



NEWTON ENERGY CORPORATION
(an exploration stage company)

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

September 30, 2008

(Unaudited)

NEWTON ENERGY CORPORATION
INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited)

September 30, December 31,
2008 2007

ASSETS

CURRENT

Cash and marketable securities	\$ 4,813,832	\$ 141,304
Accounts receivable	7,893	11,888
Deposits	43,562	8,000
Cash in trust (note 3)	-	2,625,488
	4,865,287	2,786,680

Property, plant and equipment (note 7)	24,425	-
	\$ 4,889,712	\$ 2,786,680

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 37,832	\$ 33,137
Escrowed subscription receipts (note 3)	-	2,587,188
	37,832	2,620,325

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 4(b))	5,128,419	247,527
CONTRIBUTED SURPLUS (note 4(e))	606,537	114,559
DEFICIT	(883,076)	(195,731)
	4,851,880	166,355
	\$ 4,889,712	\$ 2,786,680

See accompanying notes to the Financial Statements.

Approved on behalf of the Board

Director _____

Director _____

NEWTON ENERGY CORPORATION
INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
(Unaudited)

	Nine months period ended 30 September 2008	Eight months period ended 30 September 2007	Three months period ended 30 September 2008	Two months period ended 30 September 2007
Revenue	\$ -	-	\$ -	-
Office & administration	253,816	79,469	128,138	51,464
Consulting fees (note 5)	122,100	41,024	57,400	16,000
Stock based compensation (note 4(d))	392,578	-	-	-
	768,494	120,493	185,538	67,464
Loss before the following item	(768,494)	(120,493)	(185,538)	(67,464)
Other income – interest on short term investments	81,149	-	33,141	-
Net and Comprehensive loss	(687,345)	(120,493)	(152,397)	(67,464)
Deficit at the beginning of period	(195,731)	(15,909)	(730,679)	(110,766)
Net liability assumed on reverse take over	-	(41,828)	-	-
Deficit, end of period	\$ (883,076)	(178,230)	\$ (883,076)	(178,230)
Earnings per share (note 9)	\$ (0.08)	\$ (0.05)	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding	8,507,178	2,501,536	13,666,653	4,226,822

See accompanying Notes to Financial Statements

NEWTON ENERGY CORPORATION
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine months period ended 30 September 2008	Eight months period ended 30 September 2007	Three months period ended 30 September 2008	Two months period ended 30 September 2007
Cash flows provided by (used in) :				
Continuing operations:				
Net loss	\$ (687,345)	(120,493)	\$ (152,397)	(67,464)
Items not affecting cash				
Stock based compensation	392,578			
	(294,767)	(120,493)	(152,397)	(67,464)
Changes in non-cash working capital items				
Accounts receivable	3,995	(10,815)	(4,728)	(8,181)
Accounts payable and accrued liabilities	4,695	(8,396)	28,722	(8,396)
Deposits	(35,562)	-	(43,562)	-
	(321,639)	(139,704)	(171,965)	(84,041)
Financing:				
Issue of share capital (note 4(b))	5,018,592	157,355	1,250,397	170,655
	5,018,592	157,355	1,250,397	170,655
Investing:				
Cash acquired in reverse take over	-	19,706	-	-
Exploration assets	(24,425)	-	(24,425)	-
	(24,425)	19,706	(24,425)	-
Change in cash	4,672,528	37,357	1,054,007	86,614
Cash beginning of period	141,304	133,799	3,759,825	84,542
Cash end of period	\$ 4,813,832	171,156	\$ 4,813,832	171,156

Cash is comprised of cash and marketable securities

See accompanying Notes to Financial Statements

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

September 30, 2008

1. BASIS OF PRESENTATION

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

Newton acquired all the shares of Newton Energy Inc. on July 31, 2007. The Company changed its name to Newton Energy Corporation on July 31, 2007. The Company’s primary business activity is international exploration and development of petroleum properties, specifically in the onshore United Kingdom.

On September 30, 2008, Newton and Newton Energy Inc. amalgamated to form Newton Energy Corporation. After the acquisition explained above, the Company adopted a year-end of December 31. Prior to the acquisition, Newton Energy Inc. had January 31 year-end and therefore the comparative income statement and statement of cashflows are for the eight months ended September 30, 2007 and two months ended September 30, 2007.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

Financial Instruments – Disclosure and Presentation

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.

Capital Disclosure

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 8.

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

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3. **CASH IN TRUST**

On May 29, 2008 the Company was advised by the UK's Department of Business, Enterprise and Regulatory Reform that it has been awarded a total of five contiguous land blocks for a total of 150,000 acres of exploration licenses. Thereby the Company had met the required conditions for the release of share subscriptions funds in trust. On June 12, 2008 CIBC Mellon, at the request of the Company, released the sum of \$3,670,938 held in escrowed subscription receipts plus interest earned for a total of \$3,751,903. The Company issued 7,341,875 new common shares to the holders of the subscription receipts as per subscription agreements dated September 12, 2007, November 30, 2007, January 23, 2008, March 19, 2008, and April 18, 2008.

4. **SHARE CAPITAL**

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares issuable in series

b) Issued and Outstanding

	Shares (#)	Amount (\$)
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 Corporation, at December 31, 2006 consolidated 20:1	2,005,912	-
Consolidated NX Capital Corporation shares exchanged for Newton Energy Inc. shares (i)	2,005,349	150,000
Total consolidated shares	4,011,261	150,000
Brokered private placement September 12, 2007 (ii)	731,325	365,663
Brokered private placement November 30, 2007 (ii)	181,800	90,900
Share issue costs (ii)		(244,477)
Fair value of broker options, issued pursuant to the brokered private placement (Note 4(c))		(114,559)
Balance, December 31, 2007	4,924,386	247,527
Brokered private placement (ii)	7,724,375	3,862,187
Brokered private placement (iii)	1,362,500	1,362,500
Share issue costs		(244,395)
Fair value of broker options issued (Note 4c)		(99,400)
Balance, September 30, 2008	14,011,261	5,128,419

(i) The reverse takeover of NX Capital Corporation and Newton Energy Inc. on July 31, 2007, resulted in Newton Energy Inc. shareholders being issued one consolidated share of the Company for every 1.336899 shares they held in Newton Energy Inc. This resulted in the issuance of 2,005,349 consolidated shares of the Company.

Following the share issuance described above, the Newton Energy Inc. shareholders held approximately 49.99% of the issued and outstanding shares of the Company.

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4. **SHARE CAPITAL (continued)**

The former Newton shareholders represent a small group of individual shareholders, and the remaining issued and outstanding shares of the Company were widely held. The Company therefore concluded that for accounting purposes the former Newton shareholders will exercise control over combined enterprise. Accordingly, the transaction has been accounted for as a reverse takeover with Newton being the acquiring company. The consolidated balance sheet is a continuation of Newton.

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

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	226,500	15% of	1,510,000	Subscription receipts
April 18, 2008	64,500	15% of	400,000	Subscription receipts
June 12, 2008	<u>7,341,875</u>	85% of	8,637,500	Subscription receipts
	<u>8,637,500</u>			

- (iii) On July 24, 2008 the Company issued 1,362,500 common shares at \$1.00 a share 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% to 2.9%, and expected life of 18 to 24 months.

Options outstanding	Exercise price	Options exercisable at September 30, 2008	Expiry date
487,500	\$0.50	487,500	September 12, 2009
121,000	\$0.50	121,000	November 30, 2009
61,000	\$0.50	61,000	January 23, 2010
171,500	\$0.50	171,500	March 19, 2010
20,000	\$0.50	20,000	April 18, 2010
136,250	\$1.00	136,250	January 24, 2010
<u>997,250</u>			

As a result, \$213,959 was recorded as a reduction to share capital and a corresponding credit to contributed surplus.

d) Stock-Based Compensation

On June 12, 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 and officers of the Company and certain consultants. These options were granted for a period of 5 years and were all vested on the issue date. The Company has accounted for its employee stock options granted using the fair

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4. **SHARE CAPITAL (continued)**

value method. The fair value of all options granted to September 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 June 30, 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%.

e) **Contributed Surplus**

Balance, beginning of year	\$114,559
Broker options granted to agents (Note 4(c))	99,400
Stock options granted to directors, officers and consultants (Note 4(d))	<u>392,578</u>
	<u>\$606,537</u>

5. **RELATED PARTY TRANSACTIONS**

During the nine month period ended September 30, 2008, the Company paid consulting fees in the amount of \$112,000 (2007, \$41,024) 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 September 30, 2008, the Company's financial instruments consist of cash, marketable securities, accounts receivable and accounts payable and accrued liabilities.

Carrying value and fair value of financial assets and liabilities at September 30, 2008 are summarized as follows:

Classification	Carrying Value	Fair Value
Held for trading	\$ 4,755,002	\$ 4,755,002
Loans and receivables	51,455	51,455
Other liabilities	37,832	37,832

Financial instruments consist of recorded amounts of cash, marketable securities, and accounts receivable which will result in future cash receipts, as well as accounts payable and accrued liabilities which will result in future cash outlays.

In management's opinion, the Company's carrying values of marketable securities, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

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6. FINANCIAL INSTRUMENTS (continued)

The Company has exposure to the following risks:

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, for which management believes the risk of loss to be remote. Accounts receivable comprises mostly GST recoverable. As at September 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 September 30, 2008, the Company had an unrestricted cash and short term marketable securities balance of \$4,813,832 to settle accounts payable and accrued liabilities of \$37,832.

c) Market risk

i) Interest rate risk

The Company has cash balances and non interest bearing obligations. The Company manages its exposure to interest rate risk through fixed rate investments with no early withdrawal penalties. It is the Company's policy to invest its cash reserves in low risk investments in either short term deposits in primary Canadian banking institutions or overnight money market accounts.

ii) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar as most major expenditures and realized costs are made from Canada for the advancement of the Company's exploration projects located in UK. As at September 30, 2008, the Company had \$40,363 in Pound Sterling funds (2007, Nil) 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.

iii) Price risk

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

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7. PROPERTY, PLANT AND EQUIPMENT

The Company accounts for its petroleum and natural gas operations in accordance with the Canadian Institute of Chartered Accountants' ("CICA") guideline on full-cost accounting in the oil and gas industry. Under this method, all exploration and development costs, including asset retirement obligations, are capitalized and accumulated within cost centers on a country-by-country basis. Such costs include land acquisition, geological and geophysical activity, drilling and testing of productive and non-productive wells, carrying costs directly related to unproved properties, major development projects and administrative costs directly related to exploration and development activities.

At September 30, 2008, the Company has paid \$24,425 (2007- Nil) for rental of land licenses which has been capitalized.

8. 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 September 30, 2008.

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9. **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
Nine months ended September 30, 2008	\$ (687,345)	8,507,178	\$ (0.08)
Eight months ended September 30, 2007	\$ (120,493)	2,501,536	\$ (0.05)
Three months ended September 30, 2008	\$ (152,397)	13,666,653	\$ (0.01)
Two months ended September 30, 2007	\$ (67,464)	4,226,822	\$ (0.02)

10. **COMMITMENTS**

The Company has been awarded five exploration licenses, PEDLs 204, 205 and 208 in which it has a 100% interest and PEDLs 254 and 255 in which it has a 100% interest in the non-coal bed petroleum rights. The Company's rights and obligations in each license are set out in agreements with the British Department for Business Enterprise and Regulatory Reform (the "BERR") and joint operating agreements with the coal bed methane rights holders on PEDLs 254 and 255. These agreements are structured such that the Company has certain rental payments and minimum exploration obligations in the first six years of the license. The exploration obligations are work commitments and do not have specific dollar amounts. During the remaining term of 25 years, the licenses are subject to escalating rental payments. If production extends past this period, the BERR may extend the licenses. The Company can relinquish its licenses at any time without financial penalty. Work and rental commitments are as follows:

License	Rental per year until 2014	Work commitment
PEDL 204	£2,500	Drill one well to depth of 1,000 m before the end of year 6.
PEDL 205	£2,500	Complete a geochemical survey across 2.5 km ² reprocess 30 km of 2D seismic data in the first 3 years and a drill or drop well commitment.
PEDL 208	£5,000	Firm commitment to obtain 56 kilometers of seismic data and drill a well to depth of 850m before the end of the initial six year term.
PEDL 254	£1,250	Firm commitment to obtain 78 kilometers of seismic data and to drill a well to depth of 800m in the first two years.
PEDL 255	£1,250	Drill or drop well to depth of 800m in the first six years.

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11. SUBSEQUENT EVENTS

Subsequent to period end, the Company intends to file a Filing Statement with the TSX VenturesExchange relating to resumption of trading its shares.