



NEWTON ENERGY CORPORATION
(a development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Newton Energy Corporation:

We have audited the accompanying consolidated financial statements of Newton Energy Corporation, which comprise the consolidated balance sheets as at December 31, 2010, and 2009, and the consolidated statement of operations and deficit, and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Newton Energy Corporation as at December 31, 2010 and 2009, and its operations and deficit and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Alberta
April 27, 2011

NEWTON ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31

2010

2009

ASSETS

CURRENT

Cash and cash equivalents (note 4)	\$ 3,092,877	\$ 3,895,617
Accounts Receivable	24,760	11,823
Prepaid Expenses	42,568	36,387
	<u>3,160,205</u>	<u>3,943,827</u>

NON-CURRENT ASSETS

Property, plant and equipment (note 5)	<u>361,711</u>	<u>84,388</u>
	\$ 3,521,916	\$ 4,028,215

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 113,516	\$ 74,251
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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	<u>(2,341,038)</u>	<u>(1,795,474)</u>
	<u>3,408,400</u>	<u>3,953,964</u>
	\$ 3,521,916	\$ 4,028,215

Commitments (Note 11)

Approved on behalf of the Board

Director "Bruce Williams"

Director "Merv Chia"

NEWTON ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Year Ended December 31 2010	Year Ended December 31 2009
Office and administration	\$ 265,115	\$ 446,035
Consulting fees (note 7)	268,850	260,520
Stock based compensation (note 6(d))	-	14,482
	<u>533,965</u>	<u>721,037</u>
Loss before the following items	(533,965)	(721,037)
Other income – interest on short term investments	25,463	56,088
Loss on foreign exchange	(37,063)	(12,959)
Net and Comprehensive loss	<u>(545,564)</u>	<u>(677,908)</u>
Deficit at the beginning of year	(1,795,474)	(1,117,566)
Deficit, end of year	<u>(2,341,038)</u>	<u>(1,795,474)</u>
Loss per share basic and diluted (note 10)	\$ (0.04)	\$ (0.05)
Weighted average number of shares outstanding	14,011,256	14,011,261

NEWTON ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2010	Year Ended December 31 2009
Cash flows provided by (used in) :		
Continuing operations:		
Net loss	\$ (545,564)	\$ (677,908)
Items not affecting cash		
Stock based compensation (note 6(d))	-	14,482
Unrealized foreign exchange loss	3,401	7,503
	<u>(542,163)</u>	<u>(655,923)</u>
Changes in non-cash working capital items		
Accounts receivable	(12,934)	(4,272)
Prepaid Expenses	(6,181)	(34,325)
Accounts payable and accrued liabilities	39,263	(14,906)
	<u>(522,015)</u>	<u>(708,616)</u>
Property, plant and equipment (note 4)	(277,324)	(59,963)
	<u>(277,324)</u>	<u>(59,963)</u>
Foreign exchange loss on cash held in foreign currency	(3,401)	(7,503)
Change in cash and cash equivalents	(802,740)	(776,082)
Cash and cash equivalents beginning of year	3,895,617	4,671,699
Cash and cash equivalents end of year	\$ 3,092,877	\$ 3,895,617

Cash is comprised of cash and cash equivalents as follows:

Cash	153,186	127,876
Cash equivalent	2,939,691	3,767,741
Cash and Cash equivalent	<u>3,092,877</u>	<u>3,895,617</u>

NEWTON ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

1. **BASIS OF PRESENTATION**

The consolidated financial statements of Newton Energy Corporation (“Newton” or the “Company”) for the years ended December 31, 2010 and 2009 are presented in accordance with Canadian generally accepted accounting principles (“GAAP”).

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. To date the Company has not earned significant revenues and is considered to be in the development stage.

2. **SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared using the historical cost basis in accordance with Canadian GAAP. These consolidated 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 consolidated 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.

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

NEWTON ENERGY CORPORATION
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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 consolidated statement of operations and deficit.

Asset Retirement Obligation

The Company recognizes the fair value of the future liability associated with removal, site restoration and reclamation of long lived assets when the assets are put into use. The carrying value of the assets is increased and a corresponding asset retirement obligation is recorded at the fair value of the future liability. The future liability is discounted using the Company's credit adjusted risk free interest rate. The asset recorded is depleted on a unit of production basis over the life of the underlying assets. The liability accretes with the passage of time until the obligation is settled. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

NEWTON ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Accounting Standards Board ("AcSB") ratified a strategic plan to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") by 2011 for public reporting entities. On February 13, 2008 the AcSB confirmed that IFRS will replace Canadian GAAP for public companies beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Newton for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2010 include short-term deposits of \$2,939,691 (December 31, 2009 \$3,767,741) bearing interest at rates at 1.2% per year (December 31, 2009 equivalent rate 0.60%) and are cashable with one day notice.

5. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2010, the Company has paid \$361,711 (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.

6. 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		
Issued and outstanding As at December 31, 2008	14,011,256	5,128,419
Share issued during 2009	-	-
Issued and outstanding As at December 31, 2009	14,011,256	5,128,419
Share issued during 2010	-	-
Balance, December 31, 2010	14,011,256	5,128,419

NEWTON ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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 2.99% to 4.66%, and expected life of 18 to 24 months. These options have all expired.

The number of options outstanding, with their weighted average exercise prices, are:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2009	388,750	\$ 0.68
Issued during the year	-	-
Expired during 2010	(388,750)	0.68
Outstanding, December 31, 2010	Nil	\$ -

d) Stock-Based Compensation

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 December 31, 2009 the Company has the following options outstanding:

	Number of Options	Weighted Average Exercise Price
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 forfeited during 2010	(650,000)	0.50
Options granted during 2010	-	-
Outstanding at December 31, 2010	720,000	\$ 0.45

e) Contributed surplus

	2010	2009
Balance, beginning of year	\$ 621,019	606,537
Options granted to agents	-	-
Options granted to directors, officers and consultants	-	14,482
	\$ 621,019	\$ 621,019

f) Stock Option Plan

The Company's Stock Option Plan, approved on 25th August 2010 Special Annual General Meeting of shareholders, provides for issuance of stock options to directors, officers, employees and consultants. The options can be granted for a maximum length of five years and vesting terms are at the option of directors.

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7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid consulting fees in the amount of \$161,000 (2009, \$216,000) to companies controlled by a former director and an officer of the Company.

The Company also paid a total of \$81,606 (£51,267) (2009 \$9,889) in salaries and benefits and in income tax deductions to a former director and officer in the UK as part of his compensation.

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.

8. FINANCIAL INSTRUMENTS

As at December 31, 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 December 31, 2010 are summarized as follows:

Classification	Carrying Value	Fair Value
Held for trading	\$ 3,092,877	3,092,877
Loans and receivables	\$ 24,760	24,760
Other liabilities	\$ 113,516	113,516

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

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

The Company classifies the fair value of these financial instruments accordingly to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash and cash equivalents are classified under Level 1.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly (i.e. as prices) or indirectly (i.e. derived from prices) as of the reporting date. The Company does not have any financial instruments classified under Level 2.

Level 3 – Valuations in the level are those with inputs for the asset or liability that are not based on observable market data. The Company does not have any financial instruments under Level 3.

NEWTON ENERGY CORPORATION
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December 31, 2010

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 cash equivalents consisting of, money market accounts for which management believes the risk of loss to be remote. Cash is on deposit with a one chartered bank. Accounts receivable comprises mostly GST recoverable. As at December 31, 2010, 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 December 31, 2010, the Company had an unrestricted cash and cash equivalent balance of \$3,092,877 to settle accounts payable and accrued liabilities of \$113,516.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as variables change. These variables include but are not limited to, financing, results of exploration, commodity prices, cost overruns on capital projects and regulations relating to prices, and taxes.

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/increase in interest rate for the year ended December 31, 2010 could have reduced/increased Company's interest revenue by approximately \$25,000 which was all the interest earned (2009 - \$30,000)

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 December 31, 2010, the Company had \$141,835 equivalent to £91,430 (2009, \$114,161 equivalent to £67,479) of cash on deposit for future expenditures 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 monetary 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.

NEWTON ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

iii) Price risk

The Company's financial assets and liabilities are not exposed to price risk with respect to commodity prices. During the year ended December 31, 2010, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

9. 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 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 December 31, 2010, the Company has a total capital of \$3,408,400 (2009, \$3,953,964)

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

There were no changes in the Company's management of capital during the year ended December 31, 2010.

10. 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
Year ended December 31, 2010	\$ (545,564)	14,011,256	\$ (0.04)
Year ended December 31, 2009	\$ (677,908)	14,011,256	\$ (0.05)

Outstanding options were anti-dilutive instruments for the years ended December 31, 2010 and 2009 because the Corporation realized a net loss.

NEWTON ENERGY CORPORATION
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December 31, 2010

11. 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	Date License acquired	Rental per year until 2014	Work commitment
PEDL 204	1-July-08	£2,500	Drill one well to depth of 1,000 m before the end of year 6.
PEDL 205	1-July-08	£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	1-July-08	£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-July-08	£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. Has been extended for one year by DECC.
PEDL 255	1-July-08	£1,250	Drill or drop well to depth of 800m before the end of year 6.

12. FUTURE INCOME TAXES

a) The components of future income tax balances are as follows:

	December 31, 2010	December 31, 2009
Future income tax asset		
Share issue costs	36,661	\$ 70,879
Non-capital losses	660,002	767,849
Capital losses and other items	179,260	208,277
	<u>875,923</u>	<u>1,047,005</u>
Valuation allowance	<u>(875,923)</u>	<u>(1,047,005)</u>
	<u>\$ -</u>	<u>\$ -</u>

NEWTON ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

12. FUTURE INCOME TAXES, Continued

- b) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 25% (2009 – 29%) to the loss for the periods as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Loss for the year before income taxes	\$ (545,564)	\$ (677,908)
Anticipated income tax recovery	(128,767)	(196,593)
Stock based compensation	-	4,200
Share issue cost	(34,218)	(28,352)
Other items	(120,420)	(361)
Loss carry forward increase - CND	88,741	156,820
Loss carry forward expiry – CND	(105,185)	(72,483)
Valuation and foreign losses	299,849	136,769
Provision for income taxes	\$ -	\$ -

The Company has Canadian non-capital losses of \$2,859,575 to reduce future taxable income, which will expire as follows:

2014	\$	362,708
2015		925,801
2026		133,523
2027		140,749
2028		544,215
2029		752,672

The Company has UK non-capital losses of \$430,117 (2009, \$286,344) to reduce future taxable income, which will be carried forward indefinitely, and has no capital losses.

The Company has Canadian capital losses of \$1.39 million to reduce future capital gains.