

Management's Report

To the Shareholders of Petro Uno Resources Ltd.

Management is responsible for the preparation of the consolidated financial statements and for the consistency of all other financial and operating data presented in this annual report. Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

Petro Uno's external auditors, PricewaterhouseCooper LLP, Chartered Accountants, who are appointed by the shareholders, have audited the consolidated financial statements. The Audit Committee has reviewed the financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has subsequently approved the consolidated financial statements.

"signed"
William Ambrose
President and CEO

"signed"
Dwight Fieseler
Vice President, Finance & CFO

Calgary, Alberta, Canada
April 26, 2010

Independent Auditors' Report

To the Shareholders of Petro Uno Resources Ltd.

We have audited the consolidated balance sheets of Petro Uno Resources Ltd. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Signed] "PricewaterhouseCoopers LLP"
Chartered Accountants
Calgary, Canada
April 26, 2010

Petro Uno Resources Ltd.
Consolidated Balance Sheet

As at December 31, 2009, with comparative figures for 2008

	December 31 2009	December 31 2008
Assets		
Current assets		
Cash	\$ 4,943,522	\$ 200,226
Accounts receivable	241,181	85,471
Prepaid expenses and refundable deposits	142,089	-
	<u>5,326,792</u>	<u>285,697</u>
Property, plant and equipment (Note 4)	5,345,335	3,915,821
	<u>\$ 10,672,127</u>	<u>\$ 4,201,518</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,097,811	\$ 389,894
Bank debt (Note 5)	-	975,000
	<u>2,097,811</u>	<u>1,364,894</u>
Asset retirement obligations (Note 6)	250,609	171,517
Future income tax (Note 7)	281,827	723,349
Shareholders' equity		
Share Capital (Note 8)	6,866,636	1,939,001
Warrants (Note 8)	1,361,689	187,747
Contributed surplus (Note 9)	553,543	60,717
Deficit	(739,988)	(245,707)
	<u>8,041,880</u>	<u>1,941,758</u>
Commitments (Note 10)		
	<u>\$ 10,672,127</u>	<u>\$ 4,201,518</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“signed”

William Ambrose
Director

“signed”

Donald Boykiw
Director

PETRO UNO RESOURCES LTD.

Consolidated Statement of Operations and Comprehensive Loss and Deficit
For the year ended December 31, 2009, with comparative figures for 2008

	Year ended December 31,	
	2009	2008
Revenue		
Oil and natural gas sales	\$ 763,450	\$ 891,879
Crown royalties	(16,111)	(19,833)
Other royalties	(8,381)	(25,956)
Other income		
Interest and other income	1,739	9,596
	<u>740,697</u>	<u>855,686</u>
Expenses		
Operating	316,449	317,510
Transportation	31,110	23,479
General and administrative	570,079	552,499
Stock-based compensation	71,549	11,954
Interest	26,441	43,260
Depletion, depreciation and accretion	399,398	255,295
Foreign exchange losses	7,034	-
	<u>1,422,060</u>	<u>1,203,997</u>
Loss before taxes	(681,363)	(348,311)
Taxes		
Current income tax expense	1,879	68,745
Future income taxes (recovery) (Note 7)	(188,961)	(281,077)
	<u>(187,082)</u>	<u>(212,332)</u>
Loss for the period	(494,281)	(135,979)
Deficit, beginning of period,	(245,707)	(109,728)
Deficit, end of period	\$ (739,988)	\$ (245,707)
Loss per share		
Basic and diluted	\$ (0.04)	\$ (0.01)

See accompanying notes to consolidated financial statements.

PETRO UNO RESOURCES LTD.

Consolidated Statement of Cash Flows

For the year ended December 31, 2009, with comparative figures for December 31, 2008

	Year ended December 31,	
	2009	2008
Cash provided by (used in):		
Operations		
Loss for the period	\$ (494,281)	\$ (135,979)
Items not affecting cash:		
Depletion, depreciation and accretion	399,398	255,295
Stock-based compensation	71,549	11,954
Future income taxes	(188,961)	(281,077)
Recapture of depreciation on sale of asset	(1,012)	-
Asset retirement obligations paid	(17,618)	-
Funds flow from operations	(230,925)	(149,807)
Changes in non-cash working capital	(231,236)	338,402
	(462,161)	188,595
Financing		
Issuance of common shares	7,000,000	1,270,772
Cost of issuing shares	(729,707)	-
Bank debt	(975,000)	975,000
Changes in non-cash working capital	-	20,026
	5,295,293	2,265,798
Investments		
Corporate acquisition (Note 3)	-	(3,040,000)
Property, plant and equipment additions	(1,732,286)	-
Other additions/dispositions	1,096	(20,244)
Cash acquired in corporate acquisition	-	43,913
Changes in non-cash working capital	1,641,354	48,269
	(89,836)	(2,968,062)
Increase (decrease) in cash	4,743,296	(513,669)
Cash, beginning of period	200,226	713,895
Cash, end of period	\$ 4,943,522	\$ 200,226
Supplemental Information		
Interest paid	\$ 26,441	\$ 43,260
Interest received	\$ 1,739	\$ 9,596

See accompanying notes to consolidated financial statements.

PETRO UNO RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009, with comparative figures for December 31, 2008

1. Nature of business and basis of presentation

Petro Uno Resources Ltd. ("Petro Uno" or the "Company") is a public company in the business of exploration, development and production of crude oil, natural gas and natural gas liquids.

These consolidated financial statements are stated in Canadian dollars and have been prepared by management on a going concern basis and in accordance with Canadian generally accepted accounting principles following the accounting policies and methods of computation as described in Note 2.

The consolidated financial statements at December 31, 2009 include the accounts of Petro Uno and its subsidiary Ballater Resources Ltd. ("Ballater"), which was acquired March 31, 2008 and amalgamated effective January 1, 2009.

2. Summary of significant accounting policies

a) Use of estimates and management uncertainties

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. The amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for the asset retirement obligation and the impairment test are based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions.

The calculation of future income tax is based on assumptions, which are subject to uncertainty as to timing as well as the tax rates at which temporary differences are expected to reverse. In addition, the measurement of Petro Uno's income tax liability and tax pools requires interpretation of complex laws and regulations. All tax filings are subject to audit and reassessment, potentially several years after the initial filing. Accordingly, actual income tax assets and liabilities may differ significantly from the amounts initially estimated.

The fair value of stock options and related stock-based compensation expense is based on estimates using the Black-Scholes option pricing model. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

b) Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas operations whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis and charged against income, as set out below. Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities, carrying costs directly related to unproved properties and corporate expenses directly related to acquisitions, exploration and development activities and do not include any costs related to production or general overhead expenses. These costs, along with estimated future capital costs to be incurred in developing proved reserves, are depleted and depreciated on a unit of production basis using estimated proved petroleum and natural gas reserves, with both production and reserves stated

before royalties. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs. Unproved properties are evaluated for impairment on an annual basis or when events or conditions indicate.

Gains or losses on the disposition of petroleum and natural gas properties are recognized only when crediting the proceeds to the cost centre would result in a change of 20 percent or more in the depletion rate. Office equipment is recorded at cost.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling or impairment test"). The ceiling test is a two-stage process which is performed at least annually or when events or conditions dictate. The first stage of the test is a recovery test which compares the undiscounted future cash flow from proved reserves at forecast prices and costs plus the cost less impairment of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. A potential impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such undiscounted cash flow. The second stage determines the amount of the impairment loss to be recorded.

The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the future discounted cash flow from proved plus probable reserves at forecast prices and costs. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any impairment is recorded as additional depletion and depreciation.

Computer and office equipment are recorded at cost and amortized on a declining balance basis using rates varying from 20% to 45%.

c) Asset retirement obligation

Asset retirement obligations are the future costs associated with removal, site restoration and asset retirement. The fair value of the liability for the Company's asset retirement obligations is recorded in the period in which it is incurred, discounted to its present value using the Company's credit-adjusted, risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligations. Actual costs incurred upon settlement of the retirement obligations are charged against the obligation to the extent of the liability recorded.

d) Joint operations

A significant portion of the Company's exploration and development activities are conducted jointly with others. Accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

e) Cash and cash equivalent

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

f) Future income taxes

The Company uses the asset and liability method for accounting for future income taxes. Temporary differences arising from the differences between the tax basis 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 the currently enacted, or

substantively enacted, tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

g) Flow-through shares

The resource expenditure deductions funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. To recognize the foregone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers in the period when the corresponding exploration and development expenditure forms are filed.

h) Stock-based compensation

The Company has a stock-based compensation plan enabling officer, directors, employees and certain consultants to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 9). Under this method, stock-based compensation is recorded as an expense and an offsetting credit to contributed surplus is recorded over the vesting period. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to share capital. Forfeitures are accounted for as they occur and result in a reduction of compensation expense if the options are unvested at the time of forfeiture.

i) Revenue recognition

Petroleum and natural gas revenues are recognized when title and risks pass to the purchaser and the collectability is reasonably assured.

j) Per share amounts

Basic per share information is computed by using the weighted average number of common shares outstanding for the period. The treasury stock method is used to determine the diluted per share amounts, whereby any proceeds from stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of share outstanding is then adjusted by the net change. Anti-dilutive items are not included in the calculation.

k) Financial instruments

The Company's financial instruments consist of financial assets, financial liabilities, and derivatives. All financial instruments are initially recognized at fair value on the balance sheet. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, are recorded based on how each financial instrument was initially classified. The Company has classified each identified financial instrument into the following categories: held for trading, loans and receivables, and other financial liabilities. Held for trading financial instruments are measured at fair value with gains and losses recognized in earnings immediately. The fair value of derivatives is estimated for the Company by a third party. Loans and receivables, held to maturity investments and other financial liabilities are recognized at amortized cost using the effective interest method and impairment losses are recorded in earnings when incurred. Only those financial assets and liabilities that must be classified as held for trading are classified as such by the Company.

In the future the Company may use derivative instruments to manage market risk associated with volatile commodity prices, such instruments must be classified as held for trading and recorded on the balance sheet at fair value as derivative assets and liabilities. Under the alternative hedge accounting treatment, gains and losses on derivatives classified as effective cash flow hedges would be included in other comprehensive income until the time at which the hedged item is realized. The Company does not utilize derivative instruments for speculative purposes and

would elect not to apply hedge accounting. Therefore, gains and losses on these instruments would be recorded as unrealized gains and losses on derivatives in the consolidated statement of income, comprehensive income and retained earnings in the period they occur and as realized gains and losses on derivatives when the contracts are settled. Since unrealized gains and losses on derivatives are non-cash items, there would be no impact on cash provided by operating activities as a result of their recognition.

l) Changes in accounting policies

"In 2009, the Canadian Institute of Chartered Accountants ("CICA") issued amendments to the CICA Handbook Section 3862, "*Financial Instruments – Disclosures*". The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. Financial Instruments are required to be classified into three classes based on the method used to determine their fair values, considering whether a valuation technique was used.

Level 1 Financial Instruments are those valued based on quoted prices in active markets for the same instrument, Level 2 Financial Instruments are those valued based on quoted prices in active markets for similar assets or liabilities or other valuation technique for which all significant inputs are based on observable market data, and Level 3 Financial Instruments are those valued based on a valuation technique for which any significant input is not based on observable market data.

The new disclosures were applied prospectively and were applicable for annual financial statements relating to fiscal years ending after September 30, 2009. The adoption of these amendments for the year ended December 31, 2009 enhanced disclosures in Petro Uno's financial statements with respect to financial instruments.

In January 2009, the Emerging Issues Committee ("EIC") issued EIC 173 "*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*". This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. This new standard is effective for the Company's annual consolidated financial statements for the year ended December 31, 2009. Management has performed an assessment as of December 31, 2009 and believes there to be no impact on its financial statements."

m) Recent accounting pronouncements

As of January 1, 2010, the Company will adopt the following CICA Handbook sections:

1. Section 1582 "*Business Combinations*", which replaces Section 1581. Under this guidance, the purchase price used in business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all transaction costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings of each reporting period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation.
2. Section 1601, "*Consolidated Financial Statements*", which together with Section 1602 below replaces the former guidance under section 1600, "*Consolidated Financial Statements*". Section 1601 establishes standards for the preparation of consolidated financial statements.
3. Section 1602, "*Non-controlling Interests*", provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a

business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest.

3. Corporate acquisitions

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)
Total Consideration	\$ 3,040,000
Cash paid to acquire 100% issued and outstanding shares	\$ 2,950,000
Acquisition costs	90,000
Total Consideration	\$ 3,040,000

4. Property, plant and equipment

December 31, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$ 5,963,252	\$ (621,555)	\$ 5,341,697
Furniture, equipment and other	3,638	-	3,638
	\$ 5,966,890	\$ (621,555)	\$ 5,345,335

December 31, 2008	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$ 4,155,163	\$ (243,365)	\$ 3,911,798
Furniture, equipment and other	4,733	(710)	4,023
	\$ 4,159,896	\$ (244,075)	\$ 3,915,821

Undeveloped land costs and salvage values excluded from the depletion calculation as at December 31, 2009 were \$69,000 (December 31, 2008 – nil). Future development costs of \$360,000 (2008 - nil) were included in the calculation of depletion expense for the year ended December 31, 2009. No general and administrative costs are capitalized.

The Company performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of the petroleum and natural gas properties. The future commodity prices used in the ceiling test were based on December 31, 2009 commodity price forecasts of the Company's independent reserve engineers adjusted for quality and location differentials specific to the Company's reserves. The following table summarizes the benchmark prices used in the ceiling test calculation for the impairment test. Based on the expected future commodity prices no write-down was required for the year ended December 31, 2009.

	WTI Cushing Oklahoma (\$US/bbl)	EDMONTON 40 d API (\$Cdn/bbl)	Alberta AECO-C (\$Cdn/mmbtu)	Natural Gas Liquids (\$Cdn/bbl)
2010	\$ 79.17	\$ 84.25	\$ 5.36	\$ 53.38
2011	84.46	89.99	6.21	57.35
2012	86.89	92.61	6.44	59.06
2013	90.20	96.19	7.23	61.72
2014	92.01	98.13	7.98	63.38
2015	93.85	100.11	8.16	64.68
2016	95.72	102.13	8.34	65.99
2017	97.64	104.19	8.52	67.34
2018	99.59	106.30	8.71	67.34
2019	101.58	108.44	8.90	70.09
2020	103.61	110.63	9.10	71.53

Escalation rate of 2.0% thereafter.

5. Bank Debt

At December 31, 2009, the Company had a revolving credit facility in the amount of \$1,250,000 (2008 - \$1,250,000) with a Canadian financial institution. The interest rate charged on the bank facility is the bank's prime plus 1.00% with funds being advanced in \$25,000 increments up to the maximum amount. This facility is secured by the assets of the company and the authorized limit of the facility will be reviewed in May 2010. As at December 31, 2009 nil (December 31, 2008 - \$975,000) was drawn against the credit facility.

6. Asset retirement obligation

The total future asset retirement obligations were estimated by management based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2009 to be \$614,848 (2008 - \$513,000), which will be incurred at various times between 2010 and 2014. The fair value of the asset retirement obligations incurred in the period ended December 31, 2009 was calculated using an average credit-adjusted risk free rate of 7% (2008 - 7%) and an average inflation factor of 2% (2008 - 2%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at December 31, 2009 no funds have been set aside to settle these obligations.

A reconciliation of the asset retirement obligations is provided below:

	2009	2008
Obligation, beginning of year	\$ 171,517	\$ -
Liabilities acquired in period	-	137,237
Liabilities incurred in period	75,804	23,060
Liabilities settled in period	(17,618)	-
Accretion expense	20,906	11,220
Obligation, end of year	\$ 250,609	\$ 171,517

7. Future income taxes

Future income tax expense differs from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate of 28.0% (2008 - 29.5%) to earnings before taxes. The reasons for the differences are as follows:

	2009	2008
Loss before taxes	\$ (681,363)	\$ (348,311)
Statutory tax rate:	29.0%	29.5%
Expected income tax (recovery)	\$ (197,595)	(102,752)
Add (deduct):		
Non-deductible stock-based compensation	20,749	3,370
Effect of reduction in tax provision rate	(18,042)	(40,235)
Valuation allowance	-	(52,756)
Other	7,806	(19,959)
Future net income tax (recovery)	\$ (187,082)	\$ (212,332)

At December 31, 2009, the Company has approximately \$1,013,707 (2008 - \$530,572) in non-capital losses available for application against future taxable income expiring between 2027 and 2029.

The tax effects of temporary differences that give rise to the future tax liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Tax liabilities:		
Property, Plant and equipment	\$ (867,834)	\$ (969,000)
Tax assets:		
Non capital losses	283,838	148,560
Share issue costs	239,517	53,847
Asset retirement obligation	62,652	43,244
Net future tax asset (liability)	\$ (281,827)	\$ (723,349)

8. Share capital

The Company has authorized an unlimited number of common shares and preferred shares. The outstanding share capital is as follows:

a) Common and preferred shares

	Number of Shares	Amount
Balance, December 31, 2007	6,150,000	\$ 834,763
Issue of common shares for cash	3,535,750	1,226,553
Exercise of options	150,000	30,000
Fair value of options on exercise		1,717
Share issue costs, net of future income taxes of \$47,668		(154,032)
Balance, December 31, 2008	9,835,750	\$ 1,939,001
Issue of common shares for cash	14,285,714	3,638,311
Issue of flow-through common shares for cash	4,000,000	2,000,000
Share issue costs, net of future income taxes of \$252,561		(710,676)
Balance, December 31, 2009	28,121,464	\$ 6,866,636

On March 6, 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.

On October 15 and 29, 2009 the Company closed 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 were 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.

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. These agent’s options were valued at \$0.1668 per option or \$166,807 as determined by the Black-Scholes model and were accounted for as a charge to share issuance costs and a credit to contributed surplus. Assumptions used in the Black-Scholes model were a risk free interest rate of 2.0%, a 12-month life, a volatility of 126% and no dividends.

On December 1, 2009 the Company closed a private placement, issuing 4,000,000 flow-through shares at a price of \$0.50 per flow-through share for gross proceeds of \$2,000,000. The Company is committed to spending \$2,000,000 on qualifying exploration and development expenditures prior to December 31, 2010. As at December 31, 2009, \$1,000,000 has been expended and will be renounced in the first quarter of 2010. The tax effect of the tax benefits renounced to subscribers will be recognized in the financial statements when the renouncement documents are filed in the first quarter 2010. The remaining commitment of \$1,000,000 was spent in late March 2010 and will be renounced in the second quarter of 2010.

The agent for the financing, in consideration for their efforts, received a cash commission of \$140,000 and 280,000 compensation options that will entitle them to acquire an equal number of Petro Uno common shares at a price of \$0.50 per share for a period of 12 months from the date of grant. These agent’s options were valued at \$0.2383 per option or \$66,723 as determined by the Black-Scholes model and were accounted for as a charge to share issuance costs and a credit to contributed surplus. Assumptions used in the Black-Scholes model were a risk free interest rate of 2.0%, a 12-month life, a volatility of 126% and no dividends.

b) Common share purchase warrants

	Number of warrants	Amount
Balance, at December 31, 2007	-	\$ -
Issued pursuant to a private placement	1,767,875	187,747
Balance, December 31, 2008	1,767,875	\$ 187,747
Warrants expired	(1,767,875)	(187,747)
Issued pursuant to a private placement	7,142,857	1,361,689
Balance, December 31, 2009	7,142,857	\$ 1,361,689

As part of the 2008 financing (Note 8a), the Company issued to subscribers 1,767,875 share purchase warrants, exercisable into one common share at a price of \$0.40 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 \$187,747. 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. These warrants expired unexercised in September 2009.

As part of the 2009 financing (Note 8a), the Company issued to subscribers 7,142,857 share purchase warrants, exercisable at \$0.40 for 12 months from the initial closing date of October 15 and 29, 2009. These warrants were valued at \$0.1906 per unit or \$1,361,689 as determined by the

Black-Scholes model. Assumptions used in the Black-Scholes model were a risk free interest rate of 2.0%, a 12-month life, a volatility of 126% and no dividends.

c) *Stock options*

The Company has issued options to purchase common shares to directors, officers and employees. Each stock option vests equally over three years and expires at the end of a five year term.

The following table summarizes the change in the outstanding stock options.

	Number of Options	Weighted average exercise price
Balance, December 31, 2007	750,000	\$ 0.20
Granted	200,000	\$ 0.40
Exercised	(150,000)	\$ 0.20
Cancelled	(100,000)	\$ 0.20
Balance, December 31, 2008	700,000	\$ 0.26
Granted	1,933,000	\$ 0.36
Expired	(200,000)	\$ 0.40
Balance, December 31, 2009	2,433,000	\$ 0.33
Exercisable, December 31, 2009	500,000	\$ 0.20

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 8th 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.

On October 29th of 2009, 1,450,000 options were granted to directors, employees and consultants of the Corporation. The options are to acquire common shares of the Corporation at an exercise price of \$0.38 per share. The options, fair valued at \$467,803, 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 126% 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.

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.

On December 31, 2009, options for the purchase of 2,433,000 common shares were outstanding with an exercise price of \$0.33 and a weighted-average remaining life of 4.22 years.

d) Stock-based compensation

The Company accounts for its stock options granted to employees, officers, and directors using the fair value method. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the fair value of the security at the date of grant. The compensation cost that has been charged against earnings for the stock options was \$71,549 for the year ended December 31, 2009 (2008 - \$60,717). The fair value of the options granted in 2009 was \$0.31 per stock option.

The fair market value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

		2009
Weighted average fair value per option	\$	0.31
Dividend yield		zero
Volatility		126%
Risk-free rates		2.0%
Expected life (years)		5

e) Per share amounts

The weighted average numbers of shares outstanding for the determination of basic and diluted per share amounts are as follows:

	2009	2008
Basic	13,017,679	9,135,725
Diluted	13,183,903	9,635,725

As at December 31, 2009, 1,933,000 options and 7,142,857 share purchase warrants were excluded from the dilution calculation as they were anti-dilutive.

9. Contributed surplus

A reconciliation of contributed surplus resulting from the prospective stock-based compensation adoption for stock options granted since January 1, 2008 is provided below:

		2009		2008
Balance, beginning of year	\$	60,717	\$	-
Stock-based compensation expense		71,549		60,717
Transfer of carrying value of warrants expired		187,747		-
Carrying value of share issue expense related to equity issue		233,530		-
Balance, end of year	\$	553,543	\$	60,717

10. Commitments

The Company is committed to spending \$2,000,000 on qualifying exploration and development expenditures prior to December 31, 2010, relating to flow-through share placement (Note 8a), of

which \$1,000,000 has been expended as at December 31, 2009 and will be renounced in the first quarter of 2010. The remaining \$1,000,000 flow-through commitment was spent on qualified exploration and development drilling in March 2010 and will be renounced in the second quarter 2010.

In early October, Petro Uno entered into a Farm-in Agreement ("Agreement") with a privately owned oil company located in Saskatchewan encompassing 1,000 net acres of land prospective for horizontal well development targeting the Viking Light Oil formation. The Company is to drill a minimum of one horizontal well on the lands every six months.

11. Related party transactions

At December 31, 2009, the Company owed \$43,000 to Renegade Oil & Gas Ltd. (purchased by Legacy Oil & Gas Inc. in 2009), a former related party with common directors and officers. These fees relate to general and administrative expenses for the purposes of sharing the same office space and equipment.

A director of the Company is a partner at a law firm that provides legal services to the Company. For the year ended December 31, 2009, fees of \$179,382 (2008 - nil) were charged for fees and services provided from the firm. Included in accounts payable and accrued liabilities at December 31, 2009 is \$147,607 (2008 - nil) owing to the law firm.

All related party transactions are conducted in the normal course of business operations and are measured at the exchange amount, which is established and agreed to based on standard rates, time spent and costs incurred.

12. Capital disclosures

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Company considers its capital structure to include cash, cash equivalents and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital which is calculated as follows:

	2009	2008
Cash	\$ 4,943,522	\$ 200,226
Current assets	383,270	85,471
Current liabilities	(2,097,811)	(1,364,894)
Net cash and working capital (deficit)	\$ 3,228,981	\$ (1,079,197)

The Company is required to maintain a working capital ratio 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 and amount drawn under the credit facility. At December 31, 2009, the Company had a working capital of 3.14:1, which is greater than the minimum ratio required. The Company has not entertained any off balance sheet transaction to achieve its capital structure.

13. Financial instruments

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Fair Value of Financial Instruments

The carrying value of financial instruments, which include accounts receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities, and the bank credit facility, 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, and the bank credit facility 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 Company's financial instruments as at December 31, 2009 were as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial Assets</u>				
Held-for-trading:				
Cash	4,943,522	4,943,522	200,226	200,226
Receivables:				
Accounts receivable	241,181	241,181	85,471	85,471
<u>Financial Liabilities</u>				
Other financial liabilities:				
Accounts payable and accrued liabilities	2,097,811	2,097,811	389,894	389,894
Credit facility	-	-	975,000	975,000

As at each reporting period the Company 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.

The Company has evaluated the financial instruments fair values in accordance with CICA Handbook sections 3862. The Company's financial instruments that are carried at market were evaluated against the sections' fair value hierarchy criteria. The Company has concluded that all the financial instruments are level 3 as defined in the Handbook section 3862, as the inputs to determine the market value are not based on observable market data.

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or joint venture partner is unable to meet its contractual obligations and arises principally from the Company's accounts receivable with respect to the sale of petroleum and natural gas. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have adequate asset backing that secure the revenues. These revenues are normally collected on the 25th day of the month following delivery. The Company has not experienced any credit loss in the collection of its accounts receivable and has no allowance for doubtful accounts.

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2009 and 2008, the Company's receivables were aged as follows:

Ageing	December 31, 2009	December 31, 2008
Not past due (less than 90 days)	\$ 238,695	\$ 82,887
Past due (90 days to one year)	2,486	2,584
	\$ 241,181	\$ 85,471

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available 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. The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. See Note 12 for disclosure related to the management of Petro Uno's capital program. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Market risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

From time to time, the Company may use both financial derivatives and physical delivery sales contracts to manage market risks. Any such transactions would be approved by the Board of Directors.

Commodity price risk

The Company is exposed to fluctuations in commodity prices for petroleum and natural gas. Commodity prices are affected by many factors including supply and demand. There were no financial instruments in place to manage commodity prices during the year ended December 31, 2009.

Foreign currency

While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2009.

Interest rate risk

The Company'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 Company has no interest rate swaps or financial contracts in place at December 31, 2009.

14. Supplemental disclosure of cash flow information

Changes in non-cash working capital

	Year ended December 31,	
	2009	2008
Accounts receivable	\$ (155,710)	\$ (81,169)
Prepaid expenses and deposits	(142,089)	79,678
Accounts payable and accrued liabilities	1,707,917	388,162
	\$ 1,410,118	\$ 386,671
Less: change in non-cash working capital related to investing	1,641,354	48,269
Change in non-cash working capital related to operations	\$ (231,236)	\$ 338,402

15. Subsequent events

On February 2, 2010 the Company agreed to enter into a joint venture (the "Joint Venture") with Renegade Petroleum Ltd. ("Renegade"). Under the Joint Venture, the Company will participate on a 50/50 basis with Renegade in the development of the Viking Pool in the Dodsland area of Saskatchewan with the object being to drill horizontal multi-stage fractured wells into the Viking zone. The Company has entered into 8 farm-in agreements covering 10,560 acres in the area. In excess of 100 drilling locations have been indentified on the associated acreage. Under the terms of the Joint Venture, Renegade will also have an option to participate in any further farm-in agreements that the Company may negotiate in the region on a 50/50 basis. The Joint Venture agreement, which has an effective date of January 1, 2010, was finalized and signed by both parties on April 26, 2010. Renegade will equalize into the first three wells drilled by Petro Uno and accounting adjustments will be completed in the second quarter.

On March 1, 2010, the Company announced that 7,142,857 warrants of the Company (the "Warrants") to purchase common shares of the Company ("Common Shares") commenced trading on the TSX Venture Exchange under the trading symbol "PUP.WT" at market open on March 2, 2010. The Warrants were issued in connection with the private placement (see Note 8 a) which closed in two tranches on October 15, 2009 (the "First Tranche") and October 29, 2009 (the "Second Tranche"). Each Warrant entitles the holder thereof to acquire one Common Share at a price of \$0.40 per share at any time prior to October 15, 2010 for Warrants issued under the First Tranche and October 29, 2010 for Warrants issued under the Second Tranche.

On March 1, 2010, the Company announced that it, together with Renegade Petroleum Ltd. ("Renegade"), completed a joint acquisition of a private Saskatchewan company (the "Privateco Acquisition"), from its shareholders for total consideration of \$5.7 million. Under the Privateco Acquisition, the Company issued 2,000,000 common shares at \$0.60 per share in the capital of Petro Uno and Renegade paid \$4.5 million in cash.

During the month of March, 2010 and pre the signing of the Joint Venture agreement, the Company drilled 2 (1.5 net) successful horizontal wells in Saskatchewan. Pursuant to the terms of the flow-through arrangement (Note 8a), the Company will renounce \$1,000,000 of Canadian exploration and development expense deductions and record the future tax adjustment associated with this renouncement in the second quarter of 2010. As a result of the short spring breakup, the Company is currently working on completing and equipping the wells for production.

During the month of April, 2010, the Company drilled 2 (0.79 net) successful horizontal wells in Saskatchewan.

At April 26, 2010, the Company had expended all funds received pursuant to the 2009 flow-through agreements and will renounce, file and record the future tax adjustment associated with this renouncement in May 2010.