PETRODORADO ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS & YEAR ENDED DECEMBER 31, 2012

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 and year ended December 31, 2012, as compared to 2011, 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 consolidated financial statements as at and for the years ended December 31, 2012 and 2011 prepared in accordance with IFRS (as defined below), together with the accompanying notes. Additional information including the Company's annual information form for the year ended December 31, 2012 is on SEDAR at www.sedar.com or on the Company's website at 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 April 25, 2013.

NON-IFRS MEASURES

Funds generated from operations include all cash from operating activities and are calculated before the change in non-cash working capital. A reconciliation of cash provided by operating activities to funds from operations for the three months and years ended December 31, 2012 and 2011 are as follows:

Funds from operations ($)	Q4 2012	Q4 2011	Year 2012	Year 2011
Cash used in operating activities	(252,783)	(205,553)	(3,070,784)	(1,302,543)
Change in non-cash working capital	(390,221)	(215,911)	(143,901)	(430,239)
Funds used in operations	(643,004)	(421,464)	(3,214,685)	(1,732,782)

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 is primarily engaged in petroleum and natural gas exploration and development activities in Colombia. 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.

Petrodorado was formed to explore for and develop petroleum assets in South America, with an initial focus on Colombia, Peru and Paraguay. Its experienced management team have acquired a significant portfolio of assets with four lower-risk blocks (blocks that have an oil discovery) and five more highly prospective blocks. The Company evaluated approximately 55 blocks before selecting these final nine blocks. The Company exited Peru and Paraguay in 2012 and is actively pursuing assets in other jurisdictions to diversify its portfolio.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

At present, Petrodorado has beneficial participation in five oil and gas blocks. Multiple drilling prospects and leads have been identified in these blocks.

Colombia

Moriche Block

Petrodorado has an undivided 49.5% working interest in the Mauritia Este Prospect in the Moriche Block. The Mauritia Este Prospect consists of approximately 3,898 acres (net 1,930 acres) and is located in the Los Llanos basin of Colombia. During 2010, Petrodorado and the operator, Pacific Rubiales Energy Corp. ("PRE") successfully completed a discovery well, ME-1, as a Mirador producer on the Moriche block.

The ME-1 well tested at a peak rate of 693 bopd of 14 degree API oil and was put on production on June 18, 2010 at a gross rate of approximately 400 bbl/d (approximately 198 bbl/d net to Petrodorado). Production from ME-1 was shut down on December 4, 2011 due to a failure in the downhole pump. A remedial program was performed in March 2012 resulting in a return to production at a gross rate of approximately 131 bbl/d on April 17, 2012. Production was reduced as of May 2, 2012, due to issues with the surface equipment. This well was shut-in during the third quarter of 2012.

On March 20, 2013, Petrodorado executed a sale agreement with PRE in which the Company relinquishes the 49.5% working interest held in the Mauritia Este Prospect within the Moriche Block for total cash considerations of $3.5 million. The structure of this agreement constitutes that these cash considerations will be paid to the Company by way of pre-determined quarterly installment payments over the 2013 and 2014 calendar years, during which the purchaser of the block has the option to return the rights of the operation contract, under specific circumstances, to the operating partner (and to the Company) for a 90% return of considerations paid to date. Final assignment of ownership to the rights to the Moriche Block will not be completed until all conditions of the sale agreement are fulfilled and all installment payments are paid. Subsequent to year end, Petrodorado has received $1.0 million in installment payments with regards to this sale.

CPO-5 Block

On June 14, 2010 Petrodorado 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. This 492,341 acre block (net 147,702 acres) is located in the Los Llanos basin (Meta Department) and was awarded to ONGC in the 2008 Agencia Nacional de Hidrocarburos ("ANH") heavy oil bid round. The CPO-5 block is flanked in the North and North West by the recent discoveries by other operators in the blocks of Guatiquia (Candelilla Structure) and Corcel. Petrodorado received ANH approval of the assignment on October 1, 2010. Petrodorado has a commitment for 2013 which has been met subsequent to year end to drill one exploration well as well as three wells for the second phase of the ANH committed exploration program by 2015.

During 2010, the Company with its partners completed the acquisition of 650 square km of 3D seismic and 240 lineal km of 2D seismic. Seismic processing and interpretation has been completed. The block received its environmental license on August 1, 2012 which approves 15 sites, 3 wells per site, for a total of 45 wells.

The first of the two exploration wells to be drilled in 2012, the Kamal-1X well, was spudded on October 29, 2012 and reached a total depth of 10,500 feet in December 2012. The primary target of the Mirador zone encountered a net pay of 20 feet. This zone was tested using a coil tubing-nitrogen lift and yielded a peak rate of 210 barrels of oil a day of 14° API with high water cut. This test was performed to confirm hydrocarbon production and to determine the optimum placement of a jet pump and not to determine maximum production rates.

Subsequent to year end, the second of the two exploration wells, the Loto-1X well, spudded on January 22, 2013, and was drilled to a total measured depth of 10,500 feet. The Loto-1X well targeted the Mirador, Guadalupe and Une sands. Drilling has been completed, three conventional cores were obtained and logging operations have been concluded. Petrophysical evaluation supported by the conventional cores indicates that the target reservoir sands in the Tertiary, Mirador and Guadalupe formations are oil bearing. Well logs indicate total potential net pay of approximately 80 feet of high quality sand.

Presently, the well is being tested with results expected shortly.

Buganviles Block

Petrodorado has a varying working interest (30% to 59.5%) in the Buganviles Block located in the upper Magdalena basin of Colombia obtained through three separate transactions. The Buganviles Block consists of approximately 73,794 acres (net 43,907 acres).

In February 2010, Petrodorado obtained a 20% undivided working interest in the Buganviles Block through the purchase of all of the issued and outstanding shares of Holywell Resources S.A. ("Holywell") from a private vendor for the aggregate cash purchase price of approximately $6.3 million. Holywell was a private (Panama incorporated) oil & gas company with operations in Colombia, South America. The name Holywell was changed to Petrodorado South America S.A. ("Petrodorado SA") during the first quarter of 2010.

Prior thereto, in November 2009, Petrodorado entered in to a farm-in agreement with PRE to acquire a 29.5% working interest in the Visure prospect and 25% working interest in the Tuqueque prospect.
In addition, in September 2010, Petrodorado acquired an additional 10% working interest in the block through a farm-in agreement with Loon Energy Corp. The farm-in terms were satisfied with Petrodorado having paid 100% (20% net) of the drilling costs for the two exploration wells Visure 1X and Tuqueque 1X.

Overall Petrodorado's position in the block is as follows:

Visure Prospect	59.5%
Tuqueque Prospect	55%
Rest of the block	30%

The first of these exploration wells, the Visure-1X well, located in the Visure prospect to the south-eastern border of the Buganviles Block, was drilled in the fourth quarter of 2010 to evaluate a structural trap, similar to the nearby producing Abanico field, to the northeast. The well was tested in the Lower Guadalupe Formation at a stabilized average production rate of 46 bbl/d with 14 barrels of water per day ("bwpd"). Oil gravity was 15.6º API. The Visure-1X well was suspended, with different production techniques being evaluated, based on the production test analysis, in order to economically produce the oil encountered in the Lower Guadalupe Formation. A cyclic steam injection pilot is being planned for this well.

The second exploration well, the Tuqueque-1X well was spudded on November 4, 2010, with the Caballos formation at 11,300 feet as the primary target. The well was suspended after two side tracks to reach the Caballos formation at a depth of 9,303 feet. Two secondary target formations were identified as the Monsarrate and the Olini. Three intervals in the Olini were tested and did not produce significant hydrocarbons. The Monserrate is planned to be tested at a later date via a new drill up dip from the Tuqueque-1X location.

The operator has applied for a two year extension of the contract with a suggested work program given the current exploration license expired on June 30, 2012. As of April 25, 2013, an official response from the Colombian Government regarding the requested license extension has yet to be received. As such, the Company recognized impairments as of December 31, 2012, in relation to exploration and evaluation costs incurred within this exploration area. If the license extension is eventually received from the Colombia government, recovery of previously recorded impairments of these exploration and evaluation costs will be analyzed by management.

La Maye Block
Petrodorado has an undivided 20% working interest in an exploration and production contract with the ANH in the La Maye Block and an undivided 20% interest in four turn-key test wells and associated tie-in equipment. The La Maye Block is located in the Lower Magdalena Valley of Colombia and consists of approximately 73,956 acres (net 14,791 acres).

The Company has identified three additional drilling prospects on the La Maye Block with a probability of success set at 25%. Petrodorado Ltd. (the private subsidiary of Petrodorado), in conjunction with the operator, drilled the Noelia-1 well as the first exploration oil well on the La Maye Block in October of 2009. This first exploration well is expected to be tested as soon as the waters from the flooding recede. The Company has identified La Maye as non-core and is pursuing a sale process.

In 2009, Petrodorado Ltd. paid $3.5 million into an escrow account to satisfy its net commitment to the participation agreement. Petrodorado authorizes draws from this account as certain development milestones are met. As at December 31, 2012, $1,699,642 had been drawn from the escrow account leaving unspent restricted cash balance of $1,800,358.

Talora Block
Petrodorado initially earned a 55% interest in the Talora block located in the Upper Magdalena basin of Colombia. The Talora block consists of 58,905 acres (net 38,289 acres) southwest of Bogota, after the first relinquishment. In the fourth quarter of 2010, Petrodorado acquired an additional 20% interest from a third party and acquired PetroSouth Energy Ltd, which also owned a 20% interest, to increase its aggregate working interest to 95%. On October 16, 2011 Petrodorado executed a farmout agreement allocating a 30% working interest to Sintana Energy decreasing Petrodorado's overall working interest to

65%. The terms of the farmout included: 1) a bonus payment of $5.2 million; 2) the farmee paying 60% of first well costs up to a maximum of $3.9 million, with costs after the maximum to be paid at 30%; and 3) the farmee paying 45% of the second well costs up to a maximum of $2.925 million, with costs after the maximum to be paid at 30%. Petrodorado's interest, via a wholly owned subsidiary, has been approved by the ANH.

The Company acquired 122 km of 2D seismic data during the first quarter of 2010. The first exploration well, Verdal 1, targeting the Tetuan and Caballos formations, was spudded on September 15, 2010 and was completed in November 2010, after only reaching the Tetuan formation. The Tetuan formation tested at a peak rate of 770 thousand standard cubic feet per day (mscf/d), and the Company is evaluating advanced engineering solutions to increase this production rate.

ANH approved the extension of the Talora license in two areas. The first area called the "additional exploration" area has a commitment of one exploration well to be drilled by the end of January 2013, which was fulfilled with the drilling of the Dorados-1X well; the second area called the "exploitation" area has a commitment of one appraisal well to be drilled by the end of September 2013.

Petrodorado completed and tested the Dorados-1X well on the Talora Block in the Upper Magdalena Valley of Colombia. This exploratory well was spudded on July 31, 2012, reaching a total depth of 7,282 ft-measured depth ("MD") and testing conventional Upper and Lower Dorados sands in the Cretaceous sandstone. The main objectives were to reach the Cretaceous Caballos and Tetuan formations, but these formations were not found at the well location. However, an exceptionally thick Cretaceous-Cenomanian sand of 1,850 ft gross was found that had not been previously identified or reported in this basin.

Despite encountering what appeared to be a thick and well-defined gas and oil column with a possible basal water contact while drilling, the well testing results provided little information due to what appears to be significant formation damage. The post-drill well testing program proved the sand section to be a low pressure reservoir system with significant formation damage and evidence that the oil has been emulsified. Petrodorado is currently performing geochemical analysis to determine reservoir potential.

After an evaluation of the results, future plans will include a new undamaged borehole (either by way of sidetrack hole or twin well) designed to overcome the sensitivity of this reservoir to formation damage due to low-pressure conditions, which is common in this part of the basin, in order to further evaluate the Dorados structure, a large thrust anticline with 4-way closure with a potential thick reservoir section. Petrodorado also takes into consideration that Dorados sands present better pressure regime than the nearby Guando Oil Field (126 MMBO recoverable) located 40 km to the southeast of the Dorados-1X well. Plans are also underway to gather relevant data to evaluate the non-conventional target in the fractured oil shale of the Cretaceous La Luna oil source rock at the earliest possible opportunity.

Tacacho Block

In January 2010, Petrodorado acquired a 49.5% working interest in the Tacacho Block located in the Putumayo Basin of Colombia. The Tacacho block measures approximately 598,008 acres (net 296,014 acres) and is located in the foreland basin of the Putumayo mountain range, in the Eastern Cordillera area of Colombia. PRE has a 50.5% working interest in the block. The 24 month-long exploration program includes the acquisition, processing and interpretation of 521 kilometres of 2D seismic data. ANH issued a six month extension to the 24 month period. Initial environmental assessments are underway for the seismic program. The commencement of the seismic acquisition is planned for the fourth quarter of 2013. The operator has informed Petrodorado that they have decided to reschedule the planned stratigraphic well until evaluation of the new seismic data is completed.

Peru

Block 135 and 138

In February 2010, Petrodorado signed a definitive agreement with PRE to farm-in on two exploration blocks in Peru being Blocks 135 and 138.

The Company held beneficial working interest in Peru Blocks 135 and 138 until 2012. The Company has divested the beneficial working interest in Blocks 135 and 138 in 2012 for a sum of $15.3 million. The Company received these funds in 2012 and has no further interest in these blocks.

Paraguay

Pirity Block

Through a non-binding letter of intent with a private US based company dated September 23, 2009, Petrodorado has the opportunity to negotiate definitive agreements granting Petrodorado up to an undivided 60% working interest in a concession contract with the Government of the Republic of Paraguay in the Pirity Block. The Pirity Block consists of approximately 2,000,000 acres (net 1,200,000 acres) and is located in the Western Region of Paraguay.

Due to recent political upheaval with Paraguay as well as other complications, the Company has withdrawn from the Pirity Block and has no further interest in this block.

COMMITMENT SUMMARY

The expenditures provided in the table below represent the Company's estimated cost to satisfy contractual commitments. Actual expenditures to satisfy these commitments, initiate production or create reserves may differ from these estimates.

Block/Country	Interest	2013	2014	2015	2016	Total
Talora, Colombia (1)	65%	5.5	-	-	-	5.5
Tacacho, Colombia (2)	49.5%	9.3	9.0	-	-	18.3
CPO-5, Colombia (3)	30.0%	2.4	-	3.6	-	6.0
La Maye, Colombia (4)	20.0%	0.3	1.5	-	-	1.8
Total		**17.5**	**10.5**	**3.6**	**-**	**31.6**

1) Net commitment represents 1 well required by September 2013.
2) Petrodorado commitment to acquire and process 480 km^2 of 2D seismic data (to pay 100% of costs up to a maximum of $8 million, 49.5% of costs thereafter).
3) Includes Petrodorado's 30% share of the ANH commitment of 1 exploration well in 2013 and 3 exploration wells for the second phase of the exploration program by 2015.
4) Net commitment represents completion of Phase 1 (testing of Noelia-1 well) and execution of Phase 2 (drilling & testing of additional well). These expenditures are funded through the designated escrow account in restricted cash.

DISCUSSION OF OPERATING RESULTS

Revenue

During the three months and year ended December 31, 2012 the Company generated oil and gas revenues of nil and $111,429, respectively, net of royalties. To date, all oil and gas revenue realized by the Company has been on account of oil and gas production from the ME-1 well of the Moriche Block. Oil and gas production was suspended during the three months ended March 31, 2012, due to required workover maintenance, with production resuming in the second quarter of 2012. However, this well was shut-in during the third quarter of 2012. Overall 2012 revenue was the result of the sale of 1,020 barrels of oil at an average sales price of $109 per barrel of oil. During the three months and year ended December 31, 2011, the Company generated oil and gas revenues of $453,395 and $3,740,806, respectively, net of royalties. At an agreed upon sales price of $112 per barrel of oil, this equates to 4,478 and 35,187 barrels of oil sold for the three months and year ended December 31, 2011, respectively.

In addition, interest revenue on cash balances and short-term investments was $142,654 and $178,262 for the three months ended December 31, 2012 and 2011, respectively, and $596,795 and $423,735 for the year ended December 31, 2012 and 2011, respectively. The increase in interest revenue is primarily due to interest being earned during the entire 2012 year on equity funds of $34 million which were raised in March 2011, and are being utilized for operations and capital expenditures. Moreover, an additional $15 million was acquired in July 2012 on account of the Company's divestiture of its participation interest in Peru Blocks 135 and 138, upon which interest revenue was earned during the latter part of 2012. The decrease in interest revenue for the three months ended December 31, 2012 compared to December 31, 2011 is primarily due to a decrease in the cash balance during the three months ended December 31, 2012 period, due to increased capital activity in the latter part of 2012.

Revenue ($)	Q4 2012	Q4 2011	Year 2012	Year 2011
Oil and gas sales, net of royalties	-	453,395	111,429	3,740,806
Interest and other	142,654	178,262	596,795	423,735
Total Revenue	142,654	631,657	708,224	4,164,541

Total production from the ME-1 well, net to Petrodorado, for the three months and year ended December 31, 2012, was nil bbls and 1,020 bbls (4,478 bbls and 30,370 bbls for the comparative periods to December 31, 2011), respectively. No inventory was recorded as of the periods ended December 31, 2011 and 2012. Production from the ME-1 well is shipped via truck and pipeline to oil storage facilities located on the Northwest coast of Colombia pending sales, which occur on an infrequent basis.

Operating Costs

During the three months and year ended December 31, 2012, the Company incurred operating costs, including transportation, of $(6,469) and $424,643, respectively ($574,804 and $1,330,679 for the three months and year ended December 31, 2011, respectively). These are due to expenses incurred regarding the ME-1 well. The 2012 and 2011 operating expenses are due to production-related expenses incurred regarding the ME-1 well, as well as costs incurred in 2012 related to the workover maintenance performed on the ME-1 well. The overall reduction of operating costs for the three months ended December 31, 2012, are due to subsequent credit adjustments by the operator of the ME-1 well in 2012.

Impairment Loss

During the years ended December 31, 2011 and 2012, the Company recognized impairments relating to the Moriche cash generating unit ("CGU") of $4.4 million and $284,000, respectively. These impairments were the result of the difference between the period-end net book value of the Moriche CGU and the assessed recoverable amount at each respective year end. The recoverable amount was determined based on fair value less costs to sell. Fair value measurements were derived based on market information for the Moriche CGU. Following completion of the write-down, the CGU had a carrying value of approximately $3.6 million.

During the year ended December 31, 2012, the Company recognized impairments of $18,735,892 in relation to exploration and evaluation costs incurred within an exploration area for which the exploration license has expired as of June 30, 2012. The Company has applied and is awaiting approval from the Colombian government on an extension to the exploration license, but an official response from the Colombian government regarding the requested license extension has yet to be received. If the license extension is eventually received from the Colombia government, recovery of previously recorded impairments of these exploration and evaluation costs will be analyzed by management.

General and Administrative Expenses

General and administrative expenses ("G&A") for the three months and year ended December 31, 2012 were $1,084,250 and $2,821,617, respectively ($985,224 and $3,698,816 for the three months and year ended December 31, 2011, respectively). The decrease in G&A for the year ended December 31, 2012, when compared to the same period to December 31, 2011, is primarily due to a reduction in investor relations activity and overall professional fees incurred in 2012 as well as administrative cost recoveries realized as operator of the exploratory activities of the Dorado-1X well in the Talora block. The increase in G&A for the three months ended December 31, 2012 is primarily due to an increase in professional fees and general operating costs incurred in the quarter when compared to the costs incurred for the same quarter in 2011, partially offset by administrative cost recoveries realized as operator of the Dorado-1X well in the Talora block. Petrodorado budgeted $4.0 million for G&A expenses for the 2012 year ($5 million for the 2011 year). G&A was $2.8 million for the year ended December 31, 2012, an improvement over budget of $1.2 million.

General and Administrative Expenses ($)	Q4 2012	Q4 2011	Year 2012	Year 2011
Professional Fees	134,846	79,763	563,290	903,482
Wages & Salaries	285,771	351,395	1,076,753	1,299,365
Fees, Rent, Investor Relations and Other	663,733	554,066	1,181,574	1,495,969
Total	1,084,350	985,224	2,821,617	3,698,816

Gain on Divestiture

On account of the divestiture of the Company's beneficial interest in Peru Blocks 135 and 138, a gain on divestiture was realized. This is derived from proceeds of $15,253,288 received as part of the divestiture agreement, which resulted in a gain on divestiture of $4,752,650 based on exploration and evaluation assets for Peru of $11,092,844 and the extinguishment of related liabilities of $592,206.

Finance Costs

During the three months and year ended December 31, 2012, the Company incurred $33,589 and $161,540, respectively ($46,905 and $205,233 for the three months and year ended December 31, 2011, respectively), in finance costs due to the recording of accretion expense on provisions related to decommissioning obligations and equity tax payable (as explained below).

Finance Costs ($)	Q4 2012	Q4 2011	Year 2012	Year 2011
Accretion of decommissioning obligations	5,655	4,572	19,840	21,172
Accretion of equity tax payable	27,934	42,333	141,700	184,061
Total	33,589	46,905	161,540	205,233

Foreign Exchange Loss (Gain)

The Company generated a foreign exchange gain of $1,296,737 and a foreign exchange loss of $1,712,837 for the three months and year ended December 31, 2012, and a foreign exchange loss of $1,132,714 and a foreign exchange gain of $2,488,377 for the comparative periods to December 31, 2011, respectively. The loss for the year ended December 31, 2012, is due to a decrease in the value of the US dollar when compared to the Canadian dollar and Colombian peso. Conversely, the gain that occurred for the year ended December 31, 2011 was due to a decrease of the Canadian dollar and Colombian peso relative to the US dollar.

Equity Tax Expense

The Colombian Congress passed a law, effective January 1, 2011, which imposed a one-time 6% equity tax levied on Colombian operations. In 2011, the Company recognized an equity tax expense of $2,580,852 which is based on the Company's net worth in Colombia at January 1, 2011 and is payable in eight equal instalments between 2011 and 2014. The tax amount recognized is calculated by discounting the future instalment payments by the credit-adjusted risk-free rate of 8%. The accretion is expensed to finance costs as the discount unwinds as the liability approaches total payment. The Company had two payments for a total of $788,079 during the year ended December 31, 2012.

Stock-Based Compensation

For the year ended December 31, 2012, the Company recorded stock-based compensation of $1,625,033 ($2,520,162 for the year ended to December 31, 2011), of which $297,632 were capitalized in exploration and evaluation assets and property, plant and equipment ($467,140 for the year ended to December 31, 2011).

The stock-based compensation arose due to a total of 10,980,000 and 30,000,000 options being granted during the year ended December 31, 2011 and 2010, respectively, and 5,685,000 options being granted during the year ended December 31, 2012. The decrease in stock-based compensation expense is primarily due to the forfeiture of options during the three months ended March 31, 2012 that were previously granted to an exiting officer as well as the final vesting of 28,000,000 options in January 2012 granted in 2010.

On August 28, 2012, at the Company's annual general meeting, the resolution to re-price 13,980,000 outstanding options to acquire common shares with a price exceeding CDN $0.25 per common share currently held by employees, non-director officers, and consultants, to a price of CDN $0.25 per common share was approved by disinterested shareholders. All other terms for these options (vesting periods, expiry, etc.) were not modified as part of this re-pricing. As such, the amended options had a weighted average expiry term of 2.75 years as of the date of the re-pricing.

The overall weighted average incremental fair value granted on account of the re-pricing of the 13,980,000 options was measured using the Black-Scholes option pricing model to estimate the incremental increase in fair value of these options due to the modification of exercise price. Overall, the weighted average fair value calculated for these re-priced options as of the measurement date of August 28, 2012, was CDN $0.089. This fair value was calculated based on the weighted average assumptions of a share price of CDN $0.19, an exercise price of CDN $0.25, expected stock price volatility of 87% (based on volatility of the historical share price to date), risk-free interest rate of 1.18%, expected dividend yield of 0%, and an expected option life of 2.75 years. The incremental fair value granted was computed based on the difference in the modified exercise price (from a weighted average of $0.49 per option to $0.25 per option) while using the same weighted average assumptions that existed as previously mentioned. The resulting weighted average incremental fair value granted on account of this re-pricing was $0.0275 per option, which computed to $385,972 of additional stock-based compensation, $232,982 being expensed and $152,990 being capitalized.

Stock-based compensation on options granted during the year ended December 31, 2012, was calculated using the Black-Scholes pricing model using a risk free rate of 1.25% to 1.34%, volatility of 85% to 88%, an expected life of five years, a forfeiture rate of 10% and a zero dividend yield. The resulting fair values of options granted were in a range from CDN$0.106 to CDN$0.162.

Stock-Based Compensation ($)	**Year 2012**	**Year 2011**
Expensed	1,327,401	2,053,022
Capitalized	297,632	467,140
Total (to Contributed Surplus)	1,625,033	2,520,162

Depletion and Depreciation

For the three months and year ended December 31, 2012, the Company recorded depletion and depreciation expense of $10,512 and $174,337, respectively ($161,835 and $1,130,824 for the comparative periods to December 31, 2011). Expenses recorded in each of these time periods consist of depreciation of general fixed assets held by the Company and depletion of oil and gas properties. The decrease in the year ended December 31, 2012 depletion when compared to the year ended December 31, 2011 depletion was primarily due to the overall decrease in oil production (1,020 bbls in 2012, 30,370 bbls in 2011) with no inventory on hand in 2012 or 2011. Depletion is calculated on developed properties of the Moriche Block in Colombia for 2012 and 2011 based on oil and gas production from estimated oil and gas reserves.

Net Loss and Comprehensive Loss

For the three months and year ended December 31, 2012, the Company generated net losses of $19,096,885 and $20,181,393, respectively (net losses of $3,455,890 and $8,746,508 for comparative periods to December 31, 2011), and comprehensive losses of $20,459,040 and $17,657,062, respectively (comprehensive losses of $995,528 and $11,982,250 for the same periods to December 31, 2011).

The increase in the loss in the three months ended December 31, 2012 when compared to the prior period arises primarily on account of the impairment of $18,735,892 on exploration and evaluation assets and $284,000 on oil and gas properties recognized in Q4 2012 and the recognition of $453,595 in oil and gas revenue in Q4 2011 (nil in Q4 2012). Offsetting factors to the increased loss between the comparative periods are the significantly lower operating expenses, stock-based compensation expenses, and depletion and depreciation expenses, while foreign exchange results in these comparative quarters contrasted significantly (foreign exchange gain in Q4 2012 due to the strengthening of the US dollar, foreign exchange loss in Q4 2011 due to the weakening of the US dollar).

The increase in loss in the year ended December 31, 2012 when compared to the prior period is due to the same factors that affected the comparative Q4 periods (substantially larger impairment loss in 2012 and significantly more oil and gas revenue in 2011, with offsetting factors of noticeably decreased operating, stock-based compensation, and depletion and depreciation expenses in 2012). An additional factor that somewhat offsets the large impairment loss in 2012 is the $4.8 million gain on divestiture of the Peru assets. However, foreign exchange differences also contribute to the greater loss in 2012 due to the contrasting foreign exchange loss in 2012 and foreign exchange gain in 2011. Each is on account of opposing movements in the strength of the US dollar when compared to the Canadian dollar and Colombian peso (strengthening in the 2011 year, weakening in the 2012 year).

Funds from Operations

For the three months and year ended December 31, 2012, the Company used funds in operations of $643,004 and $3,214,685, respectively (funds used in operations of $421,464 and $1,732,782 for the comparative periods to December 31, 2011). The increase in funds used in operations relates primarily to the decrease of revenue in 2012 offset partially by the decrease in operating, general and administrative, and finance expenses in 2012.

CAPITAL EXPENDITURES

For the years ended December 31, 2012 and 2011, the Company spent $18.6 million and $21.1 million, respectively, in exploration and evaluation capital expenditures.

For the expenditures in the year ended December 31, 2012, the Company spent $7.4 million in CPO-5 in the drilling program of the Kamal-1X well. The Company performed environmental and security work for $1.2 million in Tacacho. The Company also executed the drilling program with the Dorados-1X well for $9.3 million.

Prior to the divestiture of Peru 135 and 138, the Company had completed 2D seismic work for $721,000 in Peru 138 and $48,000 in Peru 135. These expenditures were recovered through the proceeds received as part of the divestiture agreement previously mentioned.

For the year ended December 31, 2012, the Company capitalized $409,862 of general and administrative expenses (December 31, 2011 - $552,128) and $297,632 of stock-based compensation (December 31, 2011 - $467,140) to exploration and evaluation assets. As at December 31, 2012, exploration and evaluation assets include $2,159,786 (December 31, 2011 - $1,752,488) in capitalized Value-Added Tax. The Company does not hold any tangible exploration assets.

For capital expenditures in property, plant and equipment, the Company spent $71,000 and $564,000 for the years ended December 31, 2012 and 2011, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's approach to managing liquidity is to ensure a balance between capital expenditure requirements and cash provided by operations, available credit facilities and working capital. As at December 31, 2012 the Company had working capital of $38.0 million (up from $35.8 million at December 31, 2011) comprised primarily of short term investments. The increase in working capital is primarily due to funds of $15.3 million received as proceeds in the divestiture of the Company's beneficial interest in blocks Peru 135 and 138, partially offset by ongoing exploration and evaluation capital expenditures. As at December 31, 2012 the Company also has $5.6 million of non-current restricted cash. This working capital and non-current restricted cash will be used to fund exploration and development activities on Petrodorado's oil and gas properties and for general corporate purposes. The Company has total capital resources of $43.6 million to fund exploration, development activities and operating expenses.

The Company is pursuing its strategy of focusing on its high impact exploration blocks in 2013, by executing an exploration drilling program and acquiring over 1,000 km of 2D seismic through a fully funded budget of approximately $21.2 million for the 2013 year. Included within this plan are amounts required to meet contract commitments as outlined in the "Commitment Summary" section.

During the 2012 year, the Company had a $5 million revolving demand loan facility (the "Credit Facility") with a Canadian chartered bank (the "Lender"). The Credit Facility was available by way of account overdraft in US dollars or by letters of credit up to $4.8 million and was secured by security agreement over a deposit instrument in the amount of $5,010,646. In conjunction with this Credit Facility, on July 7, 2010, a letter of credit for $4.8 million was issued under the credit facility to guarantee the Company's drilling obligations with ONGC Videsh Ltd. on the CPO-5 Block on Colombia. On September 25, 2012, this letter of credit expired and the associated Credit Facility was terminated with the Lender. However, the Company maintained the deposit instrument until such time that it was utilized for the funding of drilling obligations on the CPO-5 Block which were realized subsequent to year end.

On December 21, 2010, a further $3.0 million letter of credit was issued through a Colombian bank to the ANH in respect of the drilling obligations on this CPO-5 Block. This letter of credit is secured by a $3,121,536 term deposit made at the Colombian bank.

A $403,920 letter of credit was issued through a Colombian bank on December 20, 2010 to ANH to guarantee the Company's capital expenditure obligations with its partner, PRE, in the Tacacho Block. This letter of credit is secured by a $421,407 term deposit made at the Colombian bank.

The Company's oil and gas interests are in the early production stage and the Company has only determined whether its petroleum and natural gas properties contain reserves that are economically recoverable on one of its Blocks to date, namely Moriche, which has been sold. 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 on the remaining blocks, the political stability of Colombia and the ability of the Company to secure adequate sources of financing to fund the development of its assets and put them into production and then achieve future profitable production. The outcome of these matters cannot be predicted with certainty at this time.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The carrying values of the Company’s financial instruments, consisting of cash and cash equivalents, short-term investments, cash calls receivable, accounts receivable, restricted cash, other receivables, accounts payable and accrued liabilities, approximate their fair values due to the short-term maturity of such instruments. The equity tax payable balance was recorded at discounted value, due to its long term maturity, which represents its fair value at such date. 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

At December 31, 2012, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared.

	Common shares	Amount
Balance, January 1, 2011	415,589,017	$ 62,975,253
Warrants exercised for cash	13,058,049	4,611,901
Transfer of assigned fair value from warrants	-	1,401,941
Shares issued for cash	53,900,000	35,935,400
Share issue costs	-	(2,006,160)
Balance, December 31, 2011 and 2012	482,547,066	$ 102,918,335

Warrants

As of December 3, 2012, the remaining warrants, exercisable at a price of CDN $0.35 per share, expired. The book value of these warrants was $19,412,050 at expiration, which was reclassified into contributed surplus.

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:

	Number of options	Weighted average exercise price (CDN$)
Balance, January 1, 2011	28,666,667	$ 0.49
Options issued	10,980,000	0.36
Expired options	(1,000,001)	0.49
Forfeitures	(666,666)	0.49
Balance, December 31, 2011	37,980,000	$ 0.45
Options issued	5,685,000	0.20
Expired options	(666,667)	0.73
Forfeitures	(1,333,333)	0.55
Stock options amended (old price)	(13,980,000)	0.49
Stock options amended (new price)	13,980,000	0.25
Balance, December 31, 2012	41,665,000	$ 0.33
Exercisable, December 31, 2012	**34,548,327**	**$ 0.35**

On February 1, 2012, the Company granted 750,000 options to acquire common shares to a new officer, at a price of CDN $0.25 per common share. The options are for a five year term, expiring on February 1, 2017, and vest one-third on February 1, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On March 30, 2012, the Company granted 435,000 options to acquire common shares to two employees, at a price of CDN $0.25 per common share. The options are for a five year term, expiring on March 30, 2017 and vest one-third on March 30, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On August 29, 2012, the Company granted 750,000 options to acquire common shares to six employees, at a price of CDN $0.25 per common share. The options are for a five year term, expiring on August 29, 2017 and vest one-third on August 29, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On October 17, 2012, the Company granted 3,750,000 options to acquire common shares to certain directors, officers, employees and consultants, at a price of CDN $0.17 per common share. The options are for a five year term, expiring on October 17, 2017 and vest one-third on October 17, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. Of the options previously granted to exiting officers and consultants, 333,333 were forfeited and another 666,667 expired on January 12, 2012, and another 1,000,000 were forfeited on August 12, 2012.

As explained previously, on August 28, 2012, at the Company's annual general meeting, the resolution to re-price 13,980,000 outstanding options to acquire common shares with a price exceeding CDN $0.25 per common share currently held by employees, non-director officers, and consultants, to a price of CDN $0.25 per common share was approved by disinterested shareholders. All other terms for these options (vesting periods, expiry, etc.) were not modified as part of this re-pricing. As such, the amended options had a weighted average expiry term of 2.75 years as of the date of the re-pricing.

	Common Shares	Warrants	Stock Options
As at April 25, 2013	482,547,066	-	41,665,000

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.

Financial Instruments

IFRS 9 Financial instruments ("IFRS 9") will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS requires an entity that is a parent to present consolidated financial statements, defines the principle of control and establishes control as the basis for determining which entities are consolidated. IFRS supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

Joint Arrangements

IFRS 11 Joint Arrangements establishes principles for financial reporting by parties to a joint arrangement. This IFRS requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and classifies joint arrangements into two types: joint operations and joint ventures. This IFRS requires joint operations to be accounted for recognizing and measuring the assets and liabilities (and recognizing the related revenues and expenses) on a proportionate basis in relation to its interest in the arrangement, whereas the standard requires joint ventures to be accounted using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers and is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

Disclosure of Interest in Other Entities

IFRS 12 Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This IFRS requires an entity to disclose information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurement

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. This IFRS applies to IFRSs that require or permit fair value measurements, or disclosures about fair value measurements, and it does not require fair value measurements in addition to those already required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

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 petroleum and natural gas 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.

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, 2012 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.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A offers our assessment of the Company’s future plans and operations as of April 25, 2013 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 the oil reserves and resources,
- the Company's drilling plans,
- capital expenditure programs and estimates, including the timing of activity,
- the Company's 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 and bank lending facility 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 Company's future ability to market production of oil successfully to customers,
- the Company's future production levels and oil prices,
- the applicability of technologies for recovery and production of the Company's oil reserves,
- the existence and recoverability of any oil reserves,
- geological and engineering estimates in respect of the Company's resources and reserves,
- the geography of the areas in which the Company is exploring, 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 rates 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 Company's 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 Company or 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
- the other factors discussed under "Principal Business Risks" in this MD&A.

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.

KEY FINANCIAL RESULTS

The following table summarizes Petrodorado's key financial results over the past three years:

	Year 2012	Year 2011	Year 2010
Oil and gas revenue	111,429	3,740,806	1,216,499
Total revenue	708,224	4,164,541	1,397,079
Total loss	(20,181,393)	(8,746,508)	(11,210,112)
Loss per share - basic and diluted	(0.04)	(0.02)	(0.03)
Working capital	38,033,211	35,835,451	20,809,468
Total assets	111,376,288	117,484,383	85,637,600
Total non-current liabilities	1,492,060	1,870,515	742,605

Petrodorado's oil and gas revenue, cash provided by (used in) operations, funds used in operations and net income are all impacted by oil production levels. As the Company is still primarily in the exploratory phase for the majority of its oil and gas prospects, oil and gas production only commenced in 2010 and was shut-in in 2012. Primary operating and general and administrative expenses within the Company have remained relatively consistent over the 2010, 2011, and 2012 years, as further discussed below.

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.

	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Total revenue	$ 142,654	$ 140,006	$ 217,194	$ 208,370
Net income (loss)	(19,096,885)	1,040,883	486,532	(2,611,923)
Comprehensive income (loss)	(20,459,040)	5,177,759	(1,832,773)	(543,008)
Net income (loss) per share (basic & diluted)	(0.04)	0.00	0.00	(0.01)

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Total revenue	$ 631,657	$ 1,115,228	$ 2,393,452	$ 24,204
Net income (loss)	(3,455,890)	2,820,055	(2,636,055)	(5,474,618)
Comprehensive income (loss)	(995,528)	(5,981,662)	(1,686,082)	(3,318,978)
Net income (loss) per share (basic & diluted)	(0.01)	0.01	(0.01)	(0.01)

Revenue recorded is primarily based on the timing of oil and gas sales. In Q1 2011, the Company did not have any oil and gas revenues as the production was stored until it could be taken to market. In Q2 2011, the Company generated oil and gas revenues of $2,270,162 as a result of the sale of 20,269 barrels of oil (total production on hand to date) at an agreed upon sales price of $112 per barrel. In Q3

2011, the Company generated oil and gas revenues of $1,017,249 as a result of the sale of 9,432 barrels of oil (total production on hand) at a settled price of $112 per barrel. In Q4 2011, the Company generated oil and gas revenues of $453,395 (net of royalties) as a result of the sale of 4,478 barrels of oil (total production on hand) at a settled price of $112 per barrel. The decrease in quarterly revenue of $563,854 from Q3 2011 to Q4 2011 was due to a decrease in production of 4,954 barrels of oil when comparing the two periods. Oil and gas sales were not realized in Q1 2012 given there was no oil and gas production in the quarter. In Q2 2012, the Company generated oil and gas revenues of $111,429 as a result of the sale of 1,020 barrels of oil at an average sales price of $112 per barrel. Oil and gas sales were not realized in Q3 2012 and Q4 2012 given there was no oil and gas production in these quarters. Overall, the decrease in 2012 quarterly oil and gas revenue is due to the significant reduction of oil production from the Company's only producing well (ME-1).

Fluctuations in quarter-to-quarter net income (loss) are primarily on account of varying foreign exchange rates (with resulting foreign exchange gains/losses recorded) as well as the timing of oil and gas sales throughout the fiscal year (see previous paragraph). Q1 2011 and Q2 2011 incurred similar foreign exchange losses at $1,442,367 and $1,567,387, as foreign exchange rate movements were consistent quarter over quarter due to a continually weakening US dollar. Q3 2011 experienced large fluctuations in foreign exchanges rates as the US dollar strengthened considerably resulting in a foreign exchange gain of $6,630,846 for the three-month period. In Q4 2011, the Company recorded a foreign exchange loss of $1,258,213; this was due to the strengthening of the Canadian dollar and Colombian peso compared to the US dollar in the quarter. In Q1 2012, the continued weakening of the US dollar resulted in further foreign exchange loss of $1,493,155. In contrast, the US dollar strengthened significantly in Q2 2012, resulting in a noticeable foreign exchange gain of $1,503,052 for the quarter. In Q3 2012, a return to a weakening US dollar resulted in a foreign exchange loss of $3,019,471, only being offset by the recorded gain on divestiture of $4,752,650 due to the divestiture of Peru assets. Q4 2012 experienced a foreign exchange gain of $1,296,737 as the US dollar strengthened marginally against the Canadian dollar and had no significant change in strength when compared to the Colombian peso. Furthermore, impairment losses of $19,019,892 ($18,735,892 of exploration and evaluation assets, $284,000 of property, plant and equipment) were also recognized in Q4 2012, contributing to the overall loss in the quarter.

OUTLOOK

The Company's capital program in 2013 will be $21.2 million, fully funded from current working capital within the Company. The work program and budget is expected to include the following:

- Drilling of the Dorados-1X side track well.
- Drilling of 1 exploration well in the CPO-5 Block.
- Acquiring and processing 480 km^2 of 2D seismic data on the Tacacho Block
- Pending the recession of flood waters in the Lower Magdalena Valley, testing of the Noelia-1 exploration well and drilling of 1 additional exploration well in the La Maye Block.
- Continuing with the environmental stewardship and social initiatives in our area of operations.