



ONAPOWER

Management's Discussion and Analysis

ONA POWER CORP.

**For the period ended
June 30, 2010**



ONA POWER CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the period ended June 30, 2010

The following Management's Discussion and Analysis, prepared as of August 26, 2010, should be read together with the unaudited consolidated interim financial statements of Ona Power Corp. (the "Company", "Ona Power", or "we") for the three and nine months ended June 30, 2010 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.

FORWARD-LOOKING STATEMENTS

Certain statements contained in the following Management's Discussion and Analysis ("MD&A") constitute forward-looking statements that reflect management's assessment concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning our possible or assumed future results of operations are preceded by, followed by or include the words 'believes,' 'expects,' 'anticipates,' 'estimates,' 'intends,' 'plans,' 'forecasts,' or similar expressions. There are several factors that could cause our actual results to differ from those anticipated such as, among others, the ability of Ona Power to bring the power plant online, the operating performance of the Company's power plant asset, the availability and price of coal, the risks associated with operating in a foreign jurisdiction, changes in laws and regulations, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, and the current world economic conditions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks & Uncertainties section. All forward-looking statements reflect Ona Power's beliefs and assumptions based on information available at the time the statements were made. As assumptions relating to the foregoing are difficult or impossible to predict accurately and though we consider these assumptions to be reasonable, results may differ materially from those suggested in these statements. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company 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.

ABOUT ONA POWER CORP

The Company is a Canadian-based international energy company focusing on the acquisition and development of power generation. The Company's main focus is the operation of a coal-fired power plant in Yongxing, China.

Ona Power Corp. was incorporated under the *Business Corporation Act* (Alberta) on August 31, 1998 and was continued into the jurisdiction of British Columbia 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 on the Canadian National Stock Exchange ("CNSX") under the symbol OPO.

OVERVIEW OF PROJECTS

Prior to 2008, the Company held only exploration stage natural resources projects and a power plant project in the development stage. When the Company acquired a 60% interest in the Yongxing Power Plant Corporation (“YPPC” or the “Plant”), the Company moved from the development stage to owning a revenue generating asset that went into operation in August 2008. As previously reported in corporate news releases (available for review on SEDAR, www.sedar.com) YPPC has been shut down due to lack of coal availability, concerns about coal quality, and high coal prices making it economically impractical to continue operations. Management is currently assessing whether coal will become available at reasonable prices within a timeframe that makes it likely that the YPPC power plant can be brought back online and begin generating revenues again.

YPPC POWER PLANT PROJECT, YONGXING COUNTY CHINA DEVELOPMENT SINCE THE END OF THE LAST FISCAL YEAR

The Company owns a 60% equity interest in the Yongxing Power Plant Corporation, a Sino-Foreign Joint Venture Company that holds the right to construct a 240 Mega-Watt (MW) coal-fired power plant in Yongxing County, in the Hunan Province of China. Construction of the Plant is planned in multiple phases, the first phase consists of two 60 MW units. In August 2008, the first of these two 60 MW units began commercial production, with a planned production of 5000 hours of electricity for the ensuing year. Completion of the second 60 MW unit was planned after the first unit went into operation; however, completion was put on hold pending additional financing and remains unfinished as of the date of this MD&A.

During the 2009 fiscal year, Plant machinery experienced various mechanical problems causing an unscheduled halt in production in the middle of the year; this prevented the Plant from running its full 5000 annual hours. The Company solved most of the machinery problems; the most significant of these was the breakdown of the coal crusher. Various factors contributed to the breakdown of this key component of the fuel feeding system, such as metal contaminants in the coal and lack of an effective maintenance program. We resolved these issues by replacing the damaged coal crusher with a larger capacity, more robust model; by installing a more powerful metal remover magnet that reduced the workload of the coal crusher and by reducing unscheduled maintenance requirements. We implemented an ongoing preventive maintenance regimen for key machinery to ensure smoother operations in future.

In 2009 we had to contend with high coal prices caused by mine accidents in Hunan Province where YPPC is located; these accidents resulted in a government shutdown while a review was conducted on ways to improve mine safety. The resulting scarcity in coal supply meant rising coal prices, an unexpected budgetary setback for the Company.

Early in January 2010, the transportation of coal was seriously interrupted by a severe snow storm and the price of coal again rose dramatically. This, coupled with low water levels due to drought conditions in many of the dams used for hydroelectric power plant operation, resulted in increased demand and reduced availability of coal, once again leading to higher coal prices. Although the Plant is scheduled to operate 6,000 hours in fiscal 2010, including 500 operating hours dedicated to the electricity needs of YPPC, making the planned contribution to the power grid about 500 hours higher than last year’s budget, over time these high coal prices have become an unsustainable expense for the Company. In response, YPPC shut the plant down in the second half of January to avoid incurring extra operating losses.

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 PT Petro Muba ("PTPM"), an agency of the Musi Banyuasin ("MUBA") Local Government Regency. The rights on the projects are governed by 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, an area that was previously managed by ConocoPhillips. Under this agreement, the Company is entitled to 80% of the net profit on the Contractor's take after expenses and taxes under the PSC with the Indonesian government. In 2007, management determined the project to be impaired and accordingly wrote down its interest in the investment to \$3. This project was subsequently written down to \$nil in 2009 by management.

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 2007, the Company considered the investment impaired and wrote down its interest to \$1. This project was further written down to \$nil in 2009 per management's assessment.

CORPORATE DEVELOPMENT SINCE LAST FISCAL YEAR

Yongxing Power Plant Corporation

As discussed in the *OVERVIEW OF PROJECTS* section, YPPC has been shut down since mid-January 2010 pending more favourable coal prices to avoid incurring additional operational losses. The Company has put in place a program to maintain the production plant and its machinery in good operating condition so that the production can be resumed once coal prices have returned to a reasonable level.

Legal Claims

During 2009 YPPC received various legal claims from its suppliers demanding payments of the over-due payable balances of \$117,569 which was included in the accounts payable and accrued balance for the year ended September 30, 2009. As a result of one such legal claim, a bank balance of \$102,923 was set aside by court order to settle the legal claim. The Company paid \$102,187 to settle this legal claim in December 2009.

During the nine-month period ended June 30, 2010, YPPC received other legal claims and legal letters from its creditors' legal counsels demanding payment of over-due payable balances and interest totalling \$5.34 million (RMB34.6 million) which has been included in the accounts payable and accrued liabilities balance for the quarter ended June 30, 2010.

As a result of two legal claims, YPPC was asked to set aside its bank balance of 47,831 (classified as "Restricted Cash" as at June 30, 2010) and other equivalent assets totalling \$340,000 (RMB 2.2 million) to meet the settlements of these two legal claims in the future. The Company may be subject to interest payments with respect to over-due accounts payable and the amounts depend on the terms of individual contracts signed between the Company and its suppliers. In accordance with the terms in certain contracts, the Company may be subject to a late charge of not more than 5% of the over-due balance if they remain outstanding beyond the dates specified in the contract.

Convertible Debentures

On July 23, 2010 the Company received a notice of default from Foothills Enterprises Ltd. (“Foothills”). Foothills is the sole holder of all the convertible debentures, with an outstanding balance totalling \$6,503,541 as at June 30, 2010, issued by the Company. Foothills is entitled to demand cash payment in full if the Company does not bring the convertible debentures into good standing within two weeks of receipt of such notice of default. The Company is in discussions with Foothills aimed at reaching an agreement on repayment terms.

GOING CONCERN

The Company incurred a net loss of \$1,776,490 and had an accumulated deficit of \$24,125,439 for the nine months ended June 30, 2010. The Company had a working capital deficiency of \$20,559,481 as at June 30, 2010 which is not sufficient to sustain operations over the next twelve months.

During the 2009 fiscal year, Yongxing Power Plant Corporation, a 60% owned subsidiary of the Company, received three court orders from the court of Yangzhong, Jiangsu Province, the court of Fengxian district, Shanghai and the court of Yongxing, Hunan province demanding the immediate payment of \$117,569 (RMB749,000) relating to certain equipment purchases. As a result, cash in the amount of \$102,923 was seized and then released to a supplier during the three months ended December 31, 2009 in the settlement of a debt of the same amount.

During the nine months ended June 30, 2010, YPPC received various other legal claims and legal letters from its creditors’ legal counsels demanding payments totalling \$5.34 million (RMB 34.6 million) and threatening litigation against YPPC, including seizure of assets owned by YPPC. As a result, YPPC received two additional court orders from the court of Yangzhong, Jiangsu province demanding YPPC to set aside \$340,000 (RMB2.2 million) cash or an equivalent amount of assets for outstanding debt settlement. Management is in the process of communicating with these creditors with a view to negotiating a payment settlement. If the additional court orders arrive and demand immediate cash settlement, payment of such cash settlements will materially impact the Company’s cash position and ability to pay ongoing operating costs (i.e. coal suppliers). In addition, if certain operating assets are seized the Company may not be able to continue in business.

In order to preserve cash, the Company undertook a comprehensive review of its operations and projected cash requirements with a view to deferring cash outflow and cutting costs. As a result, the Company has undertaken the following actions and measures to manage its liquidity:

- On August 11, 2009, the Company closed a private placement that raised approximately \$1.5 million.
- Throughout 2009, the Company terminated all the external consultants who provided services including public relations, engineering consulting for the expansion of the current production capacity, accounting services, and other advisory services that were not directly related to production.
- Since November 2009, the Company further reduced a number of staff who was not directly responsible for the production and key managerial function.

Management is in constant communication with our creditors, keeping them apprised of the Company’s development and is negotiating with various suppliers to reach an agreed upon schedule for meeting outstanding payables in an orderly manner.

Management is considering all possible financing alternatives, including equity financing, issuance of convertible debentures, and long-term bank loans from Chinese financial institutions. Based on the Company’s estimated cash requirements, the Company does not expect the operations to generate sufficient cash flow in the next twelve months to fund the obligations as they become due and the Company currently does not have other traditional sources of liquidity available to fund these obligations. Looking into the next twelve months, even with management’s planned actions, the estimated liquidity

will fall significantly short of the required cash to operate the Company's business and settle the debt obligations unless economic conditions improve, a financing transaction is completed, and an acceptable settlement with creditors is obtained.

The recent global financial market downturn has led to an overall tightening in credit and a substantial reduction in capital available to companies. It has been extremely difficult to negotiate and complete a financing arrangement. 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.

Management believes the power plant project has merit and anticipates that they will be able to make arrangements with creditors; this, coupled with the cost cutting measures already in place leads management to believe that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for a reasonable period of time. The consolidated financial statements prepared for current quarter 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 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. In particular, the carrying value of the Company's principle assets might be severely impacted if creditors seize the machinery and equipment. While the consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions as described above may cast significant doubt upon the validity of this assumption. In the event the Company is unable to further identify and complete its equity or debt financing favourable to the Company, the carry value of the Company's assets could be subject to material adjustment.

RESULTS OF OPERATIONS

For the nine months ended June 30, 2010

Net loss for the period is \$1,776,490 (2009 - loss of \$3,232,240) which is a \$1,455,750 improvement. The decreased loss was primarily due to the Plant shutdown which went into effect in mid-January 2010, helping to reduce the operational loss from YPPC.

Revenue in the nine-month period for 2010 is \$1,071,648 (2009 - \$8,519,723), a decrease of \$7,448,075. YPPC stopped production in January 2010. As a result, the gross revenue decreased significantly from the comparable period in 2009.

Gross loss during the nine months ended June 30, 2010 is \$954,338 (2009 - \$1,306,658 loss) and the gross loss margin in the current period is 89% (2009 - 15%). The gross loss margin is increased by 74%. During production downtime, the fixed production overhead was included in direct costs even when there was no revenue earned. As a result, the gross loss margin in the current period is significantly higher than the comparable period in 2009.

Administrative expenses during the period were \$2,141,970 compared to \$3,344,941 for the same period in 2009, a decrease of \$1,202,971. The improvement is the result of the cost cutting measures implemented to reduce the expenditures that were not directly related to the key operation in order to preserve cash for key operations.

Other income for the period is \$386,302 (2009 - \$nil). The other revenue (\$386,302) earned in this period is mainly the proceeds from the sales of unused production quota granted by the government for calendar year 2009. There was no similar transaction in 2009.

For the three months ended June 30, 2010

Net loss for the quarter is \$661,442 (2009 Q3 - loss of \$1,317,586) which is a \$650,478 improvement. The decrease in loss was primarily due to YPPC's production stop in the current quarter which helped to reduce its operational loss.

Revenue for the quarter decreased to \$nil from \$380,874 in the same quarter of 2009 as YPPC stopped production during the current quarter.

Administrative expenses during the quarter were \$667,108 compared to \$1,251,479 for the same quarter in 2009, which is a decrease of \$590,037. The decrease is the result of the cost cutting measures implemented to reduce the expenditures that were not directly related to the key operation in order to preserve cash for the key operations.

RELATED PARTY TRANSACTIONS

Related party transactions for the three and nine months ended June 30, 2010 are as follows:

- a) As at June 30, 2010, accounts payable and accrued liabilities balance consisted of payable balance of \$236,581 (September 30, 2009 – \$189,126) due to various companies controlled by the directors of the Company, and payables of \$nil (September 30, 2009 – \$75,022) due to various companies controlled by the officers of the Company. These payables balances are non-secured, non-interest bearing, and have no specific terms of repayment.
- b) The Company incurred management fees of \$91,164 for the nine months ended June 30, 2010 (year ended September 30, 2009-\$185,067) for the services provided by various companies controlled by the directors of the Company
- c) The Company has incurred occupancy cost of \$45,000 for the nine months ended June 30, 2010 (year ended September 30, 2009-\$60,000) with a company controlled by a director of the Company.
- g) As at June 30, 2010, the Company had borrowed RMB 12 million (\$1,852,800) from a shareholder (September 30, 2009 -RMB12 million or \$1,886,510), RMB7.7 million (\$1,188,880) from a company controlled by a shareholder (September 30, 2009-RMB 7.7 million or \$1,208,900) and RMB 4.3 million (\$663,920) (September 30, 2009-RMB4.3 million or \$675,100) from a company controlled by a shareholder, and accrued \$983,521 (September 30, 2009-\$714,973) of interest on these loans. All these loans are unsecured and are due on October 1, 2010, at an interest rate of 10% per annum pursuant to the loan agreement. As at June 30, 2010, the Company's balance of due to related parties totaled \$4,706,594 (September 30, 2009- \$4,502,956) representing the principal plus accrued interest of the above three loans and \$17,473 (September 30, 2009-\$17,473) balance owing to two shareholders of the Company, which is unsecured, non-interest bearing and without specific terms of repayment. 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.

OUTSTANDING SHARE DATA

The following details the share capital structure as at the date of this MD&A.

	Expiry date	Exercise price	Number	Number (Total)
Common shares				18,792,573
Options				Nil
Warrants	March 10, 2011	\$2.50	3,506,553	
	March 10, 2011	\$3.75	761,051	
	August 11, 2011	\$0.20	10,333,300	
	August 13, 2011	\$0.40	1,000,000	
				15,600,904

SUMMARY OF QUARTERLY RESULTS

Period ended	2010 Q3 Jun/30/10	2010 Q2 Mar/31/10	2010 Q1 Dec/ 31/09	2009 Q4 Sept/30/09
Revenue	Nil	285,575	786,073	3,757,446
Net Loss	(667,108)	(680,451)	(428,931)	(5,494,677)
Basic and diluted -loss per Share	(0.04)	(0.04)	(0.02)	(0.39)
Period ended	2009 Q3 June/30/09	2009 Q2 Mar/31/09	2009 Q1 Dec/31/08	2008 Q4 Sept/30/08
Revenue	380,874	2,783,906	4,363,640	1,251,882
Net Loss	(1,317,586)	(640,854)	(1,075,740)	(2,081,297)
Basic and diluted -loss per Share	(0.16)	(0.08)	(0.15)	(0.2)

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2010, the Company had cash and cash equivalents of \$11,317 (September 30, 2009 - \$558,656); and the Company had current debt of \$20,907,476 (September 30, 2009 - \$22,925,682). The Company had a working deficiency of \$20,559,481 as at June 30, 2010 (September 30, 2009 - \$19,566,250) which is believed not sufficient to sustain operations over the next twelve months. Management is presently seeking alternative ways to meet its immediate cash flow needs.

RISKS AND UNCERTAINTIES

Foreign Operations

The Company operates in China subjecting the Company to political, economic, and other risks such as changes in policy, currency fluctuations, exchange controls and royalty and tax increases and other risks arising out of a foreign government's sovereignty over the areas in which the Company's operations are located. The Company's ability to achieve its business objectives in China is highly dependent upon the strength and success of its Chinese joint venture partners and other experts and consultants engaged by the Company to advise and assist the Company in China.

We operate YPPC with our equity partners, and if we are unable to maintain good working relationships with our partners it could have an adverse effect on the Company; we rely on our partners' expertise and understanding of Chinese business and government practices. The loss or ineffectiveness of one or more of the Company's strategic relationships in China may have a negative impact.

Legal Proceedings

If the Company is unable to resolve its liquidity issues it may be subject to further lawsuits, claims, and litigation with creditors. Some of these proceedings may result in significant costs. Expenses incurred in connection with these lawsuits, which may include fees for lawyers and other professional advisors and our obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect our financial position.

Current Economic Conditions

The economic crisis has made it more difficult to raise funds through equity issuance. We can neither predict the impact current economic conditions will have on our future results, nor predict when the economy will show meaningful improvement and while it appears that the economy is recovering, we cannot be certain that this trend will continue or that capital will be available as necessary to meet continuing operating costs or, if the capital is available, that it will be on terms acceptable to the Company.

Key Personnel

Our success is tied to the abilities and experience of our executive officers and other key employees. There is strong competition for highly skilled management, technical, research and development and other key persons in power plant technology. We must work to retain our top personnel and executive officers especially in these trying times, should we lose any one of our key personnel the Company could be adversely affected.

Foreign Exchange

The Company operates in China and pays its expenses in multiple currencies, the Canadian and US dollar as well as the Chinese renminbi. Fluctuations in the exchange rate between currencies may have an adverse effect on our business. The use of forward contracts to hedge our foreign exchange exposure would also carry risk and could limit our gains, or result in a loss. In addition, the Company is exposed to unrealized exchange gains and losses with respect to the translation of monetary assets and liabilities held in currencies other than the Canadian dollar.

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 recorded in the consolidated financial statements. Significant areas requiring the use of estimates relate to the assessment for the provision for inventory obsolescence, provision for income taxes, determination of share value and share purchase warrants in transactions where shares and share purchase warrants are issued as a consideration and fair value of stock-based compensation, the assessment of the impairment and useful lives of intangible assets, property, plant and equipment and other long-lived assets, and the determination of the accrued liabilities. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions. Actual results may materially differ from those estimates.

CHANGES IN ACCOUNTING POLICIES

There has been no change in accounting policies since the last fiscal year ended September 30, 2009.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions that have material impact to the Company which are not discussed in this MD&A.

NEW ACCOUNTING PRONOUNCEMENTS

CICA Handbook

In January 2009, the CICA issued Handbook Sections:

- 1582 – Business Combinations,
- 1601 – Consolidated Financial Statements and
- 1602 – Non-controlling Interests

These sections 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 is currently assessing the impact of these new accounting pronouncements on its consolidated financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly accountable profit-oriented enterprises to use IFRS, replacing Canadian GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 (starting on October 1, 2011) for which current and comparative information will be prepared on an IFRS basis. In light of these requirements, the Company has adopted a four phase approach to ensure successful conversion to IFRS, including:

Phase 1. Conduct 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. During the third quarter of fiscal 2010, management continued to review the choices available under IFRS, First-time Adoption of IFRS. *This phase is should be completed in the fourth quarter of 2010.*

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.

On the following page we provide information on the areas we have identified that may impact the financial statements under IFRS.

Area	Canadian GAAP (as currently applied)	IFRS	Analysis and preliminary conclusion
Property, plant, and equipment (“PP&E”)	<p>1. PP&E is recorded at cost.</p> <p>2. Depreciation is taken based on their useful lives.</p>	<p>PP&E is initially recorded at cost. Subsequent measurement can be done either by cost method or by revaluation method if fair value of the PP&E can be reliably measured.</p> <p>Depreciation is based on the useful lives of each significant component within PP&E</p>	<p>The existing accounting policy is likely to be maintained per preliminary evaluation.</p> <p>Management is assessing the impact with respect to the componentization.</p>
Impairment of long-lived assets	<p>1. Impairment testing of long-lived assets is performed when there is an indication the carrying value may not be recoverable.</p> <p>2. The impairment test is a two-step process. An asset (group) is first assessed as to whether impairment exists based on whether the asset’s (group’s) carrying value exceeds the undiscounted future cash flow of the asset (group). If an impairment exists, then the impairment loss is measured based on the excess of carrying value over the fair value of the asset (group)</p> <p>3. Write downs to net realizable value are permanent.</p>	<p>Like Canadian GAAP, impairment is considered when there is an indicator of impairment.</p> <p>The impairment test is a one-step process.</p> <p>An impairment loss is recognized if the asset’s (group’s) carrying value exceeds its recoverable amount, which is the greater of fair value less costs to sell and value in use (based on the net present value of future cash flow).</p> <p>Write downs to net realizable value can be reversed if the conditions of impairment cease to exist.</p>	<p>No significant impact.</p> <p>Impairment tests under IFRS could generate a greater likelihood of write downs in the future.</p> <p>Potential increasing volatility in profit and loss could arise as a result of the difference in the treatment of write downs in the future.</p>
Share-based compensation	<p>1. Share-based compensation is determined using fair value model for equity-settled awards and the intrinsic model for cash-settled awards</p> <p>2. When a share-based award vests in instalments over the vesting period, the Company has an election to recognize the share-based compensation on a straight-line basis or a graded method which recognizes share-based compensation faster than the straight-line method</p>	<p>IFRS 2 requires both equity-settled awards and cash-settled awards to be measured based on fair values.</p> <p>When a share-based award vests in instalments over the vesting period, each instalment is accounted for a separated arrangement for recognition of cost (graded method).</p>	<p>No impact- the Company’s share-based payments are all equity-settled payments.</p> <p>No impact- the Company has not granted share-based awards vesting in instalments.</p>
Income taxes	<p>Deferred income tax assets are recognized to the extent that it is “more likely than not” that the deferred income tax assets will be realized</p>	<p>Deferred income tax assets are recognized to the extent it is “probable” that the taxable profit will be realized.</p>	<p>The term “Probable” is not defined in IAS 12. However, entities have often used a definition of “more likely than not” similar to Canadian GAAP. Accordingly, our preliminary is that there is no significant impact.</p>

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

There are no material changes since the fiscal year end of 2009 with respect to the financial instruments.

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.

OTHER INFORMATION

Further information about the Company is available through SEDAR at www.sedar.com and in the CNSX disclosure hall, www.cnsx.ca.