

**NEWPORT EXPLORATION LTD.**

**INTERIM FINANCIAL STATEMENTS**

**OCTOBER 31, 2009**

**(Unaudited - prepared by management)**

The accompanying unaudited interim financial statements of Newport Exploration Ltd. for the three months ended October 31, 2009 have been prepared by management and approved by the Board of Directors of the Company. These interim financial statements have not been reviewed by the Company's external auditors.

**NEWPORT EXPLORATION LTD.**  
**INTERIM BALANCE SHEETS**  
AS AT  
(Unaudited – prepared by management)

	October 31, 2009	July 31, 2009 (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 7,321,904	\$ 7,437,997
Receivables	<u>12,191</u>	<u>11,317</u>
	7,334,095	7,449,314
<b>Equipment</b> (Note 3)	<u>5,573</u>	<u>6,026</u>
	<u>\$ 7,339,668</u>	<u>\$ 7,455,340</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ <u>25,448</u>	\$ <u>27,428</u>
<b>Shareholders' equity</b>		
Capital stock (Note 5)	42,343,096	42,343,096
Contributed surplus (Note 5)	1,173,038	1,173,038
Deficit	<u>(36,201,914)</u>	<u>(36,088,222)</u>
	<u>7,314,220</u>	<u>7,427,912</u>
	<u>\$ 7,339,668</u>	<u>\$ 7,455,340</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 11)

**On behalf of the Board:**

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"Ian Rozier" Director      "Barbara Dunfield" Director

The accompanying notes are an integral part of these interim financial statements.

**NEWPORT EXPLORATION LTD.**  
**INTERIM STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**  
**THREE MONTHS ENDED OCTOBER 31**  
(Unaudited – prepared by management)

	2009	2008
<b>EXPENSES</b>		
Administrative services	\$ 3,750	\$ 3,750
Amortization	452	606
Consulting (Note 7)	51,000	51,000
Director's fees (Note 7)	5,000	10,000
Management fees (Note 7)	30,000	30,000
Office and miscellaneous	6,273	2,312
Professional fees	6,245	4,848
Property investigation costs	2,173	6,946
Regulatory and transfer agent fees	789	1,117
Rent (Note 7)	16,500	16,500
Shareholder communications	1,753	1,019
Travel and related costs	-	714
<b>Loss before other items</b>	<u>(123,935)</u>	<u>(128,812)</u>
<b>OTHER ITEMS</b>		
Interest income	10,243	58,467
Petroleum royalty (Note 4)	-	5,224
	<u>10,243</u>	<u>63,691</u>
<b>Loss and comprehensive loss for the period</b>	(113,692)	(65,121)
<b>Deficit, beginning of period</b>	<u>(36,088,222)</u>	<u>(35,570,506)</u>
<b>Deficit, end of period</b>	<u>\$(36,201,914)</u>	<u>\$(35,635,627)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.00)	\$ (0.00)
<b>Weighted average number of common shares outstanding</b>	54,922,874	54,922,874

The accompanying notes are an integral part of these interim financial statements.

**NEWPORT EXPLORATION LTD.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED OCTOBER 31**  
(Unaudited – prepared by management)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (113,692)	\$ (65,121)
Item not affecting cash:		
Amortization	452	606
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(873)	7,650
Increase in prepaids	-	(1,286)
Increase (decrease) in accounts payable and accrued liabilities	<u>(1,980)</u>	<u>5,577</u>
Net cash used in operating activities	<u>(116,093)</u>	<u>(52,574)</u>
<b>Change in cash during the period</b>	(116,093)	(52,574)
<b>Cash, beginning of period</b>	<u>7,437,997</u>	<u>7,740,142</u>
<b>Cash, end of period</b>	<u>\$ 7,321,904</u>	<u>\$ 7,687,568</u>

**Supplemental disclosure with respect to cash flows (Note 8)**

The accompanying notes are an integral part of these interim financial statements.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**OCTOBER 31, 2009**  
(Unaudited – prepared by management)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Newport Exploration Ltd. (the "Company") is a Canadian company incorporated under the Business Corporations Act of British Columbia. The Company is primarily engaged in the acquisition and exploration of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company has all of its assets located in Canada and is currently seeking opportunities in the natural resource sector.

These interim financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing. Although the Company presently has sufficient financial resources to undertake its currently planned acquisition program and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. These financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal and recurring adjustments considered necessary for fair presentation of the results for the interim period. Operating results for the three months ended October 31, 2009 are not necessarily indicative of the results that may be expected for the year ending July 31, 2010. These interim financial statements follow the same accounting policies as the annual financial statements, except as disclosed below. Accordingly, these interim financial statements should be read in conjunction with the 2009 annual consolidated financial statements and notes thereto.

**Adoption of new accounting standards**

*CICA Handbook Section 3064 – "Goodwill and other intangibles assets"*

This new section replaced Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and Development costs". It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has evaluated this new standard and determined that adoption of these new requirements had no impact on the Company's interim financial statements.

**NEWPORT EXPLORATION LTD.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Recent accounting pronouncements**

*International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be August 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended July 31, 2011. The impact of the transition to IFRS on the Company’s interim financial statements has not yet been determined.

*Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

**3. EQUIPMENT**

	October 31, 2009			July 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 41,079	\$ 37,116	\$ 3,963	\$ 41,079	\$ 36,795	\$ 4,284
Furniture and fixtures	21,758	20,148	1,610	21,758	20,016	1,742
	\$ 62,837	\$ 57,264	\$ 5,573	\$ 62,837	\$ 56,811	\$ 6,026

**4. PETROLEUM ROYALTY**

Under the terms of an agreement over the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company), the Company retained a 2.5% royalty for any hydrocarbons discovered on certain petroleum exploration permits in Australia. Included in receivables at October 31, 2009 is \$Nil (July 31, 2009 - \$1,520) for the Company's royalty.

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**5. CAPITAL STOCK**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
As at July 31, 2008	54,922,874	\$ 42,343,096	\$ 973,346
Stock-based compensation	-	-	199,692
As at July 31, 2009 and October 31, 2009	54,922,874	\$ 42,343,096	\$ 1,173,038

**6. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan (the “Plan”) under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the Plan, the exercise price of each option equals the market price, minimum price or a discounted price, of the Company’s stock as calculated on the date of grant. The options can be granted for a maximum term of five years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

At October 31, 2009, the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
5,450,000	\$0.10	December 18, 2013

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**6. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock options (cont'd...)**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2008	3,295,000	\$ 0.30
Options cancelled	(45,000)	0.30
Options granted	<u>2,200,000</u>	0.10
Balance, July 31, 2009 and October 31, 2009	5,450,000	\$ 0.10
Number of options currently exercisable	5,450,000	\$ 0.10

**Stock-based compensation**

On December 10, 2008, the Company re-priced and extended the term for 3,250,000 stock options previously granted that had an exercise price of \$0.30 per common share, expiring on March 5, 2010, to have an exercise price of \$0.10 per share expiring December 18, 2013.

During the year ended July 31, 2009, the Company granted 2,200,000 (2008 – Nil) stock options with a total estimated fair value of \$87,331 (2008 - \$Nil) and re-priced 3,250,000 (2008 – nil) stock options with a total estimated fair value incremental increase of \$112,361 (2008 – \$Nil) using the Black-Scholes option pricing model. The total stock-based compensation was credited to contributed surplus. The fair value per option granted was \$0.04 (2008 - \$Nil) and per re-priced option was \$0.04 (2008 - \$Nil). All options vested at time of grant.

The following assumptions were used for the Black-Scholes option pricing model valuation of stock options granted:

	2009
Risk-free interest rate	1.84%
Expected life of options	5 years
Annualized volatility	110%
Dividend yield	0%

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**6. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Warrants**

At October 31, 2009, the Company had no outstanding share purchase warrants.

Warrant transactions are summarized as follows:

	Number of Warrants	Exercise Price
Balance, July 31, 2008	34,125,000	\$ 0.32
Warrants expired	<u>(34,125,000)</u>	0.32
Balance, July 31, 2009 and October 31, 2009	-	\$ -

**7. RELATED PARTY TRANSACTIONS**

During the three months ended October 31, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$45,000 (2008 - \$45,000) to a company controlled by a director.
- b) Paid or accrued management fees of \$30,000 (2008 - \$30,000) to company controlled by a director.
- c) Paid or accrued rent of \$16,500 (2008 - \$16,500) to a company controlled by a director.
- d) Paid or accrued directors' fees of \$5,000 to a director of the Company (2008-\$10,000 to two directors of the Company).
- e) Paid or accrued professional fees of \$1,495 (2008-\$1,098) to a legal firm of which an officer of the Company is a partner.
- f) Paid or accrued consulting fees of \$6,000 (2008-\$6,000) to a company controlled by the spouse of a director.

Included in receivables is \$507 (July 31, 2009-\$2,575) owed by a company with common directors. Included in accounts payable and accrued liabilities is \$3,333 (July 31, 2009-\$3,333) owed to a director of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2009	2008
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

There were no significant non-cash transactions for the three months ended October 31, 2008 and 2009.

**9. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The Company's financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk.

(a) Credit Risk

The Company's cash is mainly held at large Canadian financial institutions and as at October 31, 2009 is mainly held in interest bearing accounts. The Company's receivables are mainly GST recoverable from the Canadian government. The maximum exposure to credit risk is the equivalent of the cash and receivables on the balance sheet of the Company.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital resources as outlined in Note 12.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(i) Interest rate risk

The Company has cash balances which are deposited at Canadian financial institutions. As of October 31, 2009, the Company did not have any investments in short-term deposits.

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**9. FINANCIAL INSTRUMENTS (cont'd...)**

(ii) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in a foreign currency. As at October 31, 2009, the Company did not have any accounts in foreign currencies.

(iii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**10. SEGMENTED INFORMATION**

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	October 31, 2009	July 31, 2009
Capital assets		
Canada	\$ 5,573	\$ 6,026

**11. COMMITMENTS**

- a) The Company leases office premises under an operating lease with a company controlled by a director. During the year ended July 31, 2009, the Company extended the term of its operating lease for an additional three year term, to expire in March 2012. The landlord has the right to increase the annual base rent by 10% on April 1, 2010 and 2011. The lease provides for basic lease payments as follows:

2010	\$ 49,500
2011	66,000
2012	44,000
	<u>\$ 159,500</u>

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**11. COMMITMENTS (cont'd...)**

- b) The Company entered into management and consulting contracts with companies having directors in common. The Company has agreed to pay the companies a combined total of \$25,000 per month. These contracts remain in force on a continuous basis. The contracts can be terminated by the Company by providing 90 days written notice. If termination of services is without cause, the Company will be obligated to pay 36 months of services to one director's company and 24 months of services to the other director's company.

**12. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus, retained earnings and accumulated other comprehensive income. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. This strategy is unchanged from fiscal 2009.

The Company is not subject to externally imposed capital restrictions.