

# **Petro Uno Resources Ltd.**

Consolidated Financial Statements

Unaudited

**September 30, 2009**

---

Petro – Uno Resources Ltd.  
**Balance Sheets**  
As at September 30, 2009 and December 31, 2008

<b>(Unaudited)</b>	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 17,674	\$ 200,226
Accounts receivable	138,583	85,471
Prepaid expenses and deposits	157,619	-
	<b>313,876</b>	285,697
Property and equipment (note 5)	<b>3,647,139</b>	3,915,821
	<b>\$ 3,961,015</b>	\$ 4,201,518
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 257,991	\$ 389,894
Bank debt (note 6)	1,225,000	975,000
	<b>1,482,991</b>	1,364,894
<b>Long-term liabilities</b>		
Asset retirement obligations (note 7)	169,335	171,517
Future income tax liability (note 8)	663,556	723,349
	<b>832,891</b>	894,866
	<b>2,315,882</b>	2,259,760
<b>Shareholders Equity</b>		
Share capital (note 9)	1,939,001	1,939,001
Contributed surplus (note 9)	88,153	60,717
Broker warrants (note 9)	187,747	187,747
Deficit	(569,768)	(245,707)
	<b>1,645,133</b>	1,941,758
	<b>\$ 3,961,015</b>	\$ 4,201,518

The accompanying notes are integral to the consolidated financial statements.

**Approved by the Board of Directors:**

(Signed)  
Michael Erickson  
Director

(Signed)  
William Ambrose  
Director

Petro Uno Resources Ltd.  
**Consolidated Statement of Operations, Comprehensive Loss & Deficit**  
For the three & nine month periods ended September 30, 2009 & 2008

Unaudited

	<b>Three months ended, September 30, 2009</b>	Three months ended, September 30, 2008	<b>Nine months ended, September 30, 2009</b>	Nine months ended, September 30, 2008
<b>Revenue</b>				
Revenue	\$ 190,310	\$ 402,886	\$ 543,094	\$ 685,116
Royalties	(8,471)	(26,340)	(20,120)	(50,249)
	<b>181,839</b>	376,546	<b>522,974</b>	634,867
<b>Expenses</b>				
Operating Expenses	68,357	88,337	251,381	208,110
General and administration	118,190	113,664	307,066	332,840
Interest expense, net (note 6)	8,021	14,074	23,495	21,927
Depletion, depreciation and accretion	93,174	91,191	297,473	154,639
Stock based compensation	39,390	5,976	27,436	5,445
	<b>327,132</b>	313,242	<b>906,851</b>	722,961
<b>Income (loss) before income taxes</b>	<b>(145,293)</b>	63,304	<b>(383,877)</b>	(88,094)
Current income tax expense (recovery) (note 8)	(0)	71,094	(23)	96,972
Future income tax expense (recovery) (note 8)	(9,769)	(62,642)	(59,793)	(226,561)
	<b>(9,769)</b>	8,452	<b>(59,816)</b>	(129,589)
<b>Income (loss) and comprehensive income (loss) for the period</b>	<b>(135,524)</b>	54,852	<b>(324,061)</b>	41,495
<b>Deficit – Beginning of period</b>	<b>(434,244)</b>	(123,085)	<b>(245,707)</b>	(109,728)
<b>Deficit - End of period</b>	<b>\$ (569,768)</b>	\$ (68,233)	<b>\$ (569,768)</b>	\$ (68,233)

The accompanying notes are integral to the consolidated financial statements

<b>Earnings (loss) per share - basic</b>	<b>\$ (0.01)</b>	\$ 0.01	<b>\$ (0.03)</b>	\$ (0.00)
<b>Earnings (loss) per share – fully diluted</b>	<b>\$ (0.01)</b>	\$ 0.01	<b>\$ (0.03)</b>	\$ (0.00)

The accompanying notes are integral to the consolidated financial statements.

**Petro Uno Resources Ltd.**  
**Consolidated Statement of Cash Flows**  
**For the three & nine month periods ended September 30, 2009 & 2008**

Unaudited

	<b>Three months Ended, September 30, 2009</b>	Three months Ended, September 30, 2008	<b>Nine months Ended, September 30, 2009</b>	Nine months Ended, September 30 2008
<b>Cash and cash equivalents provided by (used in)</b>				
<b>Operating activities</b>				
Income (loss) for the year	\$ (135,524)	\$ 54,852	\$ (324,061)	\$ 41,495
Items not affecting working capital				
Depletion, depreciation and accretion	93,174	91,191	297,473	154,639
Future income taxes (note 8)	(9,769)	(62,642)	(59,793)	(226,561)
Stock based compensation	39,390	5,976	27,436	5,445
	(12,729)	89,377	(58,945)	(24,982)
Net change in non-cash operating working capital items	(136,670)	(81,328)	(354,808)	155,753
Cash from operating activities	(149,399)	8,049	(413,753)	130,771
<b>Financing activities</b>				
Issue of common shares, net of share issue costs (note 9)	-	-	-	270,772
Bank debt	175,000	-	250,000	1,025,000
Bank debt	-	-	-	12,118
	175,000	-	250,000	2,307,890
<b>Investing activities</b>				
Corporate acquisition (note 4)	-	-	-	(3,040,000)
Purchase of capital assets	(9,039)	-	(23,531)	(19,615)
Sale of Capital assets	-	-	4,732	-
Cash acquire in corporate acquisition	-	-	-	43,913
Net change in non-cash investing working capital items	-	-	-	56,708
	(9,039)	-	(18,799)	(2,958,994)
<b>Change in cash and cash equivalents during the period</b>	<b>16,562</b>	<b>8,049</b>	<b>(182,552)</b>	<b>(520,333)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>1,112</b>	<b>185,513</b>	<b>200,226</b>	<b>713,895</b>
<b>Cash and cash equivalents – end of period</b>	<b>\$ 17,674</b>	<b>\$ 193,562</b>	<b>\$ 17,674</b>	<b>\$ 193,562</b>
<b>Cash and cash equivalents are comprised of:</b>				
Balance with banks	\$ 17,674	\$ 193,562	\$ 17,674	\$ 193,562
Short term deposits	\$ -	\$ -	\$ -	\$ -
	\$ 17,674	\$ 193,562	\$ 17,674	\$ 193,562
Cash Interest received	100	907	282	8,711
Cash Interest paid	8,121	14,981	23,777	30,638
Taxes paid	-	-	-	-

The accompanying notes are integral to the consolidated financial statements.

## **Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

### **For the three and nine month periods ended September 30, 2009 and 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, 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 met 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.

The consolidated financial statements include the accounts of Petro Uno and its wholly owned subsidiary, Ballater. Effectively January 1, 2009 Petro Uno and Ballater were amalgamated.

#### **2 Going Concern**

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 has reported a net loss and comprehensive loss in the past two years. The Corporation also has negative working capital as the current accounts payable balance plus Bank debt combine to be larger than the current assets on the balance sheet. Although the Corporation's assessment of its producing P&NG assets shows positive cash flows from operations based on its current forecast and financial models, there is significant doubt as to the appropriateness of the use of the going concern assumption due to the following factors:

- a) Continued weak petroleum and natural gas prices will affect the ability of the Corporation to generate cash flows.
- b) Current economic and credit conditions and resulting equity market decline may affect the Corporation's ability to raise or have access to funds for operational & capital spending.
- c) Financial results of the Corporation including working capital deficiency and accumulated net deficit.

To help remedy this situation the Corporation has reduced its international capital spending and future administrative costs. In addition the Corporation has moved its focus towards reviewing and completing projects in Canada & United States of America where the risks and costs have been greatly reduced. Management believes these measures in addition to the future cash flow of the Corporation arising from a recently completed, subsequent period end equity financing and achieving profitable operations will address the Corporation's working capital deficiency for the foreseeable future. However, there can be no assurances that the initiatives undertaken by management will be successful. These financial statements do not reflect adjustments that would be necessary should the going concern assumption be inappropriate. Such adjustments could be material.

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

**3 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 judgment. 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 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, and the ceiling test calculations are based on estimates of gross proved reserves, as determined by independent engineers, production rates, commodity prices, future costs and 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

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

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 and nine month period ended, September 30, 2009 the basic weighted average number of common shares outstanding was 9,835,750 (2008 – Three month ended, September 30 – 9,835,750. Nine month ended September 30 – 8,910,755). For all periods reported, the dilutive effect of the outstanding options have not been recognized in the consolidated financial statements given that these instruments would have been anti-dilutive.

**Oil and gas operations**

The Corporation is engaged in the exploration for and production of oil and natural gas in Canada.

The Corporation follows the full cost method of accounting for oil and gas operations whereby all costs related to the acquisition of, exploration for and development of oil and gas reserves are capitalized into a single Canadian cost centre. Such costs include leasehold acquisition costs, geological and geophysical costs, lease rentals on non-producing properties, drilling, and equipment costs and related overhead. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets with no gain or loss recognized, unless such a sale would result in a change of more than 20% in the depletion rate.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment is calculated using the units-of-production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production will be converted to equivalent volumes of petroleum based upon relative energy content.

The Corporation places a limit on the carrying value of property, equipment and other assets, which may be depleted against revenues of future periods (the “ceiling test”). The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves using forecasted prices, the carrying value of unproved properties and the cost of major development projects exceeds the carrying value. When the carrying value is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value of assets exceeds the fair value of proved and probable reserves, and the carrying value of unproved properties that contain no probable reserves.

Depletion is computed using the units-of-production method based on gross estimated proved oil and gas reserves (converted to equivalent units on the basis of estimated relative energy content). In determining the appropriate depletion rate, the Corporation includes the net book value of its oil and gas properties, as well as the estimated future costs to be incurred in developing proved reserves and excludes the unimpaired cost attributable to unproved properties.

## **Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

### **Depreciation**

Depreciation of office assets such as furniture and fixtures, leasehold improvements, computer hardware and software is calculated using the declining balance method at an annual rate of 30%.

### **Asset retirement obligation**

The Corporation recognizes legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of assets. A liability for the asset retirement obligation will be recognized when incurred, recorded at fair value and classified as a long-term liability in the balance sheet. When the liability is initially recorded, the entity will record the net present value of the cost with an increase in the carrying value of the related long-lived asset. The capitalized amount is depleted on a units-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of the accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or the original estimated undiscounted cost would also result in an increase or decrease to the liability. Actual costs incurred upon settlement of the liability are charged against the liability to the extent of the liability recorded. Any differences between the actual costs incurred upon settlement of the liability and the recorded liability is recognized as a gain or loss in the Corporation's earnings in the period in which the settlement occurs.

### **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.

- 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 12).
- 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 12)
- 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 13).

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

**Future accounting standards**

On February 13, 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). The impact on the Corporation's financial statements for the transition to IFRS is in its early stages of research, planning and development and has not yet been determined. Internal staff is involved with the transition and the Corporation will look to external sources and consultant to help implement the transition along with direct consultation and guidance from its external auditors.

**4 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. Effective April 1, 2009, the earnings and cash flow of Ballater are included in the financial statements on a go forward basis.

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
Acquisition costs	90,000
<b>Total Consideration</b>	<b>3,040,000</b>

**5 Properties and equipment:**

	Cost	Accumulated depletion and depreciation	Net
<b>September 30, 2009</b>			
Petroleum and natural gas	\$4,178,694	\$531,555	\$3,647,139
Furniture and fixtures	0	0	0
	<b>\$4,178,694</b>	<b>531,555</b>	<b>\$3,647,139</b>
<hr/>			
<b>December 31, 2008</b>			
Petroleum and natural gas	\$4,155,163	\$243,365	\$3,911,798
Furniture and fixtures	4,733	710	4,023
	<b>\$4,159,896</b>	<b>\$244,075</b>	<b>\$3,915,821</b>

No general and administrative costs are capitalized. Included in the depletion and depreciation calculation is \$34,600 in future capital costs associated with the reserves.

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

A computer was sold as part of a settlement, with a 3<sup>rd</sup> party consulting company in Colombia which Petro Uno had hired, for fair value with no gain or loss incurred.

The prices used in the ceiling test evaluation of the Company's natural gas, crude oil and natural gas liquids reserves as at December 31, 2008 which resulted in no impairment were:

<b>Years</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Increase Thereafter</b>
Oil (WTI \$Can/bbl)	67.07	88.95	98.28	106.10	113.95	+2.0%/yr
Natural gas (Alberta AECO C\$/mcf)	7.00	8.05	8.20	9.00	9.75	+2.0%/yr

Prices received by the Corporation for their oil and natural gas products may differ from the ones listed above because of quality differentials, marketing arrangements or purchase points variances

**6 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. As at September 30, 2009 \$1,225,000 (December 31, 2008 - \$975,000) was drawn against the credit facility.

**7 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 \$169,335 at September 30, 2009 (December 31, 2008 - \$171,517) based on a total future liability of \$501,838 (December 31, 2008 - \$513,000). These costs are expected to be incurred over the next fifty years. The Corporation's credit adjusted risk free interest rate of 7% and an average inflation rate of 2% were used to calculate the net present value of asset retirement obligations.

<b>Asset Retirement Obligation Continuity Table</b>	
<b>Asset retirement obligation at beginning of year, 2008</b>	\$ -
Amounts set-up on acquisition of resource assets	137,237
Additions & revisions during the year	23,060
Accretion expense during year	11,220
<b>Asset retirement obligation at December 31, 2008</b>	<b>171,517</b>
Accretion expense during year	8,980
Actual costs incurred	(11,162)
<b>Asset retirement obligation at September 30, 2009</b>	<b>169,335</b>
Estimated accretion expense in future years	332,503
<b>Estimated future liability as at September 30, 2009</b>	<b>\$ 501,838</b>

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

**8 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:

	<b>Three Months ended, September 30, 2009</b>	Three months ended, September 30, 2008	<b>Nine months ended, September 30, 2009</b>	Nine months ended, September 30, 2008
Income (Loss) before income taxes	( <b>\$159,782</b> )	\$63,304	( <b>\$383,877</b> )	(\$88,094)
Combined federal and provincial income tax rate	<b>29.0%</b>	29.5%	<b>29.0%</b>	29.5%
Computed income tax expense (recovery)	( <b>42,135</b> )	18,674	( <b>111,324</b> )	(25,988)
Increase (decrease) resulting from:				
Valuation Allowance		-		(47,850)
Future tax rate differential	<b>1,498</b>	(12,852)	<b>17,546</b>	(42,565)
Stock based compensation	<b>11,423</b>		<b>7,956</b>	
Other	<b>19,445</b>	2,630	<b>26,006</b>	(13,186)
<b>Total income tax recovery</b>	<b>(\$9,769)</b>	\$8,452	<b>(\$59,816)</b>	(\$129,589)

The components of the net future income tax liability at September 30, 2009 were as follows:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Future income tax assets:		
Share issue costs	\$(42,081)	\$(53,847)
Losses carry forward	(176,431)	(148,560)
Asset retirement obligation	(42,694)	(43,244)
	(261,206)	(245,651)
Future income tax liabilities:		
Properties and equipment	924,762	969,000
<b>Net future income tax liability</b>	<b>\$663,556</b>	<b>\$723,349</b>

Non-Capital tax losses of \$104,562, \$426,600 and \$99,540 will expire in the years 2027, 2028 and 2029 respectively.

**9 Share capital  
Authorized**

Unlimited number of common shares, Issued and outstanding

	<b>Number of shares</b>	<b>Amount \$</b>
<b>Balance as at December 31, 2007</b>	<b>6,150,000</b>	<b>834,763</b>
Common shares issued for cash	3,535,750	1,226,553
Less share issue costs, net of tax of \$47,668		(154,032)
Exercise of options	150,000	31,717
<b>Balance as at December 31, 2008 &amp; September 30, 2009</b>	<b>9,835,750</b>	<b>1,939,001</b>

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

On March 6<sup>th</sup> of 2008 the Corporation issued 3,535,750 common shares at \$0.40/share for net cash proceeds of \$1,240,772. An adjustment of \$20,026 was added back to common shares for the tax effect of the share issue costs on future taxes and stock based compensation on the options.

**Warrants:****Issued and outstanding**

	Number of common shares	Amount \$
<b>Balance – December 31, 2007</b>	<b>0</b>	<b>\$ 0</b>
Issued pursuant to a private placement	1,767,875	187,747
<b>Balance – December 31, 2008</b>	<b>1,767,875</b>	<b>\$ 187,747</b>
Activities for the first nine months, September 30, 2009	-	-
<b>Balance as at September 30, 2009</b>	<b>1,767,875</b>	<b>\$ 187,747</b>

Each common share issued on the March 6<sup>th</sup> Common share issue 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:**

The Corporation has a Stock Option Plan (the "Plan") pursuant to which options to purchase common shares of the Corporation may be granted by the Board of Directors to directors, officers, employees of, and consultants to the Corporation. The Plan has reserved for issuance a number of common shares equal to 10% of the aggregate number of common shares issued an outstanding from time to time.

**Issued and outstanding**

	Number of Options	Weighted Average Exercise Price \$
<b>Balance – December 31, 2007</b>	<b>750,000</b>	<b>\$ 0.20</b>
Granted	200,000	\$0.40
Exercised	(150,000)	\$(0.20)
Expired / Cancelled	(100,000)	\$(0.20)
<b>Balance – December 31, 2008</b>	<b>700,000</b>	<b>\$ 0.26</b>
Expired / Cancelled	(200,000)	\$(0.40)
Granted	483,000	\$ 0.32
<b>Balance – September 30, 2009</b>	<b>983,000</b>	<b>\$ 0.26</b>

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

On August 18th of 2009, 383,000 options were granted to Employees and consultants of the Corporation. The options are to acquire common shares of the Corporation at an exercise price of \$0.30 per share. The options, fair valued at \$94,065, will vest over 3 years and expire five years from the date of grant. Assumptions used to determine fair value in the Black-Scholes model were a risk free interest rate of 2.00, a 3 year life and a volatility of 117% based on the trading patterns of the Corporation's shares in the public market. A stock based compensation expense will be recognized over the vesting period with a corresponding adjustment to contributed surplus.

On September 8<sup>th</sup> of 2009, 100,000 options were granted to an officer of the Corporation. The options are to acquire common shares of the Corporation at an exercise price of \$0.395 per share. The options with a fair value of \$32,618 will vest immediately and will expire five years from the date of grant. Assumptions used in the Black-Scholes model to determine fair value were a risk free interest rate of 2.00, and a volatility of 117% based on the trading patterns of the Corporation's shares in the public market. A stock based compensation expense of \$32,618. was recognized in the current period ended September 30, 2009.

In May of 2008 the Corporation granted stock options to the president of a third party consulting company in Colombia as part of its joint agreement with them to explore in the Republic of Colombia. The option is to acquire up to 200,000 common shares of the Corporation at an exercise price of \$0.40 per share. The options, with a fair value of \$38,825, will vest over 3 years and expire five years from the date of grant. 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.

In 2009, as a result of the economic downturn and a change in the Corporation's business strategy, the joint agreement with the third party consulting company in Colombia was terminated and the options issued were cancelled.

In March of 2008, 100,000 options that were issued to the former chief financial officer were not exercised and were cancelled. In 2008 an agent exercised 150,000 options granted in 2007 for a cash value of \$30,000 and an amount of \$1,717 was transferred to share capital from contributed surplus.

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 added to share issue costs for the period ended September 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.

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

Stock Options currently outstanding and exercisable:

Exercise price range	Options Outstanding September 30, 2009	Weighted average exercise price(\$)	Weighted average contractual life (years)	Options Exercisable at September 30, 2009	Weighted average exercise price (\$)
\$0.20-\$0.40	983,000	\$0.26	3.9	600,000	\$0.23

**10 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 September 30, 2009, 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 September 30, 2009 the Corporation had no forward, foreign exchange contracts in place.

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

*(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 three month period ended September 30, 2009. For the nine month ended September 30, 2009, if interest rates had been 1.0% higher than the nine month 2009 weighted average of 3.5%, with all other variables being constant, after tax net earnings for the period would be lower by an estimated \$5,475.

*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. The Corporation also is operator of most of its wells and no parties take there revenue in kind. Given that, management of the corporation believes the credit risk with its joint venture partners to be minimal in that we can withhold revenue to offset any outstanding liability they may have with them. 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 month following delivery. The Corporation has not experienced any credit loss in the collection of its accounts receivable and has no allowance for doubtful accounts.

As at September 30, 2009, accounts receivable was comprised of the following:

	As at September 30, 2009
Sales revenue accounts receivable	80,803
Joint interest accounts receivable	3,370
Accrued and other receivable	54,410
<b>Total accounts receivable</b>	<b>\$138,583</b>

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

The Corporation's accounts receivable was aged as follows:

<b>Aging</b>	
Current	\$80,856
31 – 60 Days	54,688
61-90 Days	1,552
> 90 Days	1,487
<b>Balance September 30, 2009</b>	<b>\$138,583</b>

*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 11 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 September 30, 2009

	<b>Carrying Value</b>	<b>Fair Value</b>
<b><u>Financial Assets</u></b>		
Held-for-trading:		
Cash,	17,674	17,674
Receivables:		
Accounts receivables	138,583	138,583
Prepaid expenses and deposits	157,619	157,619
<b><u>Financial Liabilities</u></b>		
Other financial liabilities:		
Accounts payable and accrued liabilities	257,991	257,991
Credit facility	1,225,000	1,225,000

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

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.

**11 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 from operating activities as defined by GAAP.

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.

To facilitate the monitoring of its capital structure, management prepares an annual budget plan and frequent forecasts updating that plan with necessary changes due to results and economic changes outside the control of the Corporation. As of September 30, 2009 the Corporation had \$1.17 million in debt and negative working capital as detailed below:

	As at September 30, 2009
Current Assets	\$ 313,876
Current Liabilities	(1,482,991)
<b>Net Working Capital</b>	<b>\$ (1,169,115)</b>

The Corporation is required to maintain a working capital ration greater than 1:1 to remain in compliance with its Credit Facility. Working capital ratio defined for this calculation purposes is: the ratio of current assets plus any undrawn availability under the credit facility to current liabilities any amount drawn under the credit facility. At September 30, 2009 the Corporation had a working capital of 1.31:1, which is greater than the minimum ratio required. The Corporation has not entertained any off balance sheet transaction to achieve its capital structure.

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

**12 Related Party Transactions**

At September 30, 2009, amounts owed by the Corporation to Renegade Oil & Gas Ltd., a former related party with common directors and officers, were \$43,000. These fees relates to general and administrative expenses for the purposes of sharing the same office space and equipment.

The Corporation utilizes the services of a law firm in which a director is a partner of. During the nine month end September 30, 2009, The Corporation paid \$31,775.00 for fees and services provided from the firm.

All related party transactions are in the normal course of business and have been valued at the agreed terms and exchange values, being the consideration established and agreed to by the parties and on normal commercial terms.

**13 Subsequent events**

The Corporation had entered into a Letter of Intent ("LOI") with Ward Williston Company to purchase all of their interest in the McKinney Field located in the Renville County of North Dakota, USA. Under the terms of the LOI, Petro Uno intends to acquire the property for \$1,850,000. US cash. The purchase is subject to satisfactory due diligence by Petro Uno and was expected to close September 30<sup>th</sup>, 2009. The Corporation has been notified by Ward Williston Oil Company ("Ward Williston") that due to unforeseen issues it is currently unable to close the sale of the McKinney Field as scheduled. Ward Williston is hopeful that it will resolve its issues within 60 days and advised the Corporation that it remains willing to complete the sale on the original terms that were previously announced. If Petro Uno is satisfied with the purchase terms at that time it currently intends to complete the transaction.

The Corporation in October 2009 initiated and closed on an equity financing ("the Financing"), issuing 14,285,714 Units at a price of \$0.35 per unit for gross proceeds of \$5,000,000. Each Unit was comprised of one common share and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder thereof to acquire one common share of the company at a price of \$0.40 per share, expiring 12 months from the date of grant. All securities issued pursuant to the Financing are also subject to a four month hold period expiring on February 16, 2010 and March 2, 2010 respectively for the first and second tranche of the Financing. Petro Uno intends to use the proceeds from the Financing to complete its obligations under the farm-in letter agreement dated September 30, 2009 entered into between the Company and a private company (the "Farm-in Agreement"), for future acquisitions or additional farm-in commitments and other general corporate purposes.

The agent for the financing, in consideration for their efforts, received a cash commission of \$365,745 and 1,000,001 compensation options that will entitle them to acquire an equal number of Petro Uno common shares at a price of \$0.35 per share for a period of 12 months from the date of grant.

**Petro Uno Resources Ltd.**

Notes to Consolidated Financial Statements - Unaudited

**For the three and nine month periods ended September 30, 2009 and 2008**

In October the Corporation announced it has entered into a Farm-in Agreement ("Agreement") with a privately owned oil company located in the Kindersley area of South West Saskatchewan encompassing 1,000 net acres of land prospective for horizontal well development targeting the Viking Light Oil formation. The Corporation is committed to drill two horizontal wells within 180 days on the land blocks as defined by the Agreement. Petro Uno will earn a 100% working interest in said wells in exchange for a gross overriding royalty. Thereafter, the Corporation is to drill a minimum of one horizontal well on the lands every six months. The Corporation has also been granted a right of first refusal on an additional 640 net acres adjacent to the above referenced lands providing for additional potential horizontal well development opportunities.

In November the Corporation announced that it has entered into an agreement with Blackmont Capital Inc. ("Blackmont") to issue, on a private placement commercially reasonable efforts basis, up to \$2,000,000 in common shares of the Company to be issued on a "flow-through" basis (the "Flow-Through Shares") pursuant to the provisions of the Income Tax Act (Canada) at a price of \$0.50 per Flow-Through Share (the "Offering"). Blackmont's agreement to act as agent is subject to the completion of its due diligence.