



**NEWTON ENERGY CORPORATION**  
(a development stage company)  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**  
(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.**

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**NEWTON ENERGY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited)

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September 30      December 31  
2010                      2009

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**ASSETS**

CURRENT

Cash and cash equivalents	\$ 3,301,355	\$ 3,895,617
Accounts receivable	15,568	11,823
Prepaid expenses	44,762	36,387

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	3,361,685	3,943,827
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Property, plant and equipment (note 5)	222,952	84,388
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	\$ 3,584,637	\$ 4,028,215
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**LIABILITIES**

CURRENT

Accounts payable and accrued liabilities	\$ 46,690	\$ 74,215
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**SHAREHOLDERS' EQUITY**

SHARE CAPITAL (note 6)	5,128,419	5,128,419
CONTRIBUTED SURPLUS (note 6)	621,019	621,019
DEFICIT	(2,211,493)	(1,795,474)

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	3,537,947	3,953,964
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	\$ 3,584,637	\$ 4,028,215
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**NEWTON ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(unaudited)

	<b>nine months ended 30 September 2010</b>	<b>nine months ended 30 September 2009</b>	<b>Three months ended 30 September 2010</b>	<b>Three months ended 30 September 2009</b>
Revenue	\$			
Office & Administration	150,715	336,506	65,968	115,412
Consulting fees (note 5)	223,112	162,000	87,490	54,000
Stock based compensation(note 4d)	-	14,482	-	
	<b>373,831</b>	<b>512,988</b>	<b>153,459</b>	<b>169,412</b>
Loss before the following item	(373,831)	(512,988)	(153,459)	(169,412)
Other income – interest on short term investments	19,338	43,739	9,309	12,871
Gain ( loss) on exchange	(61,527)	(11,826)	(32,096)	(16,428)
Net and Comprehensive loss	(416,019)	(481,075)	(176,245)	(172,969)
Deficit at the beginning of period	(1,795,474)	(1,117,566)	(2,035,248)	(1,425,672)
Deficit, end of period	(2,211,493)	(1,598,641)	(2,211,493)	(1,598,641)
Earnings per share (note 9)	0.03	0.03	0.01	0.01
Weighted average number of shares outstanding	14,011,261	14,011,261	14,011,261	14,011,261

**NEWTON ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

	nine months ended 30 September 2010	nine months ended 30 September 2009	Three months ended 30 September 2010	Three months ended 30 September 2009
<b>Cash flows provided by (used in) :</b>				
<b>Continuing operations:</b>				
Net loss	\$ (416,019)	(481,076)	(176,245)	(172,969)
Stock based compensation (note 4d)	-	14,482	-	-
	(416,019)	(466,594)	(176,245)	(172,969)
Accounts Receivable	(3,742)	(3,057)	(7,118)	(4,554)
Accounts payable and accrued liabilities	(8,375)	(46,322)	9,379	25,468
Deposits	(27,561)		28,765	
	(455,698)	(515,973)	(145,220)	(152,055)
<b>Financing:</b>				
	-	-	-	-
	-	-	-	-
<b>Investing:</b>				
Exploration Assets	(138,564)	(21,500)-	(61,163)	(21,500)
	(138,564)	(21,500)	(61,163)	(21,500)
Change in cash & marketable securities	(594,262)	(537,437)	(206,383)	(173,555)
Cash & marketable securities beginning of period	3,895,617	4,671,699	3,507,738	4,307,781
<b>Cash &amp; marketable securities end of period</b>	<b>\$ 3,301,355</b>	<b>4,134,226</b>	<b>3,301,355</b>	<b>4,134,226</b>

See accompanying Notes to Financial Statements

NEWTON ENERGY CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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## 1. BASIS OF PRESENTATION

The financial statements of Newton Energy Corporation (“Newton” or the “Company”) for the nine months ended September 30, 2010 and 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, 2009.

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 as this time. The Company has had operating losses of \$416,019 for the nine months ending September 30, 2010 and has sufficient funds to carry its first phase of drilling program. 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 United Kingdom (“UK”). 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. The consolidated financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles.

### **Cash and cash equivalents**

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short term highly liquid instruments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value and have a maturity of 90 days or less at the date of deposit.

NEWTON ENERGY CORPORATION  
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**Exploration assets**

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. Unproved properties are evaluated for impairment on an annual basis.

**Future income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Corporation records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized. To the extent that it is not more likely than not that a future tax asset will be realized, a valuation allowance is provided.

**Stock-based compensation**

The Company accounts for stock options using the fair value method of accounting. Accordingly, the fair value of the options is determined using the Black-Scholes option pricing model. The fair value of options is charged to operations on a straight line basis over the vesting periods in the case of options issued as compensation for activities related to operations and to share issue costs in the case of options issued in relation to share issuances, with an offsetting credit to contributed surplus. If and when the stock options are exercised, the applicable amount of contributed surplus is transferred to share capital.

**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 operations and deficit.

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### 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.

## 3. FUTURE ACCOUNTING CHANGES

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 Company has begun assessing the adoption of IFRS for 2011; the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time

## 4. EXPLORATION ASSETS

At September 30, 2010, the Company has paid \$222,952 (2009- \$84,388) for rental of land licenses and costs related to obtaining surface leases 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 (\$)
Common Shares		
As at December 31, 2009	14,011,261	5,128,419
Share issued during nine months ended 30, September 2010	-	-
<b>Balance, September 30, 2010</b>	<b>14,011,261</b>	<b>5,128,419</b>

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**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 their weighted average exercise prices, are:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding, December 31, 2009	388,750	\$ 0.68
Issued during period	-	-
Expired during period	388,750	0.68
Outstanding, September 30, 2010	Nil	\$ N/A

**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 December 31, 2008 was estimated to be \$392,578 (\$0.31 per option granted). 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 the issuance of 120,000 options at exercise price of \$0.20 to a new director. These options were granted for a period of five years and vested on the issue date. 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%.

As at September 30, 2010 the Company has the following options outstanding:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of 2009	1,250,000	\$ 0.50
Options granted during 2009	120,000	0.20
Outstanding at December 31, 2009	1,370,000	\$ 0.47
Options expired during the period	(50,000)	0.50
Outstanding at September 30, 2010	<b>1,320,000</b>	<b>\$ 0.47</b>

**e) Contributed surplus**

	<b>2010</b>	<b>2009</b>
Balance, beginning of the period	\$ 621,019	606,537
Options granted to agents	-	-
Options granted to directors, officers and consultants	-	-
Balance September 30	<b>\$ 621,019</b>	<b>\$ 606,537</b>

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## 6. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2010, the Company paid consulting fees in the amount of \$196,869 (2009, \$162,000) to companies controlled by a director and an officer of the Company.

The 2010 payments include payment of \$50,000 to the company controlled by a director on cancellation of contract. These transactions are in the normal course of operations and have been valued in these consolidated 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, 2010, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable and accrued liabilities.

Carrying value and fair value of financial assets and liabilities at September 30, 2010 are summarized as follows:

<b>Classification</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 3,301,355	3,301,355
Other liabilities	\$ 46,690	46,690

Financial instruments consist of recorded amounts of cash and cash equivalents, 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

Credit risk is the risk that counterparty to a financial asset will default resulting in the Company incurring a loss. The Company is not exposed to any significant credit risk on its financial assets. Cash and equivalents consisting of, 30 days cashable GIC and money market accounts for which management believes the risk of loss to be remote. Accounts receivable comprises mostly GST recoverable. As at September 30, 2010, the Company had no financial assets that were either past due or impaired.

### b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. 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, 2010, the Company had unrestricted cash and cash equivalents balance of \$3,301,355 to settle accounts payable and accrued liabilities of \$46,690.

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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 nine months ended September 30, 2010 could have reduced Company's interest revenue by \$19,388 to zero respectively (2009 - \$20,000)

**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, 2010, the Company had \$136,150 equivalent to £84,054 (2009, \$82,420 equivalent to £50,383) 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 operations 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) Commodity price risk**

The Company's financial assets and liabilities are not exposed to price risk with respect to commodity prices. During the nine months ended September 30, 2010, 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.

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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, 2010, the Company has a total capital of \$3,537,947 and the Company's capital is not subject to external restrictions.

There were no changes in the Company's management of capital during the nine months ended September 30, 2010.

## 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, 2010	\$ (416,019)	14,011,261	\$ (0.03)
Nine months ended September 30, 2009	\$ (481,075)	14,011,261	\$ (0.03)

## 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 Energy and Climate Change (the "DECC") 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 DECC 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
PEDL204	£2,500	Drill one well to depth of 1,000 m before the end of year six.
PEDL205	£2,500	Complete a geochemical survey across 2.5 km <sup>2</sup> , reprocess 30 kilometers of 2D seismic data in the first three years and a drill or drop well commitment.
PEDL208	£5,000	Firm commitment to obtain 56 kilometres of seismic data and drill a well to depth of 850m before the end of the initial six year term.
PEDL254	£1,250	Firm commitment to obtain 78 kilometres of seismic data and to drill a well to depth of 800m in the first two years. (extended by one year )
PEDL255	£1,250	Drill or drop well to depth of 800m before the end of year six.