

PETRODORADO ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

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 and six months ended June 30, 2011, as compared to 2010, 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 interim consolidated financial statements as at and for the three and six months ended June 30, 2011 and 2010 prepared in accordance with IFRS (as defined below) and the audited consolidated financial statements and related notes and MD&A as at and for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information including the Company's annual information form for the year ended December 31, 2010 relating to Petrodorado 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") issued by the International Accounting Standard Board ("IASB").

This MD&A is prepared as of August 29, 2011.

CHANGE IN ACCOUNTING POLICIES

On January 1, 2011, the Company adopted IFRS for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the three and six months ended June 30, 2011, including the required comparative information, have been prepared in accordance with IFRS 1 "First-Time Adoption of IFRS", and with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with GAAP.

Further information on the IFRS impacts is provided in the Critical Accounting Policies section of this MD&A, including reconciliations between previous GAAP and IFRS financial position and comprehensive income.

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 periods ended June 30, 2011 and 2010 are as follows:

Funds from operations – 3 months ended (\$)	Q2 2011	Q2 2010
Cash provided by (used in) operating activities	(83,753)	(578,729)
Change in non-cash working capital	(670,956)	(190,267)
Funds from (used in) operations	<u>(754,709)</u>	<u>(768,996)</u>

Funds from operations – 6 months ended (\$)	Q2 2011	Q2 2010
Cash provided by (used in) operating activities	(1,445,592)	(782,245)
Change in non-cash working capital	(105,750)	(105,303)
Funds from (used in) operations	<u>(1,551,342)</u>	<u>(887,548)</u>

The non-IFRS measure referred to above does not have any standardized meaning prescribed by IFRS or previous 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. As there is no standardized meaning, it is not certain that this measure will be comparable to other companies.

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 and are at various stages of reaching the drilling stages.

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 (“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). As at the date hereof, the ME-1 well is producing approximately 155 bbl/d of oil (77 bbl/d net). Production from the ME-1 well is currently being shipped via truck and pipeline to oil storage facilities located on the Northwest coast of Colombia.

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 assignment on October 1, 2010.

In 1985, Elf Aquitaine drilled the Metica-1 well in the CPO-5 block, which tested 14.4 API oil and 20.8 API oil in the Los Cuervos and Barco formations. In addition, petrophysical analysis of well logs indicated hydrocarbons in the Carbonera, Mirador, Une and other deeper Palaeozoic horizons. Petrodorado has identified multiple plays and multiple prospects in the Tertiary (Carbonera, Mirador, Los Cuervos, and Barco) and Cretaceous (Guadalupe, Gacheta and Une) formations targeting 14 to 40 degree API oil.

During 2010, the Corporation with its partners completed the acquisition of 650 square Km of 3D seismic and 240 line Km of 2D seismic. Seismic processing and interpretation has been completed and two wells are planned for the second half of 2011.

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 southeastern border of the Bugarviles 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 15.6° 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. The Corporation will also consider a possible test in the Upper Guadalupe and Barzalosa Formations.

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 the 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.

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 Corporation 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 in second half of 2011. A second exploration well is planned based on the results of the testing.

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 June 30, 2011, \$1,699,603 had been drawn from the escrow account leaving an unspent restricted cash balance of \$1,800,397.

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 August 16, 2011 Petrodorado farmed out a 30% working interest to Sintana Energy decreasing Petrodorado's overall working interest to 65%. Petrodorado's interest, via a wholly owned subsidiary, has been approved by the ANH.

The Corporation acquired 122km 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 Corporation is evaluating advanced engineering solutions to increase this production rate.

An exploration well targeting the Caballos is planned for late 2011. 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.

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 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 second half of 2011. Initial environmental assessments are underway for the seismic program. Seismic acquisition is planned for the fourth quarter of 2011.

Petrodorado received ANH approval of assignment on October 14, 2010.

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 Marañon 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. To date, Petrodorado and PRE have identified four drilling prospects on Block 138 with a probability of success set at 10%.

The 2D seismic program of 558Km has been completed and processing and interpretation is under way 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 are as follows:

Block/Country	Interest	2011	2012	2013	2014	2015
Talora, Colombia ⁽¹⁾	65%	-	-	3.9	-	-
Tacacho, Colombia ⁽²⁾	49.5%	7.4	-	-	-	-
CPO-5, Colombia ⁽³⁾	30.0%	-	4.8	-	-	-
Block 135, Peru ⁽⁴⁾	45%	-	10.0	-	-	-
Total		7.4	14.8	3.9	-	-

1) Net commitment represents 2 wells required by 2013.

2) Petrodorado to pay 100% of costs to acquire and process 480 km of 2D seismic data (up to a maximum of U.S. \$8 million).

3) Includes Petrodorado's 30% share of 2 exploration wells by June 2012.

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.

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 and six months ended June 30, 2011 the Company generated oil and gas revenues of \$2,270,162. The revenue was the result of the sale of 20,269 barrels of oil at an average sales price of \$112 per barrel of oil. During the year ended December 31, 2010, the Company generated oil and gas revenues of \$1,216,499. Oil and gas production for the month of June 2011 was added to inventory during the period. The oil and gas revenues were due to production from the Moriche ME-1 well, which began in June 2010.

In addition, interest revenue on cash balances and short-term investments was \$123,290 and \$59,717 for the three months ended June 30, 2011 and 2010, respectively, and \$147,494 and \$109,926 for the six months ended June 30, 2011 and 2010, respectively. The increase in interest revenue is primarily due to interest being earned during the three and six months ended June 30, 2011 on equity funds of \$34 million which were raised in March 2011, and are being utilized for operations and capital expenditures.

Revenue (\$) three months ended	Q2 2011	Q2 2010
Oil and gas sales, net of royalties	2,270,162	-
Interest and other	123,290	59,717
Total Revenue	<u>2,393,452</u>	<u>59,717</u>

Revenue (\$) six months ended	Q2 2011	Q2 2010
Oil and gas sales, net of royalties	2,270,162	-
Interest and other	147,494	109,926
Total Revenue	<u>2,417,656</u>	<u>109,926</u>

Total production from the ME-1 well, net to Petrodorado, for the three months ended June 30, 2011 was 7,384 bbls and 18,936 for the six month period ended June 30, 2011 (25,215 bbls for the year 2010) of which 2,447 bbls remain in inventory at June 30, 2011. 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. Current production, net to Petrodorado, is approximately 77 bbl/d.

Operating Costs

During the three and six months ended June 30, 2011, the Company incurred \$1,421,989 and \$1,463,894 and \$nil for the three and six months ended June 30, 2010 in operating costs (including transportation). These are due to expenses incurred regarding the ME-1 well, net of capitalized costs in the second quarter of 2011 of \$161,009 related to oil included in inventory. This represents total operating and transportation costs per barrel of production of \$65 per bbl (\$84.15 per bbl for 2010). The total for 2010 includes one-time expenses of \$510,345 (\$26.65 per bbl) related to work-over costs incurred in the start-up of the well, resulting in net costs of \$57.50 per bbl. The 2010 amount was significantly higher than planned. The Company has entered into a new agreement subsequent to June 30, 2011 with the operator. The agreement will set out the terms on oil and gas revenue and operating costs, both prospectively with an anticipated retroactive benefit as well.

Pre-licensing costs

During the six months ended June 30, 2011 and 2010, the Company incurred \$Nil and \$120,295, respectively, in pre-licensing costs related to exploration activities associated with the Pirity block located in Paraguay for which the rights to perform exploratory and evaluation activities have not yet been finalized.

General and Administrative Expenses

General and administrative expenses (“G&A”) for the three and six months ended June 30, 2011 were \$930,754 and \$1,821,805, respectively (\$641,586 and \$1,143,635 for the three and six months ended June 30, 2010). This increase is mainly caused by the addition of administrative support and office space that was required in Bogota, Colombia, where ten people are now employed. Petrodorado has budgeted \$5 million for G&A expenses for the full year 2011.

For the three months ended June 30, 2011 and 2010

General and Administrative Expenses (\$)	Q2 2011	Q2 2010
Professional Fees	286,728	191,796
Wages & Salaries	336,705	219,930
Fees, Rent, Investor Relations and Other	307,321	229,860
Total	930,754	641,586

For the six months ended June 30, 2011 and 2010

General and Administrative Expenses (\$)	Q2 2011	Q2 2010
Professional Fees	460,151	394,485
Wages & Salaries	678,032	350,659
Fees, Rent, Investor Relations and Other	683,622	398,491
Total	1,821,805	1,143,635

Finance costs

During the three and six months ended June 30, 2011 and 2010, the Company incurred \$23,384 and \$116,832, respectively (\$3,001 and \$6,002 for the three and six months ended June 30, 2010) in finance costs due to the recording of accretion expense on provisions related to decommissioning obligations and equity tax payable.

Finance Costs three months ended (\$)	Q2 2011	Q2 2010
Accretion of decommissioning obligations	17,331	3,001
Accretion of equity tax payable	6,053	-
Total	23,384	3,001

Finance Costs six months ended (\$)	Q2 2011	Q2 2010
Accretion of decommissioning obligations	22,324	6,002
Accretion of equity tax payable	94,508	-
Total	116,832	6,002

Foreign Exchange Gain Loss

The Company generated a foreign exchange loss of \$1,567,387 and \$3,009,754 for the three and six months ended June 30, 2011, respectively. These losses are essentially due to an increase in the value of the Canadian dollar and Colombian Peso against 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 six months ended June 30, 2011 (\$Nil for 2010) 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 made its first payment of \$418,990 during the six months ended June 30, 2011.

Stock-Based Compensation

For the three and six months ended June 30, 2011, the Company recorded a stock-based compensation of \$540,082 and \$1,093,799, (\$877,273 and \$3,657,507 for the comparative periods to June 30, 2010), respectively of which \$129,645 and \$236,434, respectively were capitalized in exploration and evaluation assets and property, plant and equipment (\$123,597 and \$572,208 for same periods to June 30, 2010). The stock-based compensation for the full year 2010 amounted to \$5,178,731 of which \$819,401 had been capitalized and \$4,359,330 was expensed.

The stock-based compensation arose due to a total of 2,500,000 and 30,000,000 options being granted during the six months ended June 30, 2011 and 2010, respectively. The decrease in stock-based compensation expense is caused by the portion of the options granted in January 2010 that vested immediately (one third of 28,000,000) and again in the first quarter of 2011.

Stock-based compensation for the three and six months ended June 30, 2011 was calculated using the Black-Scholes pricing model using a risk free rate of 2.23% and 2.34%, volatility of 80% to 85%, 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\$0.229, to CDN\$0.476, respectively.

For the three months ended June 30, 2011 and 2010

Stock-Based Compensation Expense (\$)	Q2 2011	Q2 2010
Expensed	410,437	753,676
Capitalized	129,645	123,597
Total (to Contributed Surplus)	<u>540,082</u>	<u>877,273</u>

For the six months ended June 30, 2011 and 2010

Stock-Based Compensation Expense (\$)	Q2 2011	Q2 2010
Expensed	857,365	3,085,299
Capitalized	236,434	572,208
Total (to Contributed Surplus)	<u>1,093,799</u>	<u>3,657,507</u>

Depletion and Depreciation

For the three and six months ended June 30, 2011, the Company recorded depletion and depreciation expense of \$675,556 and \$677,827, respectively (\$1,753 and \$3,310 for the comparative periods to June 30, 2010). The increase in both the three and six months ended June 30, 2011 was due to the sale of oil and gas revenues in the quarter. Depletion is recorded as a component of inventory, when a sale occurs depletion is recorded as an expense.

Depletion reflects primarily the depletion of developed properties on the Moriche Block in Colombia for 2011 and 2010. At June 30, 2011 and 2010, property, plant and equipment includes \$6,706,509 and \$Nil, respectively, which were excluded from the depletion calculation.

Net Loss and Comprehensive Loss

For the three and six months ended June 30, 2011, the Company generated a net loss of \$2,636,055 and \$8,110,673, respectively (net income of \$1,211,652 and net loss of \$3,293,273 for comparative periods to June 30, 2010), and comprehensive loss of \$1,686,082 and \$5,005,060, respectively (\$2,638,820 and \$4,204,542 for the same periods to June 30, 2010). The increase in the loss arises primarily due to the increased operations in Bogota, with the related increase in G&A, Stock-Based Compensation and equity tax expenses as a result.

Funds from Operations

For the three and six months ended June 30, 2011, the Company incurred negative funds from operations of \$754,709 and \$1,551,342, respectively (\$768,996 and \$887,548 for the comparative periods to June 30, 2010). The increase in funds from operations outflow relates primarily to the G&A and operating expenses incurred in expanding operations in Colombia.

CAPITAL EXPENDITURES

For the six months ended June 30, 2011 and 2010, the Company spent \$17.9 million and \$10.0 million, respectively, in capital expenditures.

In the six months ended June 30, 2011, the Company acquired 650 square km of 3D seismic and 261 lineal Km of 2D seismic on the CPO-5 block (\$2.9 million), completed the drilling of 1 well (net 0.5 well) in the Buganviles Block (\$3.4 million), performed testing on 2 wells (\$3.4 million), and continued pre-drilling technical work in Talora (\$2.8 million) and Peru (\$8.1 million).

The Company also capitalized G&A of \$280,339 in the six months ended June 30, 2011 and related stock-based compensation of \$236,434.

The Company obtained an independent engineering evaluation on its reserves as at December 31, 2010. The evaluation was conducted by Petrotech Engineering Ltd. for the Mauritia Este Prospect and 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:

Reserve Category	Heavy Oil		NPV of Future Net Revenue (@10%)	
	Gross (Mbbl)	Net (Mbbl)	Before Tax (M\$)	After Tax (M\$)
Proved Producing	288	271	13,127	11,507
Proved Non-Prod.	75	69	3,557	2,915
Proved Undeveloped	149	137	5,012	4,818
Total Proved	512	477	21,697	19,240
Total Probable	309	285	8,228	6,170
Proved + Probable	822	762	29,925	25,410

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 June 30, 2011 the Company had working capital of \$39.6 million (up from \$20.8 million at December 31, 2010) comprised primarily of short term investments. The increase in working capital arises primarily due to the equity financing of Cdn \$35 million that was completed on March 1, 2011. This working capital will be used to fund exploration and development activities on Petrodorado's oil and gas properties and for general corporate purposes.

The Company is pursuing its strategy of focusing on its high impact exploration blocks in 2011, by drilling 4 exploration wells and acquiring over 1,000 Km of 2D and 350 square Km of 3D seismic through a fully funded budget of approximately US \$30 million for the balance of 2011

and 2012. Included within this plan are amounts required to meet contract commitments as outlined in the 'Commitment Summary' above.

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 partial consideration for 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 million 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 \$405,000 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 achieving future profitable production. The outcome of these matters cannot be predicted with certainty at this time.

RELATED PARTY TRANSACTIONS

During the first quarter of 2010, the Company repaid advances from the President of the Company and two companies who are minority shareholders of the Company, in amounts of \$95,220 and \$150,000 and \$150,000 respectively.

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.

SHARE CAPITAL

Share Capital (Sub-note 4)

	Number of Common Shares
Balance, January 1, 2010	394,218,311
Options exercised	910,000
Warrants exercised for cash	20,460,706
Balance, December 31, 2010	415,589,017
Warrants exercised for cash	12,921,453
Shares issued for cash (4)	53,900,000
Balance, June 30, 2011	482,410,470

Stock options (Sub-notes 1,2)

	Number of Options
Balance, January 1, 2010	910,000
Options exercised	(910,000)
Options issued	30,000,000
Forfeitures	(1,333,333)
Balance, December 31, 2010	28,666,667
Options issued	2,500,000
Expired options	(333,334)
Forfeitures	(666,666)
Balance, June 30, 2011	30,166,667
Excercisable, June 30, 2011	19,500,005

Warrants (Sub-note 3)

Balance, January 1, 2010	214,285,000
Warrants exercised	(20,460,706)
Balance, December 31, 2010	193,824,294
Warrants exercised	(12,921,453)
Balance, June 30, 2011	180,902,841

- 1) On January 31, 2010, the Company granted 28,000,000 stock options, to its directors, officers and key employees at a price of CDN \$0.49 per common share. On May 1, 2010, the Company granted 1,000,000 stock options to a new employee at a price of CDN \$0.49 per common share. On September 1, 2010, a grant of 1,000,000 options was made to a new officer at a price of CDN \$0.49 per common share, concurrent with the forfeiture of 1,333,333 unvested options previously granted to an exiting officer. All options are for a five year term, and vested one-third on the date of grant and one-third on the first anniversary date and one-third on the second anniversary date from the grant date.

- 2) On January 6, 2011, the Company granted 1,000,000 options to acquire common shares to a new officer, at a price of CDN \$0.73 per common share. The options are for a five year term, expiring on January 6, 2016 and vest one-third on June 1, 2011, and one-third on the first anniversary date and one-third on the second anniversary date from the grant date. On May 2, 2011, the Company granted 1,500,000 options to acquire common shares to two employees, at a price of CDN \$0.55 per common share. The options are for a five year term, expiring on May 2, 2016 and vest one-third on May 2, 2011, and 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 an exiting officer, 666,666 were forfeited on February 28, 2011 and 333,334 expired on May 29, 2011.
- 3) 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.
- 4) 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).

As at August 29, 2011

Common Shares	482,547,066
Warrants	180,766,245
Options	30,166,667

NEW ACCOUNTING STANDARDS AND POLICIES

Transition to International Financial Reporting Standards (“IFRS”)

The interim consolidated financial statements as at and for the three and six months ended June 30, 2011 and 2010 are the Company’s second interim consolidated financial statements prepared in accordance with IFRS using the accounting policies the Company expects to adopt in its annual financial statements for the year ending December 31, 2011. The transition to IFRS resulted in changes to the Company’s previous accounting policies as applied and disclosed in the consolidated financial statements for the year ended December 31, 2010, prepared in accordance with GAAP.

The Company’s accounting policies under IFRS differ from those followed under GAAP as described in note 4 to the interim consolidated financial statements for the three months ended March 31, 2011. These accounting policies have been applied for the three and six months ended June 30, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, the comparative information for the three and six months ended June 30, 2010 and for the year ended December 31, 2010. The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company’s opening deficit on the statement of financial position.

Accounting Policy Changes

The following discussion explains the significant difference between the Company’s previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

(a) IFRS 1 First-Time Adoption of IFRS

On transition to IFRS on January 1, 2010, the Company used certain exemptions allowed under IFRS 1 “First Time Adoption of IFRS”. The Company elected the exemption in IFRS 1 that allows an exemption on IAS 21 “The Effects of Change in Foreign Exchange Rates”. The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. Any retrospective translation differences are recognized in opening retained earnings.

In addition, the Company has elected the IFRS 1 optional exemption that allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

(b) IFRS 6 Exploration and evaluation assets

IFRS requires exploration and evaluation assets (E&E assets) to be presented separately in the statement of financial position until the technical feasibility and commercial viability of the asset is demonstrable. The balances related to exploration and evaluation assets were reclassified from property, plant and equipment (PP&E). The amount reclassified at June 30, 2010 was \$16,206,470.

In addition, IFRS establishes that costs incurred before the entity has obtained the rights to perform exploration and evaluation activities are expensed. The Company has written off pre-licensing costs of \$120,295 that was charged to pre-licensing costs for the six months ended June 30, 2010.

(c) Foreign currency translation

IFRS requires that the functional currency of each entity in a consolidated group be determined separately based on the currency of the primary economic environment in which the entity operates. A list of primary and secondary indicators is used under IFRS in this determination and these differ in content and emphasis to a certain degree from those factors under Canadian GAAP. The parent company operated with the US dollar as its functional currency under Canadian GAAP. The Company re-assessed the determination of the functional currency for the parent company and determined the Canadian dollar as the functional currency for this entity under IFRS. The impact of the change in functional currency, combined with the IFRS 1 exemption previously mentioned, was an adjustment to retained earnings at the date of transition of \$948,382. For the three and six months ended June 30, 2010, the currency translation adjustment was (\$3,850,472) and (\$911,269), respectively.

(d) Stock-based compensation

Under Canadian GAAP, the Company recognized an expense related to their stock-based compensation on a graded method of expense and fair valued options granted to consultants at

each reporting period. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting of awards and fair valued options granted to consultants at the grant date. The Company also capitalized stock-based compensation directly attributable to exploration and evaluation assets. The net impact was a increase to the stock-based compensation expense for the three months ended June 30, 2010 of \$47,783 and a decrease for the six months ended June 30, 2010 of \$145,107.

Reconciliations from Canadian GAAP to IFRS

The following tables provide a summary reconciliation of the Company's Statement of Financial Position at June 30, 2010 from GAAP to IFRS:

	Canadian GAAP		June 30, 2010		IFRS
			IFRS Adjustments		
ASSETS					
<i>Current assets</i>	\$	42,772,954	\$	-	\$ 42,772,954
<i>Non-current assets</i>		34,550,319		423,390	34,973,709
Total assets	\$	77,323,273	\$	423,390	\$ 77,746,663
<i>Current liabilities</i>	\$	758,922	\$	-	\$ 758,922
<i>Non-current liabilities:</i>		144,272		11,792	156,064
<i>Shareholders' equity</i>		76,420,079		411,598	76,831,677
Total liabilities and shareholders' equity	\$	77,323,273	\$	423,390	\$ 77,746,663

The following tables summarize the statement of comprehensive income for the three and six months ended June 30, 2010:

	Canadian GAAP		For the three months ended June 30, 2010		IFRS
			IFRS Adjustments		
Revenue	\$	59,717	\$	-	\$ 59,717
Expenses		2,650,527		(3,802,462)	(1,151,935)
Net income (loss) for the period		(2,590,810)		3,802,462	1,211,652
Comprehensive loss for the period	\$	(2,590,810)	\$	(48,010)	\$ (2,638,820)

	Canadian GAAP		For the six months ended June 30, 2010		IFRS
			IFRS Adjustments		
Revenue	\$	109,926	\$	-	\$ 109,926
Expenses		4,338,827		(935,628)	3,403,199
Net loss for the period		(4,228,901)		935,628	(3,293,273)
Comprehensive loss for the period	\$	(4,228,901)	\$	24,359	\$ (4,204,542)

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 18 to the June 30, 2011 interim consolidated financial statements. This note includes reconciliations of equity and total

comprehensive income for comparative periods and of equity at the date of transition reported under previous GAAP to those reported for those periods and at the date of transition under IFRS. The Company's IFRS accounting policies are provided in Note 4 to the March 31, 2011 interim consolidated financial statements.

Future Accounting Changes

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Company. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application.

IFRS 9 - *Financial Instruments* addresses the classification and measurement of financial assets.

IFRS 10 - *Consolidated Financial Statements* builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 11 - *Joint Arrangements* establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 - *Disclosure of Interest in Other Entities* provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 - *Fair Value Measurement* defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 19 - *Employee Benefits* revises the existing standard to eliminate options to defer the recognition of gains and losses in defined benefit plans, requires remeasurements of a defined benefit plan's assets and liabilities to be presented in other comprehensive income and increases disclosure.

IAS 27 - *Separate Financial Statements* revised the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.

IAS 28 - *Investments in Associate and Joint Ventures* revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The IASB also issued *Presentation of Items of Other Comprehensive Income*, an amendment to IAS 1 *Financial Statement Presentation*. The amendment addresses the presentation of other comprehensive income and requires the grouping of items within other comprehensive income that might eventually be reclassified to the profit and loss section of the income statement. The change becomes effective for financial years after July 1, 2012 with earlier adoption permitted. The Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

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, 2010 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 there from 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 August 29, 2011 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, 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,
- 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 GAAP.

\$	Q2 2011	Q1 2011	Q4 2010 (2)	Q3 2010 (2)
Revenue	2,393,452	24,204	1,168,187	118,966
Net Loss	(2,636,055)	(5,474,618)	(2,197,464)	(1,283,856)
Comprehensive loss	(1,686,082)	(3,087,360)	(2,197,464)	(1,283,856)
Net Loss Per Share basic and diluted	(0.01)	(0.01)	(0.01)	(0.00)

\$	Q2 2010	Q1 2010	Q4 2009 (1)	Q3 2009 (1)
Revenue	59,717	50,209	9,431	41
Net Income (Loss)	1,211,652	(4,504,925)	(186,612)	(28,206)
Comprehensive loss	(2,638,820)	(1,565,722)	(186,612)	(28,206)
Net Income (Loss) Per Share basic and diluted	0.00	(0.01)	(0.00)	(0.00)

(1) 2009 comparative figures are prepared in accordance with Canadian GAAP.

(2) Q3 and Q4 2010 comparative figures are prepared in accordance with Canadian GAAP.