,208 that was in place for the Talora Block was to be released back to the Company upon the establishment of a comparable term deposit by the Purchaser. During the third quarter of 2016, the term deposit was successfully released back to the Company. Moreover, the Company has received \$150,000 in payments from the Purchaser as liquidated damages for failure to successfully release the aforementioned term deposit back to the Company by the stipulated deadline as per the terms of the definitive agreement. These payments were recognized as other revenue for the year ended December 31, 2016.

In Q2 2016, the transaction closed and the risks and rewards of ownership were transferred. As such, associated accounts receivable of \$13,326 and exploration and evaluation assets of \$90,463 as well as associated decommissioning obligations of \$103,789, all previously classified as held for sale as at December 31, 2015, were disposed of. This transaction also eliminated \$2.1 million in future exploration commitments of the Company. Furthermore, this divestiture resulted in \$0.2 million of foreign currency translation losses previously included in accumulated other comprehensive loss that corresponded to the foreign operations that were disposed of being reclassified as a part of the net loss concurrently with the closing of the transaction.

b) La Maye Block

In February 2016, the Company announced the successful divestiture of its 20% participating interest in the La Maye Block in Colombia (the "La Maye Interest") to a private oil and gas company. The Company received a Gross Overriding Royalty of 1% on the La Maye Interest's percentage of oil production resulting after applicable government royalties. This transaction also eliminated \$0.8 million in future exploration commitments of the Company.

c) Buganviles Block

In September 2016, the Company successfully executed a settlement agreement with the operating partner of the Buganviles Block with regards to the release of Petrodorado from future involvement in this exploration area. Under the terms of the settlement agreement, the operating partner indemnifies and saves harmless Petrodorado from any further obligations under the Joint Operating Agreement between the joint venture partners as well as the Association Contract with Empresa Colombiana de Petroleos ("Ecopetrol") for the Buganviles Block. Pursuant to the settlement agreement, the operating partner will also take all necessary actions, with the cooperation of the Company, to terminate the Joint Operating Agreement and the Association Contract, and the operating partner will take full responsibility for the completion of all reclamation obligations for the wells existing on the Buganviles Block as required under the Association Contract while maintaining the indemnifications awarded to Petrodorado. In return, the Company agreed to release the operating partner from payment of the remaining considerations owed to the Company on the sale of Petrodorado's participating interest in the Moriche Block that were, to date, not recognized as a receivable due to concerns of collectability, as previously mentioned.

On account of this settlement agreement, Petrodorado has no further contractual commitments on the Buganviles Block. Furthermore, the Company eliminated \$401,018 of associated decommissioning obligations and relinquished its right to \$3,176 of joint venture receivables that were owed to Petrodorado by the operating partner from operations on this exploration block. The elimination of these amounts resulted in a gain on settlement of \$397,842 for the year ended December 31, 2016.

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d) California Block

In October 2016, the Company successfully divested its participating interest in the San Joaquin basin of California by way of the finalization of a sale transaction through which Petrodorado sold its wholly-owned US subsidiary to a third party for nominal consideration. On account of this transaction, the Company has no further operational involvement or obligations in this exploration area.

e) Bolivar Sale

In February 2017, the Company closed the sale and transferred the risks and rewards of ownership of its wholly-owned subsidiary Bolivar Energy (Colombia) Inc. and its Colombian branch office to a third party private company purchaser. Under the terms of the sale agreement, the Company received \$50,000 in cash consideration.

Recognized amounts of identifiable assets and liabilities disposed of are as follows:

| | |
|---------------------------------------|------------------|
| Cash | \$ 599 |
| Accounts receivable | 2,879 |
| Accounts payable | (7,483) |
| Total net liabilities disposed | (4,005) |
| <hr/> | |
| Cash received | 50,000 |
| Gain on disposal (Note 10) | \$ 54,005 |

f) Royalty Disposal

In September 2017, the Company completed a transaction for the sale of royalties and rights held on certain exploration blocks in Colombia. These royalties had no carrying value, and were sold for proceeds of \$55,000, resulting in a gain on disposal of \$55,000 (Note 10).

8. SPECIAL DISTRIBUTION

In April 2016, the Company carried out a special distribution of cash by way of a return of capital to the shareholders of the Company (the "Special Distribution") as was previously approved by the shareholders at the annual general and special meeting that was held on January 27, 2016. By way of this Special Distribution, a cash payment of C\$0.42 for each of the 49,704,702 common shares (9,940,935 post-Consolidation common shares) existing as of the date that the Special Distribution was realized, resulting in \$16.0 million (C\$20.9 million) being distributed to the shareholders of the Company. Directors and officers of the Company received \$1.2 million (C\$1.6 million) by way of the Special Distribution.

9. SHARE CAPITAL

Common shares

In April 2016, the Company filed Articles of Amendment which created a new class of common shares and a class of preferred shares and effected an exchange of the existing common shares for new class B common shares ("Class B Shares") and preferred shares ("Preferred Shares") on the basis of one Class B Share and one Preferred Share for every common share outstanding (hereinafter referred to as the "Share Reorganization"). The Preferred Shares were redeemed immediately in exchange for the Special Distribution described in Note 8. The Class B Shares are identical in all respects to the previously existing common shares, save for the fact that all Class B Shares have two votes per

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share at any shareholders meeting. As a result of the Share Reorganization and the Special Distribution, there are no longer Preferred Shares issued and outstanding and the only class of common shares in the capital of the Company outstanding are Class B Shares.

In September 2016, the Company completed a share consolidation in which one post-consolidation Class B Share replaced five pre-consolidation Class B Shares. All information relating to the weighted average number of common shares outstanding, issued and outstanding common shares, stock options and per share amounts have been adjusted retroactively to reflect the impact of the five for one share consolidation in these consolidated financial statements.

In June 2017, the Company closed a non-brokered private placement (the "Private Placement") raising gross proceeds of \$756,400 (C\$1,000,000) through the issuance of 13,333,333 units (each, a "Unit") at an issue price of C\$0.075 per Unit. Each Unit was comprised of one Class B Share of the Company and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one Class B Share of the Company at a price equal to C\$0.15 per share, until June 2022. The Company has allocated the total proceeds of \$756,400 (C\$1,000,000) to share capital of \$725,380 (C\$958,990) and warrants of \$31,020 (C\$41,010). The warrant fair value was determined based on a Black-Scholes option pricing model (see below). The issue costs on the Private Placement totaling \$18,563 (C\$24,541) were also allocated to share capital of \$17,802 (C\$23,535) and warrants of \$761 (C\$1,006). Of the Units issued, 892,475 Units were issued to directors and officers of the Company.

At December 31, 2017, the Company was authorized to issue an unlimited number of Class B Shares, with no par value, with holders of Class B Shares entitled to two votes per share and to dividends, if declared. Outstanding Class B Shares as of December 31, 2016 and 2017, are as follows:

| | Common shares | Amount |
|--|-------------------|----------------------|
| Balance, January 1, 2016 | 9,920,935 | \$103,203,242 |
| Options exercised for cash | 20,000 | 13,599 |
| Transfer of assigned fair value from contributed surplus | - | 10,431 |
| Special Distribution | - | (16,014,095) |
| Balance, December 31, 2016 | 9,940,935 | \$ 87,213,177 |
| Shares issued, net of costs | 13,333,333 | 707,578 |
| Balance, December 31, 2017 | 23,274,268 | \$ 87,920,755 |

Warrants

Pursuant to the Private Placement discussed previously, the Company issued 6,666,667 share purchase warrants. The warrants are exercisable immediately at a price of C\$0.15 per share until June 2022.

The warrants were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

| | |
|---------------------------------|----------|
| Risk-free interest rate | 1.17% |
| Expected dividend yield | 0% |
| Expected stock price volatility | 30% |
| Expected warrant life | 5 years |
| Fair value of warrants granted | C\$0.006 |

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Stock options

The Company has adopted a formal rolling stock option plan whereby options can be granted from time to time to directors, employees and consultants at the discretion of the Board of Directors. The number of options that can be granted is limited to 10% of the total shares issued and outstanding. Options issued typically vest one-third on the date of the grant, one-third after one year following the date of the grant, and one-third after two years following the grant date. Options issued expire five years following the date of the grant.

A summary of the changes in stock options is presented below:

| | Stock options | Weighted average exercise price (C\$) |
|---------------------------------------|----------------|--|
| Balance, January 1, 2016 | 370,400 | \$ 3.89 |
| Options issued | 560,000 | 0.10 |
| Options exercised | (20,000) | 0.90 |
| Expired options | (233,500) | 4.21 |
| Balance, December 31, 2016 | 676,900 | \$ 0.73 |
| Options forfeited | (2,900) | 3.50 |
| Expired options | (6,000) | 8.50 |
| Balance, December 31, 2017 | 668,000 | \$ 0.65 |
| Exercisable, December 31, 2017 | 481,333 | \$ 0.86 |

On November 14, 2016, the Company granted 560,000 options to acquire common shares to certain directors and officers of the Company at a price of C\$0.10 per common share. The options were for a five-year term, expiring on November 14, 2021, and vesting one-third on November 14, 2016, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant.

The following summarizes information about stock options outstanding as at December 31, 2017:

| Exercise prices (C\$) | Number of options outstanding | Weighted average term to expiry (years) | Number of options exercisable |
|-----------------------|----------------------------------|--|----------------------------------|
| 0.10 | 560,000 | 3.87 | 373,333 |
| 3.50 | 108,000 | 1.09 | 108,000 |
| | 668,000 | 3.42 | 481,333 |

All options were allocated an estimated fair value using the Black-Scholes option pricing model. No options were granted during the year ended December 31, 2017. During the year ended December 31, 2017, the Company recognized \$15,910 (December 31, 2016 - \$13,612) in stock-based compensation expense. Recognized stock-based compensation expense is recorded as contributed surplus.

Loss per share

For purposes of the loss per share calculations for the periods ended December 31, 2017 and 2016, there is no difference between the basic loss per share and the diluted loss per share amounts. For the year ended December 31, 2017, 668,000 options and 6,666,667 warrants (December 31, 2016 - 676,900 options and nil warrants) were excluded as their impact was anti-dilutive.

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10. DISCONTINUED OPERATIONS

Upon closing the divestitures outlined in Note 7, management has ceased operations in Colombia and, as such, has reclassified its entire Colombian segment to discontinued operations. Income and expenses allocated to net income from discontinued operations are as follows:

For the years ended December 31

| | 2017 | 2016 |
|--|------------------|-------------------|
| Other revenue | \$ - | \$ 150,000 |
| General and administrative | (30,245) | (138,794) |
| Gain on Bolivar Sale (Note 7e) | 54,005 | - |
| Gain on Royalty Disposal (Note 7f) | 55,000 | - |
| Gain on settlement | - | 689,174 |
| Foreign exchange gain (loss) | (1,466) | 14,351 |
| Net income relating to discontinued operations | \$ 77,294 | \$ 714,731 |
| Earnings per share, discontinued operations - basic and diluted | \$ 0.00 | \$ 0.07 |

Cash flows related to discontinued operations are as follows:

For the years ended December 31

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Income from discontinued operations | \$ 77,294 | \$ 714,731 |
| Gain on Bolivar Sale (Note 7e) | (54,005) | - |
| Gain on Royalty Disposal (Note 7f) | (55,000) | - |
| Gain on settlements | - | (689,174) |
| Unrealized foreign exchange loss | 1,466 | (14,351) |
| Change in non-cash working capital | (5,081) | (25,122) |
| Cash flows used in operating activities of discontinued operations | \$ (35,326) | \$ (13,916) |
| Proceeds from Bolivar Sale (Note 7e) | \$ 49,401 | \$ - |
| Proceeds from Royalty Disposal (Note 7f) | 55,000 | - |
| Change in restricted cash | - | 365,612 |
| Change in non-cash working capital | - | (51,539) |
| Cash flows from investing activities of discontinued operations | \$ 104,401 | \$ 314,073 |

11. INCOME TAXES

Reconciliation of effective tax rate

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada for the year ended December 31, 2017 of 27.00% (December 31, 2016 - 27.00%) to income before income taxes. A reconciliation of this difference is presented below.

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| | 2017 | 2016 |
|--|--------------|--------------|
| Loss before income taxes | \$ (340,736) | \$ (805,865) |
| Tax rate | 27.00% | 27.00% |
| Computed income tax recovery | (91,999) | (217,584) |
| Increase (decrease) in taxes: | | |
| Effect of tax rates in foreign jurisdictions | (1,493) | 32,174 |
| Stock-based compensation | 4,291 | 3,704 |
| Other permanent differences | 49,905 | |
| Change in unrecognized tax assets and other | 39,296 | 181,706 |
| Total tax expense | \$ - | \$ - |

Unrecognized Deferred Tax Assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | 2017 | 2016 |
|--|---------------|---------------|
| Non-capital loss carryforwards | \$ 12,862,478 | \$ 12,160,803 |
| Capital loss carryforwards net of foreign exchange | 78,644,670 | 72,486,958 |
| Property, Plant and Equipment and Other | 1,955,582 | 1,864,522 |
| | \$ 93,462,730 | \$ 86,512,283 |

The non-capital loss carryforwards as at December 31, 2017 of \$12.9M are from Canada (\$11.6 million from 2016). These losses expire between 2030 and 2037. All the capital loss carryforwards presented above are from Canada and have no expiration period. The deductible temporary differences presented above do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the group can utilise the benefits therefrom.

Through 2017, the Company has operated in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings using the best estimate based on a qualitative assessment of all relevant factors. These filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

In February 2018, the Company was in receipt of a letter from the Canada Revenue Agency (the "CRA") seeking further information regarding various historical transactions undertaken by Petrodorado. The Company is working with the CRA to provide them the information that they require in order to support Petrodorado's tax filings. The Company believes the historic filings to be accurate and does not believe the Company has exposure to potential future liabilities related to this matter. As such, no amount has been recorded within the consolidated financial statements in relation to this matter. In the event that any amounts become owing as a result of this or any future audit, the Company will record those amounts when known.

12. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The carrying amount of cash and cash equivalents, short-term investments and accounts receivable represent the maximum credit exposure. As at December 31, 2017, the Company had no balance remaining in short-term investments. At December 31, 2017, the Company had \$1,025 in trade accounts receivable (December 31, 2016 - \$2,654), which consist of refundable tax balances. The Company does not consider any of its receivables presented on these financial statements to be past due. The Company held cash and cash equivalents of \$1,535,163 as at December 31, 2017. The Company manages the credit exposure related to cash and cash equivalents by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash resources in order to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Company as they come due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change.

The Company's contractual obligations consist of accounts payable and accrued liabilities which are considered current in nature and due within one year.

Market risk

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors. There were no financial contracts or embedded derivatives outstanding at December 31, 2017 or 2016.

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the United States dollar, but also by world economic events that dictate the levels of supply and demand.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Some of the Company's business transactions and commitments occur in currencies other than US dollars. Previously, a portion of the Company's former operations in Colombia transacted in Colombian Peso (COP\$). The majority of the Company's financing and a portion of the administrative costs will be based and paid in

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Canadian dollars. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars and Canadian dollars. As at December 31, 2017 and December 31, 2016, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations. At December 31, 2017, the Company had balances within its cash in denominations of C\$1.8 million and USD\$0.1 million (December 31, 2016 - C\$0.2 million, COP\$1.2 million and USD\$0.9 million).

The impact to the accumulated other comprehensive loss for the year ended December 31, 2017, had the USD\$ to C\$ rate exchange changed by 1 cent would amount to approximately \$14,000 (\$1,000 - December 31, 2016).

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments that have a floating interest rate. Fluctuations of interest rates for the period ending December 31, 2017 and 2016 would not have had a significant impact on the annual consolidated financial statements.

Fair value of financial instruments

The Company's financial instruments as at December 31, 2017, include cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in accordance with the following hierarchy:

Level 1 - inputs are based on quoted market prices in active markets that the Company has the ability to access at the measurement date.

Level 2 - inputs are based on quoted prices in the markets that are not active or based on prices that are observable for the asset or liability.

Level 3 - inputs are based on unobservable market data for the asset or liability.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The aforementioned financial instruments of the Company are classified as level 1 based on the nature of their observable inputs for fair value measurement. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure as outlined below.

| | 2017 | 2016 |
|--|--------------|------------|
| Shareholders' equity | \$ 1,494,467 | \$ 985,733 |
| Cash | \$ 1,535,163 | \$ 241,804 |
| Working capital (deficiency), excluding cash | \$ (40,696) | \$ 743,929 |

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The Company regularly monitors its capital structure and, as necessary, adjusts to changing economic circumstances and the underlying risk characteristics of its assets in order to meet current and upcoming obligations and investments by the Company. The Company frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Company's share capital is not subject to external restrictions.

13. COMMITMENTS

On account of the aforementioned disposals and withdrawals, the Company's previous commitments relating to exploration activities in Colombia are no longer the obligation of the Company, including certain guarantees as originally provided by the Company on behalf of one of its Colombian subsidiaries recognized by the Agencia Nacional de Hidrocarburos (ANH) as the participating party in the associated exploration contracts for two of the blocks in which the Company previously held participating interests (specifically, the CPO-5 and Tacacho Blocks) that were still in place subsequent to the disposal of said participating interests. In June 2017, the ANH formally released the Company from these guarantees, liberating the Company from exposure to approximately \$11.9 million of estimated exploration responsibilities.

14. PERSONNEL EXPENSES

The Company has determined that key management personnel consist of its managers, officers and directors. In addition to the salaries paid to company officers, these groups participate in the stock option plan. The total compensation expense, including salaries, fees and share-based compensation relating to key management personnel for the year was as follows:

| | 2017 | 2016 |
|---------------------------------|-------------------|-------------------|
| Salary, fees and other benefits | \$ 190,142 | \$ 299,973 |
| Share based compensation* | 15,910 | 13,612 |
| Severance payments | - | 148,167 |
| | \$ 206,052 | \$ 461,752 |

* Represents the amortized portion recognized in the consolidated financial statements.

15. SEGMENTED INFORMATION

The Company defines its reportable segments based on geographical locations. With the close of operations in Colombia (see Note 10), net loss from continuing operations reflect those results of the Canada segment, while net loss from discontinued operations reflect those results of the Colombia segment. As of December 31, 2017, all remaining assets and liabilities as presented within these financial statements represent those held under the Canada segment.

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16. SUPPLEMENTAL CASH FLOW INFORMATION

| For the years ended December 31 | 2017 | 2016 |
|--|-------------------|---------------------|
| Accounts receivable | \$ 1,629 | \$ 21,601 |
| Accounts payable and accrued liabilities | (18,526) | (480,455) |
| Adjustment for non-cash working capital related to discontinued operations | 9,685 | - |
| Change in non-cash working capital | (7,212) | (458,854) |
| Relating to: | | |
| Operating activities | (7,212) | (458,854) |
| Change in non-cash working capital | \$ (7,212) | \$ (458,854) |

17. SUBSEQUENT EVENT

Termination of Amalgamation Agreement

In August 2017, the Company entered into an amalgamation agreement, subsequently amended in November 2017, with Western Atlas Resources Inc. ("WAR"), pursuant to which WAR would amalgamate with Petrodorado's wholly owned subsidiary, 1128014 B.C. Ltd., which would continue as one corporation wholly owned by the Company. In March 2018, the Company and WAR mutually agreed to terminate the proposed Amalgamation. Pursuant to the termination of the amalgamation agreement, the Company made a payment of C\$250,000 to WAR, with no further commitments or responsibilities existing between the two parties thereafter.