



**NEWTON ENERGY CORPORATION**  
**(an exploration stage company)**  
**INTERIM FINANCIAL STATEMENTS**  
**September 30, 2009**  
**(Unaudited)**

**NOTICE OF NO AUDITOR REVIEW**

Pursuant to National Instrument 51-102 Part 4, subsection 4.3(3)(a), the accompanying unaudited interim financial statements have been prepared by management and the Corporation's independent auditors have not performed a review of these financial statements.

**NEWTON ENERGY CORPORATION**  
**INTERIM BALANCE SHEET**  
(Unaudited)

September 30, December 31,  
2009 2008

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<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 90,954	\$ 88,651
Marketable securities (note 7)	4,043,272	4,583,048
Accounts receivable	10,609	7,552
Deposits	2,062	2,062
Total current assets	<u>4,146,897</u>	<u>4,681,313</u>
Property plant & equipment (note 4)	45,925	24,425
	<u>\$ 4,192,822</u>	<u>\$ 4,705,738</u>

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<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 42,025	\$ 88,347

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<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (note 5(b))	5,128,419	5,128,419
CONTRIBUTED SURPLUS (note 5(e))	621,019	606,537
DEFICIT	<u>(1,598,641)</u>	<u>(1,117,566)</u>
	<u>4,150,797</u>	<u>4,617,390</u>
	<u>\$ 4,192,822</u>	<u>\$ 4,705,738</u>

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Approved on behalf of the Board

Director "Bruce E. Williams"

Director "Thomas G. Milne"

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

	Nine months ended 30 September 2009	Nine months ended 30 September 2008	Three months ended 30 September 2009	Three months ended 30 September 2008
Revenue	\$ -	-	\$ -	-
Office & Administration	336,506	253,816	115,412	128,138
Consulting fees (note 6)	162,000	122,100	54,000	57,400
Stock based compensation(note 5d)	14,482	392,578	-	-
	512,988	768,494	169,412	185,538
Loss before the following item	(512,988)	(768,494)	(169,412)	(185,538)
Other income – interest on short term investments	43,739	81,149	12,871	33,141
Gain ( loss) on exchange	(11,826)	-	(16,428)	-
Net and Comprehensive loss	(481,075)	(687,345)	(172,969)	(152,397)
Deficit at the beginning of period	(1,117,566)	(195,731)	(1,425,672)	(730,679)
Deficit, end of period	\$ (1,598,641)	(883,076)	\$ (1,598,641)	(883,076)
Earnings per share (note 9)	(0.03)	(0.08)	(0.01)	(0.01)
Weighted average number of shares outstanding	14,011,261	8,507,178	14,011,261	13,666,653

See accompanying Notes to Financial Statements

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

	Nine months ended 30 September 2009	Nine months ended 30 September 2008	Three months ended 30 September 2009	Three months ended 30 September 2008
<b>Cash flows provided by (used in) :</b>				
<b>Continuing operations:</b>				
Net loss	\$ (481,076)	(687,345)	\$ (172,969)	(152,397)
Stock based compensation (note 5d)	14,482	392,578	-	-
	(466,594)	(294,767)	(172,969)	(152,397)
Accounts Receivable	(3,057)	3,995	(4,554)	(4,728)
Accounts payable and accrued liabilities	(46,322)	4,695	25,468	28,722
Deposits	-	(35,562)	-	(43,562)
	(515,973)	(321,639)	(152,055)	(171,695)
<b>Financing:</b>				
Issue of share capital	-	5,018,592	-	1,250,397
	-	5,018,592	-	1,250,397
<b>Investing:</b>				
Exploration assets	(21,500)	(24,425)	(21,500)	(24,425)
	(21,500)	(24,425)	(21,500)	(24,425)
Change in cash & marketable securities	(537,437)	4,672,528	(173,555)	1,054,007
Cash & marketable securities beginning of period	4,671,699	141,304	4,307,781	3,759,825
<b>Cash &amp; marketable securities end of period</b>	<b>\$ 4,134,226</b>	<b>4,813,832</b>	<b>\$ 4,134,226</b>	<b>4,813,832</b>

See accompanying Notes to Financial Statements

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

September 30, 2009

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1. **BASIS OF PRESENTATION**

The financial statements of Newton Energy Corporation (“Newton” or the “Company”) for the three ended September 30, 2009 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, 2008.

The financial statements have been prepared in accordance with Canadian GAAP on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company’s ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. Management believes that the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

The Company is an oil exploration company and all of its resources have been devoted to exploring and developing the resources on its licensed land holdings in the onshore United Kingdom. To date the Company has not earned significant revenues and is considered to be in the development stage.

2. **SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared using the historical cost basis in accordance with Canadian GAAP. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

**Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are accounts payable and accrued liabilities and stock based compensation.

**Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All inter-corporate balances and transactions have been eliminated.

**Cash**

Cash consists of balances with financial institutions.

NEWTON ENERGY CORPORATION  
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**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.

**Earnings per share**

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options and warrants would be used to purchase common shares at the average price during the period. The effect of anti-dilutive options and warrants is not included in the calculation of diluted earnings per share.

**Foreign Currency Translation**

Foreign currency denominated monetary assets and liabilities of Canadian operations and integrated foreign operations are translated into Canadian dollars at the exchange rate prevailing at the year end, and expenses (other than amortization which is translated at rates pertaining to the related assets) are translated at average rates of exchange during the year. Non-monetary assets and liabilities are translated at historical rates of exchange. Exchange gains or losses arising on the translation of the accounts are included in the statement of income and retained earnings.

**Asset Retirement Obligation**

The fair value of a liability for asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long lived assets. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow.

**Financial instruments**

Financial assets and liabilities are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

NEWTON ENERGY CORPORATION  
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**3. RECENT ACCOUNTING PRONOUNCEMENTS**

i) International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As Newton Energy Corporation will be required to report its results in accordance with IFRS starting in 2011, the corporation is currently assessing the impact of these new accounting standards on its financial statements.

ii) Business Combinations

The following standards were issued by the CICA during 2009 and will be effective for the Corporation beginning on January 1, 2011:

Section 1582, Business Combinations will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" and replace the existing Section 1581, Business Combinations. The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. The Company is assessing the impact of these new standards on its consolidated financial statements.

Section 1601, Consolidated Financial Statements establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, Consolidated Financial Statements. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1602, Non-Controlling Interests. The Company is assessing the impact of these new standards on its consolidated financial statements.

Section 1602, Non-controlling Interests establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1601, Consolidated Financial Statements. The Company is assessing the impact of these new standards on its consolidated financial statements.

iii) Goodwill and Intangible Assets

Section 3064, "Goodwill and Intangible Assets" which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. In particular, this section restricts the ability of a company to recognize internal costs as deferred assets. This new standard has an effective date of October 1, 2008. Management is currently considering whether this new standard will have any effect on the Company's consolidated financial statements.

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**4. PROPERTY, PLANT AND EQUIPMENT**

At September 30, 2009, the Company has paid \$45,925 (December 31, 2008- \$24,425) for rental of land licenses which has been capitalized. The commitment to maintain these licenses are discussed in note 10.

**5. SHARE CAPITAL**

**a) Authorized**

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

**b) Issued and Outstanding**

	Shares (#)	Amount (\$)
<b>Balance, December 31, 2008</b>	<b>14,011,261</b>	<b>5,128,419</b>
Issued during the six months ended September 30, 2009	Nil	-
<b>Balance, September 30, 2009</b>	<b>14,011,261</b>	<b>5,128,419</b>

**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.

The number of options, with the weighted average exercise prices, is:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2008	997,250	\$ 0.56
Exercised during the period	-	
Expired during the period	(487,500)	\$ 0.50
Issued during the period	-	
<b>Outstanding, September 30, 2009</b>	<b>509,750</b>	<b>\$ 0.63</b>

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**5. SHARE CAPITAL, Continued**

Options outstanding	Exercise price	Options exercisable at September 30, 2009	Expiry date
121,000	0.50	121,000	30-Nov-2009
61,000	0.50	61,000	23-Jan-2010
171,500	0.50	171,500	19-Mar-2010
20,000	0.50	20,000	18-Apr-2010
136,250	1.00	136,250	24-Jan-2010
<u>509,750</u>	<u>0.63</u>	<u>509,750</u>	

**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 vested on the issue date. The Company has accounted for its employee stock options granted using the fair value method. The fair value of all options granted to March 31, 2009 was estimated to be \$392,578 (\$0.31 per option granted). This value was charged to stock based compensation expense 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%.

On June 4, 2009 the Board of Directors of the Company approved issuance of 120,000 options to new director at exercise price of \$0.20. These options were granted for a period of 5 years and vested on the issue date. The Company has accounted for its employee stock options granted using the fair value method. The fair value of the options granted on June 4, 2009 was estimated to be \$14,482 (\$0.12 per option granted). This value was charged to stock based compensation expense for three months ended June 30, 2009. The estimated fair value, \$0.12 a share was calculated for the options using the Black-Scholes model based on the following assumptions: risk-free interest rate of 0.5%, expected life of 5 years, no annual dividends and expected volatility of 75%.

**e) Contributed surplus**

	September 30 2009	September 30 2008
Balance, January 1	\$ 606,537	\$ 114,559
Options granted to agents	-	99,400
Stock based compensation	14,482	392,578
	<u>\$ 621,019</u>	<u>\$ 606,537</u>

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**6. RELATED PARTY TRANSACTIONS**

During the three months ended September 30, 2009, the Company paid consulting fees in the amount of \$54,000 (2008, \$54,000) to companies controlled by a director and an officer 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.

**7. FINANCIAL INSTRUMENTS**

As at September 30, 2009, 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, 2009 are summarized as follows:

<b>Classification</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Held for trading	\$ 4,043,272	\$ 4,043,272
Other liabilities	42,025	42,025

Financial instruments consist of recorded amounts of cash and marketable securities 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 and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

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 Premium Money Market Funds, Royal Bank of Canada, Bank of Nova Scotia and Bank of Montreal 30 days cashable GIC, for which management believes the risk of loss to be remote. Accounts receivable comprises mostly GST recoverable. As at September 30, 2009, 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, 2009, the Company had an unrestricted cash and short term marketable securities balance of \$4,134,226 to settle accounts payable and accrued liabilities of \$42,025.

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**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. The Company monitors interest rate markets to ensure that appropriate steps can be taken considering interest rate volatility. A 1% reduction in interest rate for the three month ended September 30, 2009 could have reduced Company's interest revenue by approximately \$10,000 (2008 - \$7,500)

**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 the UK. As at September 30, 2009, the Company had \$82,420 in Pound Sterling funds (2008, 40,363) for future expenditure in the UK. For financial reporting purposes, the Pound Sterling is 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, 2009, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

**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 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.

The Company considers shareholders equity as its capital. The Company can access or increase capital through the issuance of its shares or other securities or through bank borrowings.

As at September 30, 2009, the Company has a total capital of \$4,150,797.

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The Company's capital is not subject to external restrictions.

There were no changes in the Company's management of capital during the three months ended September 30, 2009.

**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, 2009	\$ (512,988)	14,011,261	\$ (0.03)
Nine months ended September 30, 2008	\$ (687,345)	8,507,178	\$ (0.08)
Three months ended September 30, 2009	\$ (169,412)	14,011,261	\$ (0.01)
Three months ended September 30, 2008	\$ (152,397)	13,666,653	\$ (0.01)

**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	Firm commitment to 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 <sup>2</sup> and 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 year 6.
PEDL 254	£1,250	Firm commitment to obtain 78 kilometers of seismic data and to drill a well to depth of 800m before the end of year 2.
PEDL 255	£1,250	Drill or drop well to depth of 800m before the end of year 6.