

# **Management's Discussion and Analysis**

## **ONA POWER CORP.**

**Three and Six Months Ended March 31, 2011**

## Management's Discussion and Analysis

The following management's discussion and analysis (the "MD&A") of the financial condition and results of the operations of Ona Power Corp. (the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and six months ended March 31, 2011 and should be read in conjunction with the Company's unaudited consolidated interim financial statements for the same period. These unaudited consolidated interim financial statements have been prepared in Canadian dollars unless otherwise stated, and in accordance with Canadian generally accepted accounting principles ("GAAP"). This document is dated **May 16, 2011**.

Readers can find the Company's financial statements and additional information regarding the company and its operations on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### Forward-Looking Statements

*This MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of the Company are usually preceded by, followed by or include the words 'believes', 'expects', 'anticipates', 'estimates', 'intends', 'plans', 'forecasts', 'may', 'will', or similar expressions, although not all forward-looking statements contain these words. These forward-looking statements are based on management's current expectations and involve numerous risks and uncertainties. Such uncertainties may include general economic, political or market uncertainties in Canada or elsewhere, changes to regulatory or compliance requirements, changes in government policies, the risks inherent in a development stage business, the possible future impact of tax exposures, currency and exchange rate fluctuations, changes in interest rate, all of which are difficult or impossible to predict accurately. While we believe the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. Forward-looking statements are not guarantees of future performance. Actual results may be differ materially from those implied by the forward-looking statements. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. Ona Power Corp. has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.*

### Business Description

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 from ONA Energy Inc. to Ona Power Corp. on July 16, 2009. The Company's shares are publicly traded on the Frankfurt Exchange and Canadian National Stock Exchange ("CNSX").

Prior to 2008, the Company held only exploration stage natural resources project and a power plant project in the development stage. With the acquisition of a 60% interest in the Yongxing Power Plant Corporation ("YPPC"), a Sino-Foreign Joint Venture Company that operated a 60MW coal-fired power plant

in the Hunan Province of China., the Company started generating revenue in August 2008 and became a Canadian-based international energy company focusing on the acquisition and development of power generation facilities.

On August 31, 2010, the Company entered into an agreement to dispose all of its 60% ownership in YPPC (discussed in “Overall Performance” section). After the disposition, the Company is actively seeking other business opportunities. On February 18, 2011, the Company acquired interests in two potential oil wells located in Tennessee, USA. (discussed in “Acquisition of Resource Property Interests” subsection). Resource properties exploration and development has become the Company’s principal business activities since then.

## **Overall Performance**

### Disposition of YPPC

In July 2010, the Company’s convertible debenture (“Foothills Debenture”) creditor, Foothills Enterprise Ltd. (“Foothills”) issued a notice of default to the Company requesting an immediate repayment of principal and accrued interest totalling approximately \$6,700,000. Because the Company did not have the liquidity and financial resources to meet the repayment demand, the Company reached an agreement with Foothills to fully settle the Foothills Debenture by assigning its 60% interest in YPPC and outstanding loans receivable from YPPC, and paying \$1,500,000 cash to Foothills. The settlement of the Foothills Debenture and the disposition of YPPC was completed on August 31, 2010.

In the event of a successful sale of YPPC, Foothill will pay the Company the proceeds of the sale minus the following:

- (i) the amount of the Foothills Debenture plus accrued interest as at July 31, 2010 less the \$1,500,000 cash payment paid by the Company; and
- (ii) an administrative fee of CAD \$100,000.

### Legal Claims

During 2009 and 2010 YPPC received various legal claims from its suppliers to demand payments of the over-due payable balances. It is management’s opinion that the Company is not liable to the legal claims against YPPC after the Company has assigned all of its interest in YPPC to Foothills on August 31, 2010.

### Private Placement

In January 2011, the Company closed a non-brokered private placement for the issuance of 8,000,000 units at \$0.05 per unit for gross proceeds of \$400,000. Each unit is comprised of one common share in the capital of the Company and one share purchase warrant. Each share purchase warrant allows the holder to purchase one common share of the Company for a period of 5 years. These warrants will expire on January 7, 2016. The Company did not pay finder’s fee and will use the proceeds for general working capital.

### Issuance of Stock Option

The Company has stock option plans that allow it to grant options to its employees, officers, directors. On March 1, 2011, 725,000 stock options were granted to various consultants, directors, and officers at an exercise price of \$0.05 per share. These stock options are exercisable for five years and will expire on March 1, 2016. These options were fully vested upon issuance. The fair value of these options at the date of grant was estimated at \$0.06 per option (\$43,500 totalling) by using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.6%
Dividend yield	0%
Expected volatility	230%
Expected life	5 years

#### Acquisition of Resource Property Interests

On February 18, 2011, the Company entered into an agreement with Keblo Energy LLC to purchase interests in two potential oil wells to on the Doug Norris and Eddie Dean Smith leases which are located in Fentress and Pickett Counties, Tennessee, USA. The Company is to receive 50% working interest and 40% net revenue interest (collectively the “Interest”) in these two oil wells. The Company has paid \$49,916 (US\$50,000) for the Interest of each well (totaling \$99,832 or US\$100,000), and incurred \$34,941 for the Eddie Dean Smith Property’s exploration activities which were commenced during the quarter ended March 31, 2011.

As at March 31, 2011, drilling of the first well on the Eddie Dean Smith property was completed. Management has determined it to be a non-commercial well and the Eddie Dean Smith property is considered impaired.

Subsequent to the quarter ended March 31, 2011, the Company has completed drilling to its Doug Norris Property in May 2011. The drilling result does not shows commercial potential. As a result, the Company has written off the acquisition cost of both resource properties and the exploration cost incurred as at March 31, 2011. The continuity of the Company’s resource property interests is as follows:

	September 30, 2010	Addition	Cost Recovery	Impairment	March 31, 2011
	\$	\$	\$	\$	\$
Doug Norris Property					
Acquisition	-	49,916	-	(49,916)	-
Exploration	-	-	-	-	-
Eddie Dean Smith Property					
Acquisition	-	49,916	-	(49,916)	-
Exploration	-	34,941	-	(34,941)	-
Total	-	134,773	-	(134,773)	-

#### **Ability to continue as a Going Concern**

The Company incurred net loss of \$211,288 for the six months ended March 31, 2011, had an accumulated deficit of \$29,029,944, and had recurring losses since inception. The Company may not have sufficient funds to sustain its operations over the next twelve months. Management is considering all possible financing alternatives, including equity and debt financing to finance the future operations. The ability to continue operating as a going concern is dependent on raising additional funding to develop successful businesses. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These circumstances lead to substantial doubt as to the ability of the Company to meet its obligations as they become due and, accordingly, as to the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated interim financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern, which assumes that the Company will continue in operation for a

reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. These consolidated interim financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary if the Company were unable to continue as a going concern.

### Summary of Quarterly Results

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Period Ended	3/31/ 2011	12/31/ 2010	9/30/ 2010	6/30/ 2010	3/31/ 2010	12/31/ 2009	9/30/ 2009	6/30/ 2009
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil	285,575	767,434	3,757,446	380,874
Net Loss	202,346	8,942	4,693,225	667,108	680,451	428,923	5,494,677	1,317,586
Basic and diluted - loss per Share	0.00	0.00	0.24	0.04	0.04	0.02	0.39	0.16

### Results of Operations

The Company disposed its discontinued operation, YPPC, on August 31, 2010 (discussed in the “Disposition of YPPC” section). As a result, results of operations in current year’s periods are compared to the results of operations from the continuing operations in the same periods in 2010.

#### For the Three Months Ended March 31, 2011 (“2011 Second Quarter”)

The Company has \$nil revenue in this quarter (2010-\$nil). Net loss for the quarter is \$202,346 (2010 - loss of \$84,612). The loss incurred in 2011 Second Quarter was a result of \$ 67,573 operating expenses (2010-\$84,612) and loss from impairment of resource properties of \$134,773 (2010 - \$nil).

Operating expenses incurred in 2011 Second Quarter mainly consisted of \$43,500 stock-based compensation (2010 - \$nil), \$10,000 occupancy expenses (2010 - \$15,000), and \$5,351 professional fees (2010-\$25,086). The operating expenses in current quarter were generally lower, which is the Company’s effort to curtail expenditures in order to preserve liquidity. The \$43,500 stock-based compensation expenses charged in the current period is a result of the issuance of 725,000 stock options in the current quarter (see “Issuance of Stock Option” subsection). The Company did not issue options in the same period in 2010.

The Company recorded \$134,773 loss from resource properties impairment in 2011 Second Quarter in connection with the two resource properties acquired in February 2011(discussed in “Acquisition of Resource Property Interests” subsection). The Company did not have similar transactions in the same quarter in last year.

#### For the Six-Month Period Ended March 31, 2011

The Company has \$nil revenue in this period (2010-\$nil). Net loss for the period is \$211,288 (2010 - loss of \$169,515). The loss incurred in current period was a result of \$ 76,515 operating expenses (2010-\$169,515) and loss from impairment of resource property interests of \$134,773 (2010 - \$nil).



## **Liquidity and Capital Resources**

As at March 31, 2011, the Company had a working capital of \$159,885. Management believes the Company have adequate liquidity to settle its liabilities when they come due. However, the resources on hand may not be sufficient to enable the Company to acquire and develop successful businesses in the future. Management is actively looking for addition equity and debt financing to address future cash flow needs. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

The Company does not have any capital commitment except for \$34,941 (US\$ 35,000) exploration cost that has been incurred in the third quarter of 2011 in connection with the exploration activities of the Company's Doug Norris Property (paid as at the date of this MD&A).

During the three months ended March 31, 2011, the Company had cash inflow from financing activities of \$399,037 which was mainly a result of receiving \$400,000 from the private placement closed in January 2011.

Cash outflow from investing activities during the current quarter was \$264,773 which was a combined result of investing \$130,000 in a guaranteed income certificate and \$134,773 used in acquiring and exploring resource property interests.

## **Off-Balance Sheet Arrangements**

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

## **Proposed Transactions**

The Company does not have proposed transactions that have material impact to the Company.

## **Changes in Accounting Policies including Initial Adoption**

The critical accounting policies of the Company are listed in the Note 2 to the Company's consolidated interim financial statements for the three months ended December 31, 2010. The Company has not changed its accounting policies and method of application since its most recent year ended September 30, 2010.

Details of new accounting policies announced but not yet adopted by the Company is as follows:

### Business Combination:

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replace CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company believes there are no material impacts on adoption of these accounting standards.

### International Financial Reporting Standards (IFRS)

In 2006, the Accounting Standards Board of Canada (“ACSB”) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by publicly accountable entities, with International Financial Reporting Standards (“IFRS”) over a five-year transition period. The ACSB has developed and published a detailed implementation plan, with changeover required for fiscal years beginning on or after January 1, 2011. Because the Company has a fiscal year ended on September 30, the Company will adopt IFRS commencing October 1, 2011, and the adoption of IFRS will require the restatement for comparative purposes of amounts reported by the Company for the year ending September 30, 2011. In light of these requirements, the Company has adopted a four phase approach to ensure successful conversion to IFRS, including:

Phase 1 - diagnostic impact assessment: This phase is essentially completed.

Phase 2 - design and planning: to identify specific changes required to existing accounting policies, information system, and business processes. This phase is essentially completed.

Phase 3 – solution development: Involves the selection of the Company’s accounting policies among alternatives allowed under IFRS by senior management and the review by the Audit Committee, the quantification of the impact of changes on the Company’s existing accounting policies on the opening IFRS balance sheet and the development of the draft IFRS financial statements. This phase is ongoing and will continue before the transition to the IFRS.

Phase 4 – implementation– to execute the changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policies changes and training programs across the Company’s finance and other staff, as needed. This phase is ongoing and will continue before the transition to the IFRS.

As of the date of this MD&A, management believes the IFRS conversion will not have material impacts to the Company.

### **Financial and Disclosure Controls and Procedures**

Venture issuers are not required to include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in National Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim Filings (“NI 52-109”). In particular, the Company’s certifying officers are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company’s generally accepted accounting principles.

The Company’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make. Investors should be aware that inherent limitations on the ability of the Company’s certifying officers to design and implement on a cost effective

basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.