

# **ONA EXPLORATION INC.**

## Consolidated Interim Financial Statements

June 30, 2006

**ONA EXPLORATION INC.**

## Consolidated Balance Sheets

As at

	June 30, 2006 <i>(Unaudited)</i>	September 30, 2005
	\$	\$
<b>A S S E T S</b>		
<b>Current</b>		
Cash and short-term deposits	1,569,154	362,599
Amounts receivable	49,134	35,611
Prepaid expense	19,330	-
	<u>1,637,618</u>	<u>398,210</u>
Investment in Medan Power Plant project (note 5)	1,700,000	-
Oil and gas property costs (note 4)	638,271	42,721
Equipment (note 6)	3,939	1,041
	<u>3,979,828</u>	<u>441,972</u>
<b>L I A B I L I T I E S</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<u>37,994</u>	<u>57,299</u>
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
Share capital (note 3(a))	6,477,840	1,456,274
Contributed surplus (note 3 (d))	2,287,175	629,065
Deficit	(4,823,181)	(1,700,666)
	<u>3,941,834</u>	<u>384,673</u>
	<u>3,979,828</u>	<u>441,972</u>

Approved by the Board of Directors:

"John Wong"

Director

"Curt Huber"

Director

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

	For the Three Months ended June 30,		For the Nine Months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Expenses</b>				
Administrative Fees	-	5,000	6,707	10,100
Amortization	447	112	631	335
Audit and accounting fees	2,700	4,625	15,700	13,875
Auto expense	-	-	-	102
Consulting	10,500	5,000	21,280	14,900
Finders fee	-	-	81,250	-
Interest income	-	-	(74)	(1)
Legal	22,125	-	66,847	9,012
Office	5,270	6,257	16,120	7,520
Property investigation	-	-	4,000	-
Rent	30,168	5,850	63,280	5,850
Shareholders communication	-	(28)	37,756	697
Stock-option compensation	-	-	2,653,200	566,200
Travel and accommodation	42,822	-	63,922	-
Trust and filing	4,192	995	91,896	16,371
Net loss for the period	(118,224)	(27,811)	(3,122,515)	(644,961)
Deficit, beginning of period	(4,704,957)	(1,542,456)	(1,700,666)	(925,306)
Deficit, end of period	<u>(4,823,181)</u>	<u>(1,570,267)</u>	<u>(4,823,181)</u>	<u>(1,570,267)</u>
<b>Loss per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.17)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of shares</b>	<u>20,212,897</u>	<u>15,509,866</u>	<u>18,576,883</u>	<u>14,371,755</u>

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

	For the Three Months ended June 30,		For the Nine Months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Cash provided by (used for):</b>				
<b>Operations</b>				
Net loss for the period	(118,224)	(27,811)	(3,122,515)	(644,961)
Items not affecting cash:				
Future income tax recovery	447	112	631	335
Stock-option compensation	-	-	2,653,200	566,200
	(117,777)	(27,699)	(468,684)	(78,426)
Changes in non-cash working capital components:				
Accounts payable and accrued liabilities	5,687	(13,192)	(19,305)	(45,749)
Amounts receivable	(3,929)	(1,757)	(13,523)	16,893
Prepaid expense	(14,999)	-	(19,330)	-
	(131,018)	(42,648)	(520,842)	(107,282)
<b>Investing Activities</b>				
Equipment	(2,780)	-	(3,529)	-
Oil and gas property costs	(91,429)	-	(595,550)	-
	(94,209)	-	(599,079)	-
<b>Financing Activities</b>				
Share subscriptions refundable	(5,500,000)	-	-	-
Cash from shares issued	367,500	-	2,331,186	566,300
Share issue costs	-	-	(4,710)	-
	(5,132,500)	-	2,326,476	566,300
<b>Net cash (used) provided during the period</b>	(5,357,727)	(42,648)	1,206,555	459,018
<b>Cash, beginning of period</b>	6,926,881	506,525	362,599	4,859
<b>Cash, end of period</b>	1,569,154	463,877	1,569,154	463,877

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company's major activity is the energy business and oil and gas exploration and development of mineral properties. The recoverability of amounts shown for its 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 nine month period ended June 30, 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	2,150,000	666,450
Stock option	1,420,394	852,236
Acquisition of power plant	1,000,000	1,700,000
Fair value of stock options	-	995,090
Issued at June 30, 2006	21,330,260	6,477,840

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

3. **SHARE CAPITAL** (continued)

b) Summary of stock options outstanding:

Expiry Date	Exercise Price	September 30, 2005	Granted	Exercised	June 30, 2006
	\$				
February 28, 2010	0.60	945,394	-	(820,394)	125,000
October 10, 2010	0.60	-	600,000	(600,000)	-
January 18, 2011	5.50	-	950,000	-	950,000
		<u>945,394</u>	<u>1,550,000</u>	<u>(1,420,394)</u>	<u>1,075,000</u>
Weighted average exercise price		<u>\$ 0.60</u>	<u>\$ 3.60</u>	<u>\$ 0.60</u>	<u>\$ 4.93</u>
Weighted average remaining life		<u>4.42</u>			<u>4.70</u>

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 June 30, 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	(370,000)	-	880,000
		<u>1,780,000</u>	<u>1,250,000</u>	<u>(2,150,000)</u>	<u>-</u>	<u>880,000</u>
Weighted average Exercise Price		<u>\$ 0.22</u>	<u>\$ 0.75</u>	<u>\$ 0.31</u>	<u>-</u>	<u>\$ 0.75</u>

d) Contributed surplus

Balance at September 30, 2005	<u>\$ 629,065</u>
Non-cash stock-based compensation (note 4(b))	2,653,200
Contributed surplus transferred to share capital on options exercised	<u>(995,090)</u>
Balance at June 30, 2006	<u><u>2,287,175</u></u>

#### 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.

To date, a formal concession agreement has not been completed with the new government of Liberia, but the Company's representative in Liberia continues discussions with the government and the National Oil Company of Liberia.

##### **Dutch Oil Wells Project, Indonesia**

On February 9, 2006, the company signed a definitive agreement with Can Power Corporation ("CPC"), a British Columbia corporation, to acquire CPC's interest in a joint venture agreement to rework and develop a historic oil field, in South Sumatra, Indonesia.

As consideration for the acquisition of CPC's interest in the joint venture agreement, the Company reimbursed CPC \$393,000 for expenses incurred by CPC in connection with the project.

The project involves the rehabilitation of an abandoned oil field in from previously producing wells in the areas located onshore in Karangrining, South Sumatra Indonesia. The Dutch Oil Wells comprise approximately 300 abandoned Dutch Oil Wells situated in Karangrining and the Suban Burung oilfields. Many of these wells have been capped since 1945, when the Japanese turned the country back to the Indonesians and not the Dutch. Through geological modeling, typical to this area, it would appear that the pay zone reservoirs are being recharged through sub-surface fluid movements. The regency of Musi Banyuasin has the rights to these Dutch oil wells.

#### 5. INVESTMENT IN MEDAN POWER PLANT PROJECT

On June 20, 2006, we signed an Assignment of Interest agreement to acquire a 51% interest in a 3 x 35 MW coal fired power plant in Medan, North Sumatra, from Can Power Corporation's (CPC), a British Columbia corporation. As consideration, Ona issued 1,000,000 shares to CPC in conjunction with the transaction. CPC is assigning its interest in the joint venture agreement signed with PT Cahaya Sakti of Medan, Indonesia on January 16<sup>th</sup>, 2006.

Under the joint venture, a 3 x 35 MW coal fired power plant will be constructed in Medan, North Sumatra. Cahaya Sakti shall transfer 51% of the controlling interest to Can Power Corporation. Cahaya Sakti has all of the major approvals and documents in place for the Project, including the Power Purchase Agreement (PPA), Long Term Fuel Supply Agreement, and Environmental Permits.

In addition, PT Cahaya Sakti's wholly owned subsidiary, Pt. Turbindo, has a large coal mine concession covering 22,500 hectares. The deposit contains an estimated 50 million tonnes of coal rated at 4,500 to 5,200 kcal/kg. 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

6. **EQUIPMENT**

	June 30, 2006		September 30, 2005
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer	6,029	2,090	3,939
			1,041

7. **RELATED PARTY TRANSACTIONS**

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

	June 30, 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.

8. **SUBSEQUENT EVENTS**

The following transactions and events occurred subsequent to June 30, 2006:

On August 17, 2006, the Company granted 1,001,000 incentive stock options at a price of \$1.50 per share to Officers, Directors and consultants of the Company.

**ONA EXPLORATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**3<sup>rd</sup> Quarter Report – June 30, 2006**

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The following discussion and analysis of the operations results and financial position of the Company for the nine months ended June 30, 2006 should be read in conjunction with the June 30, 2006 unaudited Consolidated Financial Statements and the related Notes. The effective date of this report is August 29, 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. As of June 21, 2006, our shares are publicly traded on the CNQ under the symbol "OEIX". Prior to that, our shares were traded on the TSX Venture Exchange ("TSX-V") under the symbol "OEI". The Company delisted its shares from the TSX.V at the close of business on June 21, 2006, but continues to trade on the Frankfurt Exchange under the symbol "O3X".

We are in the business of oil and gas exploration & development and energy development. At present, we hold the right to earn certain interests in wells known as the "Dyberg Prospect", hold an interest in a project involving the rehabilitation of an abandoned oil field from previously producing wells in Indonesia, known as the "The Dutch Oil Wells", and negotiations are on-going for the acquisition of other interests, particularly in Liberia. In addition, we have acquired a 51% interest in a 3 x 35 MW coal fired power plant in Medan, North Sumatra.

**Dyberg oil well project**

We reached 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, upon signing of the formal Concession Agreement. The agreement was expected to be signed by the end of January, 2006, but due to the transition of a new incoming government in the Republic of Liberia, the process is taking much longer than initially expected and is still ongoing.

**Dutch Oil Wells Project – Indonesia**

In December 2005, Ona entered into a letter of intent with Can Power Corporation ("CPC"), a 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 a historic oil field, in South Sumatra, Indonesia.

In February, a definitive agreement was reached and as consideration for the acquisition, Ona reimbursed CPC \$393,000 in expenses incurred by CPC.

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

The Company has also engaged independent qualified persons Dr. Victor Childs, a geologist from the UK, and Douglas Coulombe, P. Eng. a petroleum engineer, of Calco Geological & Engineering from Calgary, Alberta, Canada (the "team"). The team is working to verify the amount of original oil in place through the purchase and study of additional well data and logs from PT. Patra Nusa Data, a subsidiary of PT. Pertamina, the National Company of Indonesia for the Keluang oil field. The Company has purchased additional data selected by the team from PT. Patra Nusa Data. 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.

The team will prepare a new 51-101 report containing the substantiation of additional data on more of existing oil wells.

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

On June 20, 2006, we signed an Assignment of Interest agreement to acquire a 51% interest in a 3 x 35 MW coal fired power plant in Medan, North Sumatra, from Can Power Corporation's (CPC), a British Columbia corporation. As consideration, Ona issued 1,000,000 shares to CPC in conjunction with the transaction. CPC is assigning its interest in the joint venture agreement signed with PT Cahaya Sakti of Medan, Indonesia on January 16<sup>th</sup>, 2006.

Under the joint venture, a 3 x 35 MW coal fired power plant will be constructed in Medan, North Sumatra. Cahaya Sakti shall transfer 51% of the controlling interest to Can Power Corporation. Cahaya Sakti has all of the major approvals and documents in place for the Project, including the Power Purchase Agreement (PPA), Long Term Fuel Supply Agreement, and Environmental Permits.

In addition, PT Cahaya Sakti's wholly owned subsidiary, Pt. Turbindo, has a large coal mine concession covering 22,500 hectares. The deposit contains an estimated 50 million tonnes of coal rated at 4,500 to 5,200 kcal/kg. 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 kW-hr per annum is to supply the Medan Industrial Estate.
- The sale price of electricity is approximately US\$0.05/kW-hr for first year through to the third year, thereafter; it is increased by 2% 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 increase by 2% annum.

The estimated capital cost of the power plant is about US \$110 million. PT Cahaya Sakti shall use the equivalent of 20% of the project value in coal as a down payment, and financing shall be negotiated and arranged with the turnkey contractor who will provide the remainder of the project value.

The estimated annual gross revenue of the proposed power plant is in excess of US \$29 million subject to a 2% increase annually.



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	(600,000)	-	-
January 18, 2011	\$5.50	-	950,000	-	-	950,000
		945,394	1,550,000	(1,420,394)	-	1,075,000

### **Summary of Quarterly Results**

Period Ended	2006				2005			
	Jun 30 Q3	Mar 31 Q2	Dec 31 Q1	Sept 30 Q4	Jun 30 Q3	Mar 31 Q2	Dec 31 Q1	Sept 30 Q4
Total Revenue	-	-	-	-	-	-	-	-
Income (loss) before other items	(118,224)	(269,804)	(81,290)	(58,633)	(27,811)	(42,117)	(8,925)	(35,446)
Basic loss per Share	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.00)	(0.00)	(0.02)
Net Income (loss)	(118,224)	(2,473,804)	(530,490)	(775,360)	(27,811)	(608,317)	(8,925)	(152,496)
Basic loss per Share	(0.01)	(0.13)	(0.03)	(0.05)	(0.01)	(0.04)	(0.00)	(0.02)

### **Liquidity and Capital Resources**

The Company had working capital of \$1,599,624 at June 30, 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.

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.

## **Subsequent Events**

The following transactions and events occurred subsequent to June 30, 2006:

On August 17, 2006, the Company granted 1,001,000 incentive stock options at a price of \$1.50 per share to Officers, Directors and consultants of the Company. These are exercisable until August 16, 2011.

On August 28, 2006, the Company announced that it had renegotiated the terms of a definitive joint venture agreement with PT Petro Muba (PTPM), a state own limited liability company registered under the laws of the Republic of Indonesia. Under the new agreement, the Company will now hold an 80% interest a joint venture (up from 75%) to rework and develop a number of abandoned oil wells that were originally drilled in the Dutch colonies era. The oil wells are located within the boundary of the area covered under the Corridor Block Production Sharing Contract (PSC) being an area that was previously managed by ConocoPhillips. ConocoPhillips surrendered the rights to manage these oil wells to Muba and PTPM in December of 2004.

In consideration for the acquisition of the 80% interest in the joint venture with PTPM, the Company has agreed to reimburse PTPM for up to US\$200,000 in expenses incurred by PTPM. The agreement also provides for the management and rehabilitation of the abandoned oil wells located within the boundary of the Corridor Block PSC area in the Keluang, Karangrigin, and Suban Baru oil fields. Under this agreement, the Company is entitled to 80% of the net profit of the Contractor's take after expenses and taxes under the PSC with the Indonesian government.

## **Additional Information**

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