



**NEWTON ENERGY CORPORATION**  
(a development stage Corporation)

**CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS**

**June 30, 2011**

**(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****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at (unaudited)	June 30, 2011	December 31, 2010
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (note 4)	2,565,898	3,092,877
Accounts Receivable	27,658	24,760
Deposits and prepaid expenses	39,798	42,568
<b>Total current assets</b>	<b>2,633,354</b>	<b>3,160,205</b>
<b>NON-CURRENT ASSETS</b>		
Exploration and evaluation (note 5)	538,440	361,711
<b>Total non-current assets</b>	<b>538,440</b>	<b>361,711</b>
<b>TOTAL ASSETS</b>	<b>3,171,794</b>	<b>3,521,916</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITY</b>		
Accounts payable and accrued liabilities	57,594	113,516
<b>TOTAL LIABILITIES</b>	<b>57,594</b>	<b>113,516</b>
<b>EQUITY</b>		
Share Capital (note 6)	5,128,419	5,128,419
Contributed surplus (note 6)	665,804	621,019
Translation reserve	(92,923)	(65,229)
Deficit	(2,587,100)	(2,275,809)
<b>TOTAL EQUITY</b>	<b>3,114,200</b>	<b>3,408,400</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,171,794</b>	<b>3,521,916</b>

Commitments (note 11)

## NEWTON ENERGY CORPORATION

### CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)	Six Months Ended June 30, 2011	Six Months Ended June 30 2010	Three Months Ended June 30, 2011	Three Months Ended June 30 2010
	\$	\$	\$	\$
Office and administration	170,001	84,750	80,667	38,936
Consulting fees (note 7)	115,869	135,622	65,794	64,674
Stock based compensation (note 6)	44,785	-	44,785	-
	330,655	220,372	191,246	103,610
Loss before the following items	(330,655)	(220,372)	(191,246)	(103,610)
Other income – interest on short term investments	19,364	10,029	10,721	4,684
Net loss for the period	(311,291)	(210,343)	(180,525)	(98,926)
Other comprehensive loss				
Loss on translation of foreign operation	(27,694)	(29,431)	(24,715)	(7,196)
Total comprehensive loss for the period	(338,985)	(239,774)	(205,740)	(106,122)
Loss per share basic and diluted (note 10)	(0.02)	(0.02)	(0.01)	(0.01)
Weighted average number of shares outstanding	14,011,256	14,011,256	14,011,256	14,011,256

**NEWTON ENERGY CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited)	Number of Common Shares	Share Capital	Contributed Surplus	Translation Reserve	Deficit	Total Equity
		\$	\$	\$	\$	\$
Balance, January 1, 2010	14,011,256	5,128,419	621,019	(18,404)	(1,777,070)	3,953,964
Net loss for the period	-	-	-	-	(210,343)	(210,343)
Other comprehensive loss for the period	-	-	-	(29,431)	-	(29,431)
<b>Balance, June 30, 2010</b>	<b>14,011,256</b>	<b>5,128,419</b>	<b>621,019</b>	<b>(47,835)</b>	<b>(1,987,413)</b>	<b>3,714,190</b>
Balance, December 31, 2010	14,011,256	5,128,419	621,019	(65,229)	(2,275,809)	3,408,400
Net loss for the period	-	-	-	-	(311,291)	(311,291)
Stock based compensation	-	-	44,785			44,785
Other comprehensive loss for the period	-	-	-	(27,694)	-	(27,694)
<b>Balance, June 30, 2011</b>	<b>14,011,256</b>	<b>5,128,419</b>	<b>665,804</b>	<b>(92,923)</b>	<b>(2,587,100)</b>	<b>3,114,200</b>

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**NEWTON ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

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(unaudited)	<b>Six Months Ended June 30, 2011</b>	<b>Six Months Ended June 30, 2010</b>
Cash flows provided by (used in) :	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(311,291)	(210,343)
Stock based compensation	44,785	-
Changes in non-cash working capital items		
Accounts receivable	(2,898)	3,376
Deposits and prepaid expenses	2,770	(17,754)
Accounts payable and accrued liabilities	(55,922)	(56,325)
Non-cash foreign exchange movements	(6,982)	(33,640)
<b>Cash used in operations</b>	<b>(329,538)</b>	<b>(314,686)</b>
<b>INVESTING ACTIVITY</b>		
Exploration and evaluation expenditures (note 5)	(197,414)	(77,401)
<b>Cash used in investing activity</b>	<b>(197,414)</b>	<b>(77,401)</b>
<b>Change in cash and cash equivalents</b>	<b>(526,952)</b>	<b>(392,087)</b>
Foreign exchange gain (loss) on cash held in foreign currency	(27)	4,209
Cash and cash equivalents, beginning of period	3,092,877	3,895,617
<b>Cash and cash equivalents, end of period</b>	<b>2,565,898</b>	<b>3,507,739</b>

Cash is comprised of cash and cash equivalents as follows:

Cash	136,063	151,072
Cash equivalents	2,429,835	3,356,667
<b>Cash and Cash equivalents (Note 4)</b>	<b>2,565,898</b>	<b>3,507,739</b>

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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#### 1. NATURE OF OPERATIONS

Newton Energy Corporation (“**Newton**” or the “**Corporation**”) is domiciled and incorporated in Canada. Newton is engaged in the exploration for and the development, production of, petroleum and natural gas reserves in the United Kingdom. The Corporation’s financial year end is December 31. The address of the Corporation’s registered office is 200, 638 – 11th Avenue SW, Calgary, Alberta, Canada T2R 0E2. Newton trades on the Toronto Venture Exchange under the symbol “NTN”.

These condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 23, 2011.

#### 2. BASIS OF PREPARATION

In conjunction with the Corporation’s annual audited financial statements to be issued under International Financial Reporting Standards (“**IFRS**”) for the year ended December 31, 2011, these condensed consolidated financial statements present Newton’s initial financial results of operations and financial position under IFRS as at and for the three and six months ended June 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with International Accounting Standard (“**IAS**”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“**IASB**”). These condensed consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Corporation prepared its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles (“**Canadian GAAP**”).

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of measurement**

These condensed consolidated financial statements have been prepared using IFRS. The condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities to estimated fair value. The condensed consolidated financial statements have been prepared on the basis that the Corporation will operate as going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These condensed consolidated financial statements have, in management’s opinion, been properly prepared within the framework of the accounting policies summarized below:

##### **Functional and presentation currency**

These condensed consolidated financial statements have been prepared in Canadian dollars (“\$”) which is the Corporation’s functional currency. Newton Energy UK Ltd. Which is 100% owned by the Corporation uses Pound Sterling as its functional currency.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Use of estimates

The preparation of financial statements in conformity with IFRS 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:

- a) Valuation of intangible exploration evaluation assets (Note 5)
- b) Valuation of stock based compensation (Note 6)
- c) Valuation of financial instruments (Note 8)
- d) Valuation of commitments (Note 11)

#### Consolidation

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

#### 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.

#### Exploration and evaluation

Pre-exploration costs are recognized as an expense in the period incurred. Pre-exploration activities are expenditures incurred prior to obtaining the legal rights or licenses to explore a mineral resource.

Intangible exploration and evaluation expenditures are capitalized and may include costs of license acquisition, geological and geophysical evaluations, technical studies, exploration drilling and testing and other directly attributable costs. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the exploration asset. The costs are accumulated by exploration area pending determination of technical feasibility and commercial viability

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is considered to be determinable when economical quantities of reserves are determined to exist.

A review of each exploration project by area is carried out at each reporting date to ascertain whether reserves have been discovered. Upon determination of commercial reserves, associated exploration costs are transferred from exploration and evaluation to developing and producing petroleum and natural gas properties and equipment. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluation are not amortized.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deferred tax

Deferred tax is recognized on differences between the carrying amount of assets and liabilities in the condensed consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

#### Fair value of stock-based compensation

The Corporation 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 in a manner to reflect the number of awards for which the related services are expected to be met, including 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 per share information is computed using the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of “in-the-money” stock options plus the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to basic earnings per share is made if the result of these calculations is anti-dilutive.

#### Foreign currency translation

The condensed consolidated financial statements are prepared in Canadian dollars, which is currently the Corporation’s functional and reporting currency.

Transactions denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. At each period end date, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate prevailing on the period end date. All differences are recognized in net loss. Non-monetary assets and liabilities and transactions denominated in a foreign currency and measured at historical costs are translated at the exchange rates in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets and liabilities of subsidiaries having a functional currency other than Canadian dollar are translated at the rate of exchange at the statement of financial position date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI").

#### **Asset retirement obligation**

The Corporation 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 a 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.

#### **Financial instruments**

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Corporation has made the following classifications:

- Cash and cash equivalents are classified as financial assets at fair value through profit or loss.
- Accounts receivable and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short term to maturity.
- Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost using the effective interest method. Due to the short term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values.

#### **Impairment**

##### ***Impairment of financial assets***

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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## NEWTON ENERGY CORPORATION

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

##### *Impairment of non-financial assets*

The Corporation's petroleum and natural gas properties and equipment are grouped into Cash Generating Units ("CGU") for the purpose of assessing impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets.

CGU's are reviewed at each reporting date for indicators of potential impairment. Such indicators may include changes in the Corporation's business plan, deterioration in commodity prices, significant downward revisions of estimated recoverable reserve volumes or increases in estimated future development expenditures. If such indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less cost to sell and its current value in use. Any excess of carrying value over recoverable amount is recognized in profit or loss as impairment loss.

In assessing the value in use, the estimated future cash flows from proved and probable reserves are discounted to their present value using a discount rate that reflects the current market assessment of the time value of money. In assessing fair value less cost to sell, the estimated future cash flows expected to be derived from production of proved and probable reserves are discounted to their present value. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The discount rate is determined using a calculated industry weighted average cost of capital adjusted for risks specific to the Corporation's assets. The petroleum and natural gas future prices used in the impairment test are based on period-end escalated commodity price forecasts estimated by the Corporation's independent reserves evaluators and are adjusted for petroleum and natural gas differentials, transportation and marketing costs specific to the Corporation.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability of a development area, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGU's.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Critical accounting judgments and key sources of estimation uncertainty

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of 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.

In determining stock based compensation expense the Company uses the Black-Scholes pricing model, which requires a variety of assumptions. The risk-free interest rate is the weighted average Government of Canada five year bond rates on the date of grant. Expected volatility is that of two peer companies Newton monitors due to insufficient historical data with respect to its own share price. Newton has, to date, not paid dividends, nor does it anticipate paying dividends and due to its limited operating history has a zero forfeiture rate.

#### Application of new and revised IFRSs issued but not yet effective

Certain new accounting standards and interpretations issued but not yet effective include;

- IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments was published in October 2010. Phase 1 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 is required to be adopted for years beginning on or after January 1, 2013, although earlier adoption is allowed. The adoption of this standard is not expected to have a material impact on the Corporation's condensed consolidated financial statements.
- IFRS 7 *Financial Instruments* includes amendments issued by the IASB on *Disclosures – Transfers of Financial Assets* that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. Early application of the amendments is permitted. The adoption of this standard is not expected to have a material impact on the Corporation's condensed consolidated financial statements.

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2011 include short-term deposits of \$2,429,835 (June 30, 2010 \$3,356,667; December 31, 2010 \$2,939,691) bearing interest at rates at 1.2% per year (June 30, 2010 equivalent rate 0.60%) and are cashable with one day notice.

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**NEWTON ENERGY CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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**5. EXPLORATION AND EVALUATION ASSETS**

The components of the Corporation's Exploration and Evaluation ("E&E") assets are as follows:

	E&E <sup>(1)(2)</sup>
	\$
Balance, January 1, 2010	84,388
Additions	277,323
Balance, December 31, 2010	361,711
Additions	197,414
Effect of foreign exchange translation	(20,685)
Balance, June 30, 2011	538,440

- 1) Exploration and evaluation activities are pending the determination of economic quantities of commercially producible reserves. There were no costs reclassified from exploration and evaluation to petroleum and natural gas properties and equipment during the periods ended June 30, 2011 and December 31, 2010.
- 2) At the end of each reporting period, the Corporation performs an impairment review of its exploration and evaluation assets to ensure that the carrying values of those assets are recoverable. The Corporation's exploration and evaluation assets were not impaired.

**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 January 1, 2010	14,011,256	5,128,419
Share issued during Period	-	-
Issued and outstanding as at June 30, 2010	14,011,256	5,128,419
Share issued during other quarters of 2010	-	-
Balance, December 31, 2010	14,011,256	5,128,419
Share issued during the period	-	-
Issued and outstanding as at June 30, 2011	14,011,256	5,128,419

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**NEWTON ENERGY CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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**6. SHARE CAPITAL** (continued)**c) Agent options**

The Corporation 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 unexercised.

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

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
		\$
Outstanding, January 1, 2010	388,750	0.68
Expired during the period	(388,750)	0.68
Outstanding, June 30, 2010	Nil	-
Balance December 31, 2010		-
Activity for the period	Nil	-
Outstanding, June 30, 2011	Nil	-

**d) Stock-based compensation**

During the period, the Board of Directors of the Corporation approved the issuance of 520,000 options at exercise price of \$0.23 to directors, officers and consultants. These options were granted for a period of five years and vested on the issue date. The estimated fair value, \$0.145 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, expected volatility of 75% and due to its limited operating history has yet to develop a meaningful forfeiture rate.

As at June 30, 2011 the Corporation has the following options outstanding:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
		\$
Balance, January 1, 2010	1,370,000	0.47
Options forfeited during 2010	(650,000)	0.50
Outstanding at December 31, 2010	720,000	0.45
Options granted during the period	520,000	0.23
Options exercised or expired	-	-
Outstanding at June 30, 2011	1,240,000	0.36

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the three and six months periods ended June 30, 2011 and 2010 (unaudited)

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#### 6. SHARE CAPITAL (continued)

##### e) Contributed surplus

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Balance, beginning of period	\$621,019	\$621,019
Options granted to directors, officers and consultants	44,785	-
Balance, end of period	<b>\$665,804</b>	<b>\$621,019</b>

##### f) Stock option plan

The Corporation's Stock Option Plan, approved on 25<sup>th</sup> August 2010 at a 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 the Board of Directors.

#### 7. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2011, the Corporation paid consulting fees in the amount of \$48,000 (June 30, 2010 \$113,872) to companies controlled by a former director and an officer of the Corporation. For the three months ended June 30, 2011 \$24,000 (three months to June 30, 2010 \$55,050)

During the six months ended June 30, 2011 the Corporation also paid a total of \$67,869 (£42,972) (2010 \$Nil) in salaries and benefits to an officer and director in the UK as compensation. For the three months ended June 30, 2011 \$41,795 (£26,472) (2010 Nil)

During the six months ended June 30, 2011, one of the directors was paid \$30,000 in fees for duties related to the UK subsidiary carried out on behalf of the board of directors in UK (2010 \$Nil). For the three months ended June 30, 2011 \$15,000 (2010 Nil)

#### 8. FINANCIAL INSTRUMENTS

As at June 30, 2011, the Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities.

Carrying value and fair value of financial assets and liabilities at June 30, 2011 are summarized as follows:

<b>Classification</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	\$	\$
Held for trading	2,565,898	2,565,898
Loans and receivables	65,528	65,528
Other liabilities	57,594	57,594

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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#### 8. FINANCIAL INSTRUMENTS (continued)

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

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

The Corporation 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 Corporation 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 Corporation does not have any financial instruments under Level 3.

The Corporation has exposure to the following risks:

**a) Credit risk**

The Corporation is not exposed to any significant credit risk on its financial assets. Cash and cash equivalents include 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 June 30, 2011, the Corporation had no financial assets that were either past due or impaired.

**b) Liquidity risk**

The Corporation's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at June 30, 2011, the Corporation had an unrestricted cash and cash equivalents balance of \$2,565,898 to settle accounts payable and accrued liabilities of \$57,594.

The Corporation's operating cash requirements including amounts projected to complete the Corporation'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.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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#### 8. FINANCIAL INSTRUMENTS (continued)

##### c) Market risk

###### i) Interest rate risk

The Corporation has cash balances and non-interest bearing obligations. The Corporation manages its exposure to interest rate risk through fixed rate investments with no early withdrawal penalties. It is the Corporation'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 Corporation 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 six month period ended June 30, 2011 could have reduced/increased Corporation's interest revenue by approximately \$14,000 (2010 - \$10,029)

###### ii) Foreign currency risk

The Corporation's functional and reporting currency is the Canadian dollar as most major expenditures and costs are made from Canada for the advancement of the Corporation's exploration projects located in the UK. As at June 30, 2011, the Corporation had \$130,867 equivalent to £84,469 (2010, \$74,968 equivalent to £47,292) of cash on deposit for future expenditures in the UK. The Corporation does not hedge foreign currency transactions. Management believes the foreign currency exchange risk derived from currency conversion to be negligible at this time.

###### iii) Price risk

The Corporation's financial assets and liabilities are not exposed to price risk with respect to commodity prices. During the three months ended June 30, 2011, there were no changes to the Corporation's risk exposure or to the Corporation's policies for risk management.

#### 9. CAPITAL MANAGEMENT

The Corporation manages its capital structure and makes adjustments to it, based on the funds available to the Corporation in order to support the exploration and development of its leases and to maintain the Corporation 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 Corporation's management to sustain future development of the Corporation. The Corporation has no debt and is not subject to externally imposed capital requirements.

The Corporation can access or increase capital through the issuance of its shares or other securities or through bank borrowings.

As at June 30, 2011, the Corporation has a total capital of \$3,144,200 (December 31, 2010, \$3,408,400).

The Corporation's capital is not subject to external capital restrictions. There were no changes in the Corporation's management of capital during the six months ended June 30, 2011.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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#### 10. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. 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
	\$		\$
Six months ended June 30, 2011	(311,291)	14,011,256	(0.02)
Six months ended June 30, 2010	(210,343)	14,011,256	(0.02)
Three months ended June 30, 2011	(180,525)	14,011,256	(0.01)
Three months ended June 30, 2010	(98,926)	14,011,256	(0.01)

Outstanding options were anti-dilutive instruments for the three and six months ended June 30, 2011 and 2010 because the Corporation realized a net loss.

#### 11. COMMITMENTS

The Corporation 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 Corporation'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 Corporation 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.

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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#### 11. COMMITMENTS (continued)

If production extends past this period, the BERR may extend the licenses. The Corporation can relinquish its licenses at any time without financial penalty. Work and rental commitments are as follows:

<b>License</b>	<b>Date License acquired</b>	<b>Rental per year until 2014</b>	<b>Work commitment</b>
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 square km's reprocess 30 km of 2D seismic data in the first 3 years and a drill or drop well commitment. Refer to note13.
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 the Department of Energy and Climate Change. As Newton is planning to spud a well on this license conditions have been met and license is extended.
PEDL 255	1-July-08	£1,250	Drill or drop well to depth of 800m before the end of year 6.

#### 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IFRS accounting policies set forth in Note 3 have been applied in preparing the condensed consolidated financial statements as at June 30, 2011 and for the three and six month periods ended June 30, 2011, and comparative statement of comprehensive income for the three and six month periods ended June 30, 2010, the statement of financial position as at a December 31, 2010. In preparing the 2010 comparative financial statements, the Corporation adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

IFRS 1, *First-time Adoption of IFRS*, requires the presentation of comparative information as at the transition date and subsequent 2010 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 mandatory and optional exemptions for first-time adopters to avoid the retrospective application of certain IFRSs as discussed below.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and financial performance is illustrated in the following reconciliations.

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**NEWTON ENERGY CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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**Reconciliation of the statement of financial position and changes in equity from Canadian GAAP to IFRS:****As at June 30, 2010**

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	Canadian GAAP	Effect of Transition to IFRS	IFRS
	\$	\$	\$
<hr/>			
<b><i>Assets</i></b>			
Current assets			
Cash and cash equivalents	3,507,738	-	3,507,738
Accounts receivable	8,450	-	8,450
Deposits and prepaid expenses	54,142	-	54,142
	<hr/>	<hr/>	<hr/>
	3,570,330	-	3,570,330
Non-current assets			
Property plant and equipment	161,789	(161,789)	-
Exploration and evaluation	-	161,789	161,789
	<hr/>	<hr/>	<hr/>
	161,789	-	161,789
<b>Total assets</b>	<hr/>	<hr/>	<hr/>
	<b>3,732,119</b>	<b>-</b>	<b>3,732,119</b>
<hr/>			
<b><i>Liabilities and equity</i></b>			
Current liabilities			
Accounts payable and accrued liabilities	17,929	-	17,929
<b>Total liabilities</b>	<hr/>	<hr/>	<hr/>
	17,929	-	17,929
Equity			
Share capital	5,128,419	-	5,128,419
Contributed surplus	621,019	-	621,019
Translation reserve	-	(47,835)	(47,835)
Deficit	(2,035,248)	47,835	(1,987,413)
	<hr/>	<hr/>	<hr/>
<b>Total equity</b>	3,714,190	-	3,714,190
<b>Total liabilities and equity</b>	<hr/>	<hr/>	<hr/>
	<b>3,732,119</b>	<b>-</b>	<b>3,732,119</b>

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**NEWTON ENERGY CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the three and six months periods ended June 30, 2011 and 2010  
(unaudited)

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**Reconciliation of the income statement for the six months ended June 30, 2010**

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	Canadian GAAP	Effect of Transition to IFRS	IFRS
	\$	\$	\$
Office and administration	(84,750)	-	(84,750)
Consulting fees	(135,622)	-	(135,622)
Loss before following items	(220,372)	-	(220,372)
Foreign exchange loss	(29,431)	29,431	-
Other income – Interest on short term investments	10,029	-	10,029
<b>Net loss for the period</b>	<b>(239,774)</b>	<b>29,431</b>	<b>(210,343)</b>
Other comprehensive loss			
Loss on translation of foreign operation	-	(29,431)	(29,431)
<b>Total comprehensive loss for the period</b>	<b>(239,774)</b>	<b>-</b>	<b>(239,774)</b>

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**Reconciliation of the income statement for the three months ended June 30, 2010**

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	Canadian GAAP	Effect of Transition to IFRS	IFRS
	\$	\$	\$
Office and administration	(38,936)	-	(38,936)
Consulting fees	(64,674)	-	(64,674)
Loss before following items	(103,610)	-	(103,610)
Foreign exchange loss	(7,196)	7,196	-
Other income – Interest on short term investments	4,684	-	4,684
<b>Net loss for the period</b>	<b>(106,122)</b>	<b>7,196</b>	<b>(98,926)</b>
Other comprehensive loss			
Loss on translation of foreign operation	-	(7,196)	(7,196)
<b>Total comprehensive loss for the period</b>	<b>(106,122)</b>	<b>-</b>	<b>(106,122)</b>

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## NEWTON ENERGY CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months periods ended June 30, 2011 and 2010  
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#### **12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

##### **IFRS 1-Cumulative translation differences**

Under Canadian GAAP, the accounts of the Corporation's integrated operations in foreign subsidiaries were translated into Canadian dollars using the temporal method whereby exchange gains and losses on translation of foreign subsidiaries were included in the statement of operations in the current period. However, under IFRS, the resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Assets and liabilities of the Corporation's UK subsidiary having a functional currency in pounds sterling are translated into the presentation currency at the rate of exchange at the date of the statement of financial position. Revenues and expenses are translated at the average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used.

##### **13. SUBSEQUENT EVENTS**

On August 10, 2011 the Corporation informed the British Department of Energy and Climate Change ("DECC") that the Corporation will be relinquishing the license for PEDL 205. Relinquishing this license will result in a reduction of \$26,398 (£17,039) in exploration and evaluation assets of the Corporation and a similar increase in losses in the third quarter.