



NEWTON ENERGY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For three months ended

March 31, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Newton Energy Corporation (“**Newton**” or the “**Company**”) is a junior oil and gas exploration, development and company based in Calgary, Alberta. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com). Newton’s common shares are listed for trading on the Venture Stock Exchange (“**TSXV**”) under the symbol “**NTN**”.

The following Management’s Discussion and Analysis (“**MD&A**”) is dated June 20, 2011. The unaudited condensed interim consolidated financial statements with respect to the three months ended March 31, 2011 (the “**Reporting Period**”) as compared to the three months ended March 31, 2010 (the “**Comparable Prior Period**”) and this MD&A have been prepared by management and approved by the Company’s Audit Committee and Board of Directors. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and related notes for the Reporting Period. All financial information is expressed in Canadian dollars, unless otherwise stated.

### **Adoption of International Financial Reporting Standards (“IFRS”)**

Newton’s financial statements and the financial data included in the interim MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“**IASB**”) and interpretations of the International Financial Reporting Interpretations Committee that are expected to be effective as at December 31, 2011, the date of the Corporation’s first annual reporting under IFRS. The adoption of IFRS does not impact the underlying economics of Newton’s operations.

The IFRS accounting polices set forth in Note 3 of the unaudited condensed interim consolidated financial statements have been applied in preparing the financial statements for the three months ended March 31, 2011 and comparative information as at and for the three months ended March 31, 2010, as at and for the year ended December 31, 2010 and an opening Statement of Financial Position at January 1, 2010. Note 13 to the condensed interim consolidated financial statements contains a detailed description of the Corporation’s adoption of IFRS, including a reconciliation of the financial statements previously prepared under Canadian Generally Accepted Accounting Principles (“**Canadian GAAP**”) to those under IFRS. The most significant impacts of the adoption of IFRS, together with details of IFRS 1 *First-time Adoption of IFRS* exemptions taken, are described in the “Transition to International Financial Reporting Standards” section of this interim MD&A.

Comparative information in this interim MD&A has been restated to comply with IFRS requirements, unless otherwise indicated.

## **Forward-Looking Information**

This discussion offers management's analysis of the financial and operating results of Newton and contains certain forward-looking statements relating, but not limited, to operational information, future drilling plans and the timing associated therewith, estimated commitments, anticipated capital and operating budgets and estimated costs. Forward-looking information typically contains statements with words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. The Company cautions readers and prospective investors in the Company's securities to not place undue reliance on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by Newton.

Forward looking information is based on management's current expectations and assumptions regarding, among other things, plans for and results of drilling activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), future economic conditions, future currency and exchange rates and the Company's continued ability to obtain qualified staff and equipment in a timely and cost efficient manner. In addition, budgets are based upon Newton's current exploration plans and anticipated costs both of which are subject to change based on, among other things, the actual results of drilling activity, unexpected delays and changes in market conditions. Although the Company believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect. Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those anticipated by Newton including, but not limited to, risks associated with the oil and gas industry (e.g. operational risks in exploration; inherent uncertainties in interpreting geological data; changes in plans with respect to exploration or capital expenditures; the uncertainty of estimates and projections in relation to costs and expenses and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations and risk associated with international activity.

See the Risk Factors section of this MD&A for a further description of these risks. The forward-looking information included in this annual report is expressly qualified in its entirety by this cautionary statement. Newton assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law. For additional information relating to the risks and uncertainties facing Newton, see "Risk Factors". Additional information relating to Newton is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Overview**

Newton is a publicly-traded, Calgary-based, international oil and gas company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Onshore UK. Newton holds five licenses which covers 600 square kilometers exploration blocks in the East Midlands Region of the UK. The Corporation believes that the Onshore East Midlands Basin is an overlooked source of diverse prospects and has already identified prospects for the first stage of its drilling program.

## Strategy

Newton's main focus is the exploration and development of its existing licenses and the growth of the company's E&P portfolio through License Round applications, farm-ins and acquisitions. The existing licenses have been re-assessed and the Harlequin prospect has been high graded for drilling in 2011. Several farm-in opportunities are under evaluation and a number of discussions are in progress with a view to finalizing deals before the end of 2011.

## Licenses

In 2008, the Company was 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 of 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 6.
PEDL205	£2,500	Complete a geochemical survey across 2.5 km <sup>2</sup> reprocess 30 km of 2D seismic data in the first 3 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.
PEDL255	£1,250	Drill or drop well to depth of 800m before the end of year 6.

For each drilling site, a Minerals Planning Permission ("MPP") is required from the County authority in which the location resides. A prerequisite for submission of the planning applications are the signing of the surface owner's certificate which requires that a surface lease be in place. The MPP covers most operational issues such as noise, traffic, site operations, visual impact and environmental concerns and typically take two to three months to receive.

The DECC at its discretion may revoke any licenses for non performance during the term of each license. The DECC's approval is required for the drilling and the production of wells on each license and such approvals are subject to safety and "good oilfield practice" reviews. The DECC is responsible to monitor the efficient economic exploitation of the resources covered by the licenses.

There are no explicit health and safety permits required. The DECC approves the Corporation as an "Approved Operator" which is bound by the test of "good practice" and DECC will not issue a

license to anyone that is not an "Approved Operator". The Health and Safety Executive ("HSE") uses a series of guidelines backed by workplace legislation under which the company must acknowledge its awareness of and adherence to the HSE. When operations are to commence, the Corporation must send the HSE a notification via fax a week prior to the date of commencing operations.

A description of the 13th round award and maps can be found at:

[https://www.og.berr.gov.uk/upstream/licensing/onshore\\_13th/index.htm](https://www.og.berr.gov.uk/upstream/licensing/onshore_13th/index.htm).

## Financial Highlights

- As at March 31, 2011, Newton had \$2,863,578 in cash and cash equivalents. This will allow the Corporation to finish the first phase of its drilling program.
- Newton had a net loss of \$133,746 for the three months ended March 31, 2011 (2010, \$133,652). This net loss comprised mostly of office and administration expense costs incurred by the Company.
- As at March 31, 2011 Newton had capitalized expenditure of \$482,799 (2010, \$84,388) as property, plant and equipment. These expenses are rental payments on leases to the UK Government as well as other costs directly related to the licenses.

## FINANCIAL PERFORMANCE

	March 31, 2011 <u>(Unaudited)</u>	December 31, 2010 <u>(Unaudited)</u>	September 30, 2010 <u>(Unaudited)</u>	June 30, 2010 <u>(Unaudited)</u>	March 31, 2010 <u>(Unaudited)</u>	December 31, 2009 <u>(Unaudited)</u>	September 30, 2009 <u>(Unaudited)</u>	June 30, 2009 <u>(Unaudited)</u>
	Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Total Revenues	Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Total Comprehensive Loss for the period	133,746	129,545	176,245	106,122	\$133,652	\$196,833	\$172,696	\$173,856
Loss per share basic and diluted	(0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(0.01)	(\$0.02)	(\$0.01)	(\$0.01)
Total Assets	3,399,394	3,521,916	3,584,637	3,732,119	\$3,865,629	\$4,028,215	\$4,192,822	\$4,340,323
Weighted Average Number of Shares	14,011,256	14,011,256	14,011,256	14,011,256	14,011,256	14,011,256	14,011,256	14,011,256

Newton is currently exploring for crude oil in the East Midlands Region of UK and has no production. The Company's revenue is comprised entirely of interest earned on cash and cash equivalents balances. Capital expenditures and certain general and administrative costs represent Newton's costs associated with its activities for the respective periods.

## Office and Administrative Expenses

For three months ended March 31, 2011 office and administrative expenses were \$89,335 compared to \$45,814 in 2010. The higher office and administration expenses in 2011 are explained in the following breakdown of major cost categories.

	<b>Three Months ended March 31, 2011</b>	<b>Three Months ended March 31, 2010</b>	<b>% Change</b>
Gross office and administration expenses	\$89,335	\$45,814	95%
Capitalized overhead	Nil	Nil	N/A
Net office and administration expenses	\$89,335	\$45,814	95%

#### **Breakdown of major categories office and administrative expenses**

	<b>Three Months ended March 31, 2011</b>	<b>Three Months ended March 31, 2010</b>
Legal & accounting	17,980	5,000
Transfer agent costs	1,680	1,801
Regulatory fees & costs	5,900	5,100
Office and misc exp	6,792	3,776
Telecommunication	250	319
Rent	5,658	10,459
Business Development	26,192	-
UK office	24,883	19,359
Total	<u>89,335</u>	<u>45,814</u>

The major variance between three months ended March 31, 2011 and three months ended March 31, 2010 is expenditure of \$26,192 for Business Development which is the expenses of relocating Board Chairman on a temporary basis to UK as well as higher legal and accounting costs due to conversion to IFRS. Also administration costs of UK office were higher by \$5,524 with increased level of activity in UK.

#### **Consulting Fees**

For three months ended March 31, 2011, consulting fees expenses reduced to \$50,075 from \$70,948 in the corresponding period in 2010 as the new CEO was working part time for part of this period.

#### **Foreign Exchange**

Newton holds most of its cash and cash equivalents in Canadian dollar accounts; however, the Company has certain assets and liabilities in Pound Sterling and converts these to Canadian dollars at the end of each period resulting in foreign exchange gains and losses. For the three months ended March 31, 2011, Newton incurred \$2,979 of foreign exchange losses compared to \$22,235 for the three months ended March 31, 2010 relating to these conversions.

## **Revenue**

Newton's revenue is comprised entirely of interest earned on cash and cash equivalents. Interest of \$8,643 was earned for the three months ended March 31, 2011 compared to \$5,345 for the three months ended March 31, 2010. The increase in interest revenue is due to higher short term interest rates.

## **Net Loss**

For the three months ended March 31, 2011, Newton incurred a net loss of \$133,746 compared to a net loss of \$133,652 for three months ended March 31, 2010.

## **Liquidity and Capital Resources**

Newton is currently exploring for crude oil in the East Midlands Region of the UK and currently has no production or operational cash flows. Newton's revenue is comprised entirely of interest earned on cash and cash equivalent balances. Newton invests its cash and cash equivalents with major Canadian financial institutions with investment grade credit ratings. Newton has no outstanding bank debt or other interest bearing indebtedness as at March 31, 2011.

- At March 31, 2011, Newton had approximately \$2.8 million in cash and cash equivalents. These balances will be used to fund future capital expenditures including: Work commitments under the terms of land licenses; office and administrative expenditures; farm-ins and working capital requirements.
- With exploration success, Newton will require further financial resources to complete an appraisal program and ultimately, if warranted, any development program. Newton assesses its financing requirements and its ability to access debt or equity markets on an ongoing basis. Given the current conditions in the financial markets, Newton will seek to maintain financial flexibility and will monitor and assess its financing requirements as its exploration activities progress. Newton's ability to access the equity or debt markets in the future may be affected by prolonged market instability. The inability to access the equity or debt markets for sufficient capital, at acceptable terms, and within required timeframes, could have a material adverse effect on Newton's financial condition, results of operations and prospects. Further discussion on these risks can be found in the "Risk Factors" section of the MD&A. (see also capital expenditure section page 15)

## **Outstanding Share Data**

As of the date of this MD & A, Newton has the following securities outstanding:

- 14,011,256 common shares;
- 1,210,000 stock options.

Each stock option entitles the holder thereof to acquire one common share. The number of common shares reserved for issuance pursuant to options granted will not exceed 10 percent of

the issued and outstanding common shares. As of the date of this MD & A, total stock options outstanding represents 8.6 percent of the total issued and outstanding common shares.

## **RISK FACTORS**

The oil and gas industry is very competitive and is subject to many risks. Many of these risks are outside of Newton's control. Management has identified certain key risks and their potential impact on Newton's operations. Financial market instability has impacted Newton's ability and that of other exploration and development companies, to access equity or debt markets at all or with acceptable terms. For future capital requirements beyond the Company's current financing capability, which consists of its cash and cash equivalents balances at March 31, 2011, risks associated with the global economic conditions have increased significantly. Other risks are set out below.

### **Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Newton depends on its ability to find, appraise, develop and commercially produce oil and natural gas resources and reserves, which will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire additional producing properties or prospects. No assurance can be given that Newton will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Newton may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by Newton.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In accordance with industry practice, Newton is not fully insured against all of these risks, nor are all such risks insurable. Although Newton will maintain liability insurance in

an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Newton could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas exploration, development and production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on Newton.

### **Ability to Execute Exploration and Development Program**

It may not always be possible for Newton to execute its exploration and development strategies in the manner in which Newton considers optimal. Newton's exploration and development programs involve the need to obtain approvals from the relevant authorities, which may require conditions to be satisfied or the exercise of discretion by the relevant authorities.

### **Project Risks**

Newton's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond Newton's complete control, including:

- the supply of and demand for oil and natural gas;
- the effects of inclement weather;
- the availability of drilling, production and related equipment and supplies, as well as services, all of which may be disrupted for a number of reasons;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labor;
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies in the UK

Because of these factors, Newton could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it may produce.

### **Operational Experience**

The management and directors of Newton have significant international experience in the oil and gas industry; however, given the fact that Newton was incorporated recently in 2006, the team has not, as a group, completed the drilling of a well or developed a conventional oil and gas project. There can be no assurance that any drilling and development operations will be successful.

### **Competition**

The petroleum industry is competitive in all its phases. Newton competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Newton's competitors include oil and natural gas companies

that have substantially greater financial resources, staff and facilities than Newton. Newton's ability to acquire or increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

### **Availability of Drilling Equipment and Access**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and supplies (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment and supplies to Newton and may delay exploration and development activities.

### **Management of Growth**

Newton may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of Newton to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Newton to deal with this growth could have a material adverse impact on its business, operations and prospects.

### **Reliance on Key Personnel**

Newton's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on Newton. Newton does not have any key person insurance in effect for management. The contributions of the existing management team to the immediate and near term operations of Newton are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry can be intense and there can be no assurance that Newton will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Newton.

### **Substantial Capital Requirements**

Newton anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. Newton's results will impact its access to the capital necessary to undertake or complete future drilling and development programs. Newton's ability to access the equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Newton. The inability of Newton to access sufficient capital for its operations could have a material adverse effect on Newton's financial condition, results of operations and prospects.

## **Dilution**

Newton may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Newton which may be dilutive.

## **Issuance of Debt**

From time to time, Newton may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase Newton's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Newton may require additional equity and/or debt financing that may not be available or, if available, may not be available on favorable terms. Neither Newton's articles nor its by-laws limit the amount of indebtedness Newton may incur. The level of Newton's indebtedness from time to time, could impair Newton's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

## **Foreign Exchange**

Newton operations costs will generally incur in Pound Sterling and the funds it will have available to it may be in other currencies. There is a possibility that operations and development costs may increase as a result of currency fluctuation.

## **Insurance and Liability**

Newton's involvement in the exploration for and development of oil and natural gas properties may result in Newton becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although Newton maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, Newton may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Newton. The occurrence of a significant event that Newton is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Newton.

## **Dividends**

To date, Newton has not declared or paid any dividends on the outstanding Newton shares. Any decision to pay dividends on the Newton shares will be made by the board of directors of Newton on the basis of Newton's earnings, financial requirements and other conditions existing at such future time. At present, Newton does not anticipate declaring and paying any dividends in the foreseeable future.

### **Third-Party Credit Risk**

Newton is or may be exposed to third-party credit risk through its contractual arrangements with any potential joint venture partners, marketers of its petroleum and natural gas production, suppliers, contractors, and other parties. In the event such entities fail to meet their contractual obligations to Newton, such failures could have a material adverse effect on Newton and its cash flow from operations.

### **Conflicts of Interest**

Certain directors of Newton are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Business Corporations Act (Alberta).

## **FINANCIAL INSTRUMENTS**

The Corporation considers its risks in relation to financial instruments in the following categories:

### **Credit Risk**

Credit risk is the risk that counterparty to a financial instrument will not discharge its obligations, resulting in a financial loss to the Corporation. The Corporation has policies and procedures in place that govern the credit risk it will assume. We evaluate credit risks on an ongoing basis including an evaluation of counterparty credit rating and counterparty concentrations measured by amount and percentage. The Corporation's objective is to have no credit losses.

The primary sources of credit risk for the Corporation arise from the following financial assets: (1) cash and cash equivalents and (2) accounts receivable. The Corporation has not had any credit losses in the past and the risk of financial loss is considered to be low. As at March 31, 2011, the Corporation has no financial assets that are past due or impaired due to credit risk related defaults.

### **Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet obligations associated with financial liabilities. The Corporation's financial liabilities are comprised of accounts payable and accrued liabilities. The Corporation frequently assesses its liquidity position and obligations under its financial liabilities by preparing regular financial forecasts. The Corporation mitigates liquidity risk by maintaining a sufficient cash balance as well as maintaining sufficient current and projected liquidity to meet expected future payments.

## **Market Risk**

Market risk is the risk that the fair value (for assets or liabilities considered to be held for trading and available for sale) or future cash flows (for assets or liabilities considered to be held-to-maturity, other financial liabilities, and loans and receivables) of a financial instrument will fluctuate because of changes in market prices. The Corporation evaluates market risk on an ongoing basis. At March 31, 2011, all of the Corporation's financial instruments were assessed to have little or no market risk.

The Corporation has cash deposits and cash equivalents with Major Banks in Canada and UK. As at March 31, 2011, the amount in cash and cash equivalents was \$2,863,578 which was held in money market funds as well as balances in chequing accounts.

## **Accounts Receivable**

The Corporation's accounts receivable are amounts due from the Canada Revenue Agency in relation to GST refunds and due from UK Government in relation to VAT refund which are both considered to be risk free as for the credit standing of said Governments.

## **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities are comprised primarily of amounts due in respect of current administrative costs of the Corporation. Payment terms on these amounts are typically 30 days from receipt of invoice and do not bear interest. The Corporation has met its obligations in respect of these liabilities. As at March 31, 2011, accounts payable and accrued liabilities were \$124,737.

## **RELATED PARTY TRANSACTIONS**

To keep maximum flexibility and keep administrative cost to a minimum, the Company does not have any permanent employees and conducts its affair through consulting and short term employment contracts with its executives. Effective June 1, 2008, the Corporation entered into a consulting agreement with 571021 Alberta Corp. ("571021"), a private company owned 50% by Mr. Sadrehashemi, the Chief Financial Officer of the Corporation and 50% by his wife whereby the Corporation has agreed to pay 571021 of \$96,000 annually for consulting services. The 571021 Consulting Agreement provides one month's severance for each six months from the commencement of the agreement.

Effective January 4, 2011 the Corporation entered an employment agreement with Steve Engwall CEO of Newton Energy, Mr. Engwall's remunerations are based on number of days he will spend working for the company and for the three months ended March 31, 2011 his total remuneration was \$26,074.

During the three months ended March 31, 2011, one of the directors was paid \$15,000 in fees for duties related to the UK subsidiary carried out on behalf of the board of directors in UK (2010, \$Nil).

Other than as described herein, the Corporation has not acquired any assets or services or provided any assets or services in any transaction within the twelve months prior to the date of this MD&A with any Non-arm's length party.

### Capital Expenditures

As at June 20, 2011, The Company consolidated working capital is approximately \$2,600,000. The Company anticipates that the available fund will be expensed over the next 12 months substantially as follows.

<u>Principal Purposes</u>	<u>Amount of Funds</u>
Expenditures related to exploration program for next 12 months	
Permits and Site preparation	\$ 300,000
Drilling	\$ 1,000,000
Testing and Completion	\$ <u>250,000</u>
<b>SubTotal</b>	\$ 1,550,000
Expenditures related to general operations and administration	\$ 1,000,000
Contingent Work Program Expenditure	\$ 50,000
<b>Total expenditures</b>	<b>\$ 2,600,000</b>

The Corporation is of the view that expenditure of the funds as indicated above will assist in meeting the stated business objectives. Notwithstanding the proposed users of available funds as discussed above, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. It is difficult at this time to definitively project the total funds necessary to affect the planned activity of the Company. For these reasons, management considers it to be in the best interests of the Company and its shareholders to afford management for a reasonable degree of flexibility as to how the funds are employed among the uses identified above.

## TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

### First-time Adoption of IFRS

Newton's condensed interim consolidated financial statements as at and for the three month period ended March 31, 2011 and comparative financial statements as at and for the three months ended March 31, 2010, as at and for the year ended December 31, 2010 and an opening Statement of Financial Position as at January 1, 2010 (the "**transition date**") have been prepared in accordance with IFRS as issued by the IASB. Previously, the Corporation prepared its annual and interim financial statements in accordance with Canadian GAAP applicable to publically accountable enterprises. Since the condensed interim consolidated financial statements for the

period ended March 31, 2011 represents the Corporation's initial presentation of its results and financial position under IFRS, they have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of IFRS*. IFRS 1 requires the presentation of comparative information as at January 1, 2010 and subsequent comparative periods, as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of IFRS. Newton has elected to apply the following relevant exemptions:

- IFRS 1, *First-time Adoption of IFRS*, whereby Property, Plant and Equipment ("PP&E") balance as determined under the Corporation's previous accounting framework (Canadian GAAP) is allocated to the IFRS categories of exploration and evaluation assets and development and production properties. Under the exemption, for assets in the development and production phases, the amount is allocated to the underlying IFRS transitional assets on a pro-rata basis using proved plus probable reserve volumes as of the IFRS transition date;
- IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, whereby the Corporation has elected to measure decommissioning obligations as at the transition date in accordance with IAS 37 and recognize directly in deficit the difference between that amount and the carrying amount of those liabilities at the date of transition determined under Canadian GAAP.

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS. A summary of the IFRS 1 mandatory and optional exemptions are also described in Note 18 to the condensed interim consolidated financial statements.

### **Significant IFRS Accounting Policies**

The IFRS accounting policies set forth in Note 3 of the condensed interim consolidated financial statements have been applied in preparing the financial statements for the three months ended March 31, 2011 and comparative information as at and for the three months ended March 31, 2010, as at and for the year ended December 31, 2010 and an opening Statement of Financial Position at January 1, 2010. A detailed explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance, and cash flow, including the reconciliations required by IFRS 1, is presented in Note 13 to the condensed interim consolidated financial statements.

The adoption of IFRS does not impact the underlying economics of Newton's operations. The most significant impacts of adoption are from the application of new accounting policies that reset the Corporation's opening financial position at January 1, 2010, and changes in the accounting for PP&E, and income taxes. Newton also adopted certain presentation policies that differ from Canadian GAAP. The following discusses the significant accounting policy and presentation differences under IFRS:

### *Stock-based compensation expenses*

Under Canadian GAAP, the fair value of stock options was calculated using a Black-Scholes option pricing model for each option grant and the resulting expense was recognized on date of the stock option grant. Forfeitures of stock options were recognized as they occurred.

### *Administrative expenses*

Under Canadian GAAP, “capital overhead recoveries” related to estimated time spent on capital projects by engineering, land, accounting and operations and was based on an industry standard overhead charge per Authorization for Expenditure. Stock-based compensation was not capitalized under Canadian GAAP. Under IFRS, capital overhead recoveries include a portion of salaries and benefits that are directly attributable to the exploration and development of the Corporation’s assets. This varies in some respects from the amounts recorded under Canadian GAAP.

### *Reclassifications*

Under Canadian GAAP, interest expense, financing charges and accretion were disclosed as separate line items in profit or loss. Under IFRS, these amounts were unchanged, but reported as finance expenses. Interest paid is disclosed separately as an operating item in the Condensed Statements of Cash Flows.

Under Canadian GAAP, G&A expenses (cash) and non-cash stock-based compensation expenses were disclosed as separate line items in profit or loss. Under IFRS, these items were grouped and reported as administrative expenses.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following are the critical judgments and estimations that management has made in the process of applying the Corporation’s IFRS accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

### *Reserves*

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and

quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Newton's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if probability is supported by either production or conclusive formation tests. Newton's oil and gas reserves are determined pursuant to National Instrument 51-101, *Standard of Disclosures for Oil and Gas Activities*.

#### *Stock-based compensation*

All share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of share-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

#### *Impairment of assets*

The impairment testing of PP&E is based on estimates of proved plus probable reserves, production rates, forecasted petroleum and natural gas prices, future costs and other relevant assumptions. Newton's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Corporation's assets in future periods.