



NEWTON ENERGY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For three months ended

June 30, 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 August 23, 2011. The unaudited interim condensed financial statements with respect to the six months ended June 30, 2011 (the “**Reporting Period**”) as compared to the six months ended June 30, 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 interim condensed 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 policies set forth in Note 3 of the unaudited interim condensed financial statements have been applied in preparing the financial statements for the six months ended June 30, 2011 and comparative information as at and for the six months ended June 30, 2010, as at and for the year ended December 31, 2010. Note 12 to the interim condensed 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 operating company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Onshore UK. Newton holds five licenses which cover 600 square kilometers of exploration acreage in the East Midland Region of UK.

The company expects to spud its first well on this acreage before the end of 2011.

## **License Activity**

The Company was awarded five exploration licenses in 2008: 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.

Several prospects had been identified on this acreage at the time of license award and the focus of analysis in the first six months of 2011 has been to high-grade some of these prospects for exploration drilling. The first of these wells will be the Harlequin prospect on PEDL254 and preparatory works on the Harlequin wellsite are expected to commence before the end of August. The well will target a bottom-hole location very close to the original Harlequin-1 well drilled in 1953, where extensive oil shows were encountered.

### License Obligations

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. The Company has decided to drop this PDEL and has started the proceedings to relinquish this license on August 10, 2011.
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 Corporation is currently in negotiations to obtain surface lease rights for identified drilling sites.

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 BERR 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 13<sup>th</sup> 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).

## Future Strategy

The Newton management team'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 company wishes to extend its portfolio into other areas of the onshore UK and into onshore Europe, where a broad range of exploration, appraisal and re-development opportunities exist.

## Financial Highlights

- As at June 30, 2011, Newton had \$2,565,898 in cash and cash equivalents. This will allow it to finish the first phase of its drilling program.
- Newton had a net loss of \$338,985 for the six months ended June 30, 2011 (2010, \$239,774). This net loss comprised mostly of office and administration expense costs incurred by the Company.
- As at June 30, 2011 Newton had capitalized expenditure of \$538,440 (2010, \$361,711) as exploration and evaluation assets. These expenses are rental payments on leases to the UK Government as well as other costs directly related to the licenses.

## FINANCIAL PERFORMANCE

	June 30, 2011 <u>(Unaudited)</u>	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>
Total Revenues	Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Net and								
Comprehensive Loss	\$205,740	\$133,746	\$129,545	\$176,245	\$106,122	\$133,652	\$196,833	\$172,696
Net Income (loss) per share	(0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Total Assets	\$3,171,794	\$3,399,394	\$3,521,916	\$3,584,637	\$3,732,119	\$3,865,629	\$4,028,215	\$4,192,822
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 Midland 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 six months ended June 30, 2011 office and administrative expenses were 170,001 compared to \$84,750 in 2010. The higher office and administration expenses in 2011 are explained in the following breakdown of major cost categories.

	<u>Six Months ended June 30, 2011</u>	<u>Six Months ended June 30, 2010</u>	<u>% Change</u>
Gross office and administration expenses	170,001	84,750	100%
Capitalized overhead	Nil	Nil	N/A
Net office and administration expenses	170,001	84,750	100%

## Breakdown of major categories office and administrative expenses

	<u>Six Months ended June 30, 2011</u>	<u>Six Months ended June 30, 2010</u>
Legal & accounting	26,730	1,298
Transfer agent costs	2,912	2,926
Regulatory fees & costs	8,395	7,595
Office and misc exp	14,141	13,277
Telecommunication	574	844
Rent	13,289	15,734
Business Development	58,053	-
UK office	45,907	43,076
Total	<u>170,001</u>	<u>84,750</u>

The major variance between six months ended June 30, 2011 and six months ended June 30, 2010 is expenditure of \$58,053 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.

## Consulting Fees

For six months ended June 30, 2011, consulting fees expenses reduced to \$115,869 from \$135,622 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 six months ended June 30, 2011, Newton incurred \$27,694 of foreign exchange losses compared to \$29,431 for the six months ended June 30, 2010 relating to these conversions.

## **Revenue**

Newton' revenue is comprised entirely of interest earned on cash and cash equivalents. Interest of \$19,364 was earned for the six months ended June 30, 2011 compared to \$10,029 for the six months ended June 30, 2010. The increase in interest revenue is due higher short term interest rates.

## **Net Loss**

For the six months ended June 30, 2011, Newton incurred a net loss of \$311,291 compared to a net loss of \$180,525 for six months ended June 30, 2010.

## **Liquidity and Capital Resources**

Newton is currently exploring for crude oil in the East Midland Region of UK and currently has no production or operational cash flows. Newton' 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 June 30, 2011.

- At June 30, 2011, Newton had approximately \$2.5 million in cash and cash equivalents. These balances will be used to fund future capital expenditures including: the minimum work commitments under the terms of land licenses; office and administrative expenditures; 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' 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' 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 14)

## **Outstanding Share Data**

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

- 14,011,256 common shares;
- 1,240,000 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 8.9 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' control. Management has identified certain key risks and their potential impact on Newton' operations. Financial market instability has impacted Newton' 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 June 30, 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' 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' ability to execute projects and market oil and natural gas will depend upon numerous factors beyond Newton' 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 labour;
- 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' competitors include oil and natural gas companies that

have substantially greater financial resources, staff and facilities than Newton. Newton' 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' 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' results will impact its access to the capital necessary to undertake or complete future drilling and development programs. Newton' 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' 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' 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 favourable terms. Neither Newton' articles nor its by-laws limit the amount of indebtedness Newton may incur. The level of Newton' indebtedness from time to time, could impair Newton' 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' 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' 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 June 30, 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 June 30, 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 June 30, 2011, the amount in cash and cash equivalents was \$2,565,898 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 June 30, 2011, accounts payable and accrued liabilities were \$57,594.

## **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 to 571021 \$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 remuneration is based on the number of days he will spend working for the company and for the six months ended 30<sup>th</sup> June, 2011 his total remuneration was \$67,869

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 August 23, 2011, The Company consolidated working capital is approximately \$2,350,000. The Company anticipates that the available fund will be expensed over the next 12 months substantially as follows:

<b>Principal Purposes</b>	<b>Amount of Funds</b>
<hr/>	
Expenditures related to exploration program for next 12 months	
Permits and Site preparation	\$300,000
Drilling	\$1,300,000
<b>Sub-Total</b>	<hr/> <b>\$1,600,000</b>
Expenditures related general operation and administration	\$400,000
Contingency	\$350,000
<b>Total</b>	<hr/> <b>\$2,350,000</b>

The Corporation is of the view that expenditure of the funds as indicated above would assist in meeting the stated business objectives. Notwithstanding the proposed uses 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 effect 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 a reasonable degree of flexibility as to how the funds are employed among the uses identified above.