



**ONAENERGY**

**ONA ENERGY INC.**

**Consolidated Financial Statements**  
(Unaudited – Prepared By Management)

**For the six month period ending**  
**March 31, 2008**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the six month period ended March 31, 2008 and 2007, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's independent auditors has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**ONA ENERGY INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)  
**Going Concern** (Note 1)

	<b>March 31, 2008 (Unaudited)</b>	<b>September 30, 2007 (Audited)</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 33,856	\$ 522,577
Short-term investment (Note 3)	-	992,000
Amounts receivable and prepaid expenses	155,404	112,997
<b>Total current assets</b>	<u>189,260</u>	<u>1,627,574</u>
Prepayment of construction of power plant	-	257,523
Restricted cash	2,278,168	2,665,943
Oil and gas properties (Note 5)	4	4
Property & equipment	326,999	261,538
Power Plant (Notes 6 and 9)	38,682,152	31,020,360
Deferred financing costs (Note 7)	252,375	-
Licenses and permits (Note 4)	5,542,247	5,542,247
<b>Total Assets</b>	<u>\$ 47,271,205</u>	<u>\$ 41,375,189</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,119,135	\$ 5,862,625
Short term loans (Note 7)	3,437,384	1,990,500
Convertible debentures (Note 8)	4,587,706	4,587,706
Due to related parties (Note 14)	4,026,458	1,333,660
<b>Total current liabilities</b>	<u>17,170,683</u>	<u>13,774,491</u>
Long term liabilities (Note 10)	2,051,514	1,856,999
Long-term debt (Note 9)	11,728,000	10,616,000
Future income tax liability	1,385,562	1,385,562
<b>Total liabilities</b>	<u>32,335,759</u>	<u>27,633,052</u>
Non-controlling interest	5,153,104	5,335,987
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	15,190,391	14,379,141
Contributed surplus (Note 16)	3,159,402	2,961,730
Accumulated other comprehensive income	584,660	(441,722)
Deficit	(9,152,111)	(8,492,999)
<b>Total shareholders' equity</b>	<u>9,782,342</u>	<u>8,406,150</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 47,271,205</u>	<u>\$ 41,375,189</u>

Commitment (Note 12)  
Subsequent Events (Note 20)

Approved by the Board of Directors:

*"Curt Huber"*

*"John F. Wong"*

**ONA ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

	<b>Three Month Period Ended March 31, 2008</b>	<b>Three Month Period Ended March 31, 2007</b>	<b>Six Month Period Ended March 31, 2008</b>	<b>Six Month Period Ended March 31, 2007</b>
<b>Expenses</b>				
Amortization	\$ 92,285	\$ 399	\$ 101,113	\$ 798
Consulting	20,000	30,347	30,970	64,828
Entertainment	38,768	-	60,962	-
Investor relations	3,259	-	5,057	-
Office and general	45,108	3,718	81,160	6,915
Occupancy & administration	20,000	30,803	60,000	62,018
Professional fees	98,684	29,746	104,939	41,060
Salaries	5,369	1,875	74,938	1,875
Stock based compensation	79,915	-	197,672	-
Training	48,771	-	56,580	-
Transfer agent and filing fees	29,087	6,090	32,358	13,047
Travel and accommodation	42,473	10,111	93,225	31,408
	523,719	113,089	898,974	221,949
<b>Other Items</b>				
Foreign exchange (gain) loss	63,162	377	25,003	(480)
Interest income	(36,644)	(3,400)	(81,982)	(3,989)
	26,518	(3,023)	(56,979)	(4,469)
<b>Loss for the period before non-controlling interest</b>	550,237	110,066	841,995	217,480
<b>Non-Controlling interest</b>	95,476	-	182,883	-
<b>Loss for the period</b>	454,761	110,066	659,112	217,480
<b>Deficit, beginning of period</b>	8,697,350	5,377,669	8,492,999	5,270,255
<b>Deficit, end of period</b>	\$ 9,152,111	\$ 5,487,735	\$ 9,152,111	\$ 5,487,735
<b>Loss per share (basic and diluted)</b>	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>				
<b>Basic and diluted</b>	31,614,313	24,432,760	31,365,563	24,000,215

**ONA ENERGY INC.**  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

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	<b>Six Month Period Ended March 31, 2008</b>	<b>Six Month Period Ended March 31, 2007</b>
<b>Net loss</b>	<b>\$ (659,112)</b>	<b>\$ (217,480)</b>
Other comprehensive income		
Unrealized gain on translating financial statements of Ona Energy Inc.	<u>1,026,382</u>	<u>-</u>
<b>Comprehensive income (loss)</b>	<b>\$ 367,270</b>	<b>\$ (217,480)</b>

**ONA ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

	<b>Three Month Period Ended March 31, 2008</b>	<b>Three Month Period Ended March 31, 2007</b>	<b>Six Month Period Ended March 31, 2008</b>	<b>Six Month Period Ended March 31, 2007</b>
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating Activities</b>				
Net loss for the year	\$ (454,761)	\$ (110,066)	\$ (659,112)	\$ (217,480)
Amortization	92,285	399	101,113	798
Allocation of subsidiary's loss to minority	(95,479)	-	(182,883)	-
Stock based compensation	79,915	-	197,672	-
	<u>(378,040)</u>	<u>(109,667)</u>	<u>(543,210)</u>	<u>(216,682)</u>
Changes in non-cash working capital items:				
Amounts receivable and prepaid expense	46,598	10,790	(36,127)	18,158
Accounts payable and accrued liabilities	(2,797,061)	(524,021)	(1,324,444)	(43,122)
<b>Cash used in operating activities</b>	<u>\$ (3,128,503)</u>	<u>\$ (622,898)</u>	<u>\$ (1,903,781)</u>	<u>\$ (241,646)</u>
<b>Investing Activities</b>				
Prepayment for construction of power plant	\$ (257,523)	\$ -	\$ -	\$ -
Purchase of property and equipment	-	-	(22,496)	-
Sale of short-term investment	-	-	992,000	-
Oil and gas properties	-	-	-	(47,683)
Power plant acquisition	1,134,990	-	(3,745,455)	-
<b>Cash provided by (used in) investing activities</b>	<u>\$ 877,467</u>	<u>\$ -</u>	<u>\$ (2,775,951)</u>	<u>\$ (47,683)</u>
<b>Financing Activities</b>				
Due to related parties	\$ 585,508	\$ -	\$ 2,535,378	\$ -
Increase in short term loan	122,499	-	3,437,384	-
Repayment of short term loan	-	-	(1,990,500)	-
Purchase of short-term investments	-	-	-	(4,200,000)
Proceeds from short term investment	-	250,000	-	250,000
Common shares issued for cash	45,000	22,500	474,750	4,528,999
Share issue costs	-	-	-	(437,075)
<b>Cash provided by financing</b>	<u>\$ 753,007</u>	<u>\$ 272,500</u>	<u>\$ 4,457,012</u>	<u>\$ 141,924</u>
<b>Decrease in cash during the period</b>	<u>\$ (1,498,029)</u>	<u>\$ (350,398)</u>	<u>\$ (222,720)</u>	<u>\$ (147,405)</u>
Effect of exchange rate changes on cash	(149,119)	-	(266,001)	-
Cash, beginning of period	\$ 1,681,004	\$ 387,049	\$ 522,577	\$ 184,056
Cash, end of period	<u>\$ 33,856</u>	<u>\$ 36,651</u>	<u>\$ 33,856</u>	<u>\$ 36,651</u>
<b>Supplemental Cash Flow</b>				
Interest paid during the period	\$ -	\$ -	\$ -	\$ -
Income taxes paid during the period	\$ -	\$ -	\$ -	\$ -

**Supplemental disclosure of non-cash financing and investing activities (Note 18)**

See accompanying notes to the Consolidated financial statements

**ONA ENERGY INC.**  
**CONSOLIDATED SCHEDULE OF OIL AND GAS PROPERTY COSTS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

	<b>Sept. 30, 2006</b>	<b>2007 Net Expenditures</b>	<b>Write-off</b>	<b>Sept. 30, 2007</b>	<b>2008 Net Expenditures</b>	<b>Write-off</b>	<b>March 31, 2008</b>
<b>CANADA</b>							
<b>Dyberg property</b>							
Acquisition	\$ 1	\$ -	\$ -	\$ 1	\$ -	\$ -	1
<b>Hunkson property</b>							
Acquisition	\$ 1	\$ -	\$ (1)	\$ 0	\$ -	\$ -	0
<b>INDONESIA</b>							
<b>Dutch Oil Wells</b>							
<b>Keluang property</b>							
Acquisition	\$ 303,949	\$ -	\$ (303,948)	\$ 1	\$ -	\$ -	1
Travel	39,019	4,745	(43,764)	-	-	-	-
Assays and reports	19,360	23,671	(43,031)	-	-	-	-
	<u>\$ 362,328</u>	<u>\$ 28,416</u>	<u>\$ (390,743)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1</u>
<b>Karangringin Property</b>							
Acquisition	\$ 151,975	\$ -	\$ (151,974)	\$ 1	\$ -	\$ -	1
Assays and reports	-	7,261	(7,261)	-	-	-	-
Travel	19,509	2,372	(21,881)	-	-	-	-
	<u>\$ 171,484</u>	<u>\$ 9,633</u>	<u>\$ (181,116)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1</u>
<b>Suban Burung property</b>							
Acquisition	\$ 151,975	\$ -	\$ (151,974)	\$ 1	\$ -	\$ -	1
Assays and reports	-	7,261	(7,261)	-	-	-	-
Travel	19,509	2,372	(21,881)	-	-	-	-
	<u>\$ 171,484</u>	<u>\$ 9,633</u>	<u>\$ (181,116)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1</u>
<b>Total Oil and Gas Property Costs</b>	<b>\$ 705,298</b>	<b>\$ 47,682</b>	<b>\$ (752,976)</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ -</b>	<b>4</b>

See accompanying notes to the Consolidated financial statements

**ONA ENERGY INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)  
**FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2008**

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## **1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

The Company was incorporated under the Business Corporation Act of Alberta on August 31, 1998 and was continued to a British Columbian company on January 30, 2006. The Company changed its name to ONA Energy Inc. on May 22, 2007. The Company's shares are publicly traded on the Frankfurt Exchange and Canadian Trading and Quotation System ("CNQ"). During the year ended September 30, 2006, the Company voluntarily delisted its shares on the TSX Venture Exchange ("TSX-V").

Ona Energy is a Canadian-based international energy company focusing on the acquisition and development of power generation and oil & gas projects. The Company's main focus is the construction of a power plant in Yongxing, China (Note 4). The Company also holds three oil prospects in Indonesia and is currently in the exploration stage of developing these properties. The Company has not yet determined whether these properties contain oil and gas reserves that are economically recoverable.

### **Basis of presentation**

The consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

### **Going concern**

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company has incurred a net loss of \$659,112 for the six month period ended March 31, 2008 (September 30, 2007 - \$3,222,744 (Audited); March 31, 2007 - \$217,480) and at March 31, 2008 has an accumulated deficit of \$9,152,111 (September 30, 2007 - \$8,492,999 (Audited)).

The Company's future business plan focuses on the operation of its power plant and on the development of its oil and gas properties. The ability of the Company to continue as a going concern is dependant upon the Company's ability to successfully complete the construction of the first power plant, obtain financing to develop its oil and gas properties, and achieve a profitable level of operations through future production. The Company is currently reviewing its financing options in anticipation of raising additional capital during 2008. The outcome of these matters cannot be accurately predicated at this time. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries:

- Ona Power & Energy is a wholly-owned corporation. This Company is inactive.
- PT Muba Ona Oil is an 80% owned joint venture governed under the laws of Indonesia.
- Yongxing Power Plant Corporation ("YPPC") was acquired on August 21, 2007 as a 60% owned subsidiary. YPPC was incorporated under the laws of the Peoples Republic of China on December 1, 2004.

All significant intercompany transactions and balances have been eliminated.

**ONA ENERGY INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased.

**Restricted cash**

Restricted cash is cash held to be used only for construction of the power plant based on a long term debt agreement signed during the year. Restricted cash is classified and presented based on the nature of the transactions it relates to.

**Foreign currency translation**

The Company's functional and reporting currency is Canadian dollars and the functional currency of YPPC is Chinese Renminbi ("RMB"). The accounts of YPPC, all of which are considered to be self-sustaining foreign operations, are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the year-end exchange rates. Revenue and expenses are translated at the average rate during the year. Exchange gains and losses resulting from foreign currency translations are accumulated in a separate component of shareholders' equity ("cumulative translation adjustment"). An appropriate portion of the exchange gains and losses accumulated in the separate component of shareholders' equity will be included in the determination of operating results for the period when there is a reduction in the net investment in the self sustaining operation.

**Deferred financing costs**

Costs incurred relating to short-term loan financing are deferred and amortized to operations over the life of the loan.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment**

Property and equipment are recorded at cost. Amortization is provided for over the estimated useful life of the assets commencing when the asset is brought into use, using the following method and annual rates:

- Building - 30 year straight-line bases with a 3% residual value
- Machinery & equipment- 5 year straight-line bases with a 3% residual value
- Automobiles- 10 year straight-line bases with a 3% residual value
- Furniture & fixtures - 5 year straight-line bases with a 3% residual value

Power plant is stated at cost, which comprises all direct costs of construction. Power plant costs are transferred to property, plant and equipment, and depreciation of the asset commences when construction is complete and the power plant put into use. The land use right will be amortized over its useful life on the straight line basis.

**License and permit**

License and permit represents permission received to allow the Company to produce and sell electricity in China. License and permit is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is assessed through a comparison of the carrying amount with its fair value. When the fair value is less than its carrying amount, license and permit is considered to be impaired. Any impairment of license and permit is expensed in the period of impairment.

**Oil and gas properties**

The Company follows the full cost method of accounting for its oil and gas operations whereby all cost related to the acquisition of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. These costs do not necessarily reflect present values. Proceeds from the disposal of oil and gas interests are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate.

Depletion and amortization of the capitalized costs will be computed using the unit-of-production method on producing properties, which will be based on the estimated proven reserves of oil and gas.

Oil and gas activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Estimated future removal and site restoration costs are provided over the life of proven reserves on a unit-of-production basis. Costs, which include the cost of production, equipment removal and environmental clean-up, are estimated each period by management based on current regulations, costs, technology, and industry standards. The charge is included in the provision for depletion and depreciation and the actual restoration expenditures are charged to the accumulated provision accounts as incurred

The Company applies a ceiling test to capitalized costs on an annual basis to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, administrative, financing, site restoration, and income tax costs plus the lower of cost or estimated net realizable value of unproved properties.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Stock-based compensation**

The Company uses the fair value method for stock-based compensation granted to employees and non-employees of the Company and all direct awards of stock, in accordance with the CICA Handbook Section 3870 “*Stock-Base Compensation and Other Stock-based Payments*”. The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the company’s common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company’s stock.

**Asset retirement obligations**

The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and from revisions to either expected payment dates or the amounts comprising the original estimate of the obligation. As at March 31, 2008, the Company does not have any asset retirement obligation.

**Impairment of long-lived Assets**

Long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized in that period for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows or quoted market prices. There have been no impairment losses recognized to date.

**Joint operations**

Certain of the Company’s exploration and development activities are conducted jointly with others. The consolidated financial statements reflect only the Company’s proportionate interest in such activities.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Loss per share**

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Diluted loss per share is equal to the basic loss per share for the periods presented because common stock equivalents consisting of options to acquire common shares that are outstanding at March 31, 2008 and March 31, 2007 are anti-dilutive, however, they may be dilutive in future.

**Risk management**

Ona Energy is a Canadian-based international energy company focused on the acquisition and development of power generation and oil & gas projects. The Company manages related industry risk issues directly.

The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

The Company is exposed to interest rate risk related by its floating interest rate long-term debt. The risk relates to the resetting of the interest rates upon maturity and refinancing of the debt.

**Income taxes**

The Company accounts for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net assets are recognized. Such an allowance has been applied to all potential income tax assets of the Company.

**Financial instruments**

Effective January 1, 2007, the Company adopted CICA Handbook Sections 3855, and 3861 financial instruments; Section 1530, comprehensive income and Section 3856, hedges. Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

These standards have been applied prospectively. The adoption of these standards has not resulted in any adjustments to the carrying amounts of financial assets and financial liabilities at January 1, 2007.

The Company's financial instruments consist of cash and equivalents, short-term investments, accounts receivables, accounts payable and accrued liabilities, due to related parties, convertible debenture and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Management has determined that the Company does not have derivatives or embedded derivatives.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New accounting pronouncements**

**Going-concern**

In June 2007, the CICA amended Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to make an assessment of Company’s ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern. The new section is effective for years beginning on or after January 1, 2008. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

**International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will likely require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be determined at this time.

**Comparative figures**

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

**3. SHORT-TERM INVESTMENTS**

Short term investments consists of \$Nil (September 30, 2007: \$992,000) redeemable Guaranteed Investment Certificate (GIC) with an interest rate of 4.15%. The GIC is accounted for at the lower of cost and market value.

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(Unaudited – Prepared by Management)  
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**FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2008**

**4. BUSINESS ACQUISITIONS**

**Yongxing Power Plant Project (“YPPC”)**

On August 21, 2007, the Company completed the acquisition of 60% equity interest in the Yongxing Power Plant Corporation (YPPC), a foreign investment enterprise. YPPC holds the right to construct a coal-fired power plant in Yongxing County, Hunan Province, China capable of producing up to 240 Mega-Watts (MW) of power. The first phase of the power plant is currently under construction, and consists of two 60 MW units. Construction of the first 60 MW unit was completed December 2007, and is expected to be in full operation in March 2008.

The aggregate purchase price of the acquired interest in YPPC was US\$10.5 million (CDN \$11,185,000). The Company paid service fees of US\$1 million (CDN \$1,069,409) in cash and issued 500,000 shares at market value of \$0.80 per share in connection with the acquisition. This acquisition has been accounted for by the purchase method. The following sets forth the preliminary allocation of the purchase price to the fair value of the assets acquired and the liabilities assumed. The purchase price allocation for this acquisition is preliminary and may be adjusted further as a result of obtaining additional information regarding preliminary estimates of fair value made at the date of purchase.

	<b>Proportionate Share Acquired</b>	
<b>Assets acquired</b>		
Cash	\$	776,071
Advances to employees		33,668
Restricted cash		89,880
Prepayment for construction of Power Plant		68,141
Property and equipment		160,167
Power Plant		18,572,396
License and permit		5,542,247
<b>Total assets acquired</b>	<b>\$</b>	<b>25,242,570</b>
<b>Liabilities assumed</b>		
Account payable and accrued liabilities	\$	3,783,880
Short term borrowing		1,260,000
Due to related parties		844,375
Long term liabilities		1,114,344
Long term loan		4,200,000
Future income tax liability		1,385,562
<b>Total liabilities assumed</b>	<b>\$</b>	<b>12,588,161</b>
Assets acquired over liabilities assumed	\$	12,654,409
<b>Consideration consists of the following:</b>		
Cash	\$	12,254,409
Share issued in connection with the acquisition (Note 11)		400,000
<b>Total</b>	<b>\$</b>	<b>12,654,409</b>

License and permit represents permission received to allow the Company to produce and sell electricity in China. License and permit is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

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**5. OIL AND GAS PROPERTIES**

**Dutch Oil Wells Project, Indonesia**

The Dutch Oil Wells Project is made up of three historic oil fields in South Sumatra, Indonesia. The Company acquired an interest in a joint venture agreement to rework and develop these fields.

All projects are held in PT. Muba Ona Oil, the Company's 80% held Foreign Investment Company in Indonesia, which is a jointly controlled with P.T. Petro Muba ("PTPM"), an agency of the Musi Banyuasin ("MUBA") Local Government Regency. Rights of the projects are governed under a Production Sharing Contract (PSC) within the MUBA Regency. The agreement provides for the management and rehabilitation of the abandoned oil wells located within the boundary of the Corridor Block PSC area in the Keluang, Karangrining, and Suban Baru oil fields being an area that was previously managed by ConocoPhillips. 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. During the year ended September 30, 2007, management determined the project to be impaired and accordingly wrote down its interest in the investment to \$1.

**Dyberg Prospect, Alberta, Canada**

During the 2005 fiscal year, the Company had entered into an agreement whereby the Company was granted the right to earn up to a 22.5% Working Interest before payout (13.75% after payout) in the Dyberg Prospect by contributing 25% of the costs associated with the drilling of a test well. The Company has paid \$106,800 under the agreement; however, during the year, the Company wrote down its interest to \$1, pending a technical review of the project and resolution of costs.

**6. POWER PLANT**

	<b>Building and equipment installation in progress</b>	<b>Land</b>	<b>Total Power plant cost</b>
<b>Balance as of acquisition, (Note 4)</b>	\$ 29,184,897	\$ 1,769,096	\$ 30,953,993
<b>Additions</b>	1,641,633	-	1,641,633
<b>Effect of exchange rate change</b>	(1,472,911)	(102,355)	(1,575,266)
<b>Balance – September 30, 2007</b>	\$29,353,619	\$ 1,666,741	\$ 31,020,360
<b>Additions</b>	4,412,487	-	4,412,487
<b>Effect of exchange rate change</b>	2,772,990	476,315	3,249,305
<b>Balance – March 31, 2008</b>	\$36,539,096	\$ 2,143,056	\$ 38,682,152

The Company obtained land use right for the piece of land where the power plant is sited. The life of the land use right is 50 years expiring in November 2056.

The power plant and its future revenue are pledged as collateral for an outstanding loan (Note 9).

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**7. SHORT TERM LOANS**

During the six month period ended March 31, 2008, the Company borrowed \$3,365,000 at an interest rate of 10% per annum, payable quarterly, maturing in one year. In addition, the Company issued 420,625 bonus shares in connection with this financing. The Company recorded the bonus shares as deferred financing cost at a fair value of \$336,500, which will be amortized over the life of the short-term loan.

During the year ended September 30, 2007, the Company entered into a contract to borrow up to \$2 million (RMB 15 million) from Yongxing Urban Construction Business Investment Co. Ltd. for a two month term bearing an interest at 10% per annum payable at the end of the term. The short term loan was paid off fully in December 2007.

**8. CONVERTIBLE DEBENTURE**

On July 31, 2007, the Company completed a \$5 million debenture and warrant financing. The Company was advanced \$5 million in exchange for a debenture convertible into units at a conversion price of \$0.75 per unit. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one additional common share at a price of \$1.50 per common share for a period of two years expiring on August 1, 2009. The warrants are subject to an accelerated exercise provision if after 120 days from closing the Company's shares trade at \$2.50 or greater for 10 consecutive days, in which event the warrants will expire if not exercised within 30 days. The debenture is due one year from issuance and bears interest at a rate of 10% per annum payable annually. As additional consideration for the purchase of the debentures the Company sold 2,000,000 bonus warrants to the debenture's holders at \$0.01 per share for a total of \$19,990 (net of issuance cost). Each bonus warrant is exercisable for one common share at price of \$0.74 per share for a period of two years expiring on August 1, 2009. In addition, a finder's fee C\$500,000 was paid in connection with the transaction.

The Company has classified the above debenture and related warrants into its component parts being a financial liability and equity instrument respectively. The total proceeds and financing costs were allocated to their component parts on a residual value basis.

Based on the above residual value basis determinations the amount of the proceeds and costs allocated to the debt component and equity component (contributed surplus) at the issuance are as follows:

	<b>Contributed Surplus</b>	<b>Debt</b>	<b>Total</b>
<b>Amount allocated to:</b>			
Proceeds received	\$ 115,935	\$ 4,904,055	\$ 5,019,990
Finders' fees paid	(11,547)	(488,453)	(500,000)
<b>Carrying value at issuance</b>	<b>\$ 104,388</b>	<b>\$ 4,415,602</b>	<b>\$ 4,519,990</b>

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**9. LONG-TERM DEBT**

In November 2006, the Company entered into a contract to borrow up to \$10.6 million (RMB 80 million) from Yongxing Urban Construction Business Investment Co. Ltd. for a twenty year term expiring in 2026, bearing an interest at 6.3612% per annum payable quarterly for the first five years, and an interest rate equal to 93% of similar loan interest rate published by People's Bank of China for the remaining period. The principal is payable semi-annually in an equal amount commencing November 2011. The loan is collateralized by the power plant and the future revenue of the power plant.

**10. LONG-TERM LIABILITIES**

Long-term liabilities are non-interest bearing and represent 10% withholding of completed construction work and 5% equipment purchased. The amounts are due in one year after successful completion of the construction of the power plant. The amounts have been discounted using a rate of 10% and the discount has been applied against the cost of the power plant.

The Company accreted interest of \$14,871 from the date of acquisition of YPPC to March 31, 2008.

**11. SHARE CAPITAL**

**a) Authorized**

The authorized capital consists of unlimited voting common shares without par value and unlimited preference shares without par value.

**b) Issued and outstanding:**

	Number of shares		Amount
<b>Balance, at September 30, 2006</b>	21,330,260	\$	6,050,830
Private placements	2,925,833		3,951,675 <sup>(1)</sup>
Private placements	5,619,079		3,836,386 <sup>(2)</sup>
Warrants exercised	187,000		140,250
Shares issued in connection with acquisition of China power plant	500,000		400,000
<b>Balance, at September 30, 2007</b>	30,562,172	\$	14,379,141
Warrants exercised	573,000		429,750
Options exercised	75,000		45,000
Shares issued in connection with borrowing of short-term loan	420,625		336,500
<b>Balance, at March 31, 2008</b>	31,630,797	\$	15,190,391

(1) net of share issue costs of \$437,075

(2) net of share issue costs of \$8,338

**ONA ENERGY INC.**  
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**11. SHARE CAPITAL (Continued)**

During the six month period ended March 31, 2008, the following changes in issued share capital occurred:

- 1) The Company issued 573,000 common shares for warrants exercised at \$0.75 per share for total proceeds of \$429,750.
- 2) The Company issued 420,625 bonus shares at a value of \$0.80 per share in connection for total value of \$336,500 in connection with the short term loan financing.
- 3) The Company issued 75,000 common shares for stock options exercised at \$0.60 per share for total proceeds of \$45,000.

During the year ended September 30, 2007, the following changes in issued share capital occurred:

- 1) The Company completed a private placement on October 25, 2006, consisting of 2,925,833 units at a price of \$1.50 per unit for aggregate gross proceeds of \$4,388,750. Each unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$1.75 for a period of two years from the date of closing. The Company incurred share issuance costs of \$437,075.
- 2) The Company completed a private placement on July 31, 2007, consisting of 5,126,299 units at a price of \$0.75 per unit for aggregate gross proceeds of \$3,844,724. Each unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$1.50 for a period of two years from the date of closing. The Company issued 492,780 common shares to seven finders at a value of \$0.75 per share as finders' fee in connection with the sale of the units.
- 3) In 2007, 187,000 warrants were exercised with an exercise price of \$0.75 per share for total proceeds of \$140,250.
- 4) The Company issued 500,000 common shares at a value of \$0.80 per share for total amounts of \$400,000 for the acquisition of the China power plant (Note 4). The Company has a six month call option for these shares, expiring February 1, 2008.

**c) Warrants outstanding**

The following table summarizes the status of the Company's share purchase warrants outstanding as follows:

Expiry Date	Exercise Price	Balance September 30, 2007	Changes in the period			Balance March 31, 2008
			Issued	Exercised	Cancelled	
November 24, 2007	\$ 0.75	693,000	-	(573,000)	(120,000)	-
April 25, 2008	\$ 1.75	2,925,833	-	-	-	2,925,833
July 27, 2009	\$ 1.50	5,126,299	-	-	-	5,126,299
July 31, 2009	\$ 0.74	2,000,000	-	-	-	2,000,000
		10,745,132				10,745,132
Weighted average Exercise Price		\$ 1.38	\$ -	\$ 0.75	\$ 0.75	\$ 1.42

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**11. SHARE CAPITAL (Continued)**

Expiry Date	Exercise Price	Balance September 30, 2006	Changes in the period			Balance September 30, 2007
			Issued	Exercised	Expired	
November 24, 2007	\$ 0.75	880,000	-	(187,000)	-	693,000
April 25, 2008	\$ 1.75	-	2,925,833	-	-	2,925,833
July 27, 2009	\$ 1.50	-	5,126,299	-	-	5,126,299
July 31, 2009	\$ 0.74	-	2,000,000	-	-	2,000,000
		880,000	10,052,132	(187,000)	-	10,745,132
Weighted average Exercise Price		\$ 0.75	\$ 1.42	\$ 0.75	\$ -	\$ 1.38

**d) Stock options**

The Company has stock option plans that allow it to grant options to its employees, officers, directors and consultants to acquire up to 10% of issued and outstanding common stock. The exercise price of each option shall not be less than the greater of the closing market price of the underlying securities on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. Options have a maximum term of five years and terminate thirty to ninety days following the termination of the optionee's employment. The right to exercise the options will vest immediately at the time the option is granted.

During the six month period ended March 31, 2008, a total of 955,000 stock options were granted to officers, directors, and consultants of the Company at a price of \$0.75 per share, exercisable for a term of five years expiring on October 21, 2012, which vest immediately.

In the year ended September 30, 2007, a total of 100,000 stock options were granted to a consultant of the Company at a price of \$1.00 per share, exercisable for a term of five years which vest immediately.

The fair value of these options at the date of grant was estimated \$0.80 (September 30, 2007 – \$0.93) per unit using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of five years; risk-free interest rate of 4.33% (September 30, 2007 – 4.5%); expected dividend yield of 0% (September 30, 2007– 0%) and an expected volatility of 125.03% (September 30, 2007 – 157.27%). The stock-based compensation expense recorded in March 31, 2008 was \$197,672 (September 30, 2007 – \$31,849), which was charged to the consolidated statements of operations and deficit and credited to contributed surplus.

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**11. SHARE CAPITAL (Continued)**

**Stock options (Continued)**

The following table provides the details of the Company's stock options outstanding as at March 31, 2008:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>September 30, 2007</b>	<b>Granted</b>	<b>Exercised</b>	<b>March 31, 2008</b>
February 28, 2010	\$ 0.60	125,000	-	75,000	50,000
August 17, 2011	\$ 1.50	901,000	-	-	901,000
September 11, 2011	\$ 1.50	925,000	-	-	925,000
May 27, 2012	\$ 1.00	100,000	-	-	100,000
October 21, 2012	\$ 0.85	-	955,000	-	955,000
March 5, 2013	\$ 0.75	-	125,000	-	125,000
		2,051,000	1,080,000	75,000	3,056,000
Weighted average exercise price		\$ 1.42	\$ 0.84	\$ 0.60	\$ 1.23
Weighted average remaining life		3.86			3.72

The following table provides the details of the Company's stock options outstanding as at September 30, 2007:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>September 30, 2006</b>	<b>Granted</b>	<b>Cancelled</b>	<b>September 30, 2007</b>
February 28, 2010	\$ 0.60	125,000	-	-	125,000
August 17, 2011	\$ 1.50	1,001,000	-	(100,000)	901,000
September 11, 2011	\$ 1.50	1,000,000	-	(75,000)	925,000
May 27, 2012	\$ 1.00	-	100,000	-	100,000
		2,126,000	100,000	(175,000)	2,051,000
Weighted average exercise price		\$ 1.45	\$ 1.00	\$ 1.50	\$ 1.42
Weighted average remaining life		4.83			3.86

All options outstanding as at March 31, 2008 and September 30, 2007 are exercisable.

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**12. COMMITMENTS**

As at March 31, 2008, the Company had the following commitments:

1. The Company has commitments in respect of occupancy and administration requiring the following payments:

	\$
2008	60,000
2009	120,000
2010	120,000
2011	120,000
2012	120,000
<b>Total</b>	<b>540,000</b>

2. The Company has capital commitment to incur additional \$12 million to complete the first 60 MW unit of phase one and \$21 million to complete the second 60 MW unit of phase one.

**13. STOCK BASED COMPENSATION**

The Company measures compensation costs relating to stock options granted to employees and non-employees using the fair value-based method. Under this method, the compensation costs are determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model.

During the six month period ended March 31, 2008, the Company recognized stock-based compensation expense of \$197,672 (September 30, 2007 - \$31,849) relating to stock options granted, which vest over one year. The compensation expense has been recorded in the consolidated statement of operations with a corresponding increase to contributed surplus. The following weighted-average assumptions were used for the Black-Scholes option pricing model for the valuation of stock options granted during the period:

	March 31, 2008	Audited September 30, 2007
Risk-free interest rate	3.75%	4.50%
Dividend yield	0%	0%
Expected volatility	125.03%	157.27%
Expected life	5 years	5 years

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**14. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

During the six month period ended March 31, 2008, the Company borrowed \$1,615,200 (RMB 12 million) from a shareholder, \$1,036,400 (RMB 7.7 million) from a company controlled by a director and \$578,800 (RMB 4.3 million) from a company controlled by a shareholder. All these loans are unsecured and have a one year term at an interest rate of 10% per annum. As at March 31, 2008, the Company's balance of due to related parties totaled \$4,026,458 representing the principle amounts of these loans. The remaining balance represents the amounts owing to two shareholders of the Company and these amounts are unsecured, non-interesting bearing and without specific terms of repayment.

There was no related party transactions during the six month period ended March 31, 2007.

During the year ended September 30, 2007, the Company borrowed \$663,500 (RMB 5 million) from a shareholder, \$398,100 (RMB 3 million) from a company controlled by a director and \$265,400 (RMB 2 million) from a company controlled by a shareholder. All these loans are unsecured and have a one year term at an interest rate of 10% per annum. As at September 30, 2007, the Company's balance of due to related parties totaled \$1,333,660 representing the principle amounts of these loans. The remaining balance represents the amounts owing to two shareholders of the Company and these amounts are unsecured, non-interesting bearing and without specific terms of repayment.

All related party transactions are recorded at the exchange amounts as agreed upon by the related parties.

The above 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.

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**15. PT MUBA ONA OIL JOINT VENTURE COMPANY**

During the year ended September 30, 2006, the Company acquired an 80% interest in a Joint Venture Company ("PT Muba Ona Oil").

The Company's proportionate interest in the accounts of PT Muba Ona Oil included in the consolidated financial statements is as follows:

<b>Balance sheet as at:</b>	<b>March 31, 2008</b>	<b>Audited September 30, 2007</b>
Current assets	\$ -	\$ 22,394
Long-term assets	1,250	1,250
<b>Total assets</b>	<b>\$ 1,250</b>	<b>\$ 23,644</b>
Current liabilities	\$	\$
	\$ (12,689)	-
<b>Net Income (loss)</b>	<b>\$ 113</b>	<b>\$ (179,314)</b>
<b>Cash flows for the six month period ended March 31, 2008 and the year ended September 30, 2007:</b>		
Operating activities	\$ 113	\$ (8,066)
Investing activities - property costs and equipment	-	(9,149)
<b>Net cash used during the period</b>	<b>\$ 113</b>	<b>\$ (17,215)</b>

**16. CONTRIBUTED SURPLUS**

	<b>March 31, 2008</b>	<b>Audited September 30, 2007</b>
Opening balance, beginning of period	\$ 2,961,730	\$ 2,825,493
Stock based compensation for Employees, Directors	197,672	31,849
Equity component of \$5 mil convertible debenture	-	104,388
Contributed surplus transferred to share capital on option exercised	-	-
<b>Closing balance, end of period</b>	<b>\$ 3,159,402</b>	<b>\$ 2,961,730</b>

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## **17. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, amounts receivables, accounts payable and accrued liabilities, short-term loans, convertible debentures, long-term liabilities and long term debt. The fair values of the current assets and current liabilities approximate their carrying amounts due to the short-term nature of these instruments. The fair value of long-term liabilities and long term debt are estimated using discounted cash flow analysis, based upon the Company's current borrowing rates, and approximate their carrying value. It is not practical to determine the fair value of the amounts due to related parties with sufficient reliability due to the nature of the financial instruments, the absence of secondary markets and the significant cost of obtaining outside appraisals.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates and the business operations are predominately in Chinese RMB.

The financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and cash equivalents and amounts receivable. The Company places its cash in high credit quality financial institutions. The Company is exposed to interest rate risk related by its floating -interest rate long-term debt. The risk relates to the resetting of the interest rates upon maturity and refinancing of the debt. Management is of the opinion that credit risk with respect to amounts receivable is limited due to the ongoing evaluations of its debts and the monitoring of their financial condition to ensure collections and to minimize losses.

## **18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the six month period ended March 31, 2008, the following non-cash transactions occurred:

- The Company issued 420,625 common shares at a value of \$0.80 per share, for a total of \$336,500 as finder fee in connection with the short term loan of \$3,365,000.

During the six month period ended March 31, 2007, there was no non-cash transactions.

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**19. SEGMENTED INFORMATION**

The Company has one reporting segment.

The Company's head office is located in Vancouver, British Columbia. The operations of the Company are located in three geographic areas: Canada, China and Indonesia. Majority of all of the capital assets are located in China. A summary of geographical information for the Company's capital assets and license & permits as of March 31, 2008 and September 30, 2007 and net loss for the six month period ended March 31, 2008 and 2007 is as follows:

	<b>March 31, 2008</b>	<b>Audited September 30, 2007</b>
<b>Property and equipment, power plant, and oil and gas properties</b>		
Canada	\$ 21,065	\$ 4,917
China	38,986,840	31,275,735
Indonesia	1,250	1,250
<b>Total property and equipment, power plant, and oil and gas properties</b>	<b>\$ 39,009,155</b>	<b>\$ 31,281,902</b>
<b>License &amp; permits</b>		
Canada	\$ -	\$ -
China	5,542,247	5,542,247
Indonesia	-	-
<b>Total license &amp; permits</b>	<b>\$ 5,542,247</b>	<b>\$ 5,542,247</b>
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>Net (Income) loss for the period</b>		
Canada	\$ 384,904	\$ 217,480
China	274,321	-
Indonesia	(113)	-
<b>Net loss for the period</b>	<b>\$ 659,112</b>	<b>\$ 217,480</b>

**20. SUBSEQUENT EVENTS**

Subsequent to the six month period ended March 31, 2008, the following events occurred:

1. The Company amended the terms to 2,925,833 warrants issued in connection with a private placement of units completed by the Company on October 25, 2006. Pursuant to the terms of the amended warrants, each warrant will be exercisable into one common share of the Company at an exercise price of \$1.00 until April 25, 2009. If the Company's common shares listed on the CNQ exceed \$1.20 for any 10 consecutive trading days, then the terms of the Warrants must also be amended to 30 days.

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**20. SUBSEQUENT EVENTS (Continued)**

2. The Company offered up to 10,000,000 units on a private placement at a price of \$0.60 per unit. Each unit consists of one common share and one warrant. Each warrant may be exercised at a price of \$0.75 to purchase one common share for a period of one year from the closing date of the offering. The Company may require the warrants to be exercised if, at any time after four months from the closing date of the offering, the weighted average trading price of the common shares is at or above \$1.00 for a period of 20 consecutive days.

The Company may pay a finder's fee of 8% in cash and 8% in warrants exercisable at a price of \$0.75 to purchase one common share for a period of one year from the closing date of the offering. The securities sold in the offering will be subject to a four-month hold period.

# **Management's Discussion and Analysis**



**ONAENERGY**

**ONA ENERGY INC.**

**For the six month period ending  
March 31, 2008**

**ONA ENERGY INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the six month period ended March 31, 2008**

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The following Management Discussion and Analysis, prepared as of May 30, 2008, should be read together with the Company's audited consolidated financial statements for the year ended September 30, 2007 and 2006 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

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

### **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 voluntarily 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".

Ona Energy is a Canadian-based international energy company focusing on the acquisition and development of power generation and oil & gas projects. The Company's main focus is the construction of a power plant in Yongxing, China. The Company also holds three oil prospects in Indonesia and is currently in the exploration stage of developing these properties. The Company has not yet determined whether these properties contain oil and gas reserves that are economically recoverable.

### **Overview of Projects**

Prior to the fiscal year 2007, the Company held only grassroots stage projects in the areas of power plant development and oil & gas prospects. With the acquisition of a 60% interest in the Yongxing Power Plant Corporation, the Company now owns an asset that will begin generating revenue in 2008. In the coming year, Management will focus its attention on the continuing development of this Chinese power plant, while continuing to evaluate additional advanced stage power plant opportunities around the world.

### **Power Plant Project – Yongxing County, China**

The Yongxing Power Plant Corporation (YPPC) is the Company's 60% owned subsidiary (a Sino-Foreign Joint Venture Company) that holds the right to construct a 240 Mega-Watts (MW) coal-fired power plant in Yongxing County, in the Hunan Province of China. The first phase of the power plant is currently under construction, and consists of two 60 MW units. Construction of the first 60 MW unit was completed in December 2007 and is scheduled to begin its trial run beginning mid June, 2008, as soon as the upgrade and rebuilding of the 20 km 110 kV transmission system damaged by the January ice storms, is complete. Work on the transmission line will include addition of larger conductors complete with de-icing devices and a connection to the new State Grid 220 kV substation. The second unit of this phase expected to be completed by the mid 2009. The Company is currently seeking approval to increase the size of the second phase of the power plant to two 135 MW units, increasing the total production capacity to 390 MW.

The power plant will burn a mixture of up to 75% coal tailings (coal mining waste) and 25% coal as fuel to generate electricity for sale to the Hunan Provincial grid. The power plant is approved by the Chinese National Development and Reform Committee (NDRC) as an environmentally friendly project, not only by addressing the utilization of coal tailings which has become a major environmental issue for the Yongxing County, but also by complying with the NDRC guidelines of achieving very low NO<sub>x</sub> and SO<sub>2</sub> emissions. The YPPC power plant has been designed to emit less than 50 milligrams/nominal cubic metre (mg/Nm<sup>3</sup>) of fly ash to the atmosphere, which is the lower end of the range of particulate matter emissions as recommended by World Bank Group

guidelines of similar size thermal power plants. The fly ash contained in the flue gas will be captured by a five-field electrostatic precipitator and will be sold to the local cement plants to generate a secondary revenue stream for YPPC.

On July 31, 2007, ONA made the final payment for the acquisition of its 60% interest in YPPC, for a total investment of US\$10.46 million. On August 21, 2007, Ona officially assumed control of the construction and operation of the power plant with the registration of its shares of YPPC. Subsequent to the acquisition, Ona and the other partners of YPPC provided a loan from shareholders of RMB 60 mil (ONA's share being RMB 36 mil - approx US\$4.85 mil) to ensure that there was sufficient funding in place to complete the power plant on schedule.

On January 8, 2008 the Company announced that construction on the first 60 MW unit was complete and that a major milestone had been reached in the plant's commissioning and testing process by completing the 110 kilo-volt (kV) high voltage transmission substation to the Hunan Provincial Grid. The power plant substation consists of the 110 kV step-up transformer, all the protection and metering equipment and the 6.3 kV and the 600 volt distribution systems; thus paving the way for commissioning and testing of all the major components and electrical drives of the power plant. Electricity is now flowing from 110 kV transmission lines of the Hunan Provincial grid to the power plant following an inspection and approval by the Hunan Provincial Transmission Authority.

On January 14, 2008 ONA announced that Management at YPPC had signed an interim power purchase agreement with the Hunan Provincial Grid Authority to purchase the electricity generated during the commissioning and test phase at the power plant. Under the agreement, the Hunan Provincial Grid Authority will purchase the electricity generated from YPPC for a base price of RMB 390/MW-hr (US\$53.70/MW-hr) for the purpose of commissioning, testing and start-up of the first 60 MW unit. The price is expected to be increased in line with similar power plants in the country with the issuance of the clean power certificate as determined by the China Pricing Bureau and China National Development and Reform Committee (NDRC). Any new pricing will be retroactive to the first day of power generation.

On February 11, 2008 ONA announced that ice storms had crippled the southern provinces of China, with temperatures lingering in the -5° to -13° C range for a period of over 20 days. The southern provinces of China including Hunan Province are not accustomed and/or prepared for severe winters of this nature and have suffered one of the worst winters in 52 years, resulting in much disruption in the region's power distribution system. Although little damage occurred to the Yongxing power plant, 19 transmission towers from the 20 km 110 kV transmission line from the power plant, suffered significant damage and needed either to be repaired or replaced.

On April 7, 2008 ONA announced the Management of YPPC, had reached agreement with the State Grid Corporation of China (State Grid) [www.sgcc.com.cn/ywlm](http://www.sgcc.com.cn/ywlm) (a state-owned enterprise) to take over the reconstruction and maintenance of the 20 km transmission line currently owned and operated by YPPC.

Under the agreement, YPPC will turn over the rights to the 20 km transmission line to the State Grid, and in return the State Grid will install a new and improved transmission system designed to withstand more severe winter conditions. The State Grid will be responsible for all design, installation and all maintenance costs of the transmission system from the time of the turnover. The State Grid Corporation of China is the largest electric power provider in China, with a registered capital of 200 billion RMB and its service area is equal to 88% of the national territory covering 26 provinces, autonomous regions and municipalities. The State Grid is directly under the jurisdiction of the Central Government and the Chinese President is its legal corporate representative. As the State Grid is under the presidential order to restore the nation's damaged transmission system, they will have first priority in obtaining materials and labour required to restore the YPPC transmission system.

The first unit of the power plant is expected to be in full operation, following completion of the trial run which is scheduled mid June, 2008.

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

The Dutch Oil Wells Project is made up of three historic oil fields in South Sumatra, Indonesia, The Company acquired an interest in a joint venture agreement to rework and develop these fields. 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 being an area that was previously managed by ConocoPhillips. The rights to manage and rehabilitate these shallow wells were surrendered by ConocoPhillips and given to P.T. Petro Muba ("PTPM"), an agency of the Musi Banyuasin ("MUBA") Local Government Regency. The Dutch Oil Wells comprise approximately 300 abandoned Dutch Oil Wells situated in Keluang, Karangrigin 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.

PT. Muba Ona Oil, the Company's 80% held Foreign Investment Company in Indonesia, has a joint venture agreement with P.T. Petro Muba. Under this agreement, the Company is entitled to 80% of the net profit of the Contractor's take, after expenses and taxes under the Production Sharing Contract (PSC) with the Indonesian government.

On February 5 2008, Minister Purnomo signed the Minister Decree, No. 01 year 2008 regarding old wells revitalization. At this point it is not clear as to whether this decree covers the area of the Company's Dutch Oil Wells project. Management is currently evaluating how this decree effects the project and how the Company can move forward with the development of the project.

## **Results of Operations**

During the six month period ending March 31, 2008 net loss increased to \$659,112 compared to \$217,480 for the period ending March 31, 2007. Two reasons for this increase were amortization expense, stock based compensation, and professional fees. Amortization expense increased from \$798 for the six month period ended March 31, 2007 to \$101,113. The increase was due to the amortization of deferred financing costs related to the convertible debenture. Stockbased compensation expense increased to \$104,939 for the six month period ending March 31, 2008 from Nil, for the same period last year. This was due to additional stock granted to officers/directors/consultants. Entertainment, training, and travel expenses all increased for the six month period ending March 31, 2008 compared to the same period a year before, due to the Company's construction of its power plant, which did not exist for the same period last year.

## **Related Party Transactions**

During the six month period ended March 31, 2008, the Company borrowed \$1,615,200 (RMB 12 million) from a shareholder, \$1,036,400 (RMB 7.7 million) from a company controlled by a director and \$578,800 (RMB 4.3 million) from a company controlled by a shareholder. All these loans are unsecured and have a one year term at an interest rate of 10% per annum. As at March 31, 2008, the Company's balance of due to related parties totaled \$4,026,458 representing the principle amounts of these loans. The remaining balance represents the amounts owing to two shareholders of the Company and these amounts are unsecured, non-interesting bearing and without specific terms of repayment.

There was no related party transactions during the six month period ended March 31, 2007.

During the year ended September 30, 2007, the Company borrowed \$663,500 (RMB 5 million) from a shareholder, \$398,100 (RMB 3 million) from a company controlled by a director and \$265,400 (RMB 2 million) from a company controlled by a shareholder. All these loans are unsecured and have a one year term at an interest rate of 10% per annum. As at September 30, 2007, the Company's balance of due to related parties totaled \$1,333,660 representing the principle amounts of these loans. The remaining balance represents the amounts owing to two shareholders of the Company and these amounts are unsecured, non-interesting bearing and without specific terms of repayment.

All related party transactions are recorded at the exchange amounts as agreed upon by the related parties.

The above 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.

## **Share Structure**

### **a) Authorized**

The authorized capital consists of unlimited voting common shares without par value and unlimited preference shares without par value.

**b) Issued and Outstanding:**

	Number of shares	Amount
<b>Balance, at September 30, 2006</b>	21,330,260	\$ 6,050,830
Private placements	2,925,833	3,951,675 <sup>(1)</sup>
Private placements	5,619,079	3,836,386 <sup>(2)</sup>
Warrants exercised	187,000	140,250
Shares issued in connection with acquisition of China power plant	500,000	400,000
<b>Balance, at September 30, 2007</b>	30,562,172	\$ 14,379,141
Warrants exercised	573,000	429,750
Options exercised	75,000	45,000
Shares issued in connection with borrowing of short- term loan	420,625	336,500
<b>Balance, at March 31, 2008</b>	31,630,797	\$ 15,190,391

<sup>(1)</sup> net of share issue costs of \$437,075

<sup>(2)</sup> net of share issue costs of \$8,338

During the three month period ended March 31, 2008, the following changes in issued share capital occurred:

- 1) The Company issued 75,000 common shares for stock options exercised at \$0.60 per share for total proceeds of \$45,000.

During the year ended September 30, 2007, the following changes in issued share capital occurred:

- 1) The Company completed a private placement on October 25, 2006, consisting of 2,925,833 units at a price of \$1.50 per unit for aggregate gross proceeds of \$4,388,750. Each unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$1.75 for a period of two years from the date of closing. The Company incurred share issuance costs of \$437,075.
- 2) The Company completed a private placement on July 31, 2007, consisting of 5,126,299 units at a price of \$0.75 per share for aggregate gross proceeds of \$3,844,724. Each unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$1.50 for a period of two years from the date of closing. The Company issued 492,780 common shares to seven finders at a value of \$0.75 per share as finders' fee in connection with the sale of the units.
- 3) In 2007, 187,000 warrants were exercised with an exercise price of \$0.75 per share for total proceeds of \$140,250.
- 4) The Company issued 500,000 common shares at a value of \$0.80 per share for total amounts of \$400,000 for the acquisition of the China power plant (Note 4). The Company has a six month call option for these shares, expiring February 1, 2008.

**c) Warrants outstanding**

The following table summarizes the status of the Company's share purchase warrants outstanding as follows:

Expiry Date	Exercise Price	Balance September 30, 2007	Changes in the period			Balance March 31, 2008
			Issued	Exercised	Cancelled	
November 24, 2007	\$ 0.75	693,000	-	(573,000)	(120,000)	-
April 25, 2008	\$ 1.75	2,925,833	-	-	-	2,925,833
July 27, 2009	\$ 1.50	5,126,299	-	-	-	5,126,299
July 31, 2009	\$ 0.74	2,000,000	-	-	-	2,000,000
		10,745,132				10,052,132
Weighted average Exercise Price		\$ 1.38	\$ -	\$ 0.75	\$ 0.75	\$ 1.42

#### d) Stock options

The Company has stock option plans that allow it to grant options to its employees, officers, directors and consultants to acquire up to 10% of issued and outstanding common stock. The exercise price of each option shall not be less than the greater of the closing market price of the underlying securities on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. Options have a maximum term of five years and terminate thirty to ninety days following the termination of the optionee's employment. The right to exercise the options will vest immediately at the time the option is granted.

During the three month period ended March 31, 2008, a total of 125,000 stock options were granted to officers, directors, and consultants of the Company at a price of \$0.75 per share, exercisable for a term of five years which vest immediately (75,000 expiring on March 5, 2013, and 50,000 stock options expiring on March 18, 2013)

In the year ended September 30, 2007, a total of 100,000 stock options were granted to a consultant of the Company at a price of \$1.00 per share, exercisable for a term of five years which vest immediately.

The fair value of these options at the date of grant was estimated \$0.80 (September 30, 2007 – \$0.93) per unit using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of five years; risk-free interest rate of 4.33% (September 30, 2007 – 4.5%); expected dividend yield of 0% (September 30, 2007– 0%) and an expected volatility of 125.03% (September 30, 2007 – 157.27%). The stock-based compensation expense recorded in March 31, 2008 was \$197,672 (September 30, 2007 – \$31,849), which was charged to the consolidated statements of operations and deficit and credited to contributed surplus.

The following table provides the details of the Company's stock options outstanding as at March 31, 2008:

Expiry Date	Exercise Price	September 30, 2007	Granted	Exercised /Cancelled	March 31, 2008
February 28, 2010	\$ 0.60	125,000	-	75,000	125,000
August 17, 2011	\$ 1.50	901,000	-	-	901,000
September 11, 2011	\$ 1.50	925,000	-	-	925,000
May 27, 2012	\$ 1.00	100,000	-	-	100,000
October 21, 2012	\$ 0.85	-	955,000	-	955,000
March 5, 2013	\$ 0.75	-	125,000	-	125,000
		2,051,000	1,080,000	75,000	3,056,000
Weighted average exercise price		\$ 1.42	\$ 0.84	\$ 0.60	\$ 1.23
Weighted average remaining life		3.86			3.72

All options outstanding as at March 31, 2008 are exercisable.

#### Summary of Quarterly Results

Period ended	Mar 31 2008 Q2	Dec 31 2007 Q1	Sept 30 2007 Q4	June 30 2007 Q3	Mar 31 2007 Q2	Dec 31 2006 Q1	Sept 30 2006 Q4	Jun 30 2006 Q3
Total Revenue	-	-	-	-	-	-	-	-
Income (loss) before other items	(659,112)	(337,096)	(3,033,200)	(72,064)	(110,066)	(107,414)	(447,071)	(118,224)
Basic loss per Share	(0.01)	(0.01)	(0.13)	(0.00)	(0.00)	(0.00)	(0.02)	(0.01)
Net Income (loss)	(454,761)	(204,351)	(3,033,200)	(72,064)	(110,066)	(107,414)	(447,071)	(118,224)
Basic loss per Share	(0.01)	(0.01)	(0.13)	(0.00)	(0.00)	(0.00)	(0.02)	(0.01)

## Selected Annual Information

The following are highlights of financial data on the Company for the most recently completed three financial years:

Expressed in Canadian dollars

	Years Ended September 30,		
	2007	2006	2005
Loss before extraordinary items	(3,222,744)	(3,569,589)	(775,360)
Net Loss	(3,222,744)	(3,569,589)	(775,360)
Loss Per Share	(0.13)	(0.19)	(0.06)
Total Assets	41,375,189	3,657,730	441,92
Total Liabilities	27,633,052	51,662	57,299
Working Capital (deficiency)	(13,742,137)	1,193,410	340,911

## Disclosure for Venture Issuers without Significant Revenue

The Company has not had significant revenue from operations in any of its last three financial years. The following table is a break-down of the material components listed for the three most recently completed financial years:

Expressed in Canadian \$

	Years Ended September 30,		
	2007	2006	2005
Capitalized or expensed exploration and development costs	47,682	769,376	42,720
Expensed research & development costs	Nil	Nil	Nil
Deferred development costs	Nil	Nil	Nil
General & Administration costs	922,204	618,716	145,848
Material costs, whether capitalized, deferred or expensed, not referred to in above:			
- Stock based compensation	31,849	2,845,758	629,065
- Investment in power plant agreement	Nil	1,700,000	Nil

## Liquidity and Capital Resources

As of March 31, 2008, the Company has a working capital deficiency of \$16,981,423 in comparison to a working capital deficiency of \$12,146,917 during the year ended September 30, 2007.

As at March 31, 2008, the Company had cash and cash equivalents of \$33,856, current debt of \$17,170,683.

## 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, short term loans & convertible debenture; long term liabilities and long term debt.

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 currency, or credit risks arising from its financial instruments and that their fair values approximate their carrying values unless otherwise noted.

The Company is exposed to interest rate risk by its floating interest rate long term debt. The interest relates to the resetting of the interest rate upon maturity and refinancing of the debt.

## **Subsequent Events**

1. The Company amended the terms to 2,925,833 warrants issued in connection with a private placement of units completed by the Company on October 25, 2006. Pursuant to the terms of the amended warrants, each warrant will be exercisable into one common share of the Company at an exercise price of \$1.00 until April 25, 2009. If the Company's common shares listed on the CNQ exceed \$1.20 for any 10 consecutive trading days, then the terms of the Warrants must also be amended to 30 days.
2. The Company offered up to 10,000,000 units on a private placement at a price of \$0.60 per unit. Each unit consists of one common share and one warrant. Each warrant may be exercised at a price of \$0.75 to purchase one common share for a period of one year from the closing date of the offering. The Company may require the warrants to be exercised if, at any time after four months from the closing date of the offering, the weighted average trading price of the common shares is at or above \$1.00 for a period of 20 consecutive days.

The Company may pay a finder's fee of 8% in cash and 8% in warrants exercisable at a price of \$0.75 to purchase one common share for a period of one year from the closing date of the offering. The securities sold in the offering will be subject to a four-month hold period.

ONA ENERGY INC.

***"John F. Wong"***

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John F. Wong  
CEO & Director