PETRODORADO ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 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 ended March 31, 2012, as compared to the three month period ended March 31, 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 unaudited interim condensed consolidated financial statements as at and for the three month period ended March 31, 2012 and 2011 prepared in accordance with IFRS (as defined below), together with the accompanying notes and the audited consolidated financial statements and related notes and MD&A as at and for the year ended December 31, 2011. Additional information, including the Company's annual information form for the year ended December 31, 2011, 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 May 25, 2012.

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 used in operating activities to funds used in operations for the periods ended March 31, 2012 and 2011 are as follows:

Funds from operations	**Q1 2012**	**Q1 2011**
Cash used in operating activities	(710,557)	(1,361,839)
Change in non-cash working capital	120,691	565,206
Funds used in operations	(589,866)	(796,633)

The non-IFRS measure referred to above does not have any standardized meaning prescribed by IFRS or previous generally accepted accounting principles ("GAAP") 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, Peru and Paraguay. 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.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

At present, Petrodorado has beneficial participation in nine 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, and increasing. The well is expected to reach stabilised rates in approximately 12 weeks. Given that this asset has a Letter of Intent ("LOI") signed for its sale, the costs of this remedial program were borne jointly by the seller group (PRE and Petrodorado) and the buyer group.

The Company authorized the operator (PRE) to represent the Company during the sale process initiated by the operator; this process began during the fourth quarter of 2011. An LOI was signed by the operator for the sale of Moriche during the first quarter of 2012. The operator is also selling additional acreage to the same buyer as part of a consolidated sale and these terms are being finalized.

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.

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 operator is expecting to receive environmental approval shortly from the authorities to initiate the exploration drilling of 5 wells.

The block at present is awaiting environmental license approval to start the drilling of the 5 wells. The Environmental ministry requested additional data from the operator which was submitted on March 1, 2012. As per the ministry guidelines, they should take a maximum of 25 business days to issue the license. However in Colombia if the ministry does not issue the license, the operator has very limited recourse.

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 and 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 (at present, the expiry date is June 30, 2012) with a suggested work program. This work program has been accepted by Ecopetrol S.A. and they are at present applying to the ANH to get this extension. Management considers the likelihood of this extension to be probable given Ecopetrol's success rate of acquiring contract extensions from the ANH as well as the favorable indications provided by PRE, the operator of the Buganviles Block, regarding their expectations for this extension. In the event the license is not extended, $12,240,784 of exploration and evaluation costs incurred would be considered impaired.

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 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 subsequent to year end.

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 March 31, 2012, $1,699,582 had been drawn from the escrow account leaving an unspent restricted cash balance of $1,800,418.

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 reaching the Tetuan formation only. 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.

An exploration well targeting the Caballos is planned for the second quarter of 2012. 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; the second area called the "exploitation" area has a commitment of one appraisal well to be drilled by the end of January 2013. The exploration well "Dorados-1X" is planned to be spud shortly.

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 to be completed during the first half of 2012. Initial environmental assessments are underway for the seismic program. Seismic acquisition is planned for the second half of 2012. In addition, a stratigraphic well is planned for this block for the second half of 2012 to improve the evaluation of the geology and seismic interpretation.

Peru

In February 2010, Petrodorado signed a definitive agreement with PRE to farm-in on two exploration blocks in Peru. The working interests in Blocks 135 and 138 are subject to Peruvian government and/or regulatory approvals.

Block 135

Petrodorado has acquired a 45% working interest in Block 135 located in the Maranon Basin of Peru with a gross area of approximately 2,521,440 acres (net 1,134,648 acres). In exchange for this working interest, Petrodorado will fund 45% of the total investment for the second exploratory phase for the block. PRE will retain a 55% working interest in the block. To date, Petrodorado and PRE have identified two drilling prospects on Block 135 and have set the probability of success at 12%.

The operator received the environmental clearances and is presently planning seismic acquisition for 2012.

Block 138

Petrodorado has acquired a 45% working interest in Block 138 located in the Ucayali Basin of Peru with a gross area of approximately 1,023,561 acres (net 460,602 acres). In exchange for this working interest, Petrodorado will fund 45% of the total investment for the second exploratory phase for the block. PRE will retain a 55% working interest in the block.

The 2D seismic program of 558 km has been completed including processing and interpretation and 6 preliminary prospects have been identified, 3 each in Cretaceous and Palaeozoic, respectively. An exploration well is planned for 2012.

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.

Based upon available information, Petrodorado has identified three drilling prospects and one drilling lead on the Pirity Block. Petrodorado has set the probability of success at 15%.

COMMITMENT SUMMARY

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

Block/Country	Interest	2012	2013	2014	2015	Total
Talora, Colombia (1)	65%	-	3.9	-	-	3.9
Tacacho, Colombia (2)	49.5%	7.4	-	-	-	7.4
CPO-5, Colombia (3)	30.0%	4.8	-	-	3.6	8.4
Block 135, Peru (4)	45%	10	-	-	-	10
Buganviles(5)	55%	-	-	3.0	-	3.0
Total		**22.2**	**3.9**	**3.0**	**3.6**	**32.7**

1) Net commitment represents 2 wells required by 2013.
2) Petrodorado to pay 100% of costs to acquire and process 480 km^2 of 2D seismic data (up to a maximum of US $8 million).
3) Includes Petrodorado's 30% share of 2 exploration wells in 2012 and 30% share of the second phase of the exploration program by 2015.
4) Petrodorado to pay 45% of the second exploration phase of the block. The Commitment amount represents currently budgeted cost to gather and process 400 km of seismic data.
5) The operator has submitted a license extension of 2 years to Ecopetrol S.A. with a corresponding work commitment. The present license expires in June 2012 and once the extension is approved there will be a corresponding work commitment for 35 km^2 of 3D seismic data (up to a maximum of US$3 million).

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

DISCUSSION OF OPERATING RESULTS

Revenue

During the three months ended March 31, 2012 and 2011 the Company generated no oil and gas revenues ($3,740,806 for the year 2011). 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. Oil and gas production obtained during the three months ended March 31, 2011, was added to inventory during the period as it had not been sold.

In addition, interest revenue on cash balances and short-term investments was $208,370 and $24,204 for the three months ended March 31, 2012 and 2011, respectively ($423,735 for the year 2011). The increase in interest revenue is primarily due to interest being earned during the period ended March 31, 2012 on equity funds of $34 million which were raised in March 2011, and are being utilized for operations and capital expenditures.

Revenue ($)	Q1 2012	Q1 2011	Year 2011
Oil and gas sales, net of royalties	-	-	3,740,806
Interest and other	208,370	24,204	423,735
Total Revenue	208,370	24,204	4,164,541

Total production from the ME-1 well, net to Petrodorado, for the three months ended March 31, 2012 and 2011, was nil bbls and 11,552 bbls, respectively. 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. As of December 4, 2011, production on the ME-1 well was suspended due to required workover maintenance necessary in order to sustain production that would be economically feasible. As of April 17, 2012, the necessary maintenance had been completed and gross production of 131 bbl/d was being realized, increasing to gross production of 152 bbl/d as of May 1, 2012. Subsequently, issues with surface equipment, which are currently being resolved, have resulted in gross production of 89 bbl/d at the present date.

Operating Costs

During the three months ended March 31, 2012 and 2011, the Company incurred $141,725 and $41,905, respectively, in operating costs, including transportation. The 2011 operating expenses are due to production-related expenses incurred regarding the ME-1 well (net of capitalized costs in the first quarter of 2011 of $484,717 for inventory of production not sold). While no production was realized in the first quarter of 2012, costs incurred related to the workover maintenance performed on the ME-1 well.

General and Administrative Expenses

General and administrative expenses (“G&A”) for the periods ended March 31, 2012 and 2011 were $655,317 and $891,051, respectively. The decrease in G&A for the three months ended March 31, 2012 when compared to March 31, 2011, is due to a reduction in investor relations activity and professional fees incurred in 2012. Petrodorado budgets $4.0 million for G&A expenses for the full year 2012 ($5 million for full year 2011). G&A was $3.5 million for the year ended December 31, 2011, an improvement over budget of $1.5 million.

General and Administrative Expenses ($)	Q1 2012	Q1 2011	Year 2011
Professional Fees	110,949	173,423	903,482
Wages & Salaries	343,207	341,327	1,299,365
Fees, Rent, Investor Relations and Other	201,161	376,301	1,307,105
Total	655,317	891,051	3,509,952

Finance Costs

During the periods ended March 31, 2012 and 2011, the Company incurred $45,271 and $93,488, respectively, in finance costs due to the recording of accretion expense on provisions related to decommissioning obligations and equity tax payable.

Finance Costs ($)	**Q1 2012**	**Q1 2011**
Accretion of decommissioning obligations	4,474	4,993
Accretion of equity tax payable	40,797	88,455
Total	45,271	93,448

Foreign Exchange Loss

The Company generated a foreign exchange loss of $1,493,155 and $1,442,367 for the three months ended March 31, 2012 and 2011, respectively. The losses are due to an increase of the Canadian dollar and Colombian peso compared 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. The Company has recognized an equity tax expense of $2,580,852 for the three months ended March 31, 2011, 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. The accretion is expensed to finance costs as the discount unwinds as the liability approaches payment. The Company has made two payments for a total of $777,921 to date as of March 31, 2012. There were no payments required in Q1 2012.

Stock-Based Compensation

For the three months ended March 31, 2012, the Company recorded a stock-based compensation of $504,697 ($553,717 - March 31, 2011), of which $101,169 was capitalized in exploration and evaluation assets ($106,789 - March 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 1,185,000 being granted during the three months ended March 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.

Stock-based compensation on option granted during the three months ended March 31, 2012 was calculated using the Black-Scholes pricing model using a risk free rate of 1.25% to 1.32%, 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$0.151 to CDN$0.162.

Stock-Based Compensation ($)	Q1 2012	Q1 2011
Expensed	403,528	446,928
Capitalized	101,169	106,789
Total (to Contributed Surplus)	504,697	553,717

Depletion and Depreciation

For the three months ended March 31, 2012, the Company recorded depletion and depreciation expense of $81,297 ($2,271 for the comparative period to March 31, 2011). Expenses recorded in each of these time periods consist of depreciation of general fixed assets held by the Company. No depletion was recorded for the first quarter of 2012 given oil and gas production was not realized during this time period. For the first quarter of 2011, depletion of oil and gas properties ($408,070) was recorded as a component of inventory cost. Depletion is calculated on developed properties of the Moriche Block in Colombia based on oil and gas production from estimated oil and gas reserves.

Net Loss and Comprehensive Loss

For the three months ended March 31, 2012, the Company generated a net loss of $2,611,923 (net loss of $5,474,618 for the comparative period to March 31, 2011), and a comprehensive loss of $543,008 ($3,318,978 for the same period to March 31, 2011).

The decrease in the loss in the three months ended March 31, 2012 compared to the prior period arose primarily due to the realization of the equity tax expense of $2.6 million in the first quarter of 2011 as imposed by the Colombian government. Such an expense was not incurred during the first quarter of 2012. Similar amounts in other comprehensive income were realized in the three months ended March 31, 2012 and 2011, due to similar movements in currency strength in each period with the Canadian dollar and the Colombian peso strengthening in the quarter compared to the US dollar.

Funds from Operations

For the three months ended March 31, 2012, the Company used funds in operations of $589,866 (funds used in operations of $796,633 for the comparative period to March 31, 2011). The decrease in funds used in operations relates primarily to the increase of interest and other revenue and the reduction of G&A costs incurred.

CAPITAL EXPENDITURES

For the three months ended March 31, 2012 and 2011, the Company spent $1.1 million and $11.4 million, respectively, in exploration and evaluation capital expenditures.

For the expenditures in the period ended March 31, 2012, the Company completed the acquisition of casing, wellheads and tubings for 2 wells (CPO-5) and performed environmental and security work in Tacacho.

For the period ended March 31, 2012, the Company capitalized $143,415 of general and administrative expenses (March 31, 2011 - $133,916) and $101,169 of stock-based compensation (March 31, 2011 - $106,789) to exploration and evaluation assets. The Company does not hold any tangible exploration assets.

For capital expenditures in property, plant and equipment, the Company spent $7,000 and $0.3 million for the three months ended March 31, 2012 and 2011, respectively.

The Company obtained an independent engineering evaluation on its reserves as at December 31, 2011. The evaluation was conducted by Petrotech Engineering Ltd. for the Visure-1X well in Buganviles Block, and was prepared in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*.

Summary of Reserves:

	Heavy Oil		NPV of Future Net Revenue (@10%)
Reserve Category	Gross (Mbbl)	Net (Mbbl)	Before and After Tax (M$) [1]
Proved Non-Prod.	75	69	3,719
Proved Undeveloped	149	137	5,470
Total Proved	**224**	**206**	**9,189**
Total Probable	307	282	8,618
Proved + Probable	**531**	**488**	**17,807**

1) The Company has a total tax pool of approx. $39 million available in oil and gas assets to reduce potential income tax of the Buganviles Block, resulting in no expected income tax payable at this time.

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 March 31, 2012 the Company had working capital of $34.4 million (down from $36.0 million at December 31, 2011) comprised primarily of short term investments. The decrease in working capital is primarily due to funds used in operating activities as well as exploration and evaluation capital expenditures. As at March 31, 2012 the Company also has $13.6 million of restricted cash. This working capital and 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 $48.0 million to fund exploration, development activities and operating expenses.

The Company is pursuing its strategy of focusing on its high impact exploration blocks in 2012, by executing an exploration drilling program of 6 exploration wells, acquiring over 1,000 km of 2D seismic and 1 stratigraphic well through a fully funded budget of approximately US$17 million for the 2012 year. Included within this plan are amounts required to meet contract commitments as outlined in the "Commitment Summary" section.

On June 11, 2010, the Company executed a facility letter with a major international bank for a US$5 million demand operating loan. The purpose of the loan is for general operating purposes and is available by way of overdraft or by letters of credit up to US$4.8 million. The operating loan is secured by a security agreement over cash, credit balances and deposit instruments in the amount of US$5 million. On July 7, 2010, a letter of credit of US$4.8 million was issued under the operating loan as consideration for the Company's share of 2 exploration wells as part of the farm-in agreement with ONGC for a 30% participating interest in the CPO-5 Block in Colombia. On December 21, 2010, a further $3.0 million letter of credit was issued through a Colombian bank to ANH in respect of the drilling obligations on this CPO-5 Block. This letter of credit is secured by a $3,060,329 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 $413,100 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 two of its Blocks to date, namely Moriche and Buganviles. 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, confirmation of the Company's interests in the properties in Peru and Paraguay, the political stability of Colombia, Peru and Paraguay 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. See "Principal Business Risks" for further particulars.

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 has only recently been incurred and therefore fair value is also anticipated to equal carrying value. 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

Share Capital

	Number of Common Shares		Amount
Balance, December 31, 2010	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 (i)	53,900,000		35,935,400
Share issue costs	-		(2,006,160)
Balance, December 31, 2011 and March 31, 2012	482,547,066		102,918,335

On March 1, 2011, the Company issued, pursuant to a short form prospectus equity financing, a total of 53,900,000 common shares at a price of CDN $0.65 per share for gross proceeds of CDN $35,035,000 (US$35,935,400).

Warrants

	Number of Warrants		Amount
Balance, December 31, 2010	193,824,294	$	20,813,991
Warrants exercised	(13,058,049)		(1,401,941)
Balance, December 31, 2011 and March 31, 2012	180,766,245		19,412,050

The Company issued the warrants to purchase common stock in December 2009. The warrants are exercisable at a price of $0.35 per share until December 3, 2012.

On May 16, 2012, 180,766,245 share purchase warrants, issued pursuant to the Company's equity financing of C$75,000,000 that closed on December 3, 2009 and expire on December 3, 2012, began trading on the TSX Venture Exchange under the symbol "PDQ.WT".

Stock Options

	Number of Options		Weighted Average Exercise Price (CDN$)
Balance, December 31, 2010	28,666,667	$	0.49
Options issued (i)	10,980,000		0.36
Expired options (i)	(1,000,001)		0.49
Forfeitures (i)	(666,666)		0.49
Balance, December 31, 2011	37,980,000		0.45
Options issued (ii)	1,185,000		0.25
Expired options (ii)	(666,667)		0.73
Forfeitures (ii)	(333,333)		0.73
Balance, March 31, 2012	38,165,000	$	0.44
Exercisable, March 31, 2012	**30,388,330**	**$**	**0.47**

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. Of the options previously granted to exiting officers, 333,333 were forfeited and another 666,667 expired on January 12, 2012.

	Common Shares	Warrants	Stock Options
As at May 25, 2012	482,547,066	180,766,245	38,165,000

NEW ACCOUNTING STANDARDS AND POLICIES

Future Accounting Changes

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") was issued by the IASB on November 12, 2009 and 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 was issued by the IASB on May 12, 2011 and 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 in the consolidated financial statements. 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 was issued by the IASB on May 12, 2011 and 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 also requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement whereas GAAP requires a joint venturer to recognize an investment and to account for that investment 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 was issued by the IASB on May 12, 2011 and 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 was issued by the IASB on May 12, 2011 and 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.

Separate Financial Statements
As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company is currently evaluating the impact of IAS 27 on its consolidated financial statements.

Investments in Associates and Joint Ventures
As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are

investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 year in which the estimates are revised and in any future years affected.

Reserve estimates including production profiles, future development costs, and discount rates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis, and more frequently as significant business combinations take place.

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that impact the amounts recognized in the consolidated financial statements include:

- Impairment testing – estimates of reserves, future commodity prices, future costs, production profiles, discount rates, market value of land.
- Depletion and depreciation – oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.
- Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.
- Share-based compensation – forfeiture rates and volatility.
- Deferred tax – estimates of reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.

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, 2011 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 May 25, 2012 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 regulatory framework governing royalties, taxes and environmental matters in Colombia, Peru and Paraguay and any other jurisdictions 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, Peru and Paraguay,
- 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.

SELECTED QUARTERLY INFORMATION

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

	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Revenue	$ 208,370	$ 631,657	$ 1,115,228	$ 2,393,452
Net Income (Loss)	(2,611,923)	(3,455,890)	2,820,055	(2,636,055)
Comprehensive Loss	(543,008)	(995,528)	(5,981,662)	(1,686,082)
Net Income (Loss) Per Share (Basic & Diluted)	(0.01)	(0.01)	0.01	(0.01)

	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenue	$ 24,204	$ 1,168,187	$ 118,966	$ 59,717
Net Income (Loss)	(5,474,618)	(4,907,204)	(3,009,635)	1,211,652
Comprehensive Loss	(3,318,978)	(2,427,166)	(926,637)	(2,638,820)
Net Income (Loss) Per Share (Basic & Diluted)	(0.01)	(0.01)	(0.01)	0.00

Revenue recorded is primarily based on the timing of oil and gas sales. During Q4 2010, the Company generated oil and gas revenues of $1,142,111. This was due to the sale of 15,922 bbls in the quarter. 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 dollars 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.

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.

OUTLOOK

The Company's capital program in 2012 has been set at $17 million, to be 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 exploration well in the Talora Block.
- Drilling of 4 exploration wells in the CPO-5 Block.
- Drilling of 1 stratigraphic well in the Tacacho Block.
- Pending the recession of flood waters in the Lower Magdalena Valley, testing of Noelia-1 exploration well and drilling of 1 additional exploration well in the La Maye Block.
- Actively pursuing possible business opportunities for current prospects held in Peru including the farm-out of a percentage of the Company's working interest in those prospects as well as the drilling of 1 exploration well in the Peru 138 Block.
- Continuing with the environmental stewardship and social initiatives in the Company's area of operations.