

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

**ONA EXPLORATION INC.**

**For the six months ended March 31, 2005**

**The accompanying Financial Statements for the six months ended March 31, 2005 have not been reviewed or audited by the Company's Auditors.**

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

		<b>ASSETS</b>	
		March 31, 2005 \$	September 30, 2004 \$
<b>Current assets</b>			
Cash		506,525	4,859
Accounts receivable		4,292	22,918
		<u>510,817</u>	<u>27,777</u>
<b>Oil and gas properties</b>		1	1
<b>Equipment</b> (Note 2)		1,264	1,488
		<u>512,083</u>	<u>29,266</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		<u>38,821</u>	<u>71,379</u>
<b>SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)</b>			
<b>Share capital</b> (Note 3)		1,449,493	883,193
<b>Contributed Surplus</b> (Note 5)		566,200	-
<b>Deficit</b>		(1,542,432)	(925,306)
		<u>473,261</u>	<u>(42,113)</u>
		<u>512,083</u>	<u>29,266</u>

Nature and Continuance of Operations (Note 1)

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**  
**March 31,**  
(unaudited – Prepared by Management)

	3 Months		6 Months	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Revenue:</b>				
Oil and gas income	-	5,145	-	5,145
Less: Depletion	-	(515)	-	(1,030)
Less: Operating costs	-	(1,098)	-	(1,098)
	-	3,532		3,017
<b>Expenses:</b>				
Administrative fees	1,600	5,100	5,100	12,600
Amortization of assets	223	187	223	375
Audit and accounting fees	6,250	2,195	9,250	4,195
Auto expense	-	110	102	765
Consulting Fees	9,900	-	9,900	-
Interest expense	-	19,031	-	19,031
Legal fees	8,521	2,194	9,012	2,194
Listings and filing fees	7,354	5,295	7,353	6,377
Management fees	-	-	-	15,000
Shareholder communications and investor relations	818	1,407	725	1,432
Office services and supplies	113	9,108	1,238	9,765
Transfer agent	7,338		8,023	3,475
Loss before other items	(42,117)	(44,627)	(50,926)	(75,209)
Interest income	-	109	-	274
Stock based compensation	(566,200)	-	(566,200)	-
Loss for the period	(608,317)	(40,986)	(617,126)	(71,918)
Deficit, beginning of period	(934,115)	(517,916)	(925,306)	(486,984)
Deficit, end of period	(1,542,432)	(558,902)	(1,542,432)	(558,902)
Basic and diluted loss per share	\$(0.04)	\$(0.01)	\$(0.05)	\$(0.02)

The accompanying notes are an integral part of these financial statements

**ONA EXPLORATION INC.**  
**Statement of Cash Flows**  
**March 31,**  
(unaudited – Prepared by Management)

	3 Months		6 Months	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>				
Operating Activities:				
Loss for the period	(608,316)	(40,986)	(617,125)	
<i>Items not requiring Cash:</i>				
Amortization of assets	223	187	223	375
Depletion	-	515		1,030
Stock based compensation	566,200	-	566,200	-
Accrued interest	-	15,000		30,000
	(41,893)	(25,284)	(50,702)	(40,513)
<i>Changes in non-cash working capital Items:</i>				
Amounts receivable and prepaid expenses	(1,721)	(2,484)	18,626	(3,220)
Conversion of debentures	-	-	-	(400,000)
Accounts payable and accrued liabilities	11,558	(92,117)	(39,338)	(135,917)
Payable to related parties	-	(78,666)	-	(62,266)
	(32,056)	(198,551)	(71,414)	(642,266)
Investing Activities:				
Oil and gas interests	-	1,000		1,000
Financing activities				
Issuance of shares for cash	526,310	46,575	566,300	587,317
Share subscriptions	-	40,000	6,780	-
Cost of issuance	-	-	-	(51,488)
Deferred financing costs	-	-	-	51,988
	526,310	86,575	573,080	587,817
Increase (decrease) in cash	494,254	(110,975)	501,666	(53,449)
Cash, beginning of period	12,271	137,966	4,859	80,440
Cash, end of period	506,525	26,991	506,525	26,991

The accompanying notes are an integral part of these financial statements

## 1. NATURE AND CONTINUANCE OF OPERATIONS

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").

The Company is in the business of oil and gas exploration and development. The financial statements have been prepared under the assumption that the Company is a going concern. The ability of the Company to continue operations as a going concern is dependent upon obtaining additional capital to continue normal operations. Given the Company's limited operating history, lack of sales, and its operating losses, there can be no assurance that it will be able to achieve or maintain profitability. Accordingly, these factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's future capital requirements will depend on many factors, including costs of acquisition and exploration of the properties, cash flow from operations, costs to complete well production, if warranted, and global market conditions. The Company's anticipated recurring operating losses and growing working capital needs will require that it obtain additional capital to operate its business. As at March 31, 2005, the Company has working capital of \$478,776.

## 2. EQUIPMENT

	Cost	Accumulated Depreciation	Net Value 2005
Computer	2,500	1,236	1,264

## 3. SHARE CAPITAL

- a) Authorized      Unlimited common shares without par value  
                           Unlimited preferred shares without par value

- b) Common shares issued:

	Number	Amount
Balance, at September 30, 2004	10,039,866	\$ 883,193
Issued in the period for cash	5,470,000	566,300
Balance, at March 31, 2005	15,509,866	\$ 1,449,493

- c) Warrants exercised

During the period the Company issued 4,800,000 common shares on the exercise of warrants at a price of \$0.075 and 120,000 at a price of 0.115 per share.

**3. SHARE CAPITAL (continued)**

d) Warrants outstanding

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

Expiry dates	Exercise prices	Balance September 30, 2004	Changes in the period			Balance March 31, 2005
			Issued	Exercised	Expired	
November 14, 2005	\$ 0.075	4,800,000	-	(4,800,000)	-	-
January 8, 2006	\$ 0.115	1,350,000	-	(120,000)	-	1,230,000
		6,150,000	-	(4,920,000)	-	1,230,000
Weighted average Exercise price		\$0.083		\$0.075		\$0.115

e) Stock Options

During the period 945,394 stock options were granted at an exercise price of \$0.60 per share exercisable until February 28, 2010.

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

Expiry dates	Exercise prices	Balance September 30, 2004	Changes in the period			Balance March 31, 2005
			Issued	Exercised	Expired	
February 28, 2010	\$0.60	-	945,394	-	-	945,394

**4. STOCK BASED COMPENSATION**

In the period ended March 31, 2005 a charge to compensation costs of \$566,200 was recorded against income. The charge includes the estimated fair value of 945,394 share purchase options granted as compensation.

The fair value of the share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.5%, dividend yield of 0%, volatility factor of 174%, and an expected life of three years.

**5. RELATED PARTY TRANSACTIONS**

There were no transactions with related parties during the period.

**ONA EXPLORATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**2<sup>nd</sup> Quarter Report - March 31, 2005**

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The following discussion and analysis of the operations, results, and financial position of the Company for the six months ended March 31, 2005 should be read in conjunction with the March 31, 2005 unaudited Financial Statements and the related Notes. The effective date of this report is May 30, 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**

Year to date (6 months)

The Company reported an increase in cash from \$27,777 at September 30, 2004 to \$506,525 at March 31, 2005 with total assets increasing to \$512,083 at March 31, 2005. Current liabilities decreased in the period from \$71,379 to \$38,821 bringing the Company's working capital to \$471,996 at March 31, 2005. In the period 5,470,000 common shares were issued for cash proceeds of \$566,300 increasing the issued share capital to 15,509,866 and shareholders' equity to \$473,261 at March 31, 2005.

The Company reported a loss for the six months ended March 31, 2005 of \$617,126 or \$0.05 per share. The loss included a charge to operations of \$566,200 to recognise the estimated fair value of stock options granted to Director's in the period. The fair value of the options was estimated at the date of granting using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.5%, dividend yield of 0%, volatility factor of 174%, and a weighted average life of 3 years.

Administrative expenses were \$50,926 for the six month period ended March 31, 2005 compared to \$75,209 in the six month period ended March 31, 2004. The significant change in expenses between the periods was in Management fees and accrued interest. In 2004 \$15,000 and \$19,031 was charged to operations while this period there were no charges.

### Third Quarter results

For the third quarter the Company reported a loss of \$608,317 or \$0.04 per share. As discussed above, \$566,200 was charged to operations in the quarter to recognise the fair value of options granted to Directors of the Company in the quarter. Administrative expenses were relatively consistent with the comparative figures for 2004 of \$42,117 and \$44,627 respectively.

### **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:* 15,509,866

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

Expiry dates	Exercise prices	Balance	Changes in the period			Balance
		September 30, 2004	Issued	Exercised	Expired	March 31, 2005
November 14, 2005	\$ 0.075	4,800,000	-	(4,800,000)	-	-
January 8, 2006	\$ 0.115	1,350,000	-	(120,000)	-	1,230,000
		6,150,000	-	(4,920,000)	-	1,230,000
Weighted average Exercise price		\$0.083		\$0.075		\$0.115

*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.

### **Summary of Quarterly Results**

Expressed in Canadian \$

Period ended	2005	2004				2003		
	Mar. Q2	Dec. 31 Q1	Sept. 30 Q4	Jun 30 Q3	Mar. 31 Q2	Dec. 31 Q1	Sep. 30 Q4	Jun. 30 Q3
Total Revenue	-	-	-	1,738	5,145	-	1,803	1,431
Income (loss) before extraordinary items	(50,926)	(8,925)	(35,446)	(24,531)	(71,918)	(36,708)	(68,391)	(48,323)
Basic loss per Share	(0.01)	(0.00)	(0.02)	(0.00)	(0.02)	(0.01)	(0.03)	(0.02)
Net Income (loss)	(617,126)	(8,925)	(152,496)	(24,531)	(55,984)	(36,708)	(0.03)	(48,323)
Basic loss per Share	(0.05)	(0.00)	(0.02)	(0.00)	(0.02)	(0.01)	(0.03)	(0.02)

## **Liquidity and Capital Resources**

The Company had a working capital of \$471,996 at March 31, 2005. 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 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.

## **Additional Information**

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