

# PETRODORADO ENERGY LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2017

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Petrodorado Energy Ltd. ("Petrodorado" or the "Company") for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016, as well as information and expectations concerning the Company's outlook based on currently available information.

The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2017 and 2016, prepared in accordance with IFRS (as defined below), together with the accompanying notes, and the audited consolidated financial statements and related notes and MD&A for the year ended December 31, 2016. Additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.petrodorado.com](http://www.petrodorado.com).

***All dollar values are expressed in US dollars, unless otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").***

This MD&A is prepared as of May 29, 2017.

### NON-IFRS MEASURES

Funds used in operations include all cash used in operating activities and are calculated before the change in non-cash working capital. A reconciliation of cash used in operating activities to funds used in operations for the three month periods ended March 31, 2017 and 2016, are as follows:

<b>Funds used in operations (\$)</b>	<b>Q1 2017</b>	<b>Q1 2016</b>
Cash used in operating activities	(159,528)	(971,657)
Change in non-cash working capital	2,347	364,981
<b>Funds used in operations</b>	<b>(157,181)</b>	<b>(606,676)</b>

The non-IFRS measure referred to above does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures used by other companies. Management uses this non-IFRS measurement for its own performance measures and to provide its shareholders and investors with a measurement of the Company's efficiency and of its ability to fund a portion of its future growth expenditures.

### BUSINESS PROFILE AND STRATEGY

The Company, prior to 2015, was primarily engaged in petroleum and natural gas exploration and development activities in Colombia with one asset in California, USA. Petrodorado's head office is located

in Calgary, Alberta, Canada, and the Company's shares are traded on the TSX Venture 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 virtually all exploration blocks in which the Company had a direct participating interest. These transactions have enabled the Company to eliminate virtually all previously 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. Even though these events have improved the financial condition of the Company, the lack of cash inflow from operations may mean that any future strategic opportunities for the Company may require additional financing to execute. Furthermore, the instability in the political and legal environment in Colombia creates uncertainty regarding possible financial commitments on previously owned exploration blocks. The Board of Directors and management have continued to review all potential transactions available to the Company with the mission to identify viable and lucrative opportunities that may provide the best future for the Company and the shareholders with the ultimate goal to maximize shareholder value.

## **DISTRIBUTION TO THE SHAREHOLDERS**

On January 27, 2016, the Company carried out the annual general and special meeting of the shareholders (the "AGM"), during which the shareholders of the Company voted in favor of all of the items of business put forward for consideration. This included the approval for the re-organization of the Company in order to achieve a special return of capital distribution to the shareholders of the Company (the "Special Distribution"). On April 4, 2016, the Company carried out the Special Distribution by way of a cash payment of CDN\$0.42 for each of the 49,704,702 common shares (9,940,935 post-Consolidation common shares, as defined further below) existing as of the date of the Special Distribution, resulting in \$16.0 million (CDN\$20.9 million) being distributed to the shareholders of the Company.

While the Company maintains a minimal working capital balance subsequent to the Special Distribution, the continued focus of management is to present to the shareholders a possible transaction that management believes will provide accretive results to the current share value. Management has continued to narrow its search with the intention of identifying specific transactions suitable for shareholder review. However, there is no certainty that a transaction will result from any opportunities brought forth for deliberation.

## **SHARE CONSOLIDATION**

On September 13, 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 follows 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 on January 27, 2016. Effective at the opening of trading on September 16, 2016, Petrodorado's shares commenced trading on the TSX Venture Exchange on a consolidated basis. As a result, 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.

## **DIVESTITURE OF EXPLORATION ASSETS**

### **CPO-5 and Tacacho Blocks**

In 2015, the Company successfully completed the divestiture of its participating interest in the CPO-5 and Tacacho Blocks. As a result of the transaction, the Company received consideration of \$6 million in shares of the purchaser, Amerisur Resources PLC (“Amerisur”), which were received in three installments. The Company also received the cash amount of \$2.4 million from Amerisur for existing term deposits together with accrued interest. The Company also retains certain gross overriding royalties (each a “GORR”) on Amerisur’s percentage of oil production resulting from the CPO-5 and Tacacho Blocks after all applicable government royalties, as explained in more detail hereinafter. A further balance of \$82,749 for reimbursements for certain other capital expenditure amounts remain owed to the Company, but has not been included in accounts receivable as it is not considered recoverable.

### **Moriche Block**

In 2015, the operating partner of the Moriche Block and a third party purchaser successfully executed a definitive agreement wherein all of the previously existing conditions of a conditional sale agreement from 2013 were satisfied or waived and ownership of the Moriche Block was unconditionally transferred to the purchaser, including the Company’s participating interest held in the block. Thereafter, during the third quarter of 2016, the Company successfully finalized an agreement with the operating partner of the Moriche Block wherein the Company agreed to release the operating partner from payment of remaining \$0.5 million owed to the Company of the \$3.5 million consideration to be received from the sale. In exchange, the Company was released from further operational involvement and from the associated abandonment obligations on the Buganviles Block, as described further below.

### **Talora Block**

In February 2016, the Company signed 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 received 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 released back to the Company in September 2016. 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. A further amount of \$130,751 for liquidated damages owed to the Company remains outstanding, but has not been included in accounts receivable due to concerns of collectability.

### **La Maye Block**

In February 2016, the Company announced the 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.

## **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.

## **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.

## **DISCONTINUED OPERATIONS**

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.

With the completion of this sale transaction, management has ceased operations in Colombia. As such, operating results of the Colombia segment for the period ended March 31, 2017 and all comparative periods have been presented separately as discontinued operations due to the Company’s decision to no longer maintain operations in Colombia.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company’s approach to managing liquidity is to ensure a balance between expenditure requirements and cash provided by operations and working capital. As at March 31, 2017, the Company had working capital of \$0.9 million (down from \$1.0 million at December 31, 2016) comprised primarily of cash and cash equivalents and short term investments with the decrease in working capital since year end 2016 primarily due to general and administrative costs of the Company.

In light of the significant decline in the global oil price environment, management and the Board of Directors commenced an evaluation of the short and long-term outlook of the Company in early 2015. With the unfavourable oil market conditions persisting, management was able to successfully execute

certain divesting transactions, as previously described, in order to eliminate and/or reduce the cash outflow committed to occur on the Company's exploration blocks. While the Company has eliminated its exploration and development obligations by way of the divestiture of interests in virtually all of its exploration blocks, the instability in the political and legal environment in Colombia creates continued uncertainty regarding potential financial commitments for guarantees on some of those previously owned exploration blocks.

Following the aforementioned Special Distribution, the Company has been left with minimal working capital to sustain future general operations. As the Company has no assets capable of generating cash flow, it will continue to exhaust its minimal financial resources to fund existing administrative budgets and potential strategic transactions for the foreseeable future. Furthermore, while management continues to work towards eliminating the aforementioned potential financial commitments for guarantees, there is no certainty at this time that this will be achieved. These conditions may raise 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, and eliminate the remaining potential financial commitments for guarantees, as described further below.

Letters of credit are issued through Colombian banks to the ANH for contractual exploration obligations for each phase on the exploration blocks in which the Company has a participation interest. A \$300,000 letter of credit for Phase II obligations on the Talora Block was issued to the ANH on October 12, 2013, and was secured by the aforementioned \$310,208 term deposit made at the Colombian bank. In Q3 2016, this letter of credit and the associated term deposit were released by the ANH back to the Company as part of the aforementioned Talora Block divestiture.

Letters of credit issued through a Colombian bank to the ANH with respect to Phase II drilling obligations on the CPO-5 Block of \$1,850,000 and with respect to Phase I capital expenditure obligations on the Tacacho Block of \$403,920 were removed as part of the disposal to Amerisur during the 2015 calendar year, as mentioned previously.

## **PETROLEUM AND NATURAL GAS INTERESTS AND OUTLOOK**

At present, Petrodorado has beneficial interests either in the form of participation interests or royalty interests in five oil and gas blocks in Colombia.

### **Colombian Interests**

#### ***CPO-5 Royalties***

As previously mentioned, the Company retains a 2.5% GORR on Amerisur's percentage of oil production resulting from the CPO-5 Block after all applicable government royalties, and a further 2.5% GORR on Amerisur's percentage of oil production resulting from the CPO-5 Block after all applicable government royalties received in exchange for certain seismic costs incurred by the Company on the CPO-5 Block.

#### ***Tacacho Royalties***

The Company retains a 2.5% GORR on Amerisur's percentage of oil production resulting from the Tacacho Block after all applicable government royalties, as previously mentioned.

***Talora Interests***

The Company retains the 2.0% BIAPO and 2.0% ROFR on the gross participating interest in the Talora Block on account of the aforementioned transaction with the Purchaser that was signed in February 2016.

***La Maye Royalties***

The Company retains a 1.0% GORR on the La Maye Interest's percentage of oil production resulting after applicable government royalties on account of the transaction signed in February 2016, as previously mentioned.

***Buganviles Block***

Petrodorado has varying working interests in the Buganviles Block, obtained through three separate transactions, which are as follows: 59.5% in the Visure Prospect, 55% in the Tuqueque Prospect, 30% in the rest of the block. The current exploration license for the Buganviles Block expired on June 30, 2012. As described above, Petrodorado has reached a settlement agreement with the operating partner of the Buganviles Block leaving the Company with no operational obligations or responsibilities under the indemnification granted to the Company. The Company continues to cooperate with the operating partner towards the relinquishment of this exploration block contract back to Ecopetrol. However, the Company has no further obligations related to this exploration block, including existing reclamation obligations.

**COMMITMENT SUMMARY UPDATE**

On account of the transactions mentioned above, the Company's previous commitments relating to exploration activities in Colombia are no longer projected to be the obligation of the Company. However, certain guarantees as originally provided by the Company on behalf of its Colombian subsidiary that was recognized by the ANH as the participating party in the associated exploration contracts for each of the CPO-5 and Tacacho Blocks were still in place as of March 31, 2017. While the Company is in the process of obtaining the release from these guarantees given that the Company is no longer a participating party in these exploration contracts, the Company still had exposure to \$11.9 million of existing exploration responsibilities as of March 31, 2017 in the event that they are not ultimately fulfilled by those parties who carry on the associated exploration activities in these blocks. However, the likelihood that events will transpire that would result in these guarantees being enforced between March 31, 2017 and the moment when the Company is released from these guarantees is considered remote.

**DISCUSSION OF OPERATING RESULTS****Continued Operations**

The Company's operating expenses, excluding the discontinued operations of Colombia as mentioned previously, remain as continued operations. Unless specifically noted, all current and comparative reporting periods' financial disclosure and discussion relates to continued operations.

**General and Administrative Expenses**

General and administrative expenses ("G&A") for the periods ended March 31, 2017 and 2016 were \$156,727 and \$380,691, respectively. The decrease in G&A is primarily due to an overall reduction in

Company operations and overhead based on management's effort to conserve the Company's working capital subsequent to the aforementioned Special Distribution and to prepare the Company for new potential opportunities in the future.

<b>General and Administrative Expenses (\$)</b>	<b>Q1 2017</b>	<b>Q1 2016</b>
Professional Fees	57,504	82,396
Wages & Salaries	72,002	230,806
Fees, Rent, Investor Relations and Other	27,221	67,489
<b>Total</b>	<b>156,727</b>	<b>380,691</b>

### **Foreign Exchange Loss**

The Company generated foreign exchange losses of \$8,978 and \$830,825 for the three months ended March 31, 2017 and 2016, respectively. Foreign exchange losses are due to a decrease in the value of the US dollar when compared to the Canadian dollar and Colombian peso during each respective period.

### **Stock-Based Compensation**

For the three months ended March 31, 2017, the Company recorded stock-based compensation expense of \$3,890 (nil for the three months ended March 31, 2016). The lack of stock-based compensation expense in Q1 2016 is due to the fact that all options existing in the period had been deemed fully vested in December 2015 by way of accelerated vesting, with no new options being granted until Q4 2016. The continued vesting of these new options account for stock-based compensation expense generated in Q1 2017.

### **Funds used in Operations**

For the three months ended March 31, 2017, the Company used funds in operations of \$157,181 (funds used in operations of \$606,676 for the comparative period to March 31, 2016). The decrease in funds used in operations relates primarily to the differences in general and administrative expenses and foreign exchange results between the comparative periods.

### **Discontinued Operations**

Operating results of the Colombia segment for the period ended March 31, 2017 and all comparative periods have been presented separately as discontinued operations due to the Company's decision to cease operations in this business segment.

Income and expenses allocated to the net loss from discontinued operations for the periods ending March 31, 2017 and 2016 are as follows:

<b>Net loss from discontinued operations (\$)</b>	<b>Q1 2017</b>	<b>Q1 2016</b>
General and administrative	30,245	51,112
Foreign exchange (gain) loss	1,466	(9,745)
<b>Net loss</b>	<b>31,711</b>	<b>41,367</b>

Net losses of \$31,711 and \$41,367 for the comparative periods ending March 31, 2017 and 2016, respectively, were primarily the result of general and administrative expenses incurred in each period.

Details of general and administrative expenses from discontinued operations for the periods ending March 31, 2017 and 2016 are as follows:

<b>General and Administrative Expenses (\$)</b>	<b>Q1 2017</b>	<b>Q1 2016</b>
Professional Fees	3,298	18,151
Wages & Salaries	7,729	12,131
Fees, Rent, Investor Relations and Other	19,218	20,830
<b>Total</b>	<b>30,245</b>	<b>51,112</b>

General and administrative expenses decreased from \$51,112 for the three months ended March 31, 2016 to \$30,245 for the three months ended March 31, 2017. This is primarily due to the reduced corporate activity of the Company in Colombia and the resulting reduction of corporate overhead associated with that diminished activity.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The carrying values of the Company's financial instruments, consisting of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities, approximate their fair values due to the short-term maturity of such instruments. Marketable securities in the form of Amerisur Shares were valued based on their trading price on the AIM market of the London Stock Exchange (the "AIM") until such time when the Company sold its holdings in Amerisur Shares in Q1 2016. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## **SHAREHOLDERS' EQUITY**

### **Common shares**

On April 4, 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 as previously described. 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 share at any shareholders meeting. As a result of the Share Reorganization, there are no longer any common shares or Preferred Shares issued and outstanding and the only class of shares in the capital of the Company outstanding are Class B Shares.

As previously mentioned, on September 13, 2016, the Company received final approval from the TSX Venture Exchange, and filed Articles of Amendment in the days that followed, to perform the Consolidation on a basis of five pre-Consolidation Class B Shares for one post-Consolidation Class B Share.

The completed Consolidation follows 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 AGM held on January 27, 2016. Effective at the opening of trading on September 16, 2016, Petrodorado's Class B Shares commenced trading on the TSX Venture Exchange on a consolidated basis. As a result, 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.

At March 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 common shares as of March 31, 2017 were 9,940,935 (December 31, 2016 - 9,940,935).

### Stock options

The Company has adopted a formal rolling stock option plan whereby options can be granted from time to time to directors, officers, 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. A summary of the changes in stock options is presented below:

	<b>Stock options</b>	<b>Weighted average exercise price</b>
<b>Balance, January 1, 2015</b>	590,200	\$ 4.75
Options issued	290,000	0.90
Options exercised	(270,000)	0.90
Options forfeited	(89,267)	4.40
Expired options	(150,533)	6.56
<b>Balance, December 31, 2015</b>	370,400	\$ 3.89
Options issued	560,000	0.10
Options exercised	(20,000)	0.90
Expired options	(233,500)	4.21
<b>Balance, December 31, 2016 and March 31, 2017</b>	<b>676,900</b>	<b>\$ 0.73</b>
<b>Exercisable, December 31, 2016 and March 31, 2017</b>	<b>303,566</b>	<b>\$ 1.51</b>

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 CDN \$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.

As of May 29, 2017, outstanding Class B Shares and stock options of the Company were 9,940,935 and 676,900, respectively.

### USE OF ESTIMATES AND JUDGMENTS

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.

**ii) Impairment of property, plant and equipment and exploration and evaluation assets**

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

**iii) Exploration and evaluation assets**

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

**iv) 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, where applicable.

**i) Reserves**

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change

from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation tests. The Company's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

**ii) Decommissioning obligations**

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

**iii) 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.

**iv) 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.

**v) 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.

## **PRINCIPAL BUSINESS RISKS**

The Company's business and results of operations are subject to a number of risks and uncertainties which are outlined under the heading "Risk Factors" in the Annual Information Form for the year ended December 31, 2015 and also including, but not limited to the following:

### **Crude Oil and Natural Gas Development**

Exploration, development, production of oil and natural gas involves a wide variety of risks which include but are not limited to the uncertainty of finding oil and gas in commercial quantities, securing markets, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations, including regulations relating to prices, taxes, royalties and environmental protection. The oil and gas industry is intensely competitive and the Company competes with a large number of companies with greater resources.

The Company's ability to obtain reserves in the future will depend not only on its ability to develop its current properties but also on its ability to acquire new prospects and producing properties. The acquisition, exploration and development of new properties also require that sufficient capital from outside sources will be available to the Company in a timely manner. The availability of equity or debt financing is affected by many factors many of which are beyond the control of the Company.

### **Foreign Operations**

There are a number of risks associated with conducting foreign operations over which the Company has no control, including political instability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, income tax law changes, potential expropriation of property without fair compensation and restriction on exports.

### **Addition of Reserves and Resources**

The Company's future crude oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Company successfully discovering and developing or acquiring new reserves and resources. The addition of new reserves and resources will depend not only on the Company's ability to explore and develop properties but also, in the case of reserves, on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's exploration, development or acquisition efforts will result in the discovery and development of commercial accumulations of oil and natural gas.

### **Reserve Estimates**

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Company. Estimates of reserves depend in large part upon the reliability of available geological and engineering data and require certain assumptions to be made in order to assign reserve volumes. Geological and engineering data is used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir. Accordingly, the ultimate reserves discovered by the Company may be significantly less than the total estimates.

## **Exploration Risks**

The exploration of the Company's properties may from time to time involve a high degree of risk that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs. The costs of seismic operations and drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Company's exploration programs and projects. In addition, the Company's seismic operations and drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, necessary governmental, regulatory or other third party approvals and compliance with regulatory requirements.

## **Market Risks**

The Company's financial results were influenced by fluctuations in the value in marketable securities held during the comparative period. More specifically, the Company was exposed to certain gains and/or losses in the event of changes in the trading price of shares held in Amerisur, which trade on the AIM. In July 2015 and October 2015, the Company received 5,148,447 and 4,140,279 common shares of Amerisur representing the first and second installment payments, respectively, under the divestiture mentioned previously. In February 2016, the Company received 4,702,972 common shares of Amerisur representing the final installment payment. The fluctuations in fair values were recognized as unrealized gains and losses on marketable securities, and realized when shares were sold.

## **Management's Report on Internal Control over Financial Reporting**

In connection with National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

## **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

This MD&A offers an assessment of the Company's future plans and operations as of May 29, 2017, and may contain forward-looking information. All statements other than statements of historical fact are forward-looking statements. Such information is generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "may", "plan", "will", "project", "should", "believe" and similar expressions. Statements relating to "reserves" or "resources" are also forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the resources and reserves described can be profitably produced in the future. All such statements involve known and unknown risks, uncertainties and assumptions.

Management believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Such forward-looking information included in this MD&A should not be unduly relied upon as the plans, assumptions, intentions or expectations upon which it is based may not occur. Actual results or events may vary from the forward-looking information.

In particular, this MD&A may contain forward-looking information pertaining to the following:

- the resource potential of the Company's assets,
- the Company's growth strategy and opportunities,
- performance characteristics of the Company's oil properties and estimated capital commitments and probability of success,
- crude oil production and recovery estimates and targets,
- the existence and size of oil reserves and resources,
- capital expenditure programs and estimates, including the timing of activity,
- plans for, and results of, exploration and development activities,
- projections of market prices and costs,
- the supply and demand for oil,
- expectations regarding the ability to raise equity and debt capital on acceptable terms and to add continually to reserves through acquisitions and development, including the ability to negotiate and complete the agreements contemplated in this MD&A,
- the timing for receipt of regulatory approvals, including ANH approvals, and
- treatment of the Company under governmental regulatory regimes and tax laws.

The purpose of providing any financial outlook in this MD&A is to illustrate how the business of the Company might develop without the benefit of specific historical financial information. Readers are cautioned that this information may not be appropriate for other purposes.

The forward looking information herein is based on certain assumptions and analysis by the management of the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors that it believes are appropriate and reasonable under the circumstances. The forward looking information herein is based on a number of assumptions, including but not limited to:

- the availability on acceptable terms of funds for capital expenditures,
- the availability in a cost-efficient manner of equipment and qualified personnel when required,
- continuing favourable relations with Latin American governmental agencies,
- continuing strong demand for oil,
- the stability of the regulatory framework governing royalties, taxes and environmental matters in Colombia and any other jurisdiction in which the Company may conduct its business in the future,
- the ability to market production of oil successfully to customers,
- future production levels and oil prices,
- the applicability of technologies for recovery and production of oil reserves,
- the existence and recoverability of any oil reserves,
- geological and engineering estimates in respect of resources and reserves in which the Company has an interest,
- the geography of the areas in which the Company has an interest, and

- the impact of increasing competition on the Company.

The actual results, performance and achievements of the Company could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in the MD&A and the following risks and uncertainties:

- global financial conditions,
- general economic, market and business conditions,
- volatility in market prices for oil and natural gas, the stock market, foreign exchange and interest rates,
- risks inherent in oil and gas operations, exploration, development and production,
- risks inherent in the Company's international operations, including security, political, sovereignty and legal risks in Colombia,
- the failure by counterparties to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties,
- risks related to the timing of completion of the Company's projects and plans,
- uncertainties associated with estimating oil and natural gas reserves and resources,
- competition for, among other things, capital, acquisitions of resources, undeveloped lands and skilled personnel,
- the ability to hold existing leases through drilling or lease extensions or otherwise,
- incorrect assessments of the value of acquisitions or title to properties,
- the failure of the holder of certain licenses or leases to meet specific requirements of such licenses or leases,
- claims made in respect of the Company's properties or assets,
- geological, technical, drilling and processing problems, including the availability of equipment and access to properties,
- environmental risks and hazards,
- failure to estimate accurately abandonment and reclamation costs,
- the inaccuracy of third parties' reviews, reports and projections,
- rising costs of labour and equipment,
- the failure to engage or retain key personnel,
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, and
- other factors discussed under "Principal Business Risks" in this MD&A and "Risk Factors" in the AIF.

Readers are cautioned that the foregoing lists of assumptions, risks and uncertainties are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The forward-looking information speaks only as of the date of this MD&A, and the Company does not undertake any obligation to publicly update or revise any forward-looking information except as required by applicable securities laws.

## SELECTED QUARTERLY INFORMATION

The following table sets out selected unaudited quarterly financial information of Petrodorado and is derived from unaudited quarterly financial data prepared by management in accordance with IFRS.

	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Total revenue	\$ 1,296	\$ 880	\$ 151,209	\$ 8,719
Net income (loss) - Continued operations	(114,294)	(120,187)	40,769	(397,773)
Net income (loss) - Discontinued operations	(31,711)	(20,458)	345,878	271,748
Net income (loss)	(146,005)	(140,645)	386,647	(126,025)
Comprehensive income (loss)	(135,441)	(167,999)	387,002	(28,144)
Net income (loss) per share (basic & diluted):				
Continued operations	(0.01)	(0.01)	0.00	(0.04)
Discontinued operations	(0.00)	(0.00)	0.04	0.03
Net income (loss)	(0.01)	(0.01)	0.04	(0.01)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Total revenue	\$ 14,611	\$ 15,258	\$ 15,905	\$ 31,733
Net income (loss) - Continued operations	(884,475)	(1,185,298)	(601,659)	(483,099)
Net income (loss) - Discontinued operations	(41,367)	(1,214,319)	(135,540)	(5,748,657)
Net loss	(925,842)	(2,399,617)	(737,199)	(6,231,756)
Comprehensive loss	142,551	(2,886,167)	(1,822,488)	(5,979,952)
Net income (loss) per share (basic & diluted):				
Continued operations	(0.09)	(0.12)	(0.06)	(0.05)
Discontinued operations	(0.00)	(0.13)	(0.02)	(0.60)
Net income (loss)	(0.09)	(0.25)	(0.08)	(0.65)

Fluctuations in quarter-to-quarter results are primarily the effect of varying foreign exchange rates with resulting foreign exchange gains/losses recorded and/or impairment losses recognized periodically. Impairment losses and general and administrative expenses recorded in Q2 2015 contributed to the net losses recorded for the quarter, of which impairment losses of \$5.5 million related to Colombia assets included in discontinued operations. In Q3 2015, general and administrative expenses coupled with losses on investments held in Amerisur Shares (included in continued operations) reduced by foreign exchange gains recognized in the quarter (also primarily relating to continued operations) resulted in the net loss for the period. Results in Q4 2015 were due to similar factors of general and administrative expenses as well as impairment losses of \$0.8 million related to Colombia assets and recorded in discontinued operations, being partially offset by foreign exchange gains and bringing about a net loss for the quarter.

The net loss in Q1 2016 was the result of general and administrative expenses and foreign exchange losses partially offset by gains on investment realized in the period, which relate to continued operations of the Company. Similar results were realized in Q2 2016 on account of general and administrative expenses and foreign exchange losses being partially offset by gain on settlement of \$0.3 million realized in the quarter, which relates to discontinued operations. In Q3 2016, net income was realized as a result of increased other revenue of \$0.2 million (continued operations) and a further realized gain on settlement of \$0.4 million (discontinued operations) that were greater than general and administrative expenses from the quarter with minimal effects from foreign exchange results. The net loss in Q4 2016 was predominantly the effect of general and administrative expenses in the quarter with a minor foreign exchange gain recognized in the quarter. The net loss in Q1 2017 is the result of general and administrative expenses in the quarter being somewhat offset by a gain realized on the disposal of the Company's remaining Colombian operations through the sale of a wholly-owned subsidiary.

## **OUTLOOK**

The Company successfully completed the Special Distribution to shareholders in April 2016, leaving the Company with minimal working capital for the foreseeable future. In Q1 2017, the remaining Colombian operations of the Company were sold, leaving the Company with no further operational presence in Colombia. Management continues to evaluate the Company's corporate strategy and to identify and review potential opportunities for the Company's future. Management's primary objective in 2017 is to move the Company forward towards an established future that will result in increased value for shareholders.