

The background of the entire page is a repeating pattern of oil pumpjacks (jack-o'-lanterns) in a light blue color. The pumpjacks are arranged in a grid, with each row and column containing multiple units. The central text is contained within a white rectangular box.

— ANNUAL REPORT —

2007

 SEFTON RESOURCES, INC.

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Sefton Resources, Inc. in Brief

Sefton Resources, Inc. is in the business of oil and gas production through wholly owned subsidiaries, TEG Oil & Gas USA, Inc. and TEG MidContinent, Inc. Administrative offices are in Denver, Colorado. The Company trades on the London Stock Exchange AIM Market. The trading symbol is SER.

The near term tactical objective is to:

“Build a strong stable platform of assets, generating sufficient cash flow to operate and grow the business.”

Main core area of activity is in the East Ventura Basin in California, in which Sefton Resources, Inc. owns 100% of two oil fields – Tapia Canyon (heavy gravity oil) and Eureka Canyon (medium gravity oil), both of which have over twenty years of expected production life. In addition Sefton Resources, Inc. has over 40,000 acres in the Forest City Basin of Eastern Kansas where Coal Bed Methane gas, as well as conventional oil and gas deposits, are targets.

2007 Highlights

- Company Profitable.
- Put in place a bank line of credit for TEG Oil & Gas USA.
- Drilled two additional development wells at Tapia Canyon oil field.
- Continued replacing old surface facilities with new equipment at Tapia oil field.
- Took delivery of the custom designed steam generator.
- Completed the geochemical survey at Eureka oil field.
- Acquired additional land holdings in Kansas.

Subsequent Events

- Drilled four new wells at Tapia Canyon oil field.
- Completed surface facilities replacements at Tapia Canyon.
- Initiated a two well pilot cyclical steam programme within the Tapia oil field using propane and our own lease gas.
- Initiated plans for a pilot Coal Bed Methane drilling programme in Eastern Kansas.

Chairman's Statement

I am pleased to report that 2007 has been a year in which we have been able to put in place the components that will take Sefton on to the next phase of its development. The company is now trading profitably and generating good cash flow. In addition the \$10m bank credit, together with our cash flow, has enabled us to continue to upgrade our production facilities and the drilling and steaming programme. The results from this activity will mainly be seen in 2008.

The majority of the expansion programme was concentrated on the Tapia Canyon field where we had added additional surface facilities, taken possession of a custom designed steam generator and drilled two new wells by the year end. We have now successfully drilled our eleventh well and extended the production area into the entire Tapia field. We have moved west through our Snow wells and east with the Lackie well. More detail is provided in the TEG USA review, but this is a very exciting development especially as natural gas bearing sandstone has been identified at Snow and at Lackie, where it was previously unknown.

The main development in the business was therefore concentrated on Tapia, but we have also continued to improve our asset base in Kansas although at a more modest pace. Additional acreage was acquired, increasing our Anderson and Franklin project to 36,000 plus acres with a further 7,000 acres in Leavenworth County. We have continued our discussions with the various independent pipeline operators and investigated joint venture opportunities. But we are not prepared to enter into any agreements if we are not confident that it will be for the long term benefit of Sefton and its shareholders. Current gas prices and our improved financial position mean that we are under no pressure to move prematurely.

The major improvements, which I have outlined, occurred at the end of the year. The year end financial figures, therefore, reflect the cost of the two drilled wells, although they did not produce any significant increases in production. The improvement in profitability was mainly due to increases in oil and gas prices.

FINANCIALS

Oil and gas revenue increased to \$2,977,691 from \$2,696,180 as a result of oil price increases. Oil and gas production costs decreased to \$672,845 from \$833,716 primarily as a result of fewer work over costs with newer wells versus old wells. General and administrative costs increased slightly to \$1,519,848 from \$1,478,696 which together with less interest expense (\$78,578 from \$186,247) and no expenses relating to Canadian operations (which were sold last year), resulted in overall income of \$204,652 compared to a loss of \$592,777 for the comparative period one year ago.

Non-cash expenses from depletion, depreciation and share based compensation total \$502,185.

ENGINEERING

Total proved reserves at 31 December 2007 still remained at approximately 4 million barrels of oil but with proved developed reserves increasing to 463,900 barrels from 282,800 barrels, as a result of two successful development wells drilled towards the end of 2007. The price of oil at the end of 2007 was approximately \$84 per barrel compared to approximately \$53 per barrel for 2006, resulting in a "net present day value" (discounted 10%) of \$114,004,000 for year-end 2007 proved reserves versus \$57,095,800 for 2006.

For the year end 2007 engineering report, the life of the proved oil reserves was estimated at approximately 46 years (42 years for 2006) with an undiscounted return on investment of 17 (9 for 2006) and a rate of return of over 100% (little less than 100% for 2006). Lifting costs for all production was \$14.55 per barrel versus \$17.28 per barrel for 2006.

Chairman's Statement – *continued*

With four new wells completed and additional wells planned for 2008 (both California and Kansas), together with a pilot steam programme in California, we are expecting a significant change in the reserve study, and a decrease in lifting costs as all infrastructure is in place.

OUTLOOK

The programme has continued into 2008 with an additional four wells drilled in the first quarter and the initiation of a pilot steam programme where we expect to achieve significant improvement in revenue during the coming year. The results from the pilot steam programme have provided us with significant data which will be put to use as we develop the rest of the field. We have already moved the steam injection packet to Yule 10 and further wells will be steamed during the year. It is not possible to put a number on how many we will achieve in 2008, although eventually we intend to steam all eleven new wells and some of the old wells. In addition, during 2008 we plan to drill more wells at Tapia, further develop our Eureka Canyon field and initiate a pilot drilling programme in Kansas. This will broaden the group's revenue source while adding additional assets, all of which points to an exciting future.

On behalf of the Board I would like to thank staff and shareholders for their continued support. Thanks to our staff's continued vigilance, problems faced during 2007 were minimised and leave us in an excellent position to move the group forward.



Jeremy Delmar-Morgan
Chairman

May 20, 2008

TEG Oil & Gas USA, Inc. ("TEG USA")

OVERVIEW

TEG USA moved forward in 2007 with plans for field improvements and drilling, while maintaining steady oil production rates. TEG USA had finished the 2006 year at approximately 130 BOPD at the Tapia Oil Field. Although there was some month to month fluctuations on oil production in 2007, TEG USA had oil sales totaling 46,250 BO, equating to an average productive rate of approximately 127 BOPD. New oil was not added to the production stream until the month of December; however, the wells drilled in mid-2005 remained steady producers. The production from the combined Eureka Canyon and Tapia oil fields resulted in an average net monthly oil revenue of \$248,000 for the 2007 calendar year, which represents a 9.5% increase over 2006. The increase was the direct result of a steadily increasing oil price over the year averaging \$63.60/bbl at the field level (versus \$55/bbl average in 2006). Lifting costs for all production was \$14.55/bbl for 2007 versus \$17.28/bbl in 2006 despite industry-wide increases in contractor and vendor costs.

TEG Oil & Gas USA, Inc. (“TEG USA”) – *continued*

FACILITIES IMPROVEMENTS

TEG USA continued with upgrading facilities to handle projected increases in throughput volumes and temperatures (from future steaming) at the producing Yule and Hartje leases as well as the shut-in Snow and Lackie leases. These improvements included the following:

- Installation of access catwalks and pipe racks for oil and gas flowlines at the Hartje Facility.
- Installation of 480V electrical service to the Yule lease for the steam generator.
- Running of gas supply lines for the steam generator on the Yule lease.
- Complete lease cleanup including removal of all mothballed equipment, abandoned piping, and scrap.
- Rebuilding of secondary containment berms and installation of fencing around the Yule Tank Facility for public safety and security.
- Installation of electrical service and flowlines for the two new wells drilled in November, Hartje #16 & #17.
- Maintenance of lease roads including the application of road-base surfacing in the heavy traffic areas.
- Construction of expansion-loop supply line and diverter lines for steam injection to the wellhead.

CYCLIC STEAM STIMULATION EQUIPMENT

TEG USA took delivery of the 14 million BTU/hr rated steam generator in early June, approximately eight weeks later than promised by the vendor. The equipment was built with a low-NOx high-efficiency burner designed to exceed current air emissions standards for the Los Angeles air basin. The bank financing in mid-August allowed the building of the field infrastructure for the steam pilot, including electrical service, water and gas supply pipelines and effluent steam lines. This work was completed by mid-October and the steam unit was subsequently test fired using Tapia lease gas and function tested by Clayton Industries. TEG USA did experience a minor setback during the final surface testing of the steam generator. Fluctuating gas supply rates from the Yule #8 gas well caused problems with the automated controls. TEG USA therefore decided to switch to the use of propane in the initial pilot test in order to expedite the programme, and thus giving time to build a second gas supply line from the Snow #1 well on the neighbouring lease. The steaming of the initial well was pushed back into 2008.

Q4 2007 DRILLING PROGRAM

TEG USA drilled two oil wells on in the east-central portion of the Tapia Field. Both wells were drilled on the Hartje Lease. Hartje #16 & #17 were successfully drilled to depths of 1,250' and 1,255', respectively, into the Yule Sand oil reservoir, adding a total of 77 BOPD to the production by year's end. Additionally, a shallower oil sand was identified in the Hartje #16 well on both the mudlog and the wireline logs. Under further examination, this same zone is identifiable on older wireline logs in the adjacent Hartje #10 well that is currently shut-in in the Yule Sand. TEG USA is formulating plans to test this zone in the Hartje #10 well during 2008.

EUREKA CANYON FIELD – RECONNAISSANCE MAPPING

TEG USA and contractor W. L. Gore and Associates submitted final reports for the geochemical reconnaissance mapping programme on the Eureka Canyon minerals leases in 2007 and results are encouraging. The survey was conducted over a coarse grid pattern on the 1,500 acre lease. The results showed areas of hydrocarbon fingerprinting. TEG USA is planning to infill the grid pattern over the stronger hydrocarbon anomalies in the coming year and sample adjacent oilfields to better refine the hydrocarbon signature. TEG USA is anxious to expand our redevelopment programme to the Eureka Canyon Field in the coming year and drill wells in both infill and step-out exploitation locations.

TEG Oil & Gas USA, Inc. (“TEG USA”) – *continued*

FUTURE

2007 closed strongly for TEG USA’s California operations with the start-up production from the two new wells drilled. This momentum has carried TEG USA forward into early 2008 with the drilling of four additional wells. Now that pilot steaming has begun (February, 2008) TEG USA can benefit from increased production from both primary and secondary recovery techniques in the coming months and years ahead at Tapia.

Harry P. Barnum, President/Managing Director, TEG Oil & Gas USA, Inc.

TEG MidContinent, Inc. (“TEG MC”)

Responding to the varied results achieved by industry operators in the Basin during 2007, TEG MC moved cautiously, selectively focusing on prime acreage in its lease acquisition programme and undertaking geological and engineering studies. The Company improved its asset base and positioned itself for future development and growth. TEG MC feels that the time spent in analysis of its properties and industry drilling, completion and operational procedures has been beneficial. These studies will allow TEG MC to undertake effective operations while avoiding the costly mistakes (multiple zone completions and immediate connection to high-pressure sales lines) that some companies in the Forest City Basin have experienced.

ANDERSON/FRANKLIN COUNTIES

During 2007, TEG MC acquired an additional 5,000 acres and now the Anderson and Franklin County project is comprised of 36,000 plus acres, has close proximity to pipelines and is supported by extensive geology, including detailed coal maps and engineering analysis. The acreage is situated such that TEG MC has coverage on both conventional oil and gas possibilities and on the thicker, potentially more productive, Bevier and Riverton coal deposits.

TEG MC has contracted for and received a design of a “pilot drilling programme” that may be implemented late in 2008. The pilot programme consists of a re-entry of an existing wellbore to test both coals and conventional sand and the drilling of four (4) new test wells to test the Riverton and Bevier coals. In the alternative, TEG MC has initiated discussions with a number of potential joint venture partners. A properly structured “joint venture” would allow TEG MC and its parent to recoup some or most of its investment, thus providing capital for drilling and or pipeline acquisition in Leavenworth County.

LEAVENWORTH COUNTY

TEG MC’s acreage position in Leavenworth County is 7,000 acres. The leasehold, some with temporarily abandoned wells (shut-in when pipeline gathering systems abandoned operations), provides TEG MC with numerous potential Coal Bed Methane (CBM) and McLouth sandstone (conventional gas formation) locations through re-entry and re-completion of existing wellbores and/or new drilling. TEG MC has contracted for an engineering evaluation of a number of existing wellbores that are located on TEG MC acreage.

TEG MC continues exploratory discussions with a number of independent pipeline operators that have access to the Southern Star system and are situated such that access could be achieved with minimal pipeline construction. Joint development of acreage and pipeline systems could provide immediate market access (“hook-up”) for several wells.

Bruce Mackay, President/Managing Director, TEG MidContinent, Inc.

Independent Auditor's Report

Board of Directors
Sefton Resources, Inc. and Subsidiaries
Denver, Colorado

We have examined the summary financial statements which comprise the Consolidated Balance Sheet, Consolidated Statement of Operations, and Consolidated Statement of Cash Flows prepared in accordance with accounting principles generally accepted in the United States of America.

This report is made solely to the Company's members, as a body. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, for our audit report, or the opinions we have formed.

Respective responsibilities of the directors and auditor

The directors are responsible for preparing the summarized annual report in accordance with applicable laws and regulations.

Our responsibility is to report to you our opinion on the consistency of the summary financial statements within the summarized annual report with the full annual financial statements and its compliance with applicable laws and regulations.

We also read the other information contained in the summarized annual report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the summary financial statements.

Basis of opinion

Our report on the Company's full annual financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the summary financial statements are consistent with the full annual financial statements of Sefton Resources, Inc. for the year ended 31 December 2007 and complies with the applicable laws and regulations. The auditor's report on the Company's full annual financial statements was unqualified.

Chantrey Vellacott DFK LLP
Chartered Accountants
Registered Auditor
London

May 20, 2008

Consolidated Balance Sheets as of December 31, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Cash and cash equivalents	\$ 5,789	\$ 68,923
Accounts receivable	414,801	372,174
Other receivables – related party	159,692	90,577
Prepaid expenses and other assets	6,769	19,849
Total current assets	587,051	551,523
Oil and gas properties, full cost method, net	9,789,223	7,517,673
Equipment and vehicles, net	30,871	47,957
Total assets	10,407,145	8,117,153
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	810,942	484,443
Accrued expenses	162,666	35,581
Accrued expenses – related parties	179,549	25,000
Note payable, current portion	385,059	128,810
Total current liabilities	1,538,216	673,834
Notes payable:		
Note payable	338,335	705,056
Note payable – bank	911,317	–
	1,249,652	705,056
Asset retirement obligation	504,096	134,440
Total liabilities	3,291,964	1,513,330
Stockholders' equity:		
Common stock, no par value, 200,000,000 shares authorized, 116,040,354 and 115,109,527 December 31, 2007 and 2006, shares issued and outstanding	13,049,227	12,742,521
Stock subscription receivable	(30,047)	(30,047)
Treasury stock	(58,602)	(58,602)
Accumulated (deficit)	(5,845,397)	(6,050,049)
Total stockholders' equity	7,115,181	6,603,823
Total liabilities and stockholders' equity	\$ 10,407,145	\$ 8,117,153

Consolidated Statement of Operations for the years ended December 31, 2007 and 2006

	2007	2006
Revenues:		
Oil and gas sales	<u>\$ 2,977,691</u>	<u>\$ 2,696,180</u>
Costs and expenses:		
Oil and gas production	672,845	833,716
Depletion and depreciation	304,965	314,145
General and administrative	1,519,848	1,478,696
Share based compensation	<u>197,220</u>	<u>447,957</u>
Total costs and expenses	<u>2,694,878</u>	<u>3,074,514</u>
Profit/(loss) from operations	<u>282,813</u>	<u>(378,334)</u>
Other income (expense):		
Interest income	417	6,738
Interest expense	(78,578)	(186,247)
Foreign currency transaction losses	<u>—</u>	<u>(56,693)</u>
Total other income expense	<u>(78,161)</u>	<u>(236,202)</u>
Income/(loss) from continuing operations	\$ 204,652	\$ (614,536)
Discontinued operations:		
Income from TEG Canada Inc.	—	6,894
Gain on sale of TEG Canada Inc.	<u>—</u>	<u>14,865</u>
	<u>—</u>	<u>21,759</u>
Net income/(loss)	<u>204,652</u>	<u>(592,777)</u>
Income/(loss) per share:		
Income/(loss) from continuing operations per share		
Basic and diluted	<u>0.0018</u>	<u>(0.00583)</u>
Income/(loss) from discontinued operations per share		
Basic and diluted	<u>—</u>	<u>0.00021</u>
Net income/(loss) per share		
Basic and diluted	0.0018	(0.00562)

Consolidated Statement of Cash Flows

for the years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income/(loss)	\$ 204,652	\$ (592,777)
Adjustments to reconcile net income/(loss) to net cash (used in) operating activities:		
Depletion and depreciation	304,965	314,145
Amortization of discount on convertible notes payable	–	119,000
Compensation expense related to stock options	197,220	447,957
Gain on disposal of subsidiary	–	(14,866)
Changes in operating assets and liabilities:		
Accounts receivable	(42,627)	96,324
Prepaid expenses	13,080	27,438
Other assets – related party	(69,115)	(68,060)
Accounts payable	326,499	(241,344)
Accrued expenses – related party	154,549	(54,058)
Accrued expenses	126,985	11,893
Net cash provided by operating activities	1,216,208	45,652
Cash flows from investing activities:		
Purchase of oil and gas properties	(2,184,816)	(738,790)
Purchase of property and equipment	(4,857)	(27,492)
Proceeds from disposal of subsidiary	–	284,728
Net cash transferred with subsidiary	–	(18,060)
Net cash used by investing activities	(2,189,673)	(499,614)
Cash flows from financing activities:		
Proceeds from notes payable	948,318	376,315
Payments on notes payable	(147,473)	(75,176)
Proceeds from sale of common stock	109,486	38,944
Net cash provided by financing activities	910,331	340,083
Effect of exchange rate changes on cash	–	56,693
Net decrease in cash and cash equivalents	(63,134)	(57,186)
Cash and cash equivalents – beginning of year	68,923	126,109
Cash and cash equivalents – end of year	\$ 5,789	\$ 68,923

Notes

1. Financial Statements

The summary financial statements set out above have been extracted from the Company's audited financial statements for the year ended 31 December 2007 (not presented herein). Those financial statements were prepared in accordance with United States Generally Accepted Accounting Principles. These summary financial statements do not constitute financial statements in accordance with United States Generally Accepted Accounting Principles as they omit substantially all the disclosures required by United States Generally Accepted Accounting Principles. A full set of accounts can be viewed at www.seftonresources.com.

The annual report of accounts will be posted to shareholders by May 20, 2008, copies of which will be available from the Company Secretary, Pinsent Masons, CityPoint, 1 Ropemaker Street, London EC2Y 9AH or at www.seftonresources.com. The Annual General Meeting of the company will be held at 10.00am, June 13, 2008 at Nominated Advisors (NOMAD) London Offices; Seymour Pierce, 20 Old Bailey, London EC4M 7EN.

2. Net Income Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, Earnings per Share (FAS 128). All dilutive potential common shares have an antidilutive effect on diluted per share amounts and therefore have been excluded in determining net income or loss per share. The Company's basic and diluted income or loss per share is equivalent and accordingly only basic income or loss per share has been presented.

3. Dividends

The Directors are not recommending the payment of a dividend.

Directors and Officers Holdings at March 31, 2008

Directors

J. Ellerton (including J Ellerton Consultants)	4,780,247	(4.1%)
J. Delmar-Morgan	4,280,178	(3.7%)
A. Ashton	948,267	(0.8%)
H. Barnum	380,955	(0.3%)
B. Mackay	160,014	(0.1%)

Officers (other than Directors)

G. Dillabaugh (Corporate Secretary – Retired March 17, 2008)	3,486,721	(3.0%)
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Notice of Annual General Meeting

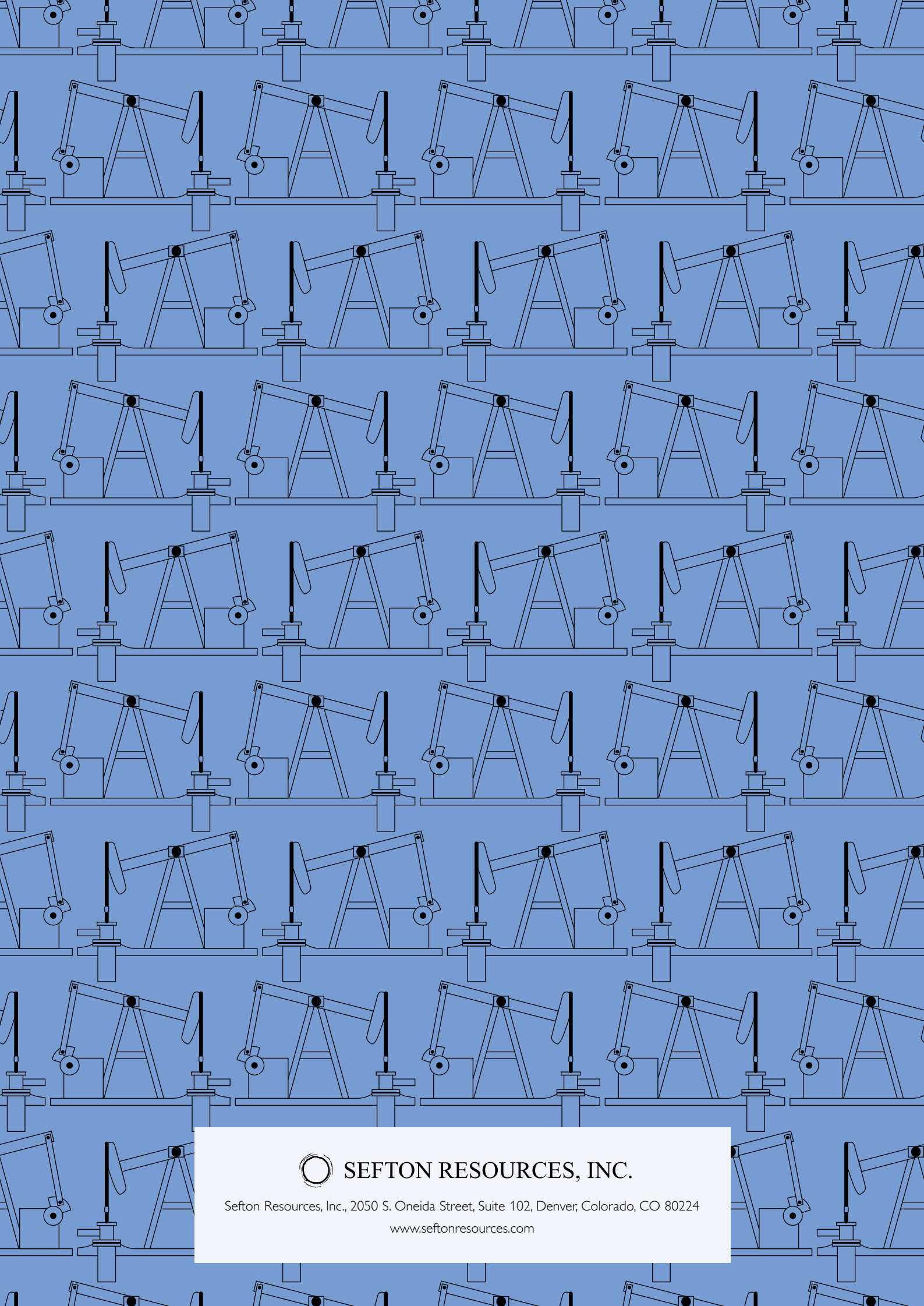
NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING (the “Meeting”) of Sefton Resources, Inc. (the “Company”) will be held at the offices of Seymour Pierce, 20 Old Bailey, London EC4M 7EN at on June 13, 2008 at 10.00am for the purpose of considering and, if thought fit, passing the following resolutions by simple majority:

1. To receive and consider the financial statements for the year ended 31st December 2007 together with the reports of the directors and the auditors thereon.
2. To authorise the Directors to appoint auditors of the Company and its subsidiaries for the year ending December 31, 2008 and to authorise the Directors to determine the auditor's remuneration.
3. To re-elect Jeremy Delmar-Morgan as a Director of the Company, who is retiring by rotation and offering himself for re-election in accordance with the Company's Articles of Association.

Dated May 20, 2008
By Order of the Board

Notes

1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of the Company's Registrar at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7ZY not less than 48 hours before the time for holding the Meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude members from attending and voting in person at the Meeting.
3. A copy of each Director's service contract will be available for inspection at the administrative offices of the Company at 2050 S. Oneida Street, Suite 102 Denver, Colorado 80224 and the offices of Pinsent Masons at CityPoint, 1 Ropemaker Street, London, EC2Y 9AH during usual business hours, excluding Saturdays and public holidays, from the date of this notice until the date of the Meeting and at the place of the Meeting for at least 15 minutes prior to and during the Meeting. The register of Directors' interests will be available for 15 minutes prior to and during the Meeting at the Meeting venue.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered in the relevant register of members of the Company at close of business on June 11, 2008, shall be entitled to attend and vote at the Meeting or, if the Meeting is adjourned, close of business on such date being not more than two days prior to the date fixed for the adjourned meeting.



 SEFTON RESOURCES, INC.

Sefton Resources, Inc., 2050 S. Oneida Street, Suite 102, Denver, Colorado, CO 80224

www.seftonresources.com