

**Petro Uno Resources Ltd.**

Consolidated

Financial Statements

**June 30, 2008**

(Restated)

Notice to Reader:

The accompany unaudited interim financial statements for Petro Uno Resources Ltd. have been prepared by management and approved by the board of Directors of the Corporation.

Petro-Uno Resources Ltd.  
Consolidated Balance Sheet (restated)  
(unaudited)

	June 30, 2008	December 31 2007
<b>Assets</b>		
<b>Current assets</b>		
Cash & cash equivalents	\$ 185,513	\$ 713,895
Accounts receivable	116,750	4,302
Prepays and deposits	14,528	79,678
	<u>316,791</u>	<u>797,875</u>
Property Plant and Equipment (note 6)	4,074,898	0
	<u>4,391,689</u>	<u>797,875</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 334,379	\$ 50,000
Bank loan (note 7)	1,025,000	0
	<u>1,359,379</u>	<u>50,000</u>
Asset Retirement Obligation (note 8)	139,376	-
Future Tax Liability (note 9)	848,948	0
<b>Shareholders' Equity</b>		
Share capital, (note 10)	2,116,592	834,763
Contributed surplus	50,479	22,840
Deficit	(123,085)	(109,728)
	<u>2,043,986</u>	<u>747,875</u>
	<u>\$ 4,391,689</u>	<u>\$ 797,875</u>

See accompanying notes to these consolidated financial statements

Approved by the Board of Directors

"Signed"  
William E. Ambrose

"Signed"  
Donald Boykiw

Petro Uno Resources Ltd

Consolidated Statement of Operations, Comprehensive Loss and Deficit (Restated)

For the three and six month periods ended June 30, 2008 and 2007

	Three months ended, June 30th, 2008	Three months ended, June 30th, 2007	Six months ended, June 30th, 2008	Six months ended, June 30th, 2007
<b>Revenue</b>				
Revenue	\$ 282,230	\$ -	\$ 282,230	\$ -
Royalties	(23,909)	-	(23,909)	-
Interest income	1,046	-	7,804	-
	259,367	-	266,125	-
<b>Expenses</b>				
Operating expenses	119,773		119,773	-
General and administrative	122,314	30,130	218,646	30,130
Interest & other expense (note 7)	15,656		15,656	-
Depletion, depreciation and accretion	63,448		63,448	-
	321,191	30,130	417,523	30,130
Loss before income taxes	(61,824)	(30,130)	(151,398)	(30,130)
Current income tax expense (note 9)	25,878	-	25,878	-
Future income tax recovery (note 9)	(133,894)	-	(163,919)	-
	(108,016)	-	(138,041)	-
Loss and comprehensive loss for the period	46,192	(30,130)	(13,357)	(30,130)
Deficit - Beginning of period	(169,277)	-	(109,728)	-
Deficit - End of period	\$ (123,085)	\$ (30,130)	\$ (123,085)	\$ (30,130)

See accompanying notes to these consolidated financial statements

Loss per share - basic & diluted	\$ 0.00	\$ (0.08)	\$ (0.00)	\$ (0.08)
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Petro-Uno Resources Ltd.  
Consolidated Statement of Cash Flows (Restated)  
For the three and six month period Ended June 30, 2008 & 2007  
(unaudited)

	Three months ended, June 30 2008	Three months ended, June 30 2007	Six months ended, June 30 2008	Six months ended, June 30 2007
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	\$ 46,192	\$ (30,130)	\$ (13,357)	\$ (30,130)
Add back (deduct):				
Depletion, depreciation and accretion	63,448		63,448	
Future income tax	(133,894)		(163,919)	
Stock-based compensation	-		-	-
Changes in non-cash operating working capital	125,594	29,000	237,081	29,000
	101,340	(1,130)	123,253	(1,130)
<b>Financing activities</b>				
Issue of common shares, net of issue costs	9,782	289,400	1,270,772	289,400
Bank loan	50,000	-	1,025,000	-
Changes in non-cash financing working capital	-	-	11,587	-
	59,782	289,400	2,307,359	289,400
<b>Investing activities</b>				
Corporate acquisition (note 5)	-	-	(3,040,000)	-
Purchase of capital assets	(19,615)		(19,615)	
Cash acquired in corporate acquisition	-		43,913	
Changes in non-cash investing working capital	-	-	56,708	-
	(19,615)	-	(2,958,994)	-
Change in cash during the period	141,507	288,270	(528,382)	288,270
Cash and cash equivalents - beginning of period	44,006	-	713,895	-
<b>Cash and cash equivalents - end of period</b>	<b>\$ 185,513</b>	<b>\$ 288,270</b>	<b>\$ 185,513</b>	<b>\$ 288,270</b>
Cash interest received	\$ 1,046	\$ -	\$ 7,804	\$ -
Cash interest paid	\$ 15,656	\$ -	\$ 15,656	\$ -

See accompanying notes to these consolidated financial statements

**Petro Uno Resources Ltd.**  
Notes to Consolidated Financial Statements (Restated)  
June 30, 2008

**1 Incorporation & overview**

Petro Uno Resources Ltd. ("Petro Uno" or the "Corporation") was incorporated under the Business Corporations Act (Alberta) on July 12, 2006 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). The Corporation started operations and financings in June of 2007. The initial purpose of the Corporation was to identify and complete a qualifying transaction in accordance with Policy 2.4 of the Exchange. On March 31, of 2008, Petro Uno acquired all the issued and outstanding shares of Ballater Resources Ltd ("Ballater"), a private company incorporated under the laws of the Province of Alberta. The acquisition of Ballater did meet the requirements to be its qualifying transaction under the terms defined by the Exchange. Pursuant to the terms of the agreement, 100% of the issued and outstanding shares of Ballater were purchased for the consideration of \$2,950,000 cash. Petro Uno is now a fully listed tier 2 company on the Exchange.

These financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to operate for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation is now endeavouring to get its major business plan going by sourcing and reviewing opportunities in South America, mainly Colombia. It has formed a "strategic alliance" with private oil and gas Company based in Colombia named Pyxis Exploration Ltda. The alliance is intending to explore, develop and acquire high quality, high impact petroleum and natural gas ("P&NG") assets in Columbia.

The consolidated financial statements include the accounts Petro Uno Resources Ltd. And its wholly owned subsidiary, Ballater Resources Ltd.

**2 Summary of significant accounting policies**

As the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made using careful judgement. In the opinion of management, these financial statements have been prepared with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**Basis of presentation**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

**Revenue recognition**

Petroleum and natural gas revenues are recognized when title and risks pass to the purchaser.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and generally have a maturity date of three months or less.

#### **Income taxes**

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, temporary differences arising from the differences between the tax bases of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using substantively enacted tax rates that will be in effect when the temporary differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

#### **Stock based compensation**

The Corporation uses the fair value method for valuing stock option and warrant grants. Under this method, compensation cost, attributable to all stock option and warrant grants is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of options or warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

#### **Measurement Uncertainty**

The amounts that will be recorded for depletion and depreciation of petroleum and natural gas property, plant and equipment as well as the provision for asset retirement obligations are based on estimates. The ceiling test will be based on an estimate of proved reserves, production rates, petroleum and natural gas prices, future costs and any other relevant assumptions. These estimates by their nature are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

#### **Per share amounts**

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change. For the three month period ended, June 30, 2008 the basic weighted average number of common shares outstanding was 9,734,651 (2007 – 758,242). For the six month period, June 30, 2008 the average number of common shares outstanding was 8,428,005. (2007 – 381,215)

### **3 Cash**

Once the Qualifying Transaction of the Corporation was completed on March 31, 2008 all restrictions on cash were removed.

### **4 Changes in Accounting Policies**

The CICA published the following new sections that will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Corporation adopted these standards effective January 1, 2008.

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- Section 3862, “Financial Instruments – Disclosures” This section describes the required disclosures to evaluate the significance of financial instruments for the Corporation’s financial position and performance as well as the nature and extent of risks arising from financial instruments to which the Corporation is exposed and how the Corporation manages those risks (see Note 11).
- Section 3863, “Financial Instruments – Presentation.” This section establishes standards for presentation of financial instruments and non financial derivatives. It details the presentation of standards described in Section 3861, “Financial Instruments – Disclosure and Presentation.” (see Note 11)
- Section 1535, “Capital Disclosures.” This section establishes standards for disclosing information about the entity’s capital and how it is managed. It describes the disclosure of the entity objectives, policies and processes for managing capital as well as summary quantitative data on the elements in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non compliance (see Note 12).

**5 Purchase of Ballater Resources Ltd**

On March 31, 2008, the Corporation acquired all of the issued and outstanding shares of Ballater Resources Ltd (“Ballater”), a private company incorporated under the laws of the Province of Alberta. Pursuant to the terms of the agreement 100% of the issued and outstanding shares of Ballater were purchased for the consideration of \$2,950,000 cash.

The acquisition of Ballater was accounted for as a business combination as follows:

Net P&NG Property, plant and equipment	4,116,593
Current Assets	216,439
Current Liabilities	(103,701)
Abandonment & Restoration Obligation (ARO)	(137,237)
Future Income Tax Liability	(1,052,094)
<b>Total Consideration</b>	<b>3,040,000</b>
<hr/>	
Cash paid to acquire 100% issued and outstanding shares	2,950,000
Estimated acquisition costs	90,000
<b>Total Consideration</b>	<b>3,040,000</b>

6 Properties and equipment

	Cost	Accumulated depletion and depreciation	Net
<b>June 30, 2008</b>			
Petroleum and natural gas	\$4,179,372	\$124,089	\$4,055,283
Furniture and fixtures	19,615	0	19,615
	<b>\$4,198,987</b>	<b>124,089</b>	<b>\$4,074,898</b>

Note: No P&NG or furniture and fixtures assets in the Corporation before March 31, 2008

Included in the petroleum and natural assets is the acquisition of Ballater Resources Ltd on March 31, 2008 (note 5). The Corporation held no assets, other than cash prior to that time.

7 Bank Debt

The Corporation has a revolving credit facility with a Canadian financial institution for a maximum aggregate amount of \$1,250,000. The loan is secured under a General Security Agreement conveying a first floating charge over all the present and after acquired properties. Interest rate is Lender's Prime Rate plus 1.00% with funds being advanced in \$25,000 increments up to the maximum amount. At June 30, 2008 \$1,025,000 was drawn against the credit facility.

8 Asset retirement obligation

Total future asset retirement obligations were estimated by management based on the Corporation's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its total asset retirement obligations to be \$139,376 at June 30, 2008 (December 31, 2007 - nil) based on a total future liability of \$578,909 (2007 - nil). These costs are expected to be incurred over the next forty years. The Corporation's credit adjusted risk free interest rate of 7% and an average inflation rate of 4% were used to calculate the net present value of asset retirement obligations.

Asset Retirement Obligation Continuity Table	2008
Asset retirement obligation at beginning of year	\$ -
Amounts set-up on acquisition of resource assets	137,237
Accretion expense during year	2,139
Asset retirement obligation at June 30	139,376
Estimated accretion expense in future years	439,533
Estimated future liability as at June 30	\$578,909

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9 **Future income taxes**

The income tax provision is calculated by applying Canadian federal and provincial statutory tax rates to pre-tax income with adjustments as set out in the following table:

	Six months ended, June 30 2008
Loss before income taxes	\$151,398
Combined federal and provincial income tax rate	29.5%
Computed income tax recovery	44,662
Increase (decrease) resulting from:	
Valuation allowance	47,850
Future tax rate differential	29,713
Other	15,816
<b>Total income tax recovery</b>	<b>\$138,041</b>

The components of the net future income tax liability at June 30 were as follows:

	2008
Future income tax assets:	
Share issue costs	\$(58,251)
Losses carry forward	(73,961)
Asset retirement obligation	(36,238)
	(168,450)
Future income tax liabilities:	
Properties and equipment	1,017,398
<b>Net future income tax liability</b>	<b>\$848,948</b>

10 **Share capital**

**Authorized**

Unlimited number of common shares

Issued and outstanding

	Number of shares	Amount \$
Common share issued on incorporation Dec. 31/06	1	1
Common share cancelled	(1)	(1)
Common shares issued for cash, net of issue costs	3,000,000	289,400
Common shares issued for cash, net of issue costs	3,000,000	513,645
Exercise of options	150,000	31,718
<b>Balance as at December 31, 2007</b>	<b>6,150,000</b>	<b>834,763</b>
Common shares issued for cash, net of issue costs	3,535,750	1,064,081
Warrants issued		187,748
Exercise of options	150,000	30,000
<b>Balance as of June 30, 2008</b>	<b>9,835,750</b>	<b>2,116,592</b>

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In June of 2007 the Corporation issued 3,000,000 common shares @ \$0.10/share for proceeds, net of issue costs of \$289,400.

In September of 2007 the Corporation issued 3,000,000 common shares @ \$0.20/share for proceeds, net of issue costs of \$ 513,645.

On March 6<sup>th</sup> of 2008 the Corporation issued 3,535,750 common shares @ \$0.40/share for net cash proceeds of \$1,240,772. An adjustment of \$11,587 was added back to common shares for the tax effect of the share issue costs on future taxes and stock base compensation on the options. Each common share issued had a one – half share purchase warrant attached, with each full common share purchase warrant being exercisable into one common share at a price of \$0.60 for one year from the date of issue. These warrants were valued at \$0.1062 per unit as determined by the Black-Scholes model. The value of the 1,767,875 warrants granted was \$187,748. Assumptions used in the Black-Scholes model were a risk free interest rate of 4.25%, an 18-month life, a volatility of 50% and no dividends.

#### **Options**

On September 14, 2007 the Corporation issued 600,000 options to its directors and officers. These options entitle the holder to purchase a common share for the exercise price of \$0.20 per share. These options are fully vested and have an expiry date of five years from the date of grant. These options were valued at \$0.0352 per unit as determined by the Black-Scholes model. The stock-based compensation expense for the year ended December 31, 2007 was \$21,122, with a corresponding credit to contributed surplus. Assumptions used in the Black-Scholes model were a risk free interest rate of 3.87%, a 5-year life, a volatility of 1% and no dividends.

The Corporation also issued 300,000 options to its agent for work related to the Corporation's initial public offering. These options are fully vested and entitle the holder to purchase a common share for the exercise price of \$0.20 per share for a period of 18 months from September 24, 2007, the date the common shares were listed on the TSX Venture Exchange. These options were valued at \$0.0114 per unit as determined by the Black-Scholes model. The stock-based compensation expense for the year ended December 31, 2007 was \$3,435, with a corresponding credit to contributed surplus. Assumptions used in the Black-Scholes model were a risk free interest rate of 3.87%, an 18-month life, a volatility of 1% and no dividends.

On October 29<sup>th</sup> 2007 the agent exercised 150,000 of those options for a cash value of \$30,000. An amount of \$1,718 which originally was credited to contributed surplus, was transferred to share capital. In the first half of 2008 the agent has further exercised the remaining 150,000 for a cash value of \$30,000.

The Corporation issued as part of the March 6<sup>th</sup> 2008 financing, 265,181 options, being that number of compensation options that is equal to 7.5% of the common shares sold. The exercise price is \$0.40 per share for a period of 18 months from the date of issue. These options were valued at \$0.1062 per unit as determined by the Black-Scholes model. The stock based compensation for the period ended June 30, 2008 was \$28,172, with a corresponding

credit to contributed surplus. Assumptions used in the Black-Scholes model were a risk free interest rate of 4.25%, an 18-month life, a volatility of 50% and no dividends.

## 11 Financial Instruments

The Corporation holds various forms of financial instruments. The nature of these instruments and its operations expose the Corporation to market risk, credit risk and liquidity risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

### Market risk

Market risks are generally those risks that are outside of the control of the Corporation. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Corporation is to mitigate exposure to these risks, while maximizing returns to the Corporation.

#### *(a) Commodity price risk*

Due to the volatility of commodity prices the Corporation is potentially exposed to adverse consequences in the event of declining prices. The Corporation may enter into oil and natural gas contracts in order to protect its cash flow on future sales. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at June 30, 2008, the Corporation had no contracts outstanding.

#### *(b) Foreign currency exchange risk*

Even though all of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. In addition, the fair value of our risk management contracts will fluctuate as a result of changes in foreign exchange rates as most derivative contracts are denominated in US dollars. As at June 30, 2008 the Corporation had no forward, foreign exchange contracts in place.

#### *(c) Interest rate risk*

The Corporation's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rate of interest. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in the market rates. The Corporation has no interest rate swaps or financial contracts in place at or during the six months ended June 30, 2008.

### Credit risk

Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Corporation generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Corporation requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Corporation's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25<sup>th</sup> day of the

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month following delivery. The Corporation has not experienced any credit loss in the collection of its accounts receivable.

Liquidity risk

Liquidity risk would occur if the Corporation is not able to meet its financial obligations as they come due. The Corporation has established a standard of ensuring that it has enough available resources to withstand any downturn in the industry. As our industry is very capital intensive, the majority of our spending is related to our capital programs. See Note 12 for disclosure related to the management of our capital program. The Corporation's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

Fair values of financial instruments

The carrying value of financial instruments, which include accounts receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by contracted commodity volumes. Petro Uno's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

The carrying and fair values of the Corporation's financial instruments as at June 30, 2008

	Carrying Value	Fair Value
<u>Financial Assets</u>		
Held-for-trading:		
Cash,	185,513	185,513
Prepaid and deposits	14,528	14,528
Loans and receivables:		
Accounts receivables	116,750	116,750
<u>Financial Liabilities</u>		
Held-for-trading:		
Risk management liabilities	0	0
Other financial liabilities:		
Accounts payable and accrued liabilities	334,379	334,379
Credit facility	1,025,000	1,025,000

As at each reporting period the Corporation will assess whether a financial asset, other than those classified as held-for-trading is impaired. Any impairment loss will be included in earnings for the period.

**12 Capital Disclosures.**

The Corporation considers its capital structure to include shareholders' equity, bank debt and working capital. The Corporation will adjust its capital structure to manage its current and projected debt through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Petro Uno monitors its capital based on the current and projected ratios of net debt to cash flow.

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Petro Uno's objective in managing its capital structure is to:

- 1) create and maintain flexibility so that Petro Uno can continue to meet its financial obligations; and
- 2) finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.