



2010 Q1 MD&A

## Management's Discussion and Analysis

*Petro Uno Resources Ltd. ("Petro Uno" or the "Company") is a public company engaged in the exploration for, and the development and production of, petroleum and natural gas in Western Canada, and has a fiscal year end of December 31.*

*This Management's Discussion and Analysis ("MD&A") is a review of how Petro Uno performed during the period covered by the financial statements, and of Petro Uno's financial condition and future prospects. This MD&A compliments and supplements the financial statements of the Company, and should be read in conjunction with the accompanying unaudited consolidated interim financial statements and the related notes for the period ended March 31, 2010 of Petro Uno and the audited consolidated financial statements and related notes and MD&A for the year ended December 31, 2009. The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Petro Uno's Board of Directors has reviewed and approved the consolidated financial statements and MD&A. This MD&A is effective May 28, 2010.*

*Additional information on the financial statements, this MD&A and other factors that could affect the company's operations and financial results are included in reports, on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).*

## READER ADVISORIES

### Forward Looking Statements

In the interest of providing Petro Uno shareholders and potential investors with information regarding the Company, including management's assessment of Petro Uno's future plans and operation, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statement will not occur, which may cause Petro Uno's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks and uncertainties include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competitions; risks inherent in Petro Uno's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids; Petro Uno's ability to replace and expand oil and gas reserves; risks associated with technology; its ability to generate sufficient cash from operations to meet its current and future obligations; Petro Uno's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; Petro Uno's ability to secure adequate product transportation; changes in environmental and other regulations or the interpretations of such regulations; political and economic conditions; terrorist threats; risks associated with potential future lawsuits and regulatory actions made against Petro Uno; Petro Uno's ability to utilize all of its tax pools and investment tax credits; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Petro Uno.

Statements relating to “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Petro Uno believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and Petro Uno does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

### **Non-GAAP Measures**

This MD&A uses the terms “funds flow from operations”, “netbacks” and “net debt”, which are terms not recognized under GAAP. The Company uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions.

The Company considers funds flow from operations as a key performance measure as it demonstrates the Company’s ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds flow from operations and funds flow from operations per share should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Petro Uno’s performance. Petro Uno’s determination of funds flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and funds flow from operations can be found in the statement of cash flows in the financial statements. Petro Uno also presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of net earnings per share, which per share amount is calculated under GAAP and is more fully described in the notes to the financial statements.

The Company considers corporate netbacks as a key measure as it demonstrates its profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds from operations and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (excluding financial instrument gains and losses) and then subtracts royalties, transportation costs and operating expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs, interest expense and adds interest income. To calculate the net earnings netback, Petro Uno takes the funds flow netback and deducts unrealized gains/losses on hedges, stock-based compensation expense, depletion, depreciation and amortization charges and future income taxes. There is no GAAP measure that is reasonably comparable to netbacks. See the section below entitled “Operating Netbacks by Product” for calculations of operating netbacks for each commodity type.

Net debt and working capital deficiency, which terms represent current assets less current liabilities and bank debt is used to assess efficiency, liquidity and the general financial strength of the company. Mark-to-market financial contracts are excluded from the net debt calculation. There is no GAAP measure that is reasonably comparable to net debt and working capital.

The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP as follows:

	2010	2009
Cash inflow (outflow) provided by operating activities	\$ 1,247,233	\$ (193,437)
Change in non-cash working capital	(1,167,784)	139,926
Funds flow from operations	\$ 79,449	\$ (53,511)

## Barrel of Oil Equivalent

Where amounts are expressed in a barrel of oil equivalent (“boe”), or barrel of oil equivalent per day (“boe/d”), natural gas volumes have been converted to barrels of oil equivalent at 6 thousand cubic feet (“mcf”) to one barrel. Use of the term boe may be misleading particularly if used in isolation. The boe conversion ratio of 6 mcf to 1 barrel (“bbl”) of oil or natural gas liquids is based on an energy equivalency conversion methodology primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators’ National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

## Summary of Results

	Three months ended March 31,	
(\$ thousands, except per share data)	2010	2009
<b>FINANCIAL</b>		
Revenue	574	136
Funds flow from operations <sup>(1)</sup>	79	(54)
Per share – basic and diluted	-	(0.01)
Net loss	(171)	(123)
Per share – basic and diluted	(0.01)	(0.01)
Capital expenditures, net	1,396	-
Net working capital surplus (deficiency) <sup>(2)</sup>	71	(1,079)
Total Assets	14,479	4,202
Shares outstanding	30,395	9,836
Weighted average shares	28,893	9,836
<b>OPERATIONAL</b>		
Daily production		
Natural gas (mcf/d)	9	13
Natural gas liquids (bbl/d)	1	1
Oil (bbl/d)	80	29
Total (boe/d @ 6:1)	82	32
Average pricing <sup>(3)</sup>		
Natural gas (\$/mcf)	5.88	5.09
Natural gas liquids (\$/bbl)	35.42	26.99
Light oil (\$/bbl)	78.71	48.50
Total (\$/boe)	77.59	46.97

<sup>(1)</sup> Funds flow from operations is calculated as cash provided by operating activities and adding changes in non-cash working capital and asset retirement expenditures, if any. Funds from operations is used to analyze the Company’s operating performance and leverage. Funds from operations does not have a standardized measure prescribed by GAAP and therefore may not be comparable with calculations of similar measures for other companies.

<sup>(2)</sup> Net working capital surplus (deficiency) includes accounts receivable, prepaid expenses and deposits, accounts payable, accrued liabilities and bank debt

<sup>(3)</sup> Average prices are before the deduction of transportation costs.

## Overview

As a result of acquisitions and farm-in agreements to date, Petro Uno has built a large base of opportunities on an emerging Viking oil resource play in the Kindersley Saskatchewan area. In late March 2010, Petro Uno drilled 2 (1.5 net) successful horizontal oil wells with multi-stage fracture stimulation in Saskatchewan. These wells were completed and equipped after spring break up and were put on production April 21 and May 13.

During the month of April, 2010, the Company drilled 5 (2.075 net) successful horizontal wells in Saskatchewan. All the wells are currently being completed and equipped for production.

As part of Petro Uno's growth strategy and business plan, accretive acquisitions and farm-in opportunities are continually being evaluated.

## Detailed Financial Review

### Sales Volumes

		Three months ended March 31,	
		2010	2009
<b>Volumes</b>			
Natural gas	mcf/d	9	13
Oil	bbls/d	80	29
Liquids	bbls/d	1	1
Barrels of oil equivalent	BOE/D (6:1)	82	32

Volumes have increased during the first quarter of 2010 compared to the same period of 2009 as a result of new production from Petro Uno's 2009 capital program. Natural gas and liquids sales coming from the Lanaway area continued to average 2.5 boe per day for the first quarter or 3% of the total sales volumes. Production is expected to increase throughout the second quarter of 2010 as a result of the wells drilled during the first quarter and early second quarter of 2010.

### Revenue

		Three months ended March 31,	
		2010	2009
<b>Revenue</b>			
Natural gas sales	\$m	5	6
Liquids sales	\$m	2	1
Oil sales	\$m	567	129
Total	\$m	574	136

		Three months ended March 31,	
		2010	2009
<b>Company Prices</b>			
Natural gas price	\$/mcf	5.88	5.09
Liquids price	\$/bbl	35.42	26.99
Oil price	\$/bbl	78.71	48.50

Oil revenues increased 341% in the first quarter of 2010 over the same period of 2009. The increase is primarily a result of a 172% increase in volumes and a 62% increase in oil prices from the first quarter of 2009.

Gas revenues decreased 18% in the first quarter of 2010 over the same period of 2009. The decrease is a result of normal volume declines offset by a 15% increase in the average commodity price.

To date, Petro Uno has not undertaken any hedging or commodity price contracts.

## Royalties

		Three months ended March 31,	
		2010	2009
Crown royalties expense	\$m	17	9
Crown royalties per boe	\$	2.34	3.17
Royalty rate		3%	7%
Gross overriding royalties expense	\$m	42	3
Gross overriding royalties per boe	\$	5.66	0.98
Royalty rate		7%	2%

Royalties in the first quarter of 2010 increased from the same periods in 2009 largely due to the increased volumes. Crown royalties have decreased on a per boe basis and as a percentage of revenue due to wells classified as low producers. Royalty rates can vary based on a number of factors such as reference pricing, royalty holidays and production rates. Crown royalty holidays are generally available to certain production from new pool discoveries. Gross overriding royalties in the first quarter of 2010 have increased by 1372% compared to the same period in 2009 as a result of increased activity on farm-in and freehold lands in Saskatchewan.

## Transportation Expenses

		Three months ended March 31,	
		2010	2009
Expense per financial statements	\$m	15	5
Expense (\$ per boe)	\$	1.97	1.71
Expense (% of revenue)	%	2.5	3.6%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, and pipeline tariffs. Transportation expense for the quarter ended March 31, 2010 increased to \$14,553 or \$1.97/boe compared to \$4,944 or \$1.71/boe for the same period 2009. The increase from 2009 to 2010 is a result of the increase in volumes resulting from the 2009 drilling program. On a per boe basis and on a percentage of revenue basis, transportation costs are fairly consistent as the majority of these costs are variable in nature and there are currently no unutilized firm service contracts.

## Operating Expenses

		Three months ended March 31,	
		2010	2009
Operating expenses	\$m	110	77
Operating expenses per boe	\$	14.86	26.71
Expense (% of revenue)	%	19.2	56.9

Operating expenses for the quarter ended March 31, 2010 were \$109,962 or \$14.86/boe compared to \$77,253 or \$26.71/boe for the same period 2009. Operating expenses as a percent of revenue decreased partially due to the increase in commodity prices but has also been impacted by new production in the Kindersley Saskatchewan area. The Company expects total operating expenses per boe to continue decreasing in 2010 as a result of additional production from planned drilling activity scheduled for 2010. Since different operating areas have variable cost structures such as processing and labour, the expenses are dependent upon the per unit basis of any new production developed or purchased.

## Field netback<sup>(1)</sup>

\$ unless otherwise stated	Three months ended March 31,	
	2010	2009
Price	77.59	46.97
Transportation expenses	(1.97)	(1.71)
Crown royalties	(2.34)	(3.17)
Gross overriding royalties	(5.66)	(0.98)
Operating expenses	(14.86)	(26.71)
Field netback	52.75	14.40

(1) The reader is referred to the section – “Non-GAAP Measures”

Field netbacks in the first quarter of 2010 were \$52.75/boe, a 266% increase from \$14.40 in the comparable quarter of 2009. The large increase from 2009 to 2010 is a result of higher oil prices, a lower crown royalty rate on new production, and lower operating costs, which on an aggregate basis, more than offset the impact of a 476% increase in overriding royalties.

## General and Administrative (“G&A”)

		Three months ended March 31,	
		2010	2009
Gross G&A	\$m	267	87
Overhead recoveries	\$m	(34)	-
Net G&A expense		233	87

Net G&A expenses in the first quarter of 2010 increased to \$233,089 compared to \$87,114 in 2009. Total G&A costs consist of salaries and consulting costs, office rent and parking, fees to professional service providers, credit facility charges and computer related software licenses. The increase in the gross G&A is relative to the associated expenditures related to the increased company activity.

The Company does not capitalize any G&A expenses.

## Stock Based Compensation (“SBC”)

	Three months ended March 31,	
	2010	2009
SBC expense	44	4

Stock-based compensation expense represents the amortization of the expense associated with the notional fair value of stock options granted. The fair value of the options is determined by the price of the stock, its volatility, risk-free rates of return and the vesting periods. The fair value of all stock options is amortized over the options’ vesting period, which is three years for all options granted. Stock-based compensation expense for the first quarter 2010 was \$44,000 compared to \$3,836 for the same period 2009. On March 3, 2010 the Company granted 200,000 options at an exercise price of \$0.55 per share. Also, during March 2010, 100,000 options were exercised while an additional 200,000 options were forfeited. As of March 31, 2010, there were 2,333,000 options outstanding compared with 500,000 options outstanding as at March 31, 2009.

## Interest Expense

		Three months ended March 31,	
		2010	2009
Interest and finance charges	\$m	2	8
Interest and finance charges per boe	\$	0.25	2.85

The Company raised money during the fourth quarter of 2009 and used some of the proceeds to eliminate the bank debt.

Interest expense for the first quarter 2010 decreased to \$1,849 compared to \$8,233 in the same period 2009 as a result of eliminating the bank debt.

## Depletion, Depreciation and Accretion (“DD&A”)

		Three months ended March 31,	
		2010	2009
Depletion	\$m	293	88
Depreciation	\$m	1	-
Accretion	\$m	5	3
Total DD&A	\$m	299	91
DD&A per boe	\$m	40.38	31.34

DD&A expense is determined by a combination of Petro Uno’s spending on its own development program, drilling successes and the cost of any acquisitions. These factors caused the aggregate DD&A expense for the first quarter of 2010 to increase to \$298,736 (\$40.38/boe) from \$90,649 (\$31.34/boe) for the same period 2009. The rate per boe increase of 29% is due to Petro Uno having a larger capital depletable base as compared to the increase in proved reserves, as well as a higher percentage of reserves being assigned to probable versus proved at year end. Petro Uno’s year end reserves are based on new drilling completed in December 2009 which did not come on production until January 2010. Therefore, our independent reserve engineers assigned a significant portion of the new reserves to probable rather than proved reserve categories.

Accretion costs for the first quarter 2010 were \$5,078 compared to \$2,960 for the same period 2009, reflecting the higher future retirement liabilities incurred from drilling activities.

## Income Taxes

For the quarter ended March 31, 2010, the Company recorded a net tax recovery of \$18,138 compared to \$25,171 for the first quarter of 2009.

Petro Uno entered into a flow-through share private placement financing on December 1, 2009 wherein it is required to renounce \$2.0 million in eligible exploration and development expenses before December 31, 2010. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. The Company renounced \$1.0 million on February 4, 2010 of the flow-through financing and recognized the tax effect in the first quarter of 2010. At the time the renunciation is made the estimated tax effect of the foregone tax benefits was charged to share capital with a corresponding increase to the future income tax liability.

Pursuant to the terms of the flow-through arrangement, the Company spent the remaining flow-through commitment of \$1.0 million in February 2010 and will renounce, file and record the future tax adjustment associated with this renouncement in May 2010.

Taking into account projected spending for 2010 as well as the anticipated production levels and commodity prices, it is anticipated that Petro Uno will not be cash taxable throughout 2010.

## Cashflow and net earnings

	Three months ended March 31,	
	2010	2009
Loss for the period	\$ (171,272)	\$ (122,826)
Items not affecting cash:		
Depletion, depreciation and accretion	298,736	90,649
Stock-based compensation	44,000	3,836
Future income taxes	(92,015)	(25,171)
Funds flow from operations	79,449	(53,511)

Funds flow from operations for the quarter ended March 31, 2010 was \$79,449, representing an increase of 249% from (\$53,511) realized in the same period 2009.

		Three months ended March 31,	
		2010	2009
Weighted average shares outstanding			
Basic	m	28,893	9,136
Diluted	m	32,492	9,636
Funds from operations	\$m	79	(54)
Basic and diluted per share	\$	0.00	(0.01)
Net Earnings (loss)	\$m	(171)	(123)
Basic and diluted per share	\$	(0.01)	(0.01)

On a per share basis, Petro Uno had a net loss of \$0.01 for both basic and diluted earnings per share for the quarter ended March 31, 2010 as compared to a net loss of \$0.01 basic and diluted earnings per share for the same period 2009. Funds flow from operations per share for the first quarter 2010 was \$0.00 for basic and diluted as compared to (\$0.01) basic and diluted per share results from the same period 2009.

## Capital Expenditures

	Three months ended March 31,	
	2010	2009
Land and lease retentions	3	-
Drilling and completions	1,340	-
Production facilities, pipeline, plant and equipment	318	-
Corporate Acquisitions	3,139	-
Dispositions	(269)	-
Office	4	-
	4,535	-

During the first quarter 2010, the Company drilled 2 (1.5 net) wells which were cased and or completed for a 100% success rate. The wells were horizontally drilled in the Kindersley area of Saskatchewan. One (1.0 net) well was multi-staged fracture stimulated before March 31, 2010 while 1 (0.5 net) was multi-staged fracture stimulated in April 2010. Both wells were equipped in April and the first well came on production April 21 followed by the second well May 13. The Company completed the previously announced acquisition of a private Saskatchewan company.

During April 2010, the Company drilled 5 (2.075 net) horizontal multi-stage fracture stimulated wells in the Kindersley area of Saskatchewan. These wells are in various stages of completion and equipping with one (0.50 net) well coming on production May 4, 2010.

The Company has built its land base through farm-in agreements, drilling to earn land, freehold leasing and acquisitions. At March 31, 2010, the Company had approximately 6,242 net acres of undeveloped land in Alberta and Saskatchewan.

### Liquidity and Capital Resources

<i>(\$ thousands except per share data)</i>	2010
Common shares outstanding	28,893
Closing share price at March 31, 2010	<u>0.50</u>
Total Market Capitalization	<u>\$ 14,447</u>
Working capital (surplus) deficiency	(71)
Bank debt	<u>-</u>
Total Net debt	<u>(71)</u>
Asset retirement obligation	278
Future income taxes	<u>1,504</u>
Total capitalization	<u>\$ 16,157</u>
Net debt to total capitalization	<u><u>0%</u></u>

Oil and gas exploration and development is a capital intensive business. Periodic infusions of additional capital may be required to accelerate the rate of the Company's growth. Petro Uno chooses to finance its ongoing capital expenditure program through a combination of reinvesting cash flow, bank borrowing and additional equity.

At March 31, 2010, the Company had a credit facility of \$1.25 million with a Canadian chartered bank. The credit facility was reviewed in May and was increased to \$3.0 million. Petro Uno had \$2.7 million in cash and short term deposits, nil drawn against the credit facility (December 31, 2009, nil) and a working capital surplus of \$0.07 million.

On March 2, 2010, the Company, together with Renegade Petroleum Ltd. ("Renegade"), completed the acquisition of a private company for cash consideration of approximately \$4.5 million (Renegade's contribution) and 2 million common shares of Petro Uno at a deemed value of \$1.2 million.

## Share Capital

At March 31, 2010, the Company had 30,394,968 (March 2009 - 9,835,750) common shares, 2,333,000 (March 31, 2009 - 500,000) options and 7,066,607 (March 31, 2009 - 1,767,875) share purchase warrants issued and outstanding.

### *Issued and outstanding common shares*

	Number of shares	Amount
Balance As at 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
Tax effect of flow-through share renunciations		
Share issue costs, net of future income taxes of \$252,561		(710,676)
Balance As at December 31, 2009	28,121,464	\$ 6,866,636
Issue of common shares on exercise of options	197,254	122,358
Issue of common shares on exercise of warrants	76,250	44,932
Issue of common shares for acquisition	2,000,000	1,200,000
Tax effect of flow-through share renunciations		(262,200)
Share issue costs, net of future income taxes of \$1,573		(4,427)
Balance As at March 31, 2010	30,394,968	\$ 7,967,309

### *Issued and outstanding share purchase warrants*

Warrants	Number of warrants	Amount
Balance, December 31, 2008	1,767,875	\$ 187,747
Warrants expired	(1,767,875)	(187,747)
Issue of share purchase warrants for cash	7,142,857	1,361,689
Balance, December 31, 2009	7,142,857	\$ 1,361,689
Exercise of warrants	(76,250)	(14,432)
Balance, March 31, 2010	7,055,607	\$ 1,347,257

As at the date hereof the Company has 30,394,788 common shares, 2,333,000 options to purchase common shares and 7,066,607 share purchase warrants issued and outstanding.

## Contractual Obligations

The Company's revolving credit facility was reviewed in May and subsequently increased to \$3.0 million.

In October 2009, 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.

Pursuant to the terms of the flow-through arrangement, the Company spent the remaining flow-through commitment of \$1.0 million in the first quarter 2010 and will renounce, file and record the future tax adjustment associated with this renouncement in the second quarter of 2010.

The Company does not have any other off-balance sheet financing arrangements.

## **Related Party Transactions**

At March 31, 2010, the Company owed \$43,000 (March 31, 2009 - \$6,000) to Renegade Oil & Gas Ltd., a former related party with common directors and officers. These fees relates 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 first quarter ended March 31, 2010, fees of \$nil (March 31, 2009 - nil) were charged for fees and services provided from the firm. Included in accounts payable and accrued liabilities at March 31, 2010 is \$127,489 (March 31, 2009 - nil) owing to the law firm.

The Company acquired a private Saskatchewan company (the "Privateco Acquisition") with Renegade Petroleum Ltd. ("Renegade") and agreed to enter into a joint venture agreement (the "Joint Venture") with Renegade in connection with multiple farm-ins in the Viking play in the Kindersley area of Saskatchewan. Three directors' of the Company are also directors' of Renegade. The Company has taken steps, including independent discussion, review and approval of the terms of the PrivateCo Acquisition and Joint Venture and significant decisions to be undertaken under the Joint Venture by management and directors who are not Renegade directors.

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.

## **Subsequent Events**

On April 26, 2010, Petro Uno entered into a joint venture ("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 Kindersley area of Saskatchewan with the object of drilling short horizontal multi-stage fractured stimulated wells into the Viking zone. The Company has entered into 8 farm-in agreements covering 6.75 sections in the area. Renegade will also have the option to participate in any further farm-in agreements that the Company may negotiate in the region on a 50/50 basis. Certain directors of the Company also serve as directors of Renegade. The independent directors of Petro Uno independently considered and unanimously approved the entry into the Joint Venture.

During the month of April, 2010, the Company drilled 5 (2.075 net) successful horizontal multi-stage fracture stimulated wells in the Kindersley Saskatchewan area.

At May 28, 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.

### Selected Quarterly Information

The unaudited consolidated financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles. The reporting and measurement currency is the Canadian dollar. The following table summarizes selected quarterly information.

Operational	Unit	2010	2009			
		Q1	Q4	Q3	Q2	Q1
<b>Production</b>						
Natural gas	(mcf/d)	9	9	11	11	12
Natural gas liquids	(bbls/d)	1	1	1	1	1
Light oil	(bbls/d)	80	28	29	36	29
Total	(boe/d)	82	30	32	39	32
<b>Pricing</b>						
Natural gas	(\$Cdn/mcf)	\$ 5.88	\$ 5.14	\$ 3.29	\$ 3.98	\$ 5.38
Natural gas liquids	(\$/bbl)	\$ 35.42	\$ 32.67	\$ 36.86	\$ 31.53	\$ 28.65
Light oil	(\$Cdn/bbl)	\$ 78.71	\$ 83.51	\$ 68.37	\$ 63.76	\$ 48.54
Total	(\$/boe)	\$ 77.59	\$ 79.92	\$ 64.95	\$ 61.46	\$ 47.29
<b>Financial</b>						
Petroleum and natural gas sales	(\$m)	574	220	190	217	136
Funds from operations	(\$m)	79	(172)	(13)	7	(54)
Per share – basic and diluted	(\$)	0.00	(0.01)	-	-	(0.01)
Net earnings (loss)	(\$m)	(171)	(170)	(136)	(91)	(148)
Per share – basic and diluted	(\$)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures	(\$m)	1,665	1,712	9	14	-
Total assets	(\$m)	14,479	10,672	3,961	3,822	3,935
Working capital surplus(deficit)	(\$m)	71	3,229	(1,169)	(1,144)	(1,128)
<b>Field Netback</b>	(\$/boe)	\$ 52.75	\$ 40.48	\$ 38.73	\$ 32.98	\$ 14.50
<b>Weighted average shares outstanding</b>						
Basic	(m)	28,893	13,018	9,836	9,836	9,836
Diluted	(m)	32,492	13,184	10,436	10,336	10,336

Operational	Unit	2008			
		Q4	Q3	Q2	Q1
<b>Production</b>					
Natural gas	(mcf/d)	12	14	20	-
Natural gas liquids	(bbls/d)	1	1	1	-
Light oil	(bbls/d)	32	35	23	-
Total	(boe/d)	34	38	27	-
<b>Pricing</b>					
Natural gas	(\$Cdn/mcf)	\$ 7.37	\$ 8.78	\$ 8.85	\$ -
Natural gas liquids	(\$/bbl)	\$ 37.56	\$ 79.07	\$ 72.86	\$ -
Light oil	(\$Cdn/bbl)	\$ 67.41	\$ 119.69	\$ 126.02	\$ -
Total	(\$/boe)	\$ 65.46	\$ 115.01	\$ 114.94	\$ -
<b>Financial</b>					
Petroleum and natural gas sales	(\$m)	207	403	282	-
Funds from operations	(\$m)	(125)	89	(24)	(61)
Per share – basic and diluted	(\$)	(0.01)	0.01	-	(0.01)
Net earnings (loss)	(\$m)	(177)	55	46	(60)
Per share – basic and diluted	(\$)	(0.02)	0.01	-	(0.01)
Capital expenditures	(\$m)	-	-	20	3,040
Total assets	(\$m)	4,202	4,303	4,392	4,345
Working capital surplus(deficit)	(\$m)	(1,079)	(953)	(1,043)	(980)
<b>Field Netback</b>	(\$/boe)	\$ 24.80	\$ 82.27	\$ 56.42	\$ -
<b>Weighted average shares outstanding</b>					
Basic	(m)	9,836	9,836	8,428	7,121
Diluted	(m)	10,336	10,336	8,928	7,721

## Business Conditions and Risks

The exploration for, and development and production of, crude oil and natural gas involves a wide range of business and financial risks, some of which are beyond the control of the Company. Included in these risks are the uncertainty of finding economically recoverable reserves, fluctuations in commodity prices, interest rate and foreign exchange rate volatility, and the possibility of changes to royalty, tax and environmental regulations. The oil and gas industry is also highly competitive and the Company competes with numerous other companies, many of which have greater financial and human resources.

The Company faces several key risks in its business, including possible commodity price downturns, emergence of superior competing technologies, reliance on relatively few key suppliers and customers, and adequacy of capital and/or cash flow to pursue its business plan objectives. This list is not intended to be exhaustive, but merely to communicate to shareholders certain key risks faced by the Company in its business operations. The Company, where it can employ strategies to mitigate and minimize some risks. But some risks and market conditions are outside of the Company's influence and control.

The business risks facing the Company are mitigated in a number of ways. Geological, geophysical, engineering, environmental and financial analyses are performed on new exploration prospects, development projects and potential acquisitions to ensure an acceptable balance between risk and reward. The Company's ability to increase its production, revenues and cash flows depends on its success in not only developing its existing properties, but also acquiring, exploring for and developing new reserves and production and managing those assets in an efficient manner.

Despite best practice analysis being conducted on projects, there are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves, including future prices for crude oil and natural gas, engineering data, projected future rates of production and the timing of future expenditures. The process of estimating oil and gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. An independent engineering firm has evaluated the Company's properties for the year ended December 31, 2009 to determine a fair estimate of reserves.

The Company's financial results are also impacted by fluctuations in the exchange rate between the Canadian and U.S. dollars. Crude oil prices and, to some extent, natural gas prices are based on reference prices denominated in U.S. dollars, while the majority of the Company's expenses are denominated in Canadian dollars.

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks in that industry. The carrying amount of accounts receivable represents the maximum credit exposure. As at March 31, 2010 and December 31, 2009, the Company's receivables were aged as follows:

Ageing	March 31, 2010	December 31, 2009
Not past due (less than 90 days)	\$ 767,565	\$ 238,695
Past due (90 days to one year)	3,991	2,486
	\$ 771,556	\$ 241,181

## **Legal, Environmental, Remediation and other Contingent Matters**

The Company reviews legal, environmental, remediation and other contingent matters to both determine whether a loss is probable based on judgment and interpretation of laws and regulations, and determine that the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Company's management monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstances.

## **Critical Accounting Policies and Estimates**

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. The following outlines the accounting policies and practices involving the use of estimates that are critical in determining Petro Uno's financial results:

### *Full cost accounting*

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow-line and facility costs, geological and geophysical expenses and overhead expenses directly related to exploration and development activities. Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are amortized using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. Changes in estimated proven reserves or future development costs have a direct impact on depletion and depreciation expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned to them. If proved reserves are assigned to the properties, the costs are included in the depletion calculation.

#### *Oil and natural gas reserves*

Estimates of oil and natural gas reserves are projections based on geological and engineering data. There are uncertainties inherent in these projections including the interpretation of data and the projection of future rates or production and the timing of developmental expenditures. Reserve engineering is an analytical process of estimating below ground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. The Company's proved oil and gas reserves are evaluated and reported on annually by an independent, qualified, petroleum-engineering consultant. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to a number of uncertainties and various interpretations. The Company expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion. A revision to the reserves estimate could result in a higher or lower DD&A charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of oil and natural gas property, plant and equipment under the ceiling test described below.

#### *Ceiling test*

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. No write-down was required at March 31, 2010.

#### *Asset retirement obligations*

The Company recognizes the fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of fair value can be made. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur to retire producing well sites and natural gas processing facilities. These estimates are then discounted to their present value using the Company's credit adjusted risk-free interest rate (Petro Uno used 7% for 2009). The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-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 this accretion is charged to earnings in the period through charges to accretion expense. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Revisions to the estimated timing of cash

flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO and the related asset retirement cost. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs. Determination of the original undiscounted costs is based on engineering estimates using current costs in accordance with existing legislation and industry practice. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth, estimated future salvage values, location of the well and current environmental legislation. Actual payments to settle the obligations may differ from the estimated amounts.

#### *Future income tax*

The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly affect the amount of the future income tax liability calculated at a point in time. These differences could materially impact earnings. The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

The determination of the Company's income tax liability requires interpretation of complex laws and regulations. As such, income taxes are subject to measurement uncertainty and the interpretations can impact net earnings through the income tax expense and the future income tax assets and liabilities. All tax filings are subject to audit and potential reassessment. The actual income tax liability may differ significantly from the liability estimated or recorded.

#### *Stock-based compensation*

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. The Company uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at their fair value at the grant date and expensed over the expected exercise time period with a corresponding increase to contributed surplus. Upon exercise of the stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is credited to share capital. The assumptions used in calculating its stock based compensation expense are: the volatility of the stock price, risk-free rates of return and the expected lives of the options given that some will be forfeited upon termination of employment.

#### *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.

#### *Other estimates*

The accrual method of accounting will require management to incorporate certain estimates of revenues, royalties, and production costs as at a specific reporting date but for which actual revenue, royalties and other costs have not yet been received. In addition, the Company must estimate capital expenditures on capital projects that are in progress or recently completed where actual costs have not been received as of the reporting date.

### **International Financial Reporting Standards**

On January 1, 2011 International Financial Reporting Standards (“IFRS”) will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Petro Uno for the year ending December 31, 2010, including the opening balance sheet as at January 1, 2010. The project is being managed in-house by an accounting professional who has engaged in IFRS educational programs and continues to develop the Company’s adoption of IFRS. The Company’s auditors will be involved throughout the process to ensure the Company’s policies are in accordance with these new standards.

Management is continuing to finalize its accounting policies and is unable to quantify the impact on the financial statements of adopting IFRS at this time. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to Petro Uno’s adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

Management is currently determining the amount of its exploration and evaluation assets (“E&E”) that will be classified separately from PP&E and is allocating the carrying value of its PP&E to the underlying assets using the January 1, 2010 reserve report as it is allowed under IFRS 1 described below.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets under full cost. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity’s previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity’s previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Petro Uno currently anticipates that it will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 would allow Petro Uno to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows Petro Uno an exemption on IFRS 2, “Share-Based Payments” to equity instruments which vested before Petro Uno’s transition date to IFRS.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, Petro Uno has identified key differences that will impact the financial statements as follows:

- Exploration and Evaluation (“E&E”) expenditures – On transition to IFRS, Petro Uno will re-classify all E&E expenditures that are currently included in the PP&E balance on the Consolidated Balance Sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.
- Depletion expense – On transition to IFRS Petro Uno has the option to base the depletion calculation using either proved reserves or proved and probable reserves. Petro Uno has not concluded at this time which method it will use.
- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E as opposed to the entire PP&E balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves.
- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

## **Outlook**

Petro Uno continues to be successful in achieving its goal of cost effective per share growth in reserves, production and funds flow from operations through its integrated strategy of acquisitions, enhancement and exploitation. The Company believes that it is well positioned to execute its business strategy with an extensive, resource-based drilling inventory focused on the Viking formation. This drilling inventory includes in excess of 100 potential horizontal multi-stage frac Viking oil development locations which represents numerous years of drilling. Petro Uno is in the enviable position of having a clean balance sheet, unused bank lines, a large inventory of light oil drilling opportunities and a growing production base that is oriented towards light oil.

Based on the first quarter drilling success, the acquisition of Fieldpoint and the increased credit facility, Petro Uno maintains the capital expenditure budget of \$8.2 million for 2010. This capital program focuses on the Viking light oil resource play in Kindersley Saskatchewan and includes the drilling of 16 (8.3 net) horizontal multi-stage frac oil wells.

Petro Uno is well positioned to deliver per share growth and continue to grow the asset value of the Company. Petro Uno trades on the Venture Stock Exchange under the symbol "PUP".