

**Financial Statements**  
(Expressed in Canadian Dollars)

**ONA EXPLORATION INC.**

**For the three months ended December 31, 2004**

**The accompanying Financial Statements for the three months ended December 31, 2004 have not been reviewed or audited by the Company's Auditors.**

**ONA EXPLORATION INC.**  
**Balance Sheets**  
(unaudited – Prepared by Management)

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**ASSETS**

	December 31, 2004 \$	September 30, 2004 \$
<b>Current assets</b>		
Cash	12,271	4,859
Accounts receivable	14,010	22,918
	<u>26,281</u>	<u>27,777</u>
<b>Oil and gas properties</b>	1	1
<b>Equipment (Note 2)</b>	1,372	1,488
	<u>30,224</u>	<u>29,266</u>

**LIABILITIES**

<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u>27,262</u>	<u>71,379</u>

**SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)**

<b>Share capital (Note 3)</b>	937,193	883,193
<b>Deficit</b>	(934,231)	(925,306)
	<u>2,962</u>	<u>(42,113)</u>
	<u>30,224</u>	<u>29,266</u>

Nature and Continuance of Operations (Note 1)  
Subsequent Events (Note 5)

On Behalf of the Board

“Alan Crawford”  
\_\_\_\_\_ Director

“Thomas Tough”  
\_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements

**ONA EXPLORATION INC.**  
**Statement of Operations and Deficit**  
(unaudited – Prepared by Management)

	December 31,	
	2004	2003
	\$	\$
Revenue:		
Sale of oil and gas	-	-
Less: Depletion	-	515
Less: Operating costs	-	-
	-	515
Expenses:		
Amortization	115	187
Automobile	102	655
Interest expense and related financing costs	-	6,085
Investor relations	-	26
Management fees	-	15,000
Office and general	4,532	7,685
Professional fees	3,491	2,000
Transfer agent and filing fees	685	4,555
	(8,925)	(36,708)
Net loss for the period	(8,925)	(36,708)
Deficit, beginning of period	(925,306)	(486,984)
Deficit, end of period	(934,231)	(523,692)
Basic and diluted loss per share	\$(0.00)	\$(0.01)
Weighted average number of common shares outstanding	10,435,470	2,787,594

The accompanying notes are an integral part of these financial statements

**ONA EXPLORATION INC.**  
**Statement of Cash Flows**  
(unaudited – Prepared by Management)

	December 31,	
	2004	2003
	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>		
Operating Activities:		
Net loss for the period	(8,925)	(36,708)
<i>Adjusted for items not involving cash:</i>		
Amortization	115	188
Depletion	-	515
	(8,810)	(36,005)
<i>Changes in non-cash working capital Items:</i>		
Accounts receivable	6,337	(736)
Accounts payable and accrued liabilities	(44,115)	(6,685)
	(46,588)	(43,426)
Financing activities		
Issuance of shares for cash	54,000	83,848
Share subscriptions	-	29,863
Advances from (repayments to) related parties	-	16,050
	54,000	129,761
Increase (decrease) in cash	7,412	86,335
Cash, beginning of period	4,859	80,440
Cash, end of period	12,271	166,775
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid during the period	102,005	6,085
Taxes paid during the period	Nil	Nil

The accompanying notes are an integral part of these financial statements



### 3. SHARE CAPITAL (continued)

d) Warrants outstanding

The continuity of the Company's share purchase warrants is as follows:

Expiry dates	Exercise prices	Balance	Changes in the period			Balance
		September 30, 2003	Issued	Exercised	Expired	December 31, 2004
November 14, 2005	\$ 0.075	4,800,000	-	(720,000)	-	4,080,000
January 8, 2006	\$ 0.115	1,350,000	-	-	-	1,350,000
		6,150,000	-	(720,000)	-	5,430,000
Weighted average Exercise price		\$0.84		\$0.075		\$0.085

### 4. RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the period.

### 5. SUBSEQUENT EVENTS

The Company entered into the following transactions subsequent to December 31, 2004:

a) The Company issued 4,080,000 post-split common shares on the exercise of warrants at \$0.075 per share and 120,000 post-split shares on the exercise of warrants at \$0.115 for total proceeds of \$319,800.

b) The Company completed a non-brokered private placement of 550,000 post-split units at a price of \$0.35 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share at price of \$0.45 per share for a period of two periods.

**ONA EXPLORATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**First Quarterly Report - December 31, 2004**

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The following discussion and analysis of the operations, results, and financial position of the Company for the three months ended December 31, 2004 should be read in conjunction with the December 31, 2004 unaudited Financial Statements and the related Notes. The effective date of this report is February 25, 2005.

**Forward Looking Statements**

Except for historical information, the Management's Discussion and Analysis ("MD&A") may contain forward looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward looking statements.

**Business Description**

The Company was incorporated under the Business Corporation Act of Alberta on August 31, 1998. The Company's shares are publicly traded on the TSX Venture Exchange ("TSX-V"). On August 5, 2004 the Company changed its name to Ona Exploration Inc. and split its share capital on a two-for-one-basis. Effective at the opening on Friday, August 6, 2004, the Company's common shares commenced trading on a split basis under the trading symbol "OEI".

The Company is in the business of oil and gas exploration and development. During the fiscal year ended September 31, 2004 the Company sold or abandoned all oil and gas interests in Texas. The Company continues to investigate exploration properties of merit.

**Results of Operations**

The Company reports an increase in assets from \$29,266 at September 30, 2004 to \$30,224 at December 31, 2004 while liabilities decreased from \$71,379 to \$27,262. Share Capital increased from \$883,193 to \$937,193 on the issuance of 720,000 common shares for proceeds of \$54,000. The Company reported a net loss for the three months ended December 31, 2004 of \$8,925 or \$0.00 per share resulting in deficit increasing from \$925,306 at September 30, 2004 to \$934,231 at December 31, 2004.

The loss for three months ended December 31, 2004 is 75% lower when compared to the loss in the first quarter of fiscal 2004. The loss for both quarters represents administrative expenses. Under normal circumstances expenses fluctuate depending on the activities of the Company at the time. In addition certain expenses charged to operations last year were not incurred this year such as interest expense and management fees.

**Related Party Transactions**

There were no related party transactions in the quarter.

## Share Structure

*Authorized* Unlimited common shares without par value  
Unlimited preferred shares without par value

*Common shares issued:*

	Number	Amount
Balance at September 30, 2004	10,039,866	\$ 883,193
Issued in the period for cash	720,000	54,000
Balance at December 31, 2004	10,759,866	\$ 937,193

*Warrants exercised:* During the period the Company issued 720,000 common shares on the exercise of warrants at a price of \$0.075 for proceeds of \$54,000.

*Warrants outstanding:* The continuity of the Company's share purchase warrants is as follows:

Expiry dates	Exercise prices	Balance September 30, 2003	Changes in the period			Balance December 31, 2004
			Issued	Exercised	Expired	
November 14, 2005	\$ 0.075	4,800,000	-	(720,000)	-	4,080,000
January 8, 2006	\$ 0.115	1,350,000	-	-	-	1,350,000
		6,150,000	-	(720,000)	-	5,430,000
Weighted average Exercise price		\$0.84		\$0.075		\$0.085

*Escrow:* Under the requirements of the Alberta Securities Commission, 413,333 post-split common shares are held in escrow. The escrowed shares will be released upon written consent of the Alberta Securities Commission.

*Options:* There are no outstanding incentive stock options outstanding at December 31, 2004.

## Summary of Quarterly Results

Expressed in Canadian \$

Period ended	2004				2003			
	Dec. 31 Q1	Sept. 30 Q4	Jun 30 Q3	Mar. 31 Q2	Dec. 31 Q1	Sep. 30 Q4	Jun. 30 Q3	Mar. 31 Q2
Total Revenue	-	-	1,738	5,145	-	1,803	1,431	-
Income (loss) before extraordinary items	(8,925)	(35,446)	(24,531)	(71,918)	(36,708)	(68,391)	(48,323)	(57,594)
Basic per Share	(0.00)	(0.02)	(0.00)	(0.02)	(0.01)	(0.03)	(0.02)	(0.03)
Diluted Per Share	(0.00)	(0.02)	(0.00)	(0.02)	(0.01)	(0.03)	(0.02)	(0.03)
Net Income (loss)	(8,925)	(152,496)	(24,531)	(55,984)	(36,708)	(0.03)	(48,323)	(57,594)
Basic per Share	(0.00)	(0.02)	(0.00)	(0.02)	(0.01)	(0.03)	(0.02)	(0.03)
Diluted per Share	(0.00)	(0.02)	(0.00)	(0.02)	(0.01)	(0.03)	(0.02)	(0.03)

## **Liquidity and Capital Resources**

The Company had a working capital deficiency of \$981 at December 31, 2004. Historically, the Company has raised funds through equity financing and the exercise of options and warrants to fund its operations and it continues to rely upon these sources of capital to finance its operations. The Company will need to re-finance to sustain current operations.

The market price of natural resources is highly speculative and volatile. Instability in prices may affect the interest in resource properties and the development of and production from such properties. This may adversely affect the Company's revenues as well as its ability to raise capital to acquire and explore resource properties.

## **Off-Balance Sheet Arrangements**

The Company has not entered into any off-balance sheet transactions.

## **Critical Accounting Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## **Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities. Terms of the financial instruments are fully disclosed in the Company's financial statements. It is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from its financial instruments and that their fair values approximate their carrying values unless otherwise noted.

## **Subsequent Events**

Subsequent to the year ended December 31, 2004 the Company issued 4,080,000 post-split shares on the exercise of warrants at \$0.075 per share and 120,000 post-split shares on the exercise of warrants at \$0.115.

The Company completed a non-brokered private placement of 550,000 post split units at a price of \$0.35 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share at a price of \$0.45 per share for a period of two years.

## **Additional Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).