PETRODORADO ENERGY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010

Expressed in U.S. dollars

(Unaudited)

PETRODORADO ENERGY LTD.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in U.S. Dollars)

(Unaudited)

Assets		**June 30, 2011**		December 31, 2010 (Note 18)
Current Assets				
Cash and cash equivalents	**$**	**5,973,837**	$	12,061,874
Short-term investments		**39,792,335**		8,482,868
Cash calls receivable (Note 6)		**-**		2,249,657
Accounts receivable		**207,923**		303,456
Inventory		**161,009**		468,421
Prepaid expenses and deposits		**35,972**		34,855
Total current assets		**46,171,076**		23,601,131
Non-current Assets				
Restricted cash and other receivables (Note 7)		**10,205,397**		10,205,397
Exploration and evaluation assets (Note 9)		**53,536,271**		36,068,588
Property, plant and equipment (Note 10)		**15,562,362**		15,558,116
Total non-current assets		**79,304,030**		61,832,101
	$	**125,475,106**	$	85,433,232
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**5,787,048**	$	2,791,663
Equity tax payable (Note 12)		**765,530**		-
Total current liabilities		**6,552,578**		2,791,663
Non-current Liabilities				
Decommissioning obligations (Note 11)		**560,561**		538,237
Equity tax payable (Note 12)		**1,678,648**		-
Total non-current liabilities		**2,239,209**		538,237
Total liabilities		**8,791,787**		3,329,900
Shareholders' Equity				
Share capital (Note 13)		**102,853,776**		62,975,253
Warrants (Note 13)		**19,426,716**		20,813,991
Contributed surplus (Note 13)		**6,272,530**		5,178,731
Deficit		**(18,627,083)**		(10,516,410)
Accumulated other comprehensive income		**6,757,380**		3,651,767
Total shareholders' equity		**116,683,319**		82,103,332
	$	**125,475,106**	$	85,433,232

Commitments (Note 15)

Subsequent event (Note 19)

See accompanying notes to the interim consolidated financial statements.

PETRODORADO ENERGY LTD.

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE LOSS

(Expressed in U.S. Dollars)

(Unaudited)

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	**For the Six Months Ended June 30, 2011**	For the Six Months Ended June 30, 2010
Revenue				
Oil and gas revenue, net of royalties	$ **2,270,162**	$ -	$ **2,270,162**	$ -
Interest and other	**123,290**	59,717	**147,494**	109,926
	2,393,452	59,717	**2,417,656**	109,926
Expenses				
Pre-licensing costs	**-**	-	**-**	120,295
Operating costs	**1,421,989**	-	**1,463,894**	-
General and administrative	**930,754**	641,586	**1,821,805**	1,143,635
Business development expenses	**-**	270,542	**-**	270,542
Foreign exchange (gain) loss	**1,567,387**	(2,822,493)	**3,009,754**	(1,225,884)
Stock-based compensation (note 13)	**410,437**	753,676	**857,365**	3,085,299
Equity tax expense (note 12)	**-**	-	**2,580,852**	-
Depletion and depreciation	**675,556**	1,753	**677,827**	3,310
Finance costs (note 14)	**23,384**	3,001	**116,832**	6,002
	5,029,507	(1,151,935)	**10,528,329**	3,403,199
Net income (loss) for the period	$ **(2,636,055)**	$ 1,211,652	$ **(8,110,673)**	$ (3,293,273)
Other comprehensive income (loss):				
Currency translation adjustment	**949,973**	(3,850,472)	**3,105,613**	(911,269)
Comprehensive loss for the period	$ **(1,686,082)**	$ (2,638,820)	$ **(5,005,060)**	$ (4,204,542)
Weighted average number of common shares outstanding – basic and diluted	**482,390,690**	395,163,476	**461,733,638**	395,044,057
Net income (loss) per share - basic and diluted	$ **(0.01)**	$ -	$ **(0.02)**	$ (0.01)

See accompanying notes to the interim consolidated financial statements.

PETRODORADO ENERGY LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)
(Unaudited)

Cash flows provided by (used in):	**For the Three Months Ended June. 30, 2011**	For the Three Months Ended June. 30, 2010	**For the Six Months Ended June 30, 2011**	For the Six Months Ended June 30, 2010
Operating activities				
Net income (loss)	**$ (2,636,055)**	$ 1,211,652	**$ (8,110,673)**	$ (3,293,273)
Adjustments for:				
Stock-based compensation	**410,437**	753,676	**857,365**	3,085,299
Unrealized foreign exchange gain (loss)	**1,190,959**	(2,739,078)	**2,745,445**	(688,886)
Depletion and depreciation	**675,556**	1,753	**677,827**	3,310
Finance costs	**23,384**	3,001	**116,832**	6,002
Equity tax expense	**-**	-	**2,580,852**	-
Taxes paid	**(418,990)**	-	**(418,990)**	-
	(754,709)	(768,996)	**(1,551,342)**	(887,548)
Change in non-cash working capital (note 17)	**670,956**	190,267	**105,750**	105,303
	(83,753)	(578,729)	**(1,445,592)**	(782,245)
Investing activities				
Acquisition of exploration and evaluation assets	**(5,881,273)**	(1,218,934)	**(17,231,249)**	(9,937,517)
Acquisition of property, plant and equipment	**(396,083)**	(5,540)	**(682,073)**	(20,888)
Short-term investments	**8,480,196**	9,555,266	**(30,845,150)**	50,480,963
Acquisition of Holywell, net of cash received	**-**	-	**-**	(4,530,556)
Change in deposits on acquisition	**-**	-	**-**	(110,000)
Change in restricted cash	**-**	(10,149,455)	**-**	(10,149,455)
Change in non-cash working capital (note 17)	**2,341,387**	(207,122)	**5,541,120**	(247,031)
	4,544,227	(2,025,785)	**(43,217,352)**	25,485,516
Financing activities				
Shares issued, net of costs	**-**	-	**33,929,240**	-
Options and warrants exercised, net of costs	**109,515**	16,562	**4,562,008**	102,900
Receipt of share subscriptions receivable	**-**	57,346	**-**	124,936
Payment of amount due to shareholders	**-**	-	**-**	(395,220)
Change in non-cash working capital (note 17)	**-**	(279,578)	**-**	(390,839)
	109,515	(205,670)	**38,491,248**	(558,223)
Cash flow from (used in) operating, investing and financing activities	**4,569,989**	(2,810,184)	**(6,171,696)**	24,145,048
Effect of exchange rate on cash	**34,643**	(339,944)	**83,659**	(225,190)
Change in cash	**4,604,632**	(3,150,128)	**(6,088,037)**	23,919,858
Cash, beginning of period	**1,369,205**	27,983,628	**12,061,874**	913,642
Cash, end of period	**$ 5,973,837**	$ 24,833,500	**$ 5,973,837**	$ 24,833,500

Cash is defined as cash and cash equivalents
See accompanying notes to the interim consolidated financial statements.

PETRODORADO ENERGY LTD.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in U.S. Dollars)

(Unaudited)

For the six months ended June 30, 2010

	Number of Common Shares	Share capital	Warrants	Contributed Surplus	Retained Earnings (deficit)	Accumulated Other Comprehensive loss	Total
Balance at January 1, 2010	394,218,311	$ 53,571,334	$ 23,010,776	-	$ 693,702	-	$ 77,275,812
Net loss					(3,293,273)		(3,293,273)
Currency translation adjustment						(911,269)	(911,269)
Warrants exercised for cash	50,000	16,562					16,562
Transfer of warrants assigned fair value		5,368	(5,368)				-
Stock-based compensation				3,657,507			3,657,507
Options exercised	910,000	86,338					86,338
Balance at June 30, 2010	395,178,311	$ 53,679,602	$ 23,005,408	$ 3,657,507	$ (2,599,571)	$ (911,269)	$ 76,831,677

For the six months ended June 30, 2011

	Number of Common Shares	Share capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2010	**415,589,017**	**$ 62,975,253**	**$ 20,813,991**	**$ 5,178,731**	**$ (10,516,410)**	**$ 3,651,767**	**$ 82,103,332**
Net loss					**(8,110,673)**		**(8,110,673)**
Currency translation adjustment						**3,105,613**	**3,105,613**
Warrants exercised for cash (Note 13)	**12,921,453**	**4,562,008**					**4,562,008**
Transfer of warrants assigned fair value		**1,387,275**	**(1,387,275)**				**-**
Stock-based compensation (Note 13)				**1,093,799**			**1,093,799**
Shares issued, net of costs (Note 13)	**53,900,000**	**33,929,240**					**33,929,240**
Balance at June 20, 2011	**482,410,470**	**$ 102,853,776**	**$ 19,426,716**	**$ 6,272,530**	**$ (18,627,083)**	**$ 6,757,380**	**$ 116,683,319**

See accompanying notes to the interim consolidated financial statements.

Note 1 Nature of Business

Petrodorado Energy Ltd ("Petrodorado" or the "Company") is a public oil and natural gas exploration company primarily engaged in exploration and development activities in Colombia, Peru and Paraguay. The Company's head office is located in Calgary, Alberta, Canada and the Company's shares are traded on the TSX Venture Exchange under the trading symbol PDQ. The Company's oil and gas interests are principally in the pre-production stage and other than for two blocks in Colombia, the Company has not yet determined whether all of its petroleum and natural gas properties contain reserves that are economically recoverable. Accordingly, the recoverability of amounts recorded as petroleum and natural gas properties is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interests in the properties, 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 operations. The outcome of these matters cannot be predicted with certainty at this time.

Note 2 Basis of presentation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 1 First-time adoption of IFRS ("IFRS 1") and International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

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 Canadian GAAP. A summary of the significant changes to the Company's accounting policies is disclosed in Note 18 along with the impact of the changeover to IFRS on the comparative periods. In addition, these interim consolidated financial statements contain certain disclosures for the comparative periods that were not required to be included in the Company's annual consolidated financial statements for the year ended December 31, 2010.

These interim consolidated financial statements follow the same accounting policies and method of computation as shown in Note 4 of the Company's interim consolidated financial statements for the three months ended March 31, 2011. These are the accounting policies that the Company expects to adopt in its annual consolidated financial statements for the year ending December 31, 2011, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted.

The interim consolidated financial statements have been prepared on a historical cost basis, are presented in U.S. dollars, and were authorized for issue by the Board of Directors on August 29, 2011.

Basis of consolidation

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Petrodorado Ltd., Petrodorado South America S.A. (formerly Holywell Resources S.A.) and PetroSouth Energy Corp. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany transactions and balances are eliminated upon consolidation.

Note 3 Significant accounting judgements, estimates and assumptions

The timely preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingencies, if any, at the date of the interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Specifically, amounts recorded for depreciation, depletion expense, decommissioning obligations, stock-based compensation, income taxes and the amounts used in impairment tests for long-lived assets are based on estimates.

These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest and currency exchange rates, volatility of the Company's shares and the expected life of stock options and forfeiture rates, future tax rates and timing of estimated reversals and likelihood of deferred tax assets being realized, future abandonment costs, timelines to abandonment and future costs to develop those reserves as well as other fair value assumptions. By their nature, these estimates are subject to change and the impact on the interim consolidated financial statements of changes in such estimates in future periods could be material.

Note 4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and exploration and evaluation assets

The fair value of property, plant and equipment and exploration and evaluation assets recognized in a business combination, is based on market values. The market value of property, plant and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(b) Financial assets and other liabilities

The fair value of financial assets and other liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

(c) Stock options and warrants

The fair value of employee stock options and warrants is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option and warrant behaviour), expected dividends, expected forfeiture rate and the risk-free interest rate (based on government bonds).

Note 5 Acquisitions

Acquisition of Holywell Resources S.A.

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

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

Net assets acquired at fair value		
Cash and cash equivalents	$	53,444
Accounts receivable		68,373
Exploration and evaluation assets		6,500,000
Accounts payable and accrued liabilities		(287,817)
	$	6,334,000
Consideration		
Cash	$	6,334,000

Acquisition of PetroSouth Energy Corp.

On October 27, 2010, the Company acquired PetroSouth Energy Corp. (“PetroSouth”) for cash consideration of $1,500,000. The assets of PetroSouth principally included an undivided 20% working interest in the Talora Block in Colombia.

The results of PetroSouth have been included in the accounts of the Company commencing October 27, 2010. The transaction was accounted for using the purchase method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Net assets acquired at fair value		
Cash and cash equivalents	$	148,948
Accounts receivable		41,967
Exploration and evaluation assets		1,503,194
Accounts payable and accrued liabilities		(194,109)
	$	1,500,000
Consideration		
Cash	$	1,500,000

Note 6 Cash Calls Receivable

Cash calls receivable is comprised of funds advanced to operating partners in respect of future exploration activity on blocks in which the Company is a non-operating partner. As these funds are expended by the operating partner, balances in this account are booked to property, plant and equipment. At June 30, 2011, all advanced funds had been completely used and billed by the operators.

Note 7 Restricted Cash and Other Receivables

On June 12, 2009, the Company entered into a joint farm-in participation agreement with an unrelated company (the La Maye Operator) to earn a 20% working interest in four wells in the La Maye Block in the country of Colombia. This agreement required Petrodorado to advance $3,500,000 into an escrow account. Petrodorado authorizes draws on this escrow account as certain development milestones are met. As at June 30, 2011, $1,699,603 (December 31, 2010: $3,192,643) had been drawn from this account, leaving $1,800,397 (December 31, 2010 - $307,357) in this escrow account. Included in this balance at December 31, 2010 were other receivable amounts of $1,493,040.

Term deposits totalling $8,405,000 (December 31, 2010 - $8,405,000) which were established to secure the Credit Facility and the Letters of Credit referred to in Note 8 of these statements.

Note 8 Credit Facility

The Company has a $5 million revolving demand loan facility (the "Credit Facility") with a Canadian chartered bank (the "Lender"). The Credit Facility is available by way of account overdraft in U.S. dollars or by letters of credit up to $4.8 million. As at June 30, 2011, no overdrafts were drawn under this Credit Facility. Any outstanding amounts will bear interest at the Lender's U.S. base rate plus an applicable margin. The Credit Facility is secured by security agreement over cash, credit balances and deposit instruments in the amount of $5 million. On July 7, 2010, a letter of credit for $4.8 million was issued under the credit facility to guarantee the Company's drilling obligations with ONGC Videsh Ltd. on the CPO-5 Block on Colombia, that are required to be completed by June 25, 2012.

On December 21, 2010, a further $3.0 million letter of credit was issued through a Colombian bank to Agencia Nacional De Hidrocarburos ("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, Pacific Rubiales, in the Tacacho Block. This letter of credit is secured by a $405,000 term deposit made at the Colombian bank.

Note 9 Exploration and Evaluation assets

		Total
As at January 1, 2010	$	5,640,442
Additions		46,776,486
Reclassifications to oil and gas properties		(16,348,340)
As at December 31, 2010		36,068,588
Additions		17,467,683
As at June 30, 2011	**$**	**53,536,271**

All costs capitalized as exploration and evaluation assets are intangible.

As at June 30, 2011 the exploration and evaluation assets balance includes $1,386,615 (December 31, 2010 – $869,842) corresponding to capitalized general and administrative expenses and stock-based compensation.

Note 10 Property, Plant and Equipment

Cost		Oil and Gas Properties		Furniture and equipment		Total
As at January 1, 2010	$	-	$	20,908	$	20,908
Additions		-		42,644		42,644
Reclassifications from exploration and evaluation assets		16,348,340		-		16,348,340
As at December 31, 2010		16,348,340		63,552		16,411,892
Additions		414,385		267,688		682,073
As at June 30, 2011	**$**	**16,762,725**	**$**	**331,240**	**$**	**17,093,965**

Accumulated depletion and depreciation	**Oil and Gas Properties**	**Furniture and equipment**	**Total**
As at January 1, 2010	$ -	$ 1,793	$ 1,793
Additions	841,042	10,941	851,983
As at December 31, 2010	841,042	12,734	853,776
Additions	646,696	31,131	677,827
As at June 30, 2011	**$ 1,487,738**	**$ 43,865**	**$ 1,531,603**
Net book value			
As at December 31, 2010	$ 15,507,298	$ 50,818	$ 15,558,116
As at June 30, 2011	**$ 15,274,987**	**$ 287,375**	**$ 15,562,362**

During the six months ended June 30, 2011, depletion of oil and gas properties was $646,696 (June 30, 2010 – $55,065) including estimated future development costs for $610,710 (June 30, 2010 – Nil).

As at June 30, 2011, oil and gas properties include $782,841 (December 31, 2010 – $782,841) related to capitalized general and administrative expenses and capitalized stock-based compensation.

As at June 30, 2011, oil and gas properties include non-depleted costs of $6,706,509 (December 31, 2010 - $6,391,922) associated with non-producing areas.

Note 11 Decommissioning Obligations

The Company's decommissioning obligations result from ownership interests in oil and gas properties, including well sites, gathering systems and processing facilities, and exploration and evaluation assets. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligation at June 30, 2011 and December 31, 2010 to be $535,000 for well sites, which will be incurred in approximately 10 years, and $198,000 for pipelines which will be incurred in approximately 20 years. The fair value of the decommissioning obligations at June 30, 2011 and December 31, 2010 was calculated using an average credit-adjusted risk free rate of 8% and an average inflation factor of 5%. Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at June 30, 2011, no funds have been set aside to settle these obligations. Changes to decommissioning obligations were as follows:

	June 30, 2011	December 31, 2010
Balance, beginning of the period	**$ 538,237**	$ -
Liabilities incurred during the period	**-**	516,748
Accretion expense for the period	**22,324**	21,489
Balance, end of the period	**$ 560,561**	$ 538,237

Note 12 Equity Tax

The Colombian Congress passed a law, effective January 1, 2011, which imposed a one-time 6% equity tax levied on Colombian operations. As at June 30, 2011, the Company has recognized an equity tax expense of $2,580,852 which is based on the Company's net worth in Colombia at January 1, 2011 and is payable in eight equal instalments between 2011 and 2014. The amount recognized is calculated by discounting the future net worth tax payments by the credit-adjusted risk-free rate.

	Total
	$ -
December 31, 2010	
Amount expensed during the period	2,580,852
Unwinding of discount (Note 14)	94,508
Foreign exchange loss	187,808
Payments made in the period	(418,990)
June 30, 2011	2,444,178
Current portion	(765,530)
Non-current portion	$ 1,678,648

Note 13 Share Capital

a) Authorized
Unlimited common shares

b) Issued
Common shares

	Number of Common Shares	Amount
Balance, January 1, 2010	394,218,311	$ 53,571,334
Options exercised	910,000	86,338
Warrants exercised for cash	20,460,706	7,120,796
Transfer of assigned fair value from warrants	-	2,196,785
Balance, December 31, 2010	415,589,017	$ 62,975,253
Warrants exercised for cash	12,921,453	4,562,008
Transfer of assigned fair value from warrants	-	1,387,275
Shares issued for cash (i)	53,900,000	35,935,400
Share issue costs	-	(2,006,160)
Balance, June 30, 2011	482,410,470	$ 102,835,776

Common Shares Issued:

(i) On March 1, 2011, the Company closed a bought deal prospectus offering by issuing a total of 53,900,000 common shares at a price of CDN$0.65 per common share for aggregate gross proceeds of CDN$ 35,035,000 (U.S. $35,935,400) with related share issue costs of $2,006,160.

c) Warrants

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

	Number of Warrants	Amount
Balance, January 1, 2010	214,285,000	$ 23,010,776
Warrants exercised	(20,460,706)	(2,196,785)
Balance, December 31, 2010	193,824,294	$ 20,813,991
Warrants exercised	(12,921,453)	(1,387,275)
Balance, June 30, 2011	180,902,841	$ 19,426,716

d) Stock Options

The Company has adopted a formal rolling stock option plan whereby options can be granted from time to time to directors, employees and consultants at the discretion of the Board of Directors. The number of options that can be granted is limited to 10% of the total shares issued and outstanding. A summary of the changes in stock options is presented below:

	Number of Options	Weighted Average Exercise Price (CDN$)
Balance, January 1, 2010	910,000	$ 0.10
Options exercised	(910,000)	$ 0.10
Options issued (i)	30,000,000	$ 0.49
Forfeitures (i)	(1,333,333)	$ 0.49
Balance, December 31, 2010	28,666,667	$ 0.49
Options issued (ii)	2,500,000	$ 0.59
Expired options (ii)	(333,334)	$ 0.49
Forfeitures (ii)	(666,666)	$ 0.49
Balance, June 30, 2011	30,166,667	$ 0.50
Exercisable, June 30, 2011	**19,500,005**	**$ 0.50**

(i) 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.

(ii) 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, 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, 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.

As at June 30, 2011, the outstanding options had a remaining weighted average term to expiry of 3.70 years (December 31, 2010 - 3.46 years).

The options were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	2011	2010
Expected forfeiture rate	10.00%	10.00%
Risk-free interest rate	2.23% to 2.34%	2.10% to 2.99%
Expected dividend yield	0%	0%
Expected stock price volatility	80% to 85%	60% to 66%
Expected option life	5 years	5 years
Fair value of options granted	CDN $0.229 to $0.476	CDN $0.259 to $0.276

During the period ended June 30, 2011, the Company recognized $857,365 (June 30, 2010 - $3,085,299) of stock-based compensation expense and capitalized $236,434 (June 30, 2010 – $572,208) to property, plant and equipment and to exploration and evaluation assets, for a total of $1,093,799 (June 30, 2010 - $3,657,507) that was recorded as contributed surplus.

Note 14 Finance costs

	For the three months ended June 30, 2011	
	2011	**2010**
Accretion of decommissioning obligations (Note 11)	**$ 17,331**	$ 3,001
Accretion of equity tax payable (Note 12)	**6,053**	-
	$ 23,384	$ 3,001

	For the six months ended June 30, 2011	
	2011	**2010**
Accretion of decommissioning obligations (Note 11)	**$ 22,324**	$ 6,002
Accretion of equity tax payable (Note 12)	**94,508**	-
	$ 116,832	$ 6,002

Note 15 Commitments

A summary of the Company's 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.

Note 16 Segmented Information

The Company defines its reportable segments based on geographical locations and the information for this is reported in the following tables for the periods ended June 30, 2011 and 2010.

For the three months ended June 30, 2011:

	Canada	Colombia	Paraguay	Peru	Total
Revenue:					
Oil and gas revenue, net of royalties	$ -	$ 2,270,162	$ -	$ -	$ 2,270,162
Interest and other	120,466	2,824	-	-	123,290
	120,466	2,272,986			2,393,452
Expenses:					
Operating costs	-	1,421,989	-	-	1,421,989
General and administrative	485,024	445,730	-	-	930,754
Foreign exchange loss	710,024	857,363	-	-	1,567,387
Stock-based compensation	410,437	-	-	-	410,437
Finance costs	-	23,384	-	-	23,384
Depletion and depreciation	2,272	673,284	-	-	675,556
	1,607,757	3,421,750	-	-	5,029,507
Net loss for the period	(1,487,291)	(1,148,764)	-	-	(2,636,055)
Assets, June 30, 2011	$ 53,045,247	$ 64,159,295	$ -	$ 8,270,564	$ 125,475,106
Additions to exploration and evaluation assets	$ -	$ 1,930,046	$ -	$ 4,116,472	$ 6,046,518
Additions to property, plant and equipment	$ -	$ 360,483	$ -	$ -	$ 360,483

For the six months ended June 30, 2011:

	Canada	Colombia	Paraguay	Peru	Total
Revenue:					
Oil and gas revenue, net of royalties	$ -	$ 2,270,162	$ -	$ -	$ 2,270,162
Interest and other	144,669	2,825	-	-	147,494
	144,669	2,272,987			2,417,656
Expenses:					
Operating costs	-	1,463,894	-	-	1,463,894
General and administrative	993,784	828,021	-	-	1,821,805
Foreign exchange loss	2,251,466	758,288	-	-	3,009,754
Stock-based compensation	857,365	-	-	-	857,365
Finance costs	-	116,832	-	-	116,832
Equity tax expense	-	2,580,852			2,580,852
Depletion and depreciation	4,543	673,284	-	-	677,827
	4,107,158	6,421,171	-	-	10,528,329
Net loss for the period	(3,962,489)	(4,148,184)	-	-	(8,110,673)
Assets, June 30, 2011	$ 53,045,247	$ 64,159,295	$ -	$ 8,270,564	$ 125,475,106
Additions to exploration and evaluation assets	$ -	$ 9,298,595	$ -	$ 8,169,088	$ 17,467,683
Additions to property, plant and equipment	$ 8,955	$ 673,118	$ -	$ -	$ 682,073

For the three months ended June 30, 2010:

	Canada	**Colombia**	**Paraguay**	**Peru**	**Total**
Revenue:					
Interest and other	$ 59,717	$ -	$ -	$ -	$ 59,717
Expenses:					
Pre-license costs	-	-	-	-	-
General and administrative	512,559	129,027	-	-	641,586
Business development expenses	160,498	110,044	-	-	270,542
Foreign exchange gain	(2,770,264)	(52,229)	-	-	(2,822,493)
Stock-based compensation	753,676	-	-	-	753,676
Finance costs	-	3,001	-	-	3,001
Depletion and depreciation	1,753		-	-	1,753
	(1,341,778)	189,843	-	-	(1,151,935)
Net income (loss) for the period	1,401,495	(189,843)	-	-	1,211,652
Assets, June 30, 2010	52,023,775	25,722,888	-	-	$ 77,746,663
Additions to exploration and evaluation assets	$ -	$ 705,629	$ -	$ -	$ 705,629
Additions to property, plant and equipment	$ 5,540	$ 644,972	$ -	$ -	$ 650,512

For the six months ended June 30, 2010:

	Canada	Colombia	Paraguay	Peru	Total
Revenue:					
Interest and other	$ 109,926	$ -	$ -	$ -	$ 109,926
Expenses:					
Pre-license costs	-	-	120,295	-	120,295
General and administrative	945,519	198,116	-	-	1,143,635
Business development expenses	160,498	110,044	-	-	270,542
Foreign exchange gain	(1,173,655)	(52,229)	-	-	(1,225,884)
Stock-based compensation	3,085,299	-	-	-	3,085,299
Finance costs	-	6,002	-	-	6,002
Depletion and depreciation	3,310		-	-	3,310
	3,020,971	261,933	120,295	-	3,403,199
Net loss for the period	(2,911,045)	(261,933)	(120,295)	-	(3,293,273)
Assets, June 30, 2010	52,023,775	25,722,888			$ 77,746,663
Additions to exploration and evaluation assets	$ -	$ 16,637,782	$ -	$ -	$ 16,637,782
Additions to property, plant and equipment	$ 21,073	$ 644,972	$ -	$ -	$ 666,045

Note 17 Supplemental Cash Flow Information

Changes in non-cash working capital:

Three months ended June 30, 2011 and 2010

	June 30, 2011	June 30, 2010
Accounts receivable	**$ 175,204**	$ (28,589)
Prepaid expenses and deposits	**(299)**	1,446
Inventory	**792,129**	(43,487)
Accounts payable and accrued liabilities	**2,045,309**	(225,803)
Change in non-cash working capital	**$ 3,012,343**	$ (296,433)
Relating to:		
Operating activities	**$ 670,956**	$ 190,267
Investing activities	**2,341,387**	(207,122)
Financing activities	**-**	(279,578)
Change in non-cash working capital	**$ 3,012,343**	$ (296,433)

Six months ended June 30, 2011 and 2010

	June 30, 2011	June 30, 2010
Accounts receivable	**$ 95,533**	$ (29,901)
Cash calls receivable	**2,249,657**	-
Prepaid expenses and deposits	**(1,117)**	6,964
Inventory	**307,412**	(43,487)
Accounts payable and accrued liabilities	**2,995,385**	(466,143)
Change in non-cash working capital	**$ 5,646,870**	$ (532,567)
Relating to:		
Operating activities	**$ 105,750**	$ 105,303
Investing activities	**5,541,120**	(247,031)
Financing activities	**-**	(390,839)
Change in non-cash working capital	**$ 5,646,870**	$ (532,567)

Note 18 Reconciliation from Canadian GAAP to IFRS

The Company's accounting policies under IFRS differ from those followed under Canadian GAAP as described in note 4 of 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, and for the comparative information for the three and six months ended June 30, 2010.

In preparing comparative information for the three and six months ended June 30, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

Reconciliation of the statement of financial position from Canadian GAAP to IFRS as at June 30, 2010:

As at	Ref	June 30, 2010	IFRS Adjustments	June 30, 2010
ASSETS				
Current Assets				
Cash and cash equivalents		$ 24,833,500	$ -	$ 24,833,500
Short-term investments		17,631,541	-	17,631,541
Accounts receivable		176,673	-	176,673
Inventory		98,552	-	98,552
Prepaid expenses and deposits		32,688	-	32,688
Total currents assets		42,772,954	-	42,772,954
Non-current assets				
Restricted cash and other receivables		11,949,852	-	11,949,852
Deposits on acquisition		242,000	-	242,000
Exploration and evaluation assets	**a**	-	16,206,470	16,206,470
Property, plant and equipment	**a**	22,358,467	(15,783,080)	6,575,387
Total non-current assets		34,550,319	423,390	34,973,709
		$77,323,273	**$ 423,390**	**$ 77,746,663**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 758,922	$ -	$ 758,922
Total current liabilities		758,922	-	758,922
Non-current liabilities:				
Decommissioning obligations		144,272	11,792	156,064
Total non-current liabilities		144,272	11,792	156,064
Total liabilities		903,194	11,792	914,986
SHAREHOLDERS' EQUITY				
Share capital		53,679,602	-	53,679,602
Warrants		23,005,408	-	23,005,408
Contributed surplus	**c**	3,230,406	427,101	3,657,507
Accumulated other comprehensive loss	**b**	948,382	(1,859,651)	(911,269)
Deficit	**a,b,c**	(4,443,719)	1,844,148	(2,599,571)
Total shareholders` equity		76,420,079	411,598	76,831,677
		$ 77,323,273	**$ 423,390**	**$ 77,746,663**

Reconciliation of the statement of comprehensive income for the three months ended June 30, 2010

	Ref	June 30, 2010	IFRS Adjustments	June 30, 2010
Revenue:				
Interest and other		$ 59,717	$ -	$ 59,717
Expenses:				
General and administrative		641,586	-	641,586
Business development expenses		270,542		270,542
Foreign exchange (gain) loss	b	1,027,979	(3,850,472)	(2,822,493)
Stock-based compensation	c	705,893	47,783	753,676
Finance costs		-	3,001	3,001
Depletion and depreciation		4,527	(2,774)	1,753
		2,650,527	(3,802,462)	(1,151,935)
Net income (loss) for the period		(2,590,810)	3,802,462	1,211,652
Other comprehensive loss:				
Currency translation adjustment	b	-	(3,850,472)	(3,850,472)
Comprehensive loss for the period		$ (2,590,810)	$ (48,010)	$ (2,638,820)
Net income (loss) per share - basic and diluted		$ (0.01)		$ 0.00
Weighted average shares outstanding basic and diluted		395,163,476		395,163,476

Reconciliation of the statement of comprehensive income for the six months ended June 30, 2010

	Ref	June 30, 2010	IFRS Adjustments	June 30, 2010
Revenue:				
Interest and other		$ 109,926	$ -	$ 109,926
Expenses:				
General and administrative		1,143,635	-	1,143,635
Business development expenses		270,542		270,542
Foreign exchange gain	b	(314,615)	(911,269)	(1,225,884)
Pre-licencing costs	a	-	120,295	120,295
Stock-based compensation	c	3,230,406	(145,107)	3,085,299
Finance costs		-	6,002	6,002
Depletion and depreciation		8,859	(5,549)	3,310
		4,338,827	(935,628)	3,403,199
Net loss for the period		(4,228,901)	935,628	(3,293,273)
Other comprehensive loss:				
Currency translation adjustment	b	-	(911,269)	(911,269)
Comprehensive loss for the period		$ (4,228,901)	$ 24,359	$ (4,204,542)
Net loss per share - basic and diluted		$ 0.01		$ 0.01
Weighted average shares outstanding basic and diluted		395,044,057		395,044,057

The reconciling items between Canadian GAAP and IFRS presentation have no significant effect on the cash flows generated. Therefore, a reconciliation of cash flows has not been presented above.

(a) 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.

(b) 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.

(c) 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.

Note 19 Subsequent Event

On August 16, 2011 Petrodorado farmed out a 30% working interest in the Talora Block to Sintana Energy, reducing its overall working interest to 65%. The terms of the farm-out, subject to ANH approval, included: 1) a bonus payment of US$5.2 million; 2) the farmee paying 60% of first well costs up to a maximum of US$6.5 million for the well, or $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 US$6.5 million for the well, or $2.925 million, with costs after the maximum to be paid at 30%.