

NEWTON ENERGY COPORATION  
(an exploration stage company)  
INTERIM FINANCIAL STATEMENTS  
June 30, 2008  
(Unaudited)

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

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), 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 have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

**Newton Energy Corporation**  
**INTERIM BALANCE SHEET**  
**(Unaudited)**

	As at	
	June 30, 2008	31 December 2007
<b>Assets</b>		
Current Assets:		
Cash	2,579	141,304
Marketable securities (note 6)	3,757,246	-
Accounts receivable	3,165	11,888
Deposits	-	8,000
Cash in trust (note3)	-	2,625,488
	<u>\$ 3,762,990</u>	<u>\$ 2,786,680</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	9,110	33,137
Escrowed subscription receipts	-	2,587,188
	<u>9,110</u>	<u>2,620,325</u>
Shareholders' Equity:		
Common shares (note 4b)	3,929,415	247,527
Contributed surplus (note 4e)	555,145	114,559
Deficit	(730,679)	(195,731)
	<u>3,753,881</u>	<u>166,355</u>
	<u>\$ 3,762,990</u>	<u>\$ 2,786,680</u>

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors

"Michael J. Frey" Director

"Merv Chia" Director

**Newton Energy Corporation**  
**INTERIM STATEMENT OF OPERATIONS AND DEFICIT**  
**(Unaudited)**

	<b>Six Months Ended</b>		<b>Three Months Ended</b>	
	<b>30 June 2008</b>	<b>31 July 2007</b>	<b>30 June 2008</b>	<b>31 July 2007</b>
Revenue	\$ -	- \$	-	-
Office & Administration	125,678	28,005	49,773	5,867
Consulting fees (note5)	64,700	25,024	37,350	7,637
Stock based compensation (note 4d)	392,578	-	392,578	-
	<u>582,957</u>	<u>53,029</u>	<u>479,701</u>	<u>13,504</u>
Loss before the following item	(582,957)	(53,029)	(479,701)	(13,504)
Other Income - interest on short term investments	48,008	-	24,836	-
	<u>(534,948)</u>	<u>(53,029)</u>	<u>(454,865)</u>	<u>(13,504)</u>
Deficit begininning of period	(195,731)	(15,909)	(275,815)	(55,434)
Net Liability assumed on reverse take over		(41,828)		(41,828)
	<u>(730,679)</u>	<u>(110,766)</u>	<u>(730,680)</u>	<u>(110,766)</u>
Deficit, end of period	\$ (730,679)	(110,766) \$	(730,680)	(110,766)
Earning Per Shares	(0.09)	(0.03)	(0.07)	(0.01)
Weighted average number of shares outstanding	5,890,639	2,005,109	6,764,354	2,005,109

See accompanying notes to the consolidated financial statements

**Newton Energy Corporation**  
**INTERIM STATEMENT OF CASH FLOWS**  
(Unaudited)

	<b>Six Months Ended</b>		<b>Three Months Ended</b>	
	<b>30 June 2008</b>	<b>31 July 2007</b>	<b>30 June 2008</b>	<b>31 July 2007</b>
<b>Cash flows provided by (used in):</b>				
Continuing operations:				
Net loss	\$ (534,948)	(53,029)	\$ (454,865)	(13,504)
Changes in non-cash working capital items				
Accounts Receivable	8,724	(2,633)	6,684	(548)
Accounts Payable and accrued liabilities	(24,027)	61,534	(20,835)	61,534
Deposits	8,000	(13,300)	8,109	(13,300)
Increase in Marketable Securities	(3,757,246)	-	(3,757,246)	-
Stock based compensation (note 4d)	392,578	-	392,578	-
	<u>(3,906,920)</u>	<u>(7,428)</u>	<u>(3,825,575)</u>	<u>34,182</u>
<b>Financing:</b>				
Subscription receipts held in trust (note3)	(2,587,188)	-	(3,500,938)	-
Cash held in trust (note3)	2,625,488	-	3,562,410	-
Issuance of share capital (note 4b)	3,729,895	-	3,662,904	-
	<u>3,768,195</u>	<u>-</u>	<u>3,724,376</u>	<u>-</u>
<b>Investing</b>				
Cash acquired in reverse take-over	-	(19,706)	-	(19,706)
Net Liability assumed on reverse take over	-	(41,828)	-	(41,828)
	<u>-</u>	<u>(61,534)</u>	<u>-</u>	<u>(61,534)</u>
Change in cash	(138,725)	(68,962)	(101,199)	(27,352)
Cash, beginning of period	<u>141,304</u>	<u>133,799</u>	<u>103,778</u>	<u>92,189</u>
Cash, end of year	\$ 2,579	64,837	\$ 2,579	64,837

NEWTON ENERGY CORPORATION  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
(Unaudited)

June 30, 2008

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1. **BASIS OF PRESENTATION**

The interim financial statements of Newton Energy Corporation (“Newton” or the “Company”) for the six months ended June 30, 2008 are presented in accordance with Canadian generally accepted accounting principles (“GAAP”). These interim financial statements do not conform in all respects to the requirements of GAAP for annual financial statements and should be read in conjunction with Newton Energy Inc.’s audited financial statements and the notes thereto for the period ended December 31, 2007.

Newton was formed upon amalgamation of Newton Energy Inc. and NX Capital Corp. on July 31, 2007. The Company also changed its name to Newton Energy Corporation on July 31, 2007. The Company’s primary business activity is international exploration and development of petroleum and natural gas properties, specifically in the East Midlands United Kingdom.

After the amalgamation, the Company adopted a year-end of December 31. Prior to amalgamation, the company had a January 31 year end and therefore the comparative income statement & statement of cash flows are for the six months ended July 31, 2007.

2. **ADOPTION OF NEW ACCOUNTING STANDARDS**

**Sections 3862 and 3863**

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections 3862 (Financial Instruments – Disclosure) and 3863 (Financial Instruments – Presentation), which replace CICA Handbook section 3861.

Accounting Standards Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for a company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which a company is exposed during the period and at the balance sheet date, and how a company manages those risks. The Company’s financial instruments and financial instruments disclosure are presented in note 6.

The initial adoption of Section 3862 and 3863 had no impact on the Company’s consolidated results or financial position.

**Section 1535**

Effective January 1, 2008, the Company adopted CICA Handbook new Section 1535 (Capital Disclosures).

Accounting Standards Section 1535 requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. Disclosure for Section 1535 is provided in note 7.

The initial adoption of Section 1535 had no impact on the Company’s consolidated results or financial position.

NEWTON ENERGY CORPORATION  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
(Unaudited)

June 30, 2008

3. **CASH IN TRUST**

With the announcement of the license award, the Company had met the required conditions for the release of the escrowed funds held by CIBC Mellon Trust Company ("CIBC") pursuant to a Subscription Receipt Agreement (the "Subscription Receipt Agreement") dated September 12, 2007 in connection with the Private Placement. Pursuant to the Subscription Receipt Agreement, on June 2, 2008, CIBC, released the sum of \$3,670,937.50 held in escrow plus interest earned for a total of \$3,751,902.55 and issued 7,341,875 common shares to the holders of the subscription receipts. The license award has made it possible for the Company to proceed with the acquisition of the necessary permits, consents and permissions required to execute its drilling program to begin in first quarter 2009.

4. **SHARE CAPITAL**

**a) Authorized**

Unlimited number of common voting shares

Unlimited number of preferred shares issuable in series

**b) Issued and Outstanding**

	<b>Shares (#)</b>	<b>Amount (\$)</b>
Common Shares		
Newton Energy Inc. common shares issued and outstanding as at January 31, 2007	1,500,000	150,000
Outstanding common shares of NX Capital Corp., at December 31, 2006	40,118,233	-
NX Capital Corp. shares exchanged for Newton Inc. shares (i)	40,102,188	150,000
Total before consolidation of shares	80,220,421	150,000
Consolidation of shares at 20:1	4,011,021	150,000
Brokered private placement (ii)	8,637,500	4,318,750
Share issue costs	-	(376,768)
Fair value of broker options issued (Notes 4c & 4e)	-	(162,567)
<b>Balance, June 30, 2008</b>	<b>12,648,521</b>	<b>3,929,415</b>

- (i) The reverse takeover and amalgamation of NX Capital Corp. and Newton Energy Inc. on July 31, 2007, resulted in Newton Energy Inc. shareholders being issued 40,102,188 shares of the Company before the shares were consolidated 20 to 1.

NEWTON ENERGY CORPORATION  
 NOTES TO THE INTERIM FINANCIAL STATEMENTS  
 (Unaudited)

June 30, 2008

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- (ii) Between September 12, 2007 and June 30, 2008 the Company has issued the following common shares at \$.50 per share (See also note 9):

September 12, 2007	731,325	15% of	4,875,500	Subscription receipts
November 30, 2007	181,800	15% of	1,212,000	Subscription receipts
January 23, 2008	91,500	15% of	610,000	Subscription receipts
March 19, 2008	231,000	15% of	1,540,000	Subscription receipts
April 18, 2008	60,000	15% of	400,000	Subscription receipts
June 12, 2008	<u>7,341,875</u>	85% of	8,637,500	Subscription receipts
Total shares issued at \$0.50	8,637,500			Equal to \$4,318,750 before expenses

**c) Agent options**

The Company issued broker options to the agents for the private placements in 2007 and 2008. The fair value of these options was estimated using the Black-Scholes fair value option pricing model with the following assumptions: expected volatility of 75% and risk-free interest rate of 4.66%, and expected life of 18 months.

Options outstanding	Exercise price	Options exercisable at June 30, 2008	Expiry date
487,500	\$ 0.50	487,500	March 12, 2009
121,000	\$ 0.50	121,000	May 30, 2009
61,000	\$ 0.50	61,000	July 23, 2009
154,000	\$ 0.50	154,000	September 19, 2009
40,000	\$ 0.50	40,000	October 18, 2009

As a result, \$162,567 was recorded as a reduction to share capital and a corresponding credit to contributed surplus. (See also note 9)

**d) Stock-Based Compensation**

On June 18, 2008 the Board of Directors of the Company approved the issuance of 1,250,000 options at exercise price of \$0.50 to the directors & Officers of the Company and certain consultants. These options were granted for a period of 5 years and all vest immediately. The Company has accounted for its employee stock options granted using the fair value method. The fair value of all options granted to June 30, 2008 was estimated to be \$392,578 (\$0.31 per option granted). This value was charged to stock based compensation cost for three months ended 30 June, 2008. The estimated fair value \$0.31 a share was calculated for the options using the Black-Scholes model based on the following assumptions: risk-free interest rate of 3%, expected life of 5 years, no annual dividends and expected volatility of 75%.

NEWTON ENERGY CORPORATION  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
(Unaudited)

June 30, 2008

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**e) Contributed surplus**

Contributed surplus account is the calculated value of broker options & amounts calculated as stock based compensation:

Value of broker options granted to agents (Notes 4b & 4c)	\$162,567
Value of Stock options granted to directors, an officer & consultants (Note 4d)	<u>\$392,578</u>
Total Contributed surplus account	\$555,145

**5. RELATED PARTY TRANSACTIONS**

During the three month period ended June 30, 2008, the Company paid consulting fees in the amount of \$34,000 (2007, \$7,637) to companies controlled by a director and officers of the Company.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**6. FINANCIAL INSTRUMENTS**

As at June 30, 2008, the Company's financial instruments consist of cash, marketable securities, accounts receivable and accounts payable and accrued liabilities. The risk exposure is summarized as follows:

**a) Credit risk**

The Company is not exposed to any significant credit risk on its financial assets. Cash and Marketable Securities consisting of Royal Bank of Canada Bankers Acceptances with less than 60 days to maturity and Royal Bank of Canada Premium Money Market Funds, from which management believes the risk of loss to be remote. Accounts receivable is mostly GST recoverable. As at June 30, 2008, the Company had no financial assets that were either past due or impaired.

**b) Liquidity risk**

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at June 30, 2008, the Company had an unrestricted cash and short term marketable securities balance of \$3,759,825 to settle accounts payable and accrued liabilities of \$9,110.

**c) Market risk**

1) Interest rate risk

The Company's accounts payable and accrued liabilities are non-interest bearing. As at June 30, 2008, the Company's interest bearing assets are marketable securities.

2) Foreign currency risk

NEWTON ENERGY CORPORATION  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
(Unaudited)

June 30, 2008

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The Company's functional and reporting currency is the Canadian dollar as most major expenditures and realized costs are for the advancement of the Company's exploration projects located in UK. As at June 30, 2008, the Company had \$15,553 in Pound sterling funds for future expenditure in UK. For financial reporting purposes, the Pound Sterling are translated to Canadian dollars on the date of the transaction and the Pound Sterling balance is converted to Canadian funds at month-end for consolidated financial statement reporting. Gains and losses are recognized in the consolidated statements of loss and deficit. The Company does not hedge foreign currency transactions. Management believes the foreign currency exchange risk derived from currency conversion to be negligible at this time.

3) Price Risk

The Company's financial assets and liabilities are not exposed to price risk with respect to commodity prices. During the period ended June 30, 2008, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

## 7. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the exploration and development of its leases and to maintain the Company in good standing with the various regulatory authorities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the Company. The Company has no debt and is not subject to externally imposed capital requirements.

The Company's historical sources of capital have consisted of the sale of equity securities. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and raise additional amounts externally as needed. The Company has policies and procedures in place for employee and officer expenditure authorization limits and capital expenditure authorization. Capital expenditures of \$20,000 or more require approval by the Board of Directors. Management reviews its capital management approach on an ongoing basis and believes this approach, given the size of the Company, is reasonable.

There were no changes in the Company's management of capital during the three month period ended June 30, 2008.

NEWTON ENERGY CORPORATION  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
(Unaudited)

June 30, 2008

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**8. LOSS PER SHARE**

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of stock options and warrants outstanding. Loss per share is calculated as follows:

	Net loss	Weighted average number of shares	Loss per share Basic and diluted
Six months ended June 30, 2008	\$ (532,072)	5,890,639	\$ (0.09)
Six months ended July 31, 2007	\$ (53,029)	2,005,109	\$ (0.03)
Three months ended June 30, 2008	\$ (451,988)	6,764,354	\$ (0.07)
Three months ended July 31, 2007	\$ (13,504)	2,005,109	\$ (0.01)

**9. SUBSEQUENT EVENTS**

On July 24, 2008 the Company closed another \$1,362,500 financing through the issuance of 1,362,500 common share of the Company at a deemed price of \$1.00 per share. The Company paid total of \$106,312 in agent commissions and costs and issued 136,250 non-transferable agents options exercisable at \$1.00 per common share until January 24, 2010. Following this issue, the Company has issued all of the 10,000,000 shares that it was authorized to issue by the shareholders at the Annual and Special Meeting held on May 27, 2007. After giving effect to the last round of private placements the Company has 14,011,021 common shares issued and outstanding.