

# **ONA EXPLORATION INC.**

## **Consolidated Interim Financial Statements**

**March 31, 2006**

**ONA EXPLORATION INC.**  
Consolidated Balance Sheets  
As at

	March 31, 2006 <i>(Unaudited)</i>	September 30, 2005
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and short-term deposits	6,926,881	362,599
Amounts receivable	45,205	35,611
Prepaid expense	4,331	-
	6,976,417	398,210
Oil and gas property costs (note 4)	546,842	42,721
Equipment (note 5)	1,606	1,041
	7,524,865	441,972
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	32,307	57,299
Share subscription refundable (note 3(e))	5,500,000	-
	5,532,307	57,299
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 3(a))	4,298,040	1,456,274
Contributed surplus (note 3 (d))	2,399,475	629,065
Deficit	(4,704,957)	(1,700,666)
	1,992,558	384,673
	7,524,865	441,972

Approved by the Board of Directors:

*"Curt Huber"*

Director

*"John Wong"*

Director

**ONA EXPLORATION INC.**  
Consolidated Statements of Operations and Deficit  
(Unaudited)

	For the Three Months ended March 31,		For the Six Months ended March 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Expenses</b>				
Administrative Fees	2,707	1,600	6,707	5,100
Amortization	106	223	184	223
Audit and accounting fees	6,800	6,250	13,000	9,250
Auto expense	-	-	-	102
Consulting	2,000	9,900	10,780	9,900
Finders fee	81,250	-	81,250	-
Interest income	(74)	-	(74)	-
Legal	44,509	8,521	44,722	9,012
Office	7,277	113	10,850	1,238
Property investigation	253	-	4,000	-
Rent	30,502	-	33,112	-
Shareholders communication	27,576	818	37,756	725
Stock-option compensation	2,204,000	566,200	2,653,200	566,200
Travel and accommodation	21,100	-	21,100	-
Trust and filing	45,798	14,692	87,704	15,376
Net loss for the period	(2,473,804)	(608,317)	(3,004,291)	(617,126)
Deficit, beginning of period	(2,231,153)	(934,115)	(1,700,666)	(925,306)
Deficit, end of period	(4,704,957)	(1,542,432)	(4,704,957)	(1,542,432)
<b>Loss per share</b>	<b>\$ (0.13)</b>	<b>\$ (0.04)</b>	<b>\$ (0.17)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of shares</b>	<b>19,356,974</b>	<b>14,371,755</b>	<b>17,758,876</b>	<b>12,300,690</b>

See notes to the consolidated financial statements

**ONA EXPLORATION INC.**  
Consolidated Statements of Cash Flows  
(Unaudited)

	For the Three Months ended March 31,		For the Six Months ended March 31,	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Cash provided by (used for):</b>				
<b>Operations</b>				
Net loss for the period	(2,473,804)	(608,317)	(3,004,291)	(617,125)
Items not affecting cash:				
Future income tax recovery	106	223	184	223
Stock-option compensation	2,204,000	566,200	2,653,200	566,200
	<u>(269,698)</u>	<u>(41,894)</u>	<u>(350,907)</u>	<u>(50,702)</u>
Changes in non-cash working capital components:				
Accounts payable and accrued liabilities	18,630	11,558	(24,992)	(39,338)
Amounts receivable	(8,481)	(1,720)	(9,594)	18,626
Prepaid expense	25,940	-	(4,331)	-
	<u>(233,609)</u>	<u>(32,056)</u>	<u>(389,824)</u>	<u>(71,414)</u>
<b>Investing Activities</b>				
Equipment	(749)	-	(749)	-
Oil and gas property costs	(440,041)	-	(504,121)	-
	<u>(440,790)</u>	<u>-</u>	<u>(504,870)</u>	<u>-</u>
<b>Financing Activities*</b>				
	5,500,000		5,500,000	
Cash from shares issued	979,736	526,310	1,963,686	566,300
Share issue costs	-	-	(4,710)	-
Share subscriptions	-	-	-	6,780
	<u>6,479,736</u>	<u>526,310</u>	<u>7,458,976</u>	<u>573,080</u>
<b>Net cash provided during the period</b>	5,805,337	494,254	6,564,282	501,666
<b>Cash, beginning of period</b>	<u>1,121,544</u>	<u>12,271</u>	<u>362,599</u>	<u>4,859</u>
<b>Cash, end of period</b>	<u><u>6,926,881</u></u>	<u><u>506,525</u></u>	<u><u>6,926,881</u></u>	<u><u>506,525</u></u>

See notes to the consolidated financial statements

**ONA EXPLORATION INC.**  
Notes to the Consolidated Financial Statements  
March 31, 2006 and September 30, 2005  
(unaudited)

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company's major activity is oil and gas exploration and development of mineral properties. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves. The Company does not generate cash flows from operations and has therefore relied principally upon the issuance of equity securities to finance its exploration activities. The Company intends to continue relying upon the issuance of equity securities to finance its operations and exploration activities to the extent that such instruments are issuable under terms acceptable to the Company. Accordingly, the Company's interim financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable values of its assets may decline materially from current estimates.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting principles and use of estimates**

The accompanying unaudited interim financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim financial statements should be read in conjunction with the Company's annual audited financial statements dated September 30, 2005. All material adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results for the six month period ended March 31, 2006 are stated utilizing the same accounting policies as those reflected in the Company's most recent annual financial statements, but these interim figures are not necessarily indicative of the results to be expected for the full year.

The consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, ONA Power and & Energy (Canada).

**3. SHARE CAPITAL**

- a) Authorized share capital consist of: unlimited common shares without par value.  
unlimited preference shares without par value

Issued:

	Number of shares	Amount
		\$
Issued at September 30, 2005	15,509,866	1,456,274
Private placements	1,250,000	<sup>(1)</sup> 807,790
Warrants	1,780,000	388,950
Stock option	1,270,394	762,236
Fair value of stock options	-	882,790
Issued at June 30, 2005	19,810,260	4,298,040

<sup>(1)</sup> net of \$4,711 in share issue costs

3. **SHARE CAPITAL** (continued)

b) Summary of stock options outstanding at March 31, 2006:

Expiry Date	Exercise Price	September 30, 2005	Granted	Exercised	March 31, 2006
February 28, 2010	0.60	945,394	-	(820,394)	125,000
October 10, 2010	0.60	-	600,000	(450,000)	150,000
January 18, 2011	5.50	-	950,000	-	950,000
		<u>945,394</u>	<u>1,550,000</u>	<u>(1,270,394)</u>	<u>1,225,000</u>
Weighted average exercise price		<u>\$ 0.60</u>	<u>\$ 3.60</u>	<u>\$ 0.60</u>	<u>\$ 4.40</u>
Weighted average remaining life		<u>4.42</u>			<u>4.68</u>

There was no option activity for the 6 month period ended June 30, 2005.

c) Warrants outstanding

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

Expiry Date	Exercise Price	Balance September 30, 2005	Changes in the period			Balance March 31, 2006
			Issued	Exercised	Expired	
January 8, 2006	\$0.115	1,230,000	-	(1,230,000)	-	-
January 20, 2007	0.45	550,000	-	(550,000)	-	-
November 24, 2007	0.75	-	1,250,000	-	-	1,250,000
		<u>1,780,000</u>	<u>1,250,000</u>	<u>(1,780,000)</u>	<u>-</u>	<u>1,250,000</u>
Weighted average Exercise Price		<u>\$ 0.22</u>	<u>\$ 0.75</u>	<u>\$ 0.22</u>	<u>-</u>	<u>\$ 0.75</u>

d) Contributed surplus

Balance at September 30, 2005	<u>\$</u> 629,065
Non-cash stock-based compensation (note 4(b))	2,653,200
Contributed surplus transferred to share capital on options exercised	<u>(882,790)</u>
Balance at March 31, 2006	<u>2,399,475</u>

e) Share subscription refundable

During the period ended March 31, 2006, the Company was received \$5,500,000 for 1,000,000 common shares at \$5.50 for a private placement. The private placement was subsequently cancelled and all money was refunded.

#### 4. OIL AND GAS PROPERTY COSTS

##### Dyberg Prospect, Alberta

During the 2005 fiscal year the Company entered into an agreement with Warburg Resources Inc. whereby the Company was granted the right to earn up to a 22.5% Working Interest before payout (13.75% after payout), the Dyberg Prospect located in Alberta, Canada, by contributing 25% of the costs associated with the drilling of a test well. The Company has paid \$106,800 to date in accordance with the agreement.

##### Liberia Concession

In October, 2005, the Company entered into a Memorandum of Understanding with the Government of the Republic of Liberia to acquire certain oil and gas rights to two off shore concessions. Once concession covers an area of 3,340 square kilometers and has had a total of 590 line kilometers of 2D seismic survey acquired. The second concession has an area of 3,121 square kilometers with a total of 490 line kilometers of 2D seismic survey acquired.

The parties have agreed that Ona will conduct a 3-D seismic study on the concessions being acquired. On or before January 28, 2006, a formal Concession Agreement will be signed by both parties and approved by the Government which is to define the terms of the acquisition. The formal agreement will be subject to Canadian regulatory approval.

#### 5. EQUIPMENT

	March 31, 2006			September 30, 2005
	Cost	Accumulated Amortization	Net book Value	Net book value
	\$	\$	\$	\$
Computer	3,249	1,643	1,606	1,041

#### 6. RELATED PARTY TRANSACTIONS

The Company incurred the following expenses to private companies with a common director and officer:

	March 31, 2006	September 30, 2005
	\$	\$
Consulting fees	-	11,000

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### 7. CONTINGENT LIABILITY

The Company entered into an Investor Relations agreement with Renmark Financial Communications Inc. ("Renmark"), whereby Renmark will provide investor relations services to the Company at a cost of \$5,000 per month for one year.

#### 8. SUBSEQUENT EVENTS

The following transactions and events occurred subsequent to March 31, 2006:

The Company issued 350,000 common shares at \$0.75 per share for warrants exercised and 150,000 common shares at \$0.60 per share for options exercised.

**ONA EXPLORATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**2<sup>ND</sup> Quarter Report – March 31, 2006**

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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, 2006 should be read in conjunction with the March 31, 2006 unaudited Financial Statements and the related Notes. The effective date of this report is May 24, 2006.

**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**

Ona was incorporated under the Business Corporation Act of Alberta on August 31, 1998 and continued into British Columbia on January 30, 2006. The Company's shares are publicly traded on the TSX Venture Exchange ("TSX-V") under the symbol "OEI" and on November 8, 2005 the Company's shares commenced trading on the Frankfurt Exchange under the symbol "O3X". The Company is in the business of oil and gas exploration and development. At present, it holds the right to earn certain interests in wells known as the "Dyberg Prospect" and has entered into an agreement and a Memorandum of Understanding for the acquisition of other interests, particularly in Indonesia and Liberia.

**Dyberg oil well project**

The Company entered into an agreement last year with Warburg Resources Inc., respecting a farm-in opportunity on certain lands known as the "Dyberg Prospect", located in the Province of Alberta, Canada. Ona has been granted the right to earn up to a 22.5% Working Interest (BPO) (13.75% APO) in certain farm-in lands by paying 25% of the costs associated with the drilling of a test well, which to date has cost approximately \$106,800 and the results are pending.

**Off-shore Liberian oil concessions**

In October, 2005, Ona entered into a Memorandum of Understanding with the Government of the Republic of Liberia to acquire certain oil and gas rights to two off shore concessions. One concession covers an area of 3,340 square kilometres and has had a total of 590 line kilometres of 2D seismic survey acquired. The second concession has an area of 3,121 square kilometres with a total of 490 line kilometres of 2D seismic survey acquired. Under the terms of the Memorandum, Ona agreed to conduct a 3-D seismic study on the concessions being acquired. A formal Concession Agreement was to be signed by January 28, 2006 but due to the transition of a new incoming government in the Republic of Liberia, the process is taking longer than initially expected.

**Dutch Oil Wells Project – Indonesia**

In December 2005, Ona entered into a letter of intent with Can Power Corporation ("CPC"), a private company incorporated under the laws of British Columbia, whereby CPC has agreed to assign to Ona its interest in a joint venture agreement to rework and develop three historic oil fields, in South Sumatra, Indonesia.

The project (the "Dutch Oil Wells Project") involves the rehabilitation of three abandoned oil fields consisting of previously producing wells in areas located onshore in Karangrigin, Keluang, and Suban Burung in South Sumatra Indonesia. The Dutch Oil Wells Project comprises approximately 300 abandoned wells situated in the Karangrigin oil field, Keluang oil field, and the Suban Burung oil field. Many of these wells have been capped since 1945.

In February 2006, a Definitive Agreement was reached and as consideration for the acquisition, Ona reimbursed CPC \$393,000 in expenses incurred by CPC. This acquisition is currently in the regulatory approval process.

On April 28, 2006, Ona announced that it had engaged independent qualified persons Dr. Victor Childs, a geologist, and Douglas Coulombe, a petroleum engineer, of Calco Geological & Engineering working with Trimble Engineering Associates Ltd. of Calgary, Alberta, to verify the amount of original oil in place through the purchase and study of additional well data and logs for the Keluang oil field. The data will be used in conjunction with the application of the latest technology and enhanced recovery techniques and to assist in planning the re-entry of numerous untested wells which would include horizontal drilling to increase production rates and ultimate recoveries. A more representative estimate of the recoverable reserves can be established based on the acquired data. A new 51-101 report containing the substantiation of additional data on more of existing oil wells will be prepared and will verify findings in the earlier Chapman Engineering 51-101 report. The resulting recoverable reserves will be based on modern technologies of recoveries. The new report will also prioritize the wells to be reworked and will include a work program for Sinopec to rework the existing oil wells.

### **North Sumatra power plant project**

In January 2006, Ona signed a Letter of Intent to acquire CPC's interest in a 3 x 35 megawatt (MW) coal fired power plant in Medan, North Sumatra. Ona has agreed to issue 1,000,000 shares to CPC in conjunction with this transaction, which is subject to regulatory approval. CPC has agreed to assign to Ona its interest in the joint venture agreement dated January 14, 2006 with PT Cahaya Sakti, of Medan, Indonesia.

Under the joint venture, a 3 x 35 MW coal fired power plant will be constructed in Medan, North Sumatra. Upon completion of the assignment by CPC, Ona will hold a 51% controlling interest in the power plant project, with Cahaya Sakti holding a 30% interest and Pluto Vision Inc., a private Indonesian company, holding the remaining 19% interest in the Project. Cahaya Sakti has secured all major approvals and documents for the Project, including the Power Purchase Agreement (the "PPA"), a Long Term Fuel Supply Agreement with a subsidiary of Cahaya Sakti (see below), and environmental permits.

PT Cahaya Sakti's wholly-owned subsidiary, Pt. Turbindo, has a large coal mine concession covering 22,500 hectares. The deposit contains an estimated 200 million tonnes of coal rated at 4,500 to 5,200 kilocal per kilogram. The deposit located in Palembang, Southern Sumatra, Indonesia, is ready to be exploited and will guarantee the fuel supply for the proposed power plant under a long-term contract.

The terms of the PPA are as follows:

- The term of electrical power sales is for 20 years.
- The electrical power, with a minimum dependable capacity of 50 MW over a period of 8760 hours per annum, amounting to 438,000,000 kilowatt per hour per annum is to supply the Medan Industrial Estate.
- The sale price of electricity is approximately US\$0.05 per kilowatt per hour for the first year through to the third year, thereafter; it is increased by 2% per annum for the minimum contract amount.
- The sale price for electrical power in excess of the minimum amount contracted is approximately US\$0.04775/kW-hr thereafter; it is increased by 2% per annum.

The estimated capital cost of the power plant is US \$110 million. PT Cahaya Sakti will supply the equivalent of 20% of the project value in coal as a down payment, and financing will be arranged with the Islamic Development Bank ("IDB") and Islamic Corporation of the Development of the Private Sector ("ICD") who will provide the financing based on a ratio of 30% equity and 70% debt. Ona is responsible for providing US \$6 million toward the 30% equity portion of the project cost, which Ona intends to raise by completing one or more private placements of its shares or convertible debt.

The estimated annual gross revenue of the proposed power plant is in excess of US \$37 million subject to a 2% increase annually as per the conditions set out in the PPA.

A formal assignment agreement for this acquisition between Ona and CPC is nearing completion. This acquisition is currently in the regulatory approval process.



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

Expiry Dates	Exercise Prices	Balance September 30, 2005	Changes in the period			Balance March 31, 2006
			Issued	Exercised	Expired	
January 8, 2006	\$ 0.115	1,230,000	-	(1,230,000)	-	-
January 20, 2007	\$ 0.45	550,000	-	(550,000)	-	-
November 24, 2007	\$ 0.75	-	1,250,000	-	-	1,250,000
		1,780,000	1,250,000	(1,780,000)	-	1,250,000
Weighted average Exercise Price		\$0.22	\$0.75	\$0.22	-	\$0.75

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

Expiry Dates	Exercise Prices	Balance September 30 2005	Changes in the period			Balance March 31 2006
			Issued	Exercised	Expired	
February 28, 2010	\$0.60	945,394	-	(820,394)	-	125,000
October 10, 2010	\$0.60	-	600,000	(450,000)	-	150,000
January 18, 2011	\$5.50	-	950,000	-	-	950,000
		945,394	1,550,000	(1,270,394)	-	1,495,394

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

### **Summary of Quarterly Results**

Period Ended	2005				2004			
	Mar 31 Q2	Dec 31 Q1	Sept 30 Q4	Jun 30 Q3	Mar 31 Q2	Dec 31 Q1	Sept 30 Q4	Jun 30 Q3
Total Revenue	-	-	-	-	-	-	-	1,738
Income (loss) before other items	(269,804)	(81,290)	(58,633)	(27,811)	(42,117)	(8,925)	(35,446)	(24,531)
Basic loss per Share	(0.01)	(0.01)	(0.02)	(0.01)	(0.00)	(0.00)	(0.02)	(0.00)
Net Income (loss)	(2,473,804)	(530,490)	(775,360)	(27,811)	(608,317)	(8,925)	(152,496)	(24,531)
Basic loss per Share	(0.13)	(0.03)	(0.05)	(0.01)	(0.04)	(0.00)	(0.02)	(0.00)

### **Liquidity and Capital Resources**

The Company had working capital of \$1,444,110 at March 31, 2006. 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. Subsequent to the quarter the Company received proceeds of \$352,500 on the exercise of 150,000 options and 350,000 warrants.

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 revenue 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, amounts 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).