

**PETRODORADO ENERGY LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010**  
**Expressed in U.S. dollars**

**(UNAUDITED)**

# PETRODORADO ENERGY LTD.

## CONSOLIDATED BALANCE SHEETS

(Expressed in U.S. Dollars)

(Unaudited)

<b>Assets</b>	<b>September 30,</b>	<b>December 31,</b>
	<b><u>2010</u></b>	<b><u>2009</u></b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,366,770	\$ 913,642
Short-term investments	17,509,815	68,109,697
Cash calls receivable (Note 6)	12,080,781	-
Accounts receivable	70,213	78,399
Share subscriptions receivable	-	124,936
Inventory (Note 3)	625,985	-
Prepaid expenses and deposits	29,617	39,652
	<b>39,683,181</b>	<b>69,266,326</b>
Restricted cash and other receivables (Note 7)	14,003,200	1,800,397
Deposits on acquisition	242,000	1,882,000
Property, plant and equipment (Note 9)	24,481,100	5,699,419
	<b>\$ 78,409,481</b>	<b>\$ 78,648,142</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,838,528	\$ 937,248
Due to shareholders (Note 14)	-	395,220
	<b>1,838,528</b>	<b>1,332,468</b>
Asset retirement obligations (Note 10)	304,265	-
	<b>2,142,793</b>	<b>1,332,468</b>
<b>Shareholders' Equity</b>		
Share capital (Note 11)	53,679,601	53,571,334
Warrants (Note 11)	23,005,409	23,010,776
Contributed surplus (Note 11)	4,360,871	-
Deficit	(5,727,575)	(214,818)
Accumulated other comprehensive income (Note 3)	948,382	948,382
	<b>(4,779,193)</b>	<b>733,564</b>
	<b>76,266,688</b>	<b>77,315,674</b>
	<b>\$ 78,409,481</b>	<b>\$ 78,648,142</b>

Commitments (Note 13)

Subsequent event (Note 16)

See accompanying notes to the consolidated financial statements

# PETRODORADO ENERGY LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, AND DEFICIT

(Expressed in U.S. Dollars)

(Unaudited)

	<b>For the Three Months Ended <u>Sept 30, 2010</u></b>	For the Three Months Ended <u>Sept 30, 2009</u>	<b>For the Nine Months Ended <u>Sept 30, 2010</u></b>	For the Nine Months Ended <u>Sept 30, 2009</u>
Revenue				
Interest and other	\$ 118,966	\$ 41	\$ 228,892	\$ 41
Expenses				
Operating (Note 3)	628,564	-	628,564	-
General and administrative	734,519	28,247	1,878,154	28,247
Business development	155,352	-	425,894	-
Foreign exchange gain	(1,253,864)	-	(1,568,479)	-
Stock-based compensation	1,130,465	-	4,360,871	-
Amortization and accretion	7,786	-	16,645	-
	<b>1,402,822</b>	<b>28,247</b>	<b>5,741,649</b>	<b>28,247</b>
Net loss and comprehensive loss for the period	<b>(1,283,856)</b>	<b>(28,206)</b>	<b>(5,512,757)</b>	<b>(28,206)</b>
Deficit, beginning of period	<b>(4,443,719)</b>	<b>-</b>	<b>(214,818)</b>	<b>-</b>
Deficit, end of period	<b>\$ (5,727,575)</b>	<b>\$ (28,206)</b>	<b>\$ (5,727,575)</b>	<b>\$ (28,206)</b>
Weighted average number of common shares outstanding	<b>395,178,311</b>	<b>46,998,445</b>	<b>395,089,300</b>	<b>34,590,856</b>
Net loss per share - basic and diluted	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.01</b>	<b>\$ -</b>

See accompanying notes to the consolidated financial statements

# PETRODORADO ENERGY LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in U.S. Dollars)

(Unaudited)

	For the Three Months Ended <u>Sept. 30, 2010</u>	For the Three Months Ended <u>Sept. 30, 2009</u>	For the Nine Months Ended <u>Sept. 30, 2010</u>	For the Nine Months Ended <u>Sept. 30, 2009</u>
<b>Cash flows provided by (used in):</b>				
<b>Operating activities</b>				
Net loss	\$ (1,283,856)	\$ (28,206)	\$ (5,512,757)	\$ (28,206)
Adjustments for:				-
Stock-based compensation	1,130,465	-	4,360,871	-
Unrealized foreign exchange gain	(478,420)	-	(256,037)	-
Amortization and accretion	7,786	-	16,645	-
	(624,025)	(28,206)	(1,391,278)	(28,206)
<b>Change in non-cash working capital</b>				
Accounts receivable	106,460	(235)	76,559	(235)
Prepaid expenses and deposits	3,071	-	10,035	-
Inventory	(317,368)	-	(360,855)	-
Accounts payable and accrued liabilities	(911,497)	22,633	(739,770)	22,633
	(1,743,359)	(5,808)	(2,405,309)	(5,808)
<b>Investing activities</b>				
Acquisition of petroleum and natural gas properties	(2,180,330)	(137,729)	(12,238,142)	(137,729)
Acquisition of office equipment	(161)	-	(21,049)	-
Short-term investments redeemed	594,357	-	51,075,320	-
Acquisition of Holywell, net of cash received	-	-	(4,530,556)	-
Change in deposits on acquisition	-	-	(110,000)	-
Change in non-cash working capital	(10,089,678)	-	(10,336,709)	-
	(11,675,812)	(137,729)	23,838,864	(137,729)
<b>Financing activities</b>				
Options and warrants exercised for cash	-	-	102,900	-
Issuance of common shares	-	3,809,736	-	3,809,736
Receipt of share subscriptions receivable	-	-	124,936	-
Repayment of amounts due to shareholders	-	-	(395,220)	-
Change in restricted cash and other receivables	(2,053,348)	-	(12,202,803)	-
Change in non-cash working capital	-	-	(390,839)	-
	(2,053,348)	3,809,736	(12,761,026)	3,809,736
<b>Cash flow from operating, investing and financing activities</b>				
	(15,472,519)	3,666,199	8,672,529	3,666,199
Effect of exchange rate on cash	5,789	-	(219,401)	-
<b>Change in cash</b>	(15,466,730)	3,666,199	8,453,128	3,666,199
Cash, beginning of period	24,833,500	-	913,642	-
<b>Cash, end of period</b>	\$ 9,366,770	\$ 3,666,199	\$ 9,366,770	\$ 3,666,199
<b>Supplemental Disclosure:</b>				
Interest paid	-	-	-	-
Income taxes paid	-	-	-	-

Cash is defined as cash and cash equivalents

See accompanying notes to the consolidated financial statements

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

**Note 1 Nature of Business**

Petrodorado Energy Ltd. (formerly Cap-Link Ventures Ltd.) (the "Corporation") was incorporated under the Canadian Business Corporations Act on May 25, 2005. On December 21, 2009, the Corporation acquired all of the issued and outstanding shares of Petrodorado Ltd. ("Petrodorado") (see note 5), which has been accounted for as a reverse take-over. As a result, these consolidated financial statements reflect the financial position, operating results and cash flows of the legal subsidiary, Petrodorado. Petrodorado was incorporated on May 28, 2009 and commenced operations on August 4, 2009.

The Corporation is a public oil and natural gas exploration company primarily engaged in exploration and development activities in Colombia, Peru and Paraguay. The Corporation's head office is located in Calgary, Alberta, Canada and the Corporation's shares are traded on the TSX Venture Exchange under the trading symbol PDQ.

**Note 2 Future Operations**

These consolidated financial statements have been prepared on the going concern basis in accordance with Canadian generally accepted accounting principles, which assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation's oil and gas interests are principally in the pre-production stage and the Corporation has not yet determined whether its petroleum and natural gas properties contain reserves that are economically recoverable. Accordingly, the recoverability of amounts recorded as petroleum and natural gas properties is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Corporation's interests in the properties, the political stability of Colombia, Peru and Paraguay and the ability of the Corporation to secure adequate sources of financing to fund the development of its assets and put them into production and then achieving future profitable operations.

The outcome of these matters cannot be predicted with certainty at this time which could raise doubt about the going concern assumption. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments to the amounts and classification of assets and liabilities would be necessary.

**Note 3 Significant Accounting Policies and Basis of Presentation**

The unaudited interim consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of the Corporation for the period from incorporation on May 28, 2009 to December 31, 2009, except for the change in reporting currency and foreign currency translation and the adoption of an inventory accounting policy as noted below. These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries Petrodorado Ltd. and Petrodorado South America S.A., (formerly Holywell Resources S.A.). All intercompany transactions and balances have been eliminated. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted and therefore these interim financial statements and notes thereto should be read in conjunction with the audited financial statements for the period ended December 31, 2009. Unless otherwise indicated, all financial amounts are reported in United States dollars.

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

### **Reporting currency and foreign currency translation**

Effective January 1, 2010, the Corporation changed its reporting currency from Canadian dollars to the United States dollar, as the Corporation anticipates that the majority of its future income stream and sources of new capital and financing will be denominated in United States dollars.

Effective January 1, 2010, the Corporation reclassified all entities within the corporate group from integrated to self-sustaining foreign operations. Accordingly, all entities now use the United States dollar as their functional currency. This change was made due to significant changes in facts and circumstances as follows:

1. The Corporation acquired 100% of the issued and outstanding shares of Holywell Resources S.A. ("Holywell") on February 1, 2010. The Corporation expects to conduct all of its future Colombian operations through Holywell. The Holywell acquisition was in United States dollars with future operating activity in the company anticipated to be also in US dollar currency.
2. The vast majority of the Corporation's expenditures, commencing in the first quarter were transacted in US dollars and even a greater percentage will be conducted in US dollars in the future.
3. It is anticipated that future petroleum and natural gas revenues from recent and future drilling will be denominated in US dollars.
4. As a greater percentage of expenditures will be in US dollars the Corporation will pursue sources of new capital in the same US dollar currency.

The Corporation prospectively adopted the current rate method of foreign currency translation as of January 1, 2010. Under this method revenues and expenses are translated using the average exchange rates for the applicable period, assets and liabilities are translated using the exchange rates in effect on the balance sheet dates, and shareholder's equity is translated using historical rates in effect at the date of each transaction. Resulting exchange differences are reported as a separate component of other comprehensive income.

For the period ended December 31, 2009, the Corporation recorded \$948,382 as an adjustment to opening accumulated other comprehensive income. This amount is the result of the prospective adoption of the current rate method for currency translation of the accounts of the Corporation's reclassified self-sustaining foreign operations, adoption of the US dollar as functional currency for the parent entity and the change in reporting currency from Canadian to United States dollars.

As the functional currency of the parent and all other subsidiaries and related entities is the US dollar, there is currently anticipated to be no further translation gains or losses to be recognized through accumulated other comprehensive income. Further, transactions occurring within the parent, subsidiaries and other related entities in currencies other than US dollars will be translated such that monetary assets and liabilities are translated at the period end exchange rates and revenues and expense are translated using average period exchange rates. All of the other assets and liabilities are recorded at historical rates. Translation gains or losses are included in income or expense in the period they occur.

### **Inventory**

The Corporation 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. Crude oil inventory of \$625,985 has been recognized on the balance sheet with \$628,564 recognized in expenses during the nine months ended September 30, 2010.

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

**Note 4 Acquisition of Holywell Resources S.A.**

On February 1, 2010, the Corporation acquired all of the issued and outstanding shares of Holywell from a private vendor. The assets of Holywell principally included an undivided 20% working interest in the Bugarviles block located in the upper Magdalena Valley in central Colombia. The aggregate purchase price was \$6,334,000, with deposits of \$1,750,000 paid to December 31, 2009 towards this purchase and the balance of \$4,584,000 paid in full, upon closing.

The results of Holywell have been included in the accounts of the Corporation commencing February 1, 2010. The transaction was accounted for using the purchase method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

<b>Net assets acquired at fair value</b>	
Cash and cash equivalents	\$ 53,444
Accounts receivable	68,373
Property, plant and equipment	6,500,000
Accounts payable and accrued liabilities	(287,817)
	\$ 6,334,000
<b>Consideration</b>	
Cash	\$ 6,334,000

The above amounts are estimates based on information available at the time of the preparation of these consolidated financial statements. Accordingly, these amounts are subject to change as cost estimates and values are finalized.

**Note 5 Acquisition of Petrodorado**

On December 21, 2009, the Corporation acquired all of the issued and outstanding shares of Petrodorado Ltd. As consideration, the Corporation issued 124,999,978 common shares.

The transaction was recorded as a reverse take-over transaction that does not constitute a business combination, and accordingly has been accounted for as though Petrodorado Ltd. acquired the Corporation using the purchase method of accounting. As a result, these consolidated financial statements reflect the financial position, operating results and cash flows of the legal subsidiary Petrodorado Ltd. The results of the Corporation have been included commencing December 21, 2009. The number of common shares outstanding are those of the Corporation, the legal parent.

The purchase cost and the allocation of costs to Corporation's assets and liabilities are as follows:

Cash and cash equivalents	\$ 1,836,072
Short-term investments	231,255
Accounts receivable	48,468
Prepaid expenses and deposits	135,827
Accounts payable and accrued liabilities	(5,910)
	\$ 2,245,712
<b>Consideration</b>	
Share capital	\$ 2,245,712

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

The above amounts are estimates based on information available at the time of the preparation of these consolidated financial statements. Accordingly, these amounts are subject to change as cost estimates and values are finalized.

**Note 6 Cash Calls Receivable**

At September 30, 2010, the Corporation had \$12,080,781 recorded in cash calls receivable, which is comprised of funds advanced to operating partners in respect of future exploration activity on blocks in which the Corporation is a non-operating partner. As these funds are expended by the operating partner, balances in this account are booked to property, plant and equipment. To date, the Corporation has not experienced any credit loss in the drawdown of this account. The Corporation does not have an allowance for doubtful accounts and does not consider any of its cash calls receivables past due.

**Note 7 Restricted Cash and Other Receivables**

On June 12, 2009, the Corporation entered into a joint farm-in participation agreement with an unrelated company (the La Maye Operator) to earn a 20% working interest in four wells in the La Maye Block in the country of Colombia. This agreement required Petrodorado to advance \$3,500,000 into an escrow account. Petrodorado authorizes draws on this escrow account as certain development milestones are met. As at September 30, 2010, \$3,089,410 had been drawn from this account, leaving \$410,590 (December 31, 2009 - \$1,800,397) in this escrow account. Also included in this balance are other receivable amounts of \$1,390,040 due from the La Maye Operator (December 31, 2009 - \$NIL).

On June 14, 2010, the Corporation announced the signing of a farm-in agreement with ONGC Videsh Ltd. ("ONGC") for a 30% participating interest in the CPO-5 Block of Colombia. As partial consideration for the 30% interest, the Corporation established an escrow account with a chartered bank in Panama for \$7,200,000 in July of 2010. The escrowed funds will be used to satisfy the obligations of the Corporation respecting certain seismic expenditures on the CPO-5 block. As of September 30, 2010 no amounts were drawn on this account.

An agreement securing the Credit Facility referred to in Note 8 of these statements is supported by a term deposit totalling \$5,000,000.

**Note 8 Credit Facility**

The Corporation has a \$5 million revolving demand loan facility (the "Credit Facility") with a Canadian chartered bank (the "Lender"). The Credit facility is available by way of account overdraft in US dollars or by letters of credit up to \$4.8 million. As at September 30, 2010, no overdrafts were drawn under this Credit Facility. Any outstanding amounts will bear interest at the Lender's U.S. base rate plus an applicable margin. The Credit Facility is secured by security agreement over cash, credit balances and deposit instruments in the amount of \$5 million. On July 7, 2010, a letter of credit for \$4.8 million was issued under the credit facility to guarantee the Corporation's drilling obligations with ONGC on the CPO-5 block on Colombia.



PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

**Note 9 Property, Plant and Equipment**

As at September 30, 2010	<u>Cost</u>	<u>Depletion and Amortization</u>	<u>Net Carrying Amount</u>
Petroleum and natural gas properties including production equipment	\$ 24,711,304	\$ 265,130	\$24,446,174
Office equipment	41,957	7,031	34,926
	<u>\$ 24,753,261</u>	<u>\$ 272,161</u>	<u>\$24,481,100</u>

As at December 31, 2009	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	<u>Net Carrying Amount</u>
Petroleum and natural gas properties including production equipment	\$ 5,680,304	\$ -	\$ 5,680,304
Office equipment	20,908	1,793	19,115
	<u>\$ 5,701,212</u>	<u>\$ 1,793</u>	<u>\$ 5,699,419</u>

At September 30, 2010, petroleum and natural gas properties included undeveloped properties of \$16,190,435 (December 31, 2009 - \$5,680,304) which have been excluded from the depletion calculation. Future development costs of \$2,387,000 (December 31, 2009 – nil) for proved reserves have been included in the depletion calculation. For the nine months ended September 30, 2010 depletion expense of \$265,130 has been included in inventory.

**Note 10 Asset Retirement Obligations**

The Corporation's asset retirement obligations result from ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation at September 30, 2010 to be \$522,500, which will be incurred in approximately 20 years. The fair value of the asset retirement obligations incurred in the period ended September 30, 2010 was calculated using an average credit-adjusted risk free rate of 8% and an average inflation factor of 5%. Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at September 30, 2010, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the period were as follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Balance, beginning of period	\$ -	\$ -
Liabilities incurred during the period	292,858	-
Accretion expense	11,407	-
Balance, end of period	<u>\$ 304,265</u>	<u>\$ -</u>

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

**Note 11 Share Capital**

a) **Authorized**  
Unlimited common shares

b) **Issued**  
Common shares

	Number of Common Shares	Amount
<b>Balance, May 28, 2009</b>	-	\$ -
Initial private placement for cash (i)	4,650,000	46,663
Stock split (ii)	27,900,000	-
Shares issued for preferred shares (ii)	3,750	3,763,073
Private placement for cash (iii)	12,918,000	1,803,611
Private placement for cash (iv)	8,171,428	2,706,704
Share issue costs	-	(5,921)
	<b>53,643,178</b>	<b>8,314,130</b>
<b>Petrodorado Energy Ltd. shares outstanding</b>	<b>54,933,333</b>	
Issued pursuant to acquisition (Note 5) (v)	124,999,978	2,245,712
Private placement for cash (vi)	214,285,000	46,111,989
Share issue costs	-	(3,100,497)
<b>Balance, December 31, 2009</b>	<b>394,218,311</b>	<b>53,571,334</b>
Options exercised	910,000	86,338
Warrants exercised for cash	50,000	16,562
Transfer of assigned fair value from warrants	-	5,368
<b>Balance, September 30, 2010</b>	<b>395,178,311</b>	<b>\$ 53,679,602</b>

**Common Shares Issued:**

- (i) On August 4, 2009, Petrodorado Ltd. issued, pursuant to its initial private placement equity offering 3,750,000 preferred shares at \$1.00 per share and 4,650,000 common shares at \$0.01 per common share.
- (ii) On October 20, 2009, Petrodorado split the common shares such that each common shareholder received 7 common shares for every 1 common share they held on that date. The preferred shares were also converted to common shares such that each preferred shareholder received 0.001 of a common share for each preferred share they held.
- (iii) On November 2, 2009, Petrodorado issued, pursuant to a private placement equity financing, a total of 12,918,000 common shares at a price of CDN \$0.15 per share for gross proceeds of CDN \$1,937,700 (US \$1,803,611).
- (iv) On November 9, 2009, Petrodorado issued, pursuant to a private placement equity financing, a total of 8,171,428 common shares at a price of CDN \$0.35 per share for gross proceeds of CDN \$2,860,000 (US \$2,706,704).
- (v) On December 21, 2009, the Corporation acquired all of the issued and outstanding shares of Petrodorado (see note 5).

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

- (vi) On December 3, 2009, the Corporation issued 214,285,000 subscription receipts at an issue price of CDN \$0.35 per subscription receipt for gross proceeds of CDN \$75,000,000 (US \$70,792,264). Each subscription receipt entitled the holder to receive one unit of the Corporation without payment of any additional consideration, on satisfaction of certain conditions. Each unit was comprised of one common share of the Corporation and one common share purchase warrant. Each whole warrant entitled the holder to purchase one common share of the Corporation at a price equal to CDN \$0.35 per share, until December 3, 2012. The Corporation has the right to accelerate the expiry date of the warrants to 30 days from the date of notice when and if the 20 day volume weighted average price of the Corporation's common shares has become equal to, or greater than, CDN \$0.90 per share.

Upon closing of the Petrodorado Ltd. acquisition on December 21, 2009, the subscription receipts were converted to units. The Corporation has allocated the total proceeds of CDN \$74,999,750 (US \$70,792,264) to share capital of US \$46,111,989 and warrants of US\$24,680,275. The warrant fair value was determined based on a Black-Scholes option pricing model (see note 11 (c)). The issue costs on the private placement totaling \$5,053,496 (US \$4,756,760) were also allocated to share capital of US \$3,087,261 and warrants of US\$1,669,499.

**c) Warrants**

A summary of the changes in share purchase warrants is presented below:

	Number of Warrants	Amount
<b>Balance, May 28, 2009</b>	-	\$ -
Private Placement (i)	214,285,000	24,680,275
Warrant issue costs	-	(1,669,499)
<b>Balance, December 31, 2009</b>	214,285,000	23,010,776
Warrants exercised	(50,000)	(5,368)
<b>Balance, September 30, 2010</b>	214,235,000	\$ 23,005,408

- (i) Pursuant to the private placement of units discussed in note 11 (b), the Corporation issued 214,285,000 common share purchase warrants. The warrants are exercisable immediately at a price of CDN \$0.35 per share until December 3, 2012.

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	1.36%
Expected dividend yield	0%
Expected stock price volatility	50.00%
Expected warrant lives	3 years
Weighted average fair value of warrant granted (CAD)	\$ 0.122

**d) Stock Options**

The Corporation 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.

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

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

	Number of Options	Weighted Average Exercise Price (CDN\$)
<b>Balance, May 28, 2009</b>	-	\$ -
Outstanding at the date of acquisition (i)	910,000	\$ 0.10
<b>Balance, December 31, 2009</b>	910,000	\$ 0.10
Options exercised	(910,000)	\$ 0.10
Options issued (ii)	29,000,000	\$ 0.49
Forfeitures	(666,667)	\$ 0.49
<b>Balance, September 30, 2010</b>	28,333,333	\$ 0.49
<b>Exercisable, September 30, 2010</b>	<b>9,666,667</b>	<b>\$ 0.49</b>

- (i) On the date of acquisition, there were 910,000 stock options outstanding that were a continuation of the Corporation's stock option plan. The options were all exercisable at a price of CDN \$0.10 per share and were set to expire on March 21, 2010. All 910,000 options were exercised during the nine months ended September 30, 2010.
- (ii) On January 31, 2010 and September 1<sup>st</sup>, 2010, the Corporation granted 28,000,000 and 1,000,000 stock options, respectively, to its directors, officers, key employees and consultants at a price of CDN \$0.49 per common share. The options are for a five year term, expiring on January 31, 2015 and September 1, 2015, and vest one-third on the date of grant and one-third on the first anniversary date and one-third on the second anniversary date from the grant date.

The options 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	2.48%
Expected forfeiture rate	10.00%
Expected dividend yield	0%
Expected stock price volatility	60.00%
Expected option life	5 years
Weighted average fair value of options granted (US\$0.243)	\$ 0.244

During the three and nine months ended September 30, 2010, the Corporation recognized \$1,130,465 and \$4,360,871 of stock-based compensation expense that is recorded as contributed surplus.

## Note 12 Financial Instruments

### *Credit risk*

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. A substantial portion of the Corporation's revenues will be derived from customers and joint venture partners in the oil and gas industry and will be subject to normal industry credit risks in the countries in which the Corporation will operate. For oil and natural gas sales, the Corporation follows a risk procedure whereby counterparties are reviewed on a regular basis and the Corporation attempts to transact with only counterparties management has had previous experience with. As at September 30, 2010 the Corporation has \$12,202,803 and \$1,800,397 in restricted cash towards development activity in the CPO-5 Block and La Maye block in Colombia, respectively. The Corporation has mitigated this risk by being the only authority who can authorize draw downs on this account by third parties. At September 30, 2010, the

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

Corporation had \$70,213 recorded in accounts receivable and \$12,080,781 in cash call payments made to operating partners. To date, the Corporation has not experienced any credit loss in the collection of accounts receivable. The Corporation does not have an allowance for doubtful accounts and does not consider any of its receivables past due.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The carrying amount of cash and cash equivalents, short-term investments, accounts receivable, restricted cash and other receivables represent the maximum credit exposure. The Corporation manages the credit risk exposure related to cash and cash equivalents and short-term investments by selecting counterparties based on credit ratings and by avoiding complex investment vehicles with high risk such as asset-backed commercial paper.

***Liquidity risk***

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due and describes the Corporation's ability to access cash. The Corporation'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 Corporation as they come due, without incurring unacceptable losses or risking harm to the Corporation's reputation. The Corporation'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 Corporation seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change.

The Corporation has exploration commitments in Latin America as described in Note 13. Petrodorado anticipates no restrictions in respect of funding these contracted and/or anticipated exploration programs. The Corporation'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 Corporation'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 Corporation 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.

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 relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand. There were no financial contracts or embedded derivatives outstanding at September 30, 2010.

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 Corporation's business transactions and commitments occur in currencies other than U.S. dollars. A portion of the Corporation's oil and natural gas activities in Colombia transact in Colombian Peso (COP\$). In addition, the majority of the Corporation's financing and administrative costs will be based in Canadian dollars, or COP\$ and paid in Canadian dollars or COP\$. Therefore, the Corporation is exposed to the risk of fluctuations in foreign exchange rates between U.S. dollars, COP\$ and Canadian dollars. As at September 30, 2010 and December 31, 2009, the Corporation had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

The impact to the net loss and comprehensive loss for the period had the US\$ to CDN\$ rate exchange changed by 1 cent would amount to \$254,449 and the impact to the net loss and comprehensive loss for the period had the US\$ to COP\$ rate exchange changed by 1 cent would amount to \$41,903.

**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 Corporation 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 September 30, 2010 would not have had a significant impact on the consolidated financial statements.

**Note 13 Commitments**

**COMMITMENT SUMMARY**

A summary of the estimated capital commitments in millions are as follows:

<b>Block/Country</b>	<b>Petrodorado Interest</b>	<b>Initial Commitment</b>	<b>Spent To date</b>	<b>2010</b>	<b>Remaining 2011</b>	<b>2012</b>
La Maye, Colombia <sup>(1)</sup>	20%	3.5	1.7	1.0	0.4	0.4
Buganviles, Colombia <sup>(2)</sup>	59.5%	9.1	6.3	2.8	-	-
Moriche, Colombia <sup>(3)</sup>	49.5%	5.5	8.2	-	-	-
Talora, Colombia <sup>(4)</sup>	95%	5.9	6.2	7.3	-	-
Tacacho, Colombia <sup>(5)</sup>	49.5%	8.0	0.5	0.5	7.0	-
CPO-5, Colombia <sup>(6)</sup>	30.0%	6.6	0.3	3.6	2.4	-
Block 135, Peru <sup>(7)</sup>	45%	10.0	-	-	10.0	-
Block 138, Peru <sup>(8)</sup>	45%	8.0	0.1	-	7.9	-
<b>Total</b>		<b>56.6</b>	<b>23.3</b>	<b>15.2</b>	<b>27.7</b>	<b>0.4</b>

- 1) Petrodorado has funded an escrow account for \$3.5 million for a third party to drill, test and complete four exploration wells. The remaining balance in the escrow account is \$410,357 as at September 30, 2010. Petrodorado also has a receivable of \$1,390,040 due from the La Maye Operator to be satisfied by expenditures to be made by the La Maye Operator on the La Maye Block on Petrodorado's behalf.
- 2) Initial commitment includes the purchase of Holywell in February 2010 and the cost to drill one exploration well. The Holywell purchase was completed during the first quarter of 2010 and the first exploration well commenced drilling during the third quarter of 2010.
- 3) Initial commitment includes the cost to drill, test and complete one oil exploration well. The well was drilled, completed and tested in February 2010 and was placed on production on June 18, 2010.

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

- 4) Net commitment includes amounts to purchase a 55% interest in the Talora Block, achieve operatorship status for Petrodorado, acquire and process 120 km of 2D seismic data and drill one exploratory well.
- 5) Petrodorado to pay 100% of costs to acquire and process 480 km of 2D seismic data (up to a maximum of US\$8 million).
- 6) Includes Petrodorado's 30% share of ANH Phase I commitments on the CPO-5 Block.
- 7) Petrodorado to pay 45% of the second exploration phase of the block. The Commitment amount represents currently budgeted cost to gather and process 525 km of seismic data.
- 8) Petrodorado to pay 45% of the second exploration phase of the block. The Commitment amount represents currently budgeted cost to acquire and process 100 km of seismic data.

The expenditures provided in the above table represent the Corporation's estimated cost to satisfy contract requirements. Actual expenditures to satisfy these commitments, initiate production or create reserves may differ from these estimates.

**Note 14 Related Party Transactions**

During the three months ended March 31, 2010, the Corporation repaid advances from the President of the Corporation, and two companies who are minority shareholders of the Corporation, in the amounts of \$95,220, \$150,000 and \$150,000, respectively.

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

**Note 15 Segmented Information**

The Corporation defines its reportable segments based on geographical locations and the information for this is reported in the following tables for the three and nine month periods ended September 30, 2010.

For the three months ended September 30, 2010.

	Canada	Colombia	Paraguay	Peru	Total
<i>Interest and Other Revenue</i>	\$ 44,571	\$ 74,395	\$ -	\$ -	\$ 118,966
<i>Expenses</i>					
Operating	-	628,564	-	-	628,564
General and administrative	532,983	201,536	-	-	734,519
Business development	155,352	-	-	-	155,352
Foreign exchange (gain) loss	(2,017,588)	763,724	-	-	(1,253,864)
Stock-based compensation	1,130,465	-	-	-	1,130,465
Amortization and accretion	1,929	5,857	-	-	7,786
	(196,859)	1,599,681	-	-	1,402,822
					-
Net loss for the period	241,430	(1,525,286)	-	-	(1,283,856)
Assets, September 30, 2010	\$ 36,864,207	\$ 41,404,900	\$ 137,766	\$ 2,608	\$ 78,409,481
Additions to property, plant and equipment	\$ -	\$ 2,334,627	\$ -	\$ -	\$ 2,334,627



PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

For the nine month period ended September 30, 2010.

	Canada	Colombia	Paraguay	Peru	Total
<i>Interest and Other Revenue</i>	\$ 154,497	74,395	\$ -	\$ -	\$ 228,892
<i>Expenses</i>					
Operating	-	628,564			628,564
General and administrative	1,478,502	399,652	-	-	1,878,154
Business development	315,850	110,044	-	-	425,894
Foreign exchange (gain) loss	(2,279,974)	635,602	-	-	(1,568,479)
Stock-based compensation	4,360,871	-	-	-	4,360,871
Amortization and accretion	5,238	11,407	-	-	16,645
	3,880,487	1,785,269	-	-	5,741,649
Net loss for the period	\$ (3,725,990)	\$ (1,710,874)	\$ -	\$ -	\$ (5,512,757)
Additions to property, plant and equipment	\$ 21,914	\$ 18,909,063	\$ 121,072	\$ -	\$ 19,052,049

For the three and nine months ended September 30, 2009

	Canada	Colombia	Paraguay	Peru	Total
<i>Interest and Other Revenue</i>	\$ 41	\$ -	\$ -	\$ -	\$ 41
<i>Expenses</i>					
Operating costs	-	-	-	-	-
General and administrative	28,247	-	-	-	28,247
Business development expenses	-	-	-	-	-
Foreign exchange gain	-	-	-	-	-
Stock-based compensation	-	-	-	-	-
Amortization and accretion	-	-	-	-	-
	28,247	-	-	-	28,247
Net loss for the period	(28,206)	-	-	-	(28,206)
Assets, September 30, 2009	\$ 3,666,434	\$ 137,729	\$ -	\$ -	\$ 3,804,163
Additions to property, plant and equipment	\$ -	\$ 137,729	\$ -	\$ -	\$ 137,729

PETRODORADO ENERGY LTD.  
Notes to the Consolidated Financial Statements  
As at and for the three and nine months ended September 30, 2010  
(Unaudited)

**Note 16 Subsequent Event**

On October 27, 2010, the Corporation acquired PetroSouth Energy Corp. for cash consideration of \$1,500,000.