

Sefton Resources, Inc. and Subsidiaries

**Consolidated Financial Statements
December 31, 2007 and 2006**

FULL ANNUAL REPORT DATED May 20, 2008

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SEFTON RESOURCES, INC

We have audited the financial statements of Sefton Resources, Inc ("Sefton" or the "Company") for the years ended 31 December 2007 and 2006, which comprise the consolidated balance sheet, consolidated statement of operations, consolidated statement of stockholders equity and comprehensive loss, consolidated statement of cash flows and accompanying notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter. Our audit 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 auditor's 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, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the statement of directors' responsibilities the Company's directors are responsible for the preparation of financial statements in accordance with applicable law and accounting principles generally accepted in the United States of America.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with accounting principles generally accepted in the United States of America. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and Company as at 31 December 2007 and 2006 and of the results of the Group for the year then ended and have been properly prepared in conformity with accounting principles generally accepted in the United States of America.

CHANTREY VELLACOTT DFK LLP

**Chartered Accountants
Registered Auditor
London
20 May 2008**

SEFTON RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006**

	December 31, 2007 \$	December 31, 2006 \$
<u>ASSETS</u>		
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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
TOTAL ASSETS	<u>10,407,145</u>	<u>8,117,153</u>
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
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
	<hr/>	<hr/>
Total current liabilities	1,538,216	673,834
NOTES PAYABLE:		
Note payable	338,335	705,056
Note payable - bank	911,317	-
	<hr/>	<hr/>
	1,249,652	705,056
ASSET RETIREMENT OBLIGATION	504,096	134,440
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Total stockholders equity	7,115,181	6,603,823
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>10,407,145</u>	<u>8,117,153</u>

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

SEFTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	For the years ended December	
	2007	2006
	\$	\$
OPERATING REVENUE:		
Oil and gas sales	2,977,691	2,696,180
OPERATING 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	197,220	447,957
Total costs and expenses	2,694,878	3,074,514
PROFIT (LOSS) FROM OPERATIONS	282,813	(378,334)
OTHER INCOME (EXPENSE)		
Interest income	417	6,738
Interest expense	(78,578)	(186,247)
Foreign currency transaction losses		(56,693)
Total other income expense	(78,161)	(236,202)
Income (loss) from continuing operations	204,652	(614,536)
DISCONTINUED OPERATIONS		
Income from operations of TEG Canada, Inc	-	6,894
Gain on disposal of TEG Canada, Inc	-	14,865
	-	21,759
NET INCOME (LOSS)	204,652	(592,777)
INCOME (LOSS) PER SHARE		
Income (loss) from continuing operations per share		
Basic and diluted	0.0018	(0.00583)
Income (loss) from discontinued operations per share		
Basic and diluted	-	0.00021
Net income (loss) per share		
Basic and diluted	0.0018	(0.00562)

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

The annual financial statements set out on pages 5 to 29 were approved by the board of directors and signed on their behalf on 20 May 2008.

J Delmar-Morgan - Chairman

J. J. Ellerton - Chief Executive Officer

SEFTON RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	Common stock no par value		Stock subscription receivable \$	Treasury stock \$	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Total \$
	Shares	Amount \$					
Balances, January 1, 2006	1,493,369,500	11,079,853	(30,047)	(58,602)	64,527	(5,521,799)	5,533,932
Stock issued for cash	6,672,000	38,942	-	-	-	-	38,942
Stock issued to acquire minority interest in subsidiary	129,117,202	699,272	-	-	-	-	699,272
Capital reorganization, 15 existing shares consolidated into 1 new share	(1,520,548,062)	-	-	-	-	-	-
Stock issued on conversion of notes payable	5,965,614	416,160	-	-	-	-	416,160
Stock issues for services	533,333	60,337	-	-	-	-	60,337
Transfer on sale of subsidiary	-	-	-	-	(64,527)	64,527	-
Comprehensive loss	-	-	-	-	-	-	-
Compensation expense related to stock options	-	447,957	-	-	-	-	447,957
Net loss	-	-	-	-	-	(592,777)	(592,777)
Balances, December 31, 2006	115,109,587	12,742,521	(30,047)	(58,602)	-	(6,050,049)	6,603,823
Stock issued for cash	600,000	70,176	-	-	-	-	70,176
Stock issued on conversion of notes payable	330,767	39,310	-	-	-	-	39,310
Compensation expense related to stock options	-	197,220	-	-	-	-	197,220
Net income	-	-	-	-	-	204,652	204,652
Balances, December 31, 2007	116,040,354	13,049,227	(30,047)	(58,602)	-	(5,845,397)	7,115,181

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

SEFTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December	
	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	204,652	(592,777)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depletion and depreciation	304,965	314,145
Amortization of discount on convertible notes payable	-	119,000
Share based compensation	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 on account 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 AT BEGINNING OF YEAR	68,923	126,109
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,789	68,923

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

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION:

Organization – Sefton Resources, Inc. (the “Company”) (f/k/a TEG Resources, Inc.) was incorporated on January 17, 1995, as a British Virgin Islands corporation and has been primarily engaged in the exploration, development, and production of oil and natural gas in the continental United States and Canada. The Company’s oil and gas properties are located in California and Kansas, USA and until July of 2006 in Canada.

TEG Oil & Gas Canada, Inc - In February 2006 the Company purchased the outstanding minority interest (approximately 28%) in TEG Oil & Gas Canada, Inc ("TEG Canada"). The purchase price of \$738,214 was comprised of 8,607,813 shares of the Company's common stock and \$38,942 of cash.

In May 2006 the Company acquired TEG MidContinent, Inc (“TEG MidContinent”) a wholly owned subsidiary of TEG Canada as consideration for a reduction on the stated capital of TEG Canada. TEG Canada originally acquired TEG MidContinent from the Company during 2005. These transactions had no effect on the consolidated financial statements of the Company.

In July 2006 the Company successfully concluded the sale of TEG Canada. (See note 12.)

Capital Reorganization - At the annual meeting held on July 10, 2006, the Company's shareholders approved a fifteen to one reverse stock split. Fractional shares resulting from the consolidation were acquired by the Company and contributed to the Employee Benefit and Incentive Plan. All prior period common stock and applicable share and per share amounts have been retroactively adjusted to reflect the 2006 reverse stock split.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Preparation - The accompanying consolidated financial statements include the accounts of the Company and its wholly owned US subsidiaries, TEG Oil and Gas USA, Inc., (“TEG USA”) and TEG MidContinent, Inc. All inter-company accounts and transactions between the entities have been eliminated in consolidation.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The Company’s financial statements are based on a number of significant estimates; determination of the estimated fair value of oil and gas properties, assumptions affecting the estimated fair value of stock-based compensation, asset retirement obligation, and oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion, and impairment of oil and gas properties. Management emphasizes that reserve estimates are inherently imprecise and that estimates are expected to change as future information becomes available.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Results and Liquidity – The Company reported net income of \$204,652 for the year ended December 31, 2007, compared to a net loss of \$592,777 for the year ended December 31, 2006. The Company had working capital deficits of \$951,165 and \$122,313, respectively, at December 31, 2007 and 2006. The deficit at December 31, 2007 does not reflect an additional \$588,683 available under the Company's bank loan with its primary lender (Note 8).

Significant oil field development expenditures of approximately \$15,000,000 are necessary to fully access the reserves of the Tapia field, which if funded out of cash flows from the properties may delay the development of the field. The Company's continued operation is contingent upon its ability to expand its borrowing base or to raise additional capital, and on ultimately attaining and maintaining positive cash flow and profitability from its oil and gas operations. Any financing obtained through the sale of Company equity will likely result in substantial dilution to the Company's stockholders. If the Company is forced to sell an asset to meet its current liquidity needs, it may not realize the full market value of the asset and the sales price could be less than the Company's carrying value of the asset.

Statement of Cash Flows – For statement of cash flow purposes, the Company considers short-term investments with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments – The Company's short-term financial instruments consist of cash, accounts receivable, other receivables, accounts payable and notes payable. The carrying amounts of these financial instruments approximate fair value because of their short-term maturities. Based upon the borrowing rates currently available to the Company for loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying value.

Concentration of Credit Risk – Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of temporary cash investments, trade and related party receivables.

The Company places its cash investments with high quality financial institutions and, by policy, attempts to limit the amount of credit exposure to any one institution. The Company had deposits in excess of federally insured limits during the years ended December 31, 2007 and December 31, 2006.

The Company has recorded trade accounts receivable from its business operations. The Company periodically evaluates the collectibility of trade receivables and believes the receivables to be fully realizable and the risk of loss to be minimal. Related party receivables are also considered to be fully collectible.

The oil and gas industry is subject, by its nature, to environmental hazards and cleanup costs for which the Company carries catastrophe insurance. In addition, the Company's oil and gas business is vulnerable to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. The Company's proved reserves are based on current oil and gas prices and related industry economic factors and, therefore, are subject to volatility.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Price declines can reduce the estimated quantity of proved reserves and can increase annual amortization expense (which is based on proved reserves).

Significant Customers – Although the Company sells its production to a few purchasers, there are other purchasers in the areas in which the Company produces oil and natural gas; therefore, the loss of its significant customers would not adversely affect the Company's operations. For the years ended December 31, 2007 and 2006, oil and gas revenues were generated from the following significant customers:

	2007	2006
Customer A	93%	89%
Customer B	7%	6%

Oil and Gas Producing Activities – The Company follows the “full cost” method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred. All costs are accumulated in to the continental United States cost pool, and prior to the disposal of TEG Canada the Canadian cost pool. No gains or losses are recognized on the sale or abandonment of oil and gas properties, unless disposition of significant reserves is involved.

Depletion and amortization of the full cost pool, excluding amounts attributable to unproved properties of \$274,373 at December 31, 2007 and \$464,154 at December 31, 2006 is computed using the units-of-production method based on proved reserves as determined annually by independent engineers.

An impairment is recorded, if the costs incurred on oil and gas properties, or revisions in reserve estimates, cause the total capitalized costs of oil and gas properties in the cost center to exceed the capitalization ceiling. The capitalization ceiling is the sum of (1) the present value of future net revenues from estimated production of proved oil and gas reserves applicable to the cost center plus (2) the lower of cost or estimated fair value of the cost center's unproved properties less (3) applicable income tax effects.

Impairment of Long-Lived Assets – Long-lived assets of the Company are reviewed annually as to whether their carrying value has become impaired, pursuant to guidance established in Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” The Company assesses impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. When an assessment for impairment of long-lived assets, long-lived assets to be disposed of and certain identifiable intangibles related to those assets is performed, the Company is required to compare the net carrying value of long-lived assets on the lowest level at which cash flows can be determined on a consistent basis to the related estimates of future undiscounted net cash flows for such properties. If the net carrying value exceeds the net cash flows, then impairment is recognized to reduce the carrying value to the estimated fair value, generally equal to the future discounted net cash flow.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Property and Equipment – Property and equipment are recorded at cost. Depreciation of property and equipment are expensed in amounts sufficient to relate the expiring costs of depreciable assets to operations over estimated service lives, principally using the straight-line method. Estimated service lives range from three to seven years. When such assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized. The cost of normal maintenance and repairs is charged to expense as incurred. Significant expenditures that increase the useful life of an asset are capitalized and depreciated over the estimated useful life of the asset.

Treasury stock - Purchases by the Company of its own outstanding shares are recorded at fair value, any excess of cost over fair value being recognized in the statement of operations, and classified as treasury stock within stockholders equity. Shares shown as authorized and issued include treasury stock. Shares shown as outstanding do not include treasury stock.

Income Taxes – The Company has adopted the provisions of SFAS No. 109, “Accounting for Income Taxes.” SFAS No. 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Temporary differences between the time of reporting certain items for financial and tax reporting purposes consist primarily of exploration and development costs on oil and gas properties, depreciation and depletion, asset retirement obligation, and amortization of discount on convertible debentures.

Revenue Recognition – The Company records revenues from the sale of crude oil and natural gas when the product is delivered at a fixed and determinable price, title has transferred, and collection is reasonably assured.

Net Income Per Share – The Company has adopted SFAS No. 128, “Earnings Per Share.” Basic income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution that could occur if dilutive securities and other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

The Company had net income of \$204,652 and a net loss of \$592,777 for the years ended December 31, 2007 and 2006, respectively. Dilutive securities include shares issuable upon exercise of stock options for which market price exceeds exercise price, less shares which could have been purchased by the Company with the related proceeds. Because of the anti-dilutive effect of the assumed exercise of outstanding options, the basic and diluted weighted average shares outstanding for 2007 and 2006 are equivalent.

Foreign Currency Exchange – The reporting currency of the Company is the U.S. dollar. The functional currency for the Company’s Canadian subsidiary was the Canadian dollar.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Translation into U.S. dollars is performed for assets and liabilities at the exchange rate as of the balance sheet date. Income and expense accounts are translated at average exchange rates for the year.

Adjustments resulting from the translation are reflected as a separate component of other comprehensive income. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of comprehensive gain or (loss) as incurred.

Stock-Based Compensation – In 2002 the Company established an unapproved share option scheme (the “Scheme”) under which the Board may grant options to purchase shares of the Company’s common stock to employees and such other persons as they may nominate. In addition to issuing shares under the Scheme the Company has from time to time granted options to and other non-employees or directors for property or services. The Scheme is discussed further in Note 9 below.

Prior to January 1, 2006, the Company accounted for these options under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB No. 25”) as permitted by SFAS No. 123 “Accounting for Stock-Based Compensation”. Under APB No. 25, compensation expense for employees and directors is recognized for stock options with an exercise price that is less than the market price on the grant date of the option. For stock options with exercise prices at or above the market value of the stock on the grant date, the Company adopted the disclosure-only provisions of SFAS No. 123 “Accounting for Stock-Based Compensation”. Accordingly, no compensation cost has been recognized for these options.

Effective January 1, 2006 the Company adopted SFAS No. 123(R), “Share-Based Payment,” (SFAS No. 123(R)) using the “modified prospective” method. Under this method, the Company’s prior year results remain the same.

The Company has and will continue to recognize the fair value of those options which were granted before January 1, 2006 but do not vest until after that date. In addition the Company, has recognized the expense of options granted since January 1, 2006, based on the fair value of the option at the date of grant in accordance with SFAS No. 123(R) on a straight line basis over the service period of each award.

If options are granted in the future, the Company will continue to recognize the expense of such options in accordance with the provisions of SFAS No. 123(R)

Compensation expense relating to stock options for the years ended December 31, 2007 and 2006 was \$197,220 and \$447,957, respectively.

The fair value of the common stock options granted during 2007 and 2006, for disclosure purposes, was estimated on the grant dates using the Black-Scholes Pricing Model and the following assumptions:

For the Years Ended
December 31,

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2007	2006
Expected dividend yield	-	-
Expected price volatility	73.34%	530.68%
Risk-free interest rate	4.00%	3.279%
Expected life of options	6.5 years	6.5 years

Stock issued for property or services is valued at the trading price on the date of grant.

A summary of stock option activity is presented in Note 9 below.

Asset Retirement Obligations – In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 143 generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. Under SFAS No. 143, the Company has recognized an estimated liability for the plugging and abandonment of its oil and gas wells. A liability for the fair value of an asset retirement obligation with a corresponding increase in the carrying value of the related long-lived asset is recorded at the time a well is completed and ready for production. The Company will amortize the amount added to the oil and gas properties and recognize accretion expense in connection with the discounted liability over the remaining life of the respective well. The estimated liability is based on historical experience in plugging and abandoning wells, estimated useful lives based on engineering studies, external estimates as to the cost to plug and abandon wells in the future and federal and state regulatory requirements. The liability is calculated as the present value of future plugging and abandonment costs using a credit-adjusted risk-free rate. Annual revisions to the liability could occur due to changes in plugging and abandonment costs, well useful lives or if federal or state regulators enact new guidance on the plugging and abandonment of wells.

Recent Accounting Pronouncements – In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements”, which establishes a fair value hierarchy to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities- including an Amendment of FASB Statement No. 115”, which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to record at fair value will be recognized in earnings.

SFAS No. 159 also establishes additional disclosure requirements. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

permitted provided that the entity also adopts SFAS No. 157. The Company is currently evaluating whether to adopt SFAS No. 159 and, if adopted, the impact of such adoption.

3. OIL AND GAS PROPERTIES:

During 2002, TEG USA entered into a mineral (oil and gas) lease in the Eureka field (California). The lease agreement required that TEG USA invest an additional \$100,000 by March 31, 2006. For the years ended December 31, 2006 and 2005, the Company expended development costs of approximately \$53,892 and \$300,000 respectively, thus meeting this obligation.

A summary of oil and gas properties is as follows:

	2007 \$	2006 \$
Oil and gas properties	8,800,666	6,411,729
Unproved property	1,220,668	1,093,531
Accumulated depletion	(726,113)	(451,741)
	<hr/> 9,295,221	<hr/> 7,053,519
Surface land holdings	494,002	464,154
Oil and gas properties, net	<hr/> 9,789,223	<hr/> 7,517,673

Given the uncertain nature of the oil extraction process, advancement in completion and recovery technology, and the financial and tax considerations that could effect ultimate recovery, the Board does not believe it is possible to calculate the future expected amortization expense.

4. EQUIPMENT AND VEHICLES

Equipment and vehicles consists of the following:

	2007 \$	2006\$
Furniture and office equipment	63,406	58,549
Vehicles	87,314	87,314
Accumulated depreciation	(119,849)	(97,906)
Equipment and vehicle, net	<hr/> 30,871	<hr/> 47,957

Depreciation expense for equipment was \$21,943 and \$14,461 for the years ended December 31, 2007 and 2006, respectively.

5. ASSET RETIREMENT OBLIGATION

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company follows the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company has calculated the present value of the future plugging and abandonment costs using a credit adjusted risk-free rate of 7.75%, the estimated reserve life and inflation factor of 2.75%.

Reconciliation of the asset retirement obligation for the years ended December 31, 2007 and 2006 is as follows:

	<u>2007 \$</u>	<u>2006\$</u>
Beginning of year	134,440	163,111
Liabilities incurred	9,697	-
Liability eliminated on sale of TEG Canada	-	(54,999)
Accretion expense	8,649	8,649
Revision to estimate	351,310	17,679
End of year	<u>504,096</u>	<u>134,440</u>

The entire amount of the retirement obligation has been classified as long term as the Company does not anticipate abandoning any wells or facilities in 2008.

6. NOTES PAYABLE - RELATED PARTIES

During 2005, the Company entered into loan agreements with related parties totaling \$270,160. These notes were secured by the stock of TEG USA, bear interest of 9% per annum with interest payable quarterly. The principal amounts were due on various dates during August through November of 2007.

These note holders also had the option to convert the principal balance plus any accrued interest into shares of the Company and/or TEG Canada. In June 2006 the note holders relinquished their right to convert the notes into shares of TEG Canada to facilitate the pending disposal. The conversion rates were set as of September 30, 2005 at £0.039 per share for the Company's shares or (CAD) \$0.25 for the shares of TEG Canada. The options to convert expired on September 30, 2006.

On September 26, 2006 the related parties converted all of the loans into Company stock at a price of £0.04 per share. (The conversion price reflects the capital reorganization that occurred in July 2006). Had the loan notes not converted during September 2006 the note holders would have been entitled to additional 'production payments'.

Interest expense to related parties was \$11,454 for the year ended December 31, 2006. No amount of the production payment was accrued at December 31, 2006 as the loans had been converted to Company stock in September 2006.

On March 5, 2007, the Company executed note agreements with three directors and officers totaling \$37,000. These notes bear interest at 10% per annum, are due on March 5, 2008, and do not have a conversion provision.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. NOTES PAYABLE

On March 31, 2004, TEG USA purchased 84 acres of fee simple land known as the Hartje Lease in Los Angeles County, California. The purchase price was \$400,000 and payment terms were as follows; \$50,000 in cash paid in 2004 and the remaining \$350,000 in the form of a note payable with interest paid quarterly at 8% per annum. During the year ended December 31, 2007 and 2006, principal payments of \$25,000 and \$51,446 were made. An additional principal payment of \$23,554 was made in January of 2008. Interest of \$23,826 and \$23,753 was capitalized as surface land holdings for the years ended December 31, 2007, and 2006, respectively. The remaining principal amount of \$250,000 is due on March 31, 2012.

During 2005, the Board approved the establishment of an Employee Benefit and Incentive Plan (the "Plan"). The Plan may include cash, a net profits interest from production, stock and other items which the Board may elect to contribute. Distributions to employees will be accumulated and issued at the sole discretion of the Board of Directors of the Company. Initially the Plan acquired 406,135 shares of Sefton's common stock from a director of the Company. As consideration for these shares the Company assumed a loan note issued by the director. During the year ended December 31, 2007, the Company made cash payments towards the outstanding principal on the assumed loan note of \$63,163 resulting in a balance due on the note of \$88,333 at December 31, 2007. The assumed note matures in April 2009.

On August 15, 2005, the Company entered into loan agreements with certain individuals totaling \$46,000. These notes were secured by the stock of TEG USA, with interest of 9% per annum payable quarterly. These individuals also had the option to convert the principal balance plus any accrued interest into shares of the Company and/or TEG Canada. The conversion rates were set as of September 30, 2005 at £0.0026 per share for the Company's shares or (CAD) \$0.25 for the shares of TEG Canada. The options to convert expired on September 30, 2006. On December 5, 2005 the Company entered into a loan agreement with two individuals for \$100,000 with these same terms, except that the principal was due December 15, 2007 and the conversion option was extended to September 30, 2007. In June 2006, the note holders relinquished their right to convert to shares of TEG Canada because of the pending sale. On September 26, 2006 all of the Loan Agreements dated August 15, 2005 and the Loan Agreement dated December 5, 2005 were converted to Company stock at a price of £0.04 per share (The conversion price reflects the capital reorganization that occurred in July 2006). Had the loan notes not converted during September 2006 the note holders would have been entitled to additional 'production payments'.

In accordance with Emerging Issues Task Force Issue No. 98-5 ("EITF 98-5"), "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, in the above described transaction the Company recognized the advantageous value of conversion rights attached to convertible debt as a discount to the related debt and an addition to capital in excess of par value. As the market price exceeded the conversion price a beneficial conversion feature of \$157,000 was recorded at issuance. Amortization of the discount of \$119,000 is included in interest expense for the year ended December 31, 2006.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On August 15, 2005, the Company borrowed \$18,000 from an individual at 9%, with interest and principal due on or before December 31, 2005. Payment of this unsecured note was extended until March 31, 2006 and was paid in full on March 23, 2006.

On May 12, 2006 the Company entered into loan agreements with certain individuals which totaled \$242,005. These notes are secured by the stock of TEG USA, bearing interest of 10% per annum with interest payable quarterly and the principal due May 12, 2007. The individuals have the option to convert the principal balance plus any accrued interest into shares of the Company. The conversion rates were set as of May 12, 2006 at £0.075 per share on a split adjusted basis. In May of 2007, \$200,000 of the notes issued in May 2006 were extended until October 2008, the remaining \$42,005 of the notes issued in May 2006 were extended until May 2008.

On October 5, 2006, the Company entered into loan agreements with certain individuals which totaled \$102,500. These notes are secured by the stock of TEG USA, bearing interest of 10% per annum with interest payable quarterly and the principal due October 5, 2007, subsequently extended to October 5, 2008. These individuals also have the option to convert the principal balance plus any accrued interest into shares of the Company. The conversion price of £0.065 per share was calculated as the daily closing price of the said shares calculated over the five day period preceding the date of a Board of Directors meeting held to approve the loan agreement. The option to convert the loan agreement into shares of the Company expires on October 5, 2008.

On December 27, 2006 the Company entered into loan agreements with an individual which totaled \$39,310. These loans were secured by the stock of TEG USA, bearing interest of 10% per annum with interest payable quarterly and the principal due December 27, 2007. The individual also had the option to convert the principal balance plus any accrued interest into shares of the Company. The conversion rates were set as of December 15, 2006 at £0.060 per share. This option was exercised in December, 2007.

Future minimum debt payments on notes payable described above and in Note 6 are as follows:

<u>Year ending December 31</u>	\$
2008	385,059
2009	88,335
2010	-
2011 and later	250,000
	<u>723,394</u>

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. BANK NOTE PAYABLE:

On August 14, 2007 the Company entered into a Credit Agreement with its primary bank lender for a revolving credit facility with a maximum commitment amount of \$10,000,000 and an initial borrowing base of \$1,500,000. The amount available under the facility is to be re-determined on a semi annual basis. A re-determination was made in March, 2008 increasing the available credit limit to \$3,000,000. The interest rate under the facility is the prime rate plus 0.5% (7.75% at December 31, 2007). At December 31, 2007, advances under this agreement totaled \$911,317. The Credit Facility contains various covenants that include restrictions on additional debt, sale of assets, and maintenance of minimum working capital and debt service ratios. Advances outstanding under the agreement are due on August 31, 2009, are secured by a mortgage on the Company's oil and gas properties, and are supported by guarantees from the Company and its subsidiaries.

9. STOCKHOLDERS' EQUITY:

Common Stock – As set out in note above during July 2006 the Company completed a capital reorganization whereby the existing share capital of the Company was consolidated such that one new share of common stock was issued for every existing fifteen shares of common stock.

During the year ended December 31, 2006, the Company issued 135,789,202 shares before, and a further 6,498,947 shares after the capital reorganization. Of the 135,789,202 shares issued pre consolidation 129,117,202 were issued in connection with the purchase of TEG Canada, and a further 6,672,000 were issued to individuals for cash. Of the 6,498,947 shares issued post conversion 5,965,614 were issued to loan note holders on conversion of \$416,160 of notes payable and a further 533,333 shares were issued to Directors who exercised share options.

During 2007, 330,767 shares were issued to loan note holders on conversion of \$39,310 of notes payable and an additional 600,000 shares were issued to Directors who exercised stock options.

Stock Options and Warrants – During 2007, the Company granted options to purchase 3,500,000 shares of common stock to employees and directors. These options have an exercise price of £0.0525, vest over a three-year period and expire in September 2017.

During 2006, three directors exercised options for 533,333 shares at an exercise price of £0.06. The Company granted an employee of TEG USA options of 5,000,000 shares before the capital reorganization, equal to 333,333 options after the reorganization. The options have an exercise price of £0.075, vest over a three year period and expire in July 2016. Additionally, options to purchase 1,000,000 shares were relinquished during 2006 and a further 33,333 options expired

During 2005, the Company granted options to purchase 666,667 shares of common stock to an employee. These options have an exercise price of £0.06, vest over a three-year period and expire in June 2015.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition to the above options, an incentive option plan was approved in 2002, whereby the Directors may from time to time at their discretion grant to the Directors and employees of the Company options to purchase shares. The plan specifies that the subscription exercise price of such options shall not be less than the applicable market price of the shares at the date of grant of the relevant option. The number of shares for which options may be granted will be limited so that at any time the total number of shares subject to option under the plan will not exceed 10% of the total number of shares then outstanding.

The following is a summary of stock options granted under the existing stock option plans for the years ended December 31, 2007, 2006, and 2005, it should be noted that the summary reflects the capital reorganization that occurred in July 2006.

	No. of options	No. of warrants	Exercise price
Outstanding and exercisable, December 31 2004	10,006,623	1,033,333	\$0.21-\$1.095
Granted	666,666	-	\$0.1155
Expired	(1,239,956)	(1,033,333)	\$0.15-\$1.44
Outstanding and exercisable, December 31 2005	9,433,333	-	\$1.035-\$1.29
Granted	333,333		\$0.147
Exercised	(533,333)		\$0.117
Expired	(1,033,333)		\$0.115-\$1.47
Outstanding and exercisable, December 31 2006	8,200,000	--	\$0.117-\$0.1155
Granted	3,500,000	--	\$0.10789
Exercised	(600,000)	--	\$0.117
Expired	(733,333)	--	\$0.1075
Outstanding and exercisable, December 31 2007	10,366,667	--	\$0.108-\$0.123

Weighted average exercise price	\$0.1191
Weighted average remaining contractual life	7.847 years
Options vested and exercisable at December 31,	7,555,557

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2007

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Weighted average fair value of options granted:

2006	\$0.0806
2007	\$0.0667

Stock Reserved for Employee Benefit Pool – During 2005, the Board approved the establishment of an employee benefit and incentive plan. This plan may include cash, a net profits interest from production, stock and other items which the Board may elect to contribute. Distributions to employees will be accumulated and issued at the sole discretion of the Board of Directors of the Company. The Company is in the process of completing the establishment of this plan.

In July 2006, the shares of the Company were consolidated at a ratio of 15:1, this event created fractional shares that were acquired by the Company and contributed to the Employee Benefit Plan.

Treasury Stock - The Company assumed a guarantee of the value of certain shares from the former Chairman and has recorded the shares as Treasury Stock. These shares have been contributed to the Employee Benefit and Incentive plan.

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period, after taking account of the retroactive effect of the capital reorganization effective on July 28, 2006.

The weighted average number of shares outstanding for the purposes of calculating basic and diluted earnings per share during the years ended December 31, 2007 and 2006, was 115,409,587 and 105,488,479, respectively.

11. RELATED PARTY TRANSACTIONS

In October 2006, a new Chairman of the Company was elected.

In March 2006, when still a director, the new Chairman exchanged shares in TEG Canada for 15,229,660 (pre-consolidation) shares of Sefton Resources. In September 2006, prior to being elected Chairman, the new Chairman exercised 333,333 options at a price of 6p, purchased 150,000 shares at a price of 6.25p on the open market and converted a loan to the Company into 1,229,154 shares at a price of 4p. In June 2007, an additional 333,333 of options were exercised by the Chairman at a price of 6p. Related party receivables include a receivable for \$21,834 related to this exercise.

In September 2006, the new Chairman's wife converted a loan to the Company into 607,513 shares of common stock at a price of 4p.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In July 2006, the new Chairman entered into an agreement with the Company whereby he would receive \$20,000 annual compensation for services and would waive all future directors fees.

During 2006 and 2007, the former Chairman remained as CEO.

The stock subscription receivable represents \$30,347 due from the former Chairman of the Board at both December 31, 2007 and 2006.

At December 31, 2007 and 2006, \$80,806 and \$53,282, respectively, was due from the former Chairman of the Board.

Other Officers and Directors

At December 31, 2007 and 2006, the Company had receivables of \$47,693 and \$27,596, respectively, from other officers of the Company. These amounts were repaid in January, 2008. In June, 2007, a director of the Company exercised options totaling 266,667 shares at a price of 6p. In September 2006 two directors of the Company exercised options totaling 200,000 shares at a price of 6p.

Accrued Expenses

Accrued expenses at December 31, 2007 include \$164,916 of accrued bonuses due to three officers of the Company.

Accrued expenses at December 31, 2006 include \$14,862 of directors' fees, \$25,000 of accrued salaries due to two officers of the Company, and \$12,658 of accrued interest on the notes payable.

Employment Contracts with Officers

The three executive officers and Directors of the Company executed Employment Contracts with the Company during 2007. The contracts are for a period of two years and are automatically renewable if either party fails to notify the other at least one year prior to termination (Rolling Two Year Contract).

The Company will pay a base salary at the agreed upon rate per annum. The Base Salary will be guaranteed through the term of the Agreement. The Base Salary will be escalated by 7.5% at the end of each twelve month period beginning with the twelve month period ended June 30, 2008.

The Board of Directors may declare that an Employee shall be entitled to an annual bonus (whether payable in cash, stock, stock rights, or other property) as the Board of Directors shall determine.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. DISPOSAL OF TEG CANADA

In May 2006, the Company entered into an agreement, which completed in July 2006, for the disposal of 100% of the outstanding shares of common stock of TEG Canada to a third party, for consideration of \$435,418. This transaction was carried out in accordance with the Company's strategy of focusing on developing its oil and gas properties in the United States. The carrying amounts of the major classes of assets and liabilities at the date of disposal, was as follows:

	\$
Current assets	138,848
Non-current assets	487,916
Total assets	<u>626,764</u>
Current liabilities	(78,437)
Long term liabilities	(127,774)
Total liabilities	<u>(206,211)</u>
Net assets	<u>420,553</u>

The group recognized a gain on this transaction as the difference between consideration received and net assets disposed of in the amount of \$14,865.

The revenue and net income of TEG Canada for the four months ended April 30, 2006, were \$136,177 and \$6,894 respectively.

13. INCOME TAXES

Sefton Resources, Inc., the parent company, is a British Virgin Islands company and is not subject to taxes based on its jurisdiction. The operating subsidiaries, TEG USA and TEG MidContinent are taxed as US entities.

United States Tax Provision – A reconciliation of the provision (benefit) for income taxes computed at the United States statutory rate to the provision for income taxes as shown in the financial statements of operations for the years ended December 31, 2007, and 2006 is summarized below:

	2007	2006
Tax provision (benefit) at federal statutory rate	(34)%	(34)%
State taxes, net of federal tax effects	(5.35)%	(5.97)%
Other	(0.02)%	(0.02)%
Valuation allowance	39.37%	39.99%
Net income tax provision (benefit)	<u>-0%</u>	<u>-0%</u>

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the U.S. deferred tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

	2007 \$	2006\$
Deferred tax assets:		
Federal and state net operating loss carryovers	1,678,675	1,902,689
Deferred tax liabilities:		
Oil and gas properties	(1,608,707)	(1,586,870)
Net deferred tax asset	69,968	315,819
Less: valuation allowance	(69,968)	(315,819)
Net deferred tax asset	-	-

The Company has a \$3,100,000 net operating loss carryover for U.S. federal income tax purposes as of December 31, 2007. The net operating losses may offset taxable income through the year ended December 31, 2027.

The Company provided a valuation allowance against its deferred tax assets as of December 31, 2007 and 2006, respectively, since it believes that it is more likely than not that the net deferred tax assets will not be fully utilized on future income tax returns.

14. COMMITMENTS

During 2007, the Company had the following operating leases:

- Office space for its Denver headquarters; the lease requires monthly payments of \$1,759 and expires in October 31, 2008.
- Office space for its California operations; the lease requires monthly payments of \$1,000 and is month-to-month.
- Office equipment for its Denver office; the lease requires monthly payments of \$229 and expires in February 2009.

Future minimum lease payments under the non-cancelable leases are as follows:

<u>Year ending December 31</u>	\$
2008	20,338
2009	229
	<u>20,567</u>

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Rent expense was \$35,201 and \$35,344 for the years ended December 31, 2007 and 2006, respectively.

In addition to the leasing commitments set out above the Company had commitments, as at December 31, 2007, for capital expenditures relating to drilling and completion costs for wells in progress at December 31, 2007 totaling \$76,000.

15. SEGMENT INFORMATION

The Company has adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". The adoption of SFAS No. 131 requires the presentation of descriptive information about reportable segments, which is consistent with reports and accounting made available to the management of the Company to assess performance. While the Company operates in one industry segment, oil and gas exploration and development, prior to the disposal of the Canadian subsidiary in 2006, there were two reporting segments based on corporate entity and location. During 2007, the Company's operations are all located in the US.

Identified assets by segment are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash and furniture and fixtures. The segment revenues are from sale of oil and gas.

During the year ended December 31, 2006, there were no inter-segment revenues.

The accounting policies applied by each segment are the same as those used by the Company in general.

Segment	U.S. \$	Canada \$	Total \$
<u>2006</u>			
Net oil and gas sales	2,696,180	136,177	2,832,357
Loss from operations	(378,334)	6,898	372,596
Total assets	<u>8,117,155</u>	<u>-</u>	<u>8,117,155</u>

16. CASH FLOW ITEMS

Supplemental disclosures of cash flow information:

Cash paid for interest was \$82,750 and \$67,246 for the years ended December 31, 2007 and 2006, respectively.

The Company paid no income taxes for the years ended December 31, 2007 and 2006.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplemental non-cash financing and investing activities:

During 2007, the Company recorded an increase in its asset retirement obligation totaling \$369,656 versus a decrease in 2006 of \$28,671. Movements in the asset retirement obligation have been recorded in accordance with Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations".

17. LITIGATION AND CONTINGENCIES

The Company knows of no litigation pending, threatened, or contemplated, or unsatisfied judgments against it, or any proceedings to which the Company or any of its subsidiaries is a party, except as specified below.

During 2002, the Company experienced a blowout when drilling a well in the Tapia field. During 2003, the Company was named in a wrongful death lawsuit resulting from the blowout. The Company has denied any wrongdoing and the drilling company's insurance company has indemnified Sefton against any liability that may arise. This case was settled in 2006 at no cost to the Company.

In addition, the Company is a defendant in a lien action for expenses owed to the drilling company related to the blowout. In November 2006, the Company signed a Settlement Agreement with the drilling company that called for Sefton to pay \$250,000 plus interest from the date of settlement until full and final settlement at 10% per annum in exchange for resolution of all matters between the parties.

Subsequent to the Settlement Agreement, the Parties negotiated an agreement that recognized Sefton's "good faith" efforts and allowed Sefton to make partial/installment payments. On April 24, 2007, the final payment to the drilling company was made satisfying all of Sefton's obligations under the Settlement Agreement. Sefton has received confirmation from the drilling company's legal representatives that the claim against the Company has been withdrawn from the courts.

18. OIL & GAS ACTIVITIES

Results of Operations from Oil and Gas Producing Activities

The following is a summary of costs incurred in oil and gas producing activities:

	December 31,	
	2007 \$	2006 \$
Property acquisition costs	164,195	253,117
Development costs	2,020,720	481,608
Exploration costs	—	—
Total	2,184,915	734,725

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Results of operations from oil and gas producing activities (excluding operator fees, general and administrative expense, and interest expense) are presented below:

	December 31,	
	2007 \$	2006\$
Oil and gas sales	2,977,691	2,696,180
Production costs	(672,845)	(833,716)
Exploration costs	–	–
Depletion and depreciation	(304,965)	(314,145)
Results of operations from oil and gas producing Activities		
	1,999,881	1,548,319

Oil and Gas Reserve Quantities (Unaudited) – Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are those reserves expected to be recovered through existing wells with existing equipment and operating methods.

Reserve data for the United States properties for the year ended December 31, 2007, was obtained from a report prepared by an independent engineer dated February 15, 2008. All proved reserves of oil and gas at December 31, 2007 and 2006 were located in the United States.

The following table presents estimates of the Company's net proved oil and gas reserves by country as of December 31, 2007 and 2006. However, additional oil field development expenditures of approximately \$14,858,000 are necessary before the Company can access and produce a significant portion of reserves of the Tapia and Eureka fields. Such expenditures may be funded from operations, however, the Company may borrow or sell additional equity to accelerate the development of the fields.

	United States			
	2007		2006	
	Oil (bbls)	Gas (mcf)	Oil (bbls)	Gas (mcf)
Proved reserves, beginning of year	3,940,049	–	7,546,783	–
Revisions of previous estimates	59,512	–	(3,558,499)	–
Production	(46,250)	–	(48,235)	–
Purchased reserves	--	–	–	–
Proved reserves, end of year	3,953,311	–	3,940,049	–

The Company's proved developed reserves at December 31, 2007 and 2006 were 416,022 and 239,622 barrels of oil, respectively.

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ending December 31, 2006 the Company appointed a new third party engineering firm to value its reserves.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited) – SFAS No.69, “Disclosures about Oil and Gas Producing Activities”, prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines, which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and gas to be produced. Estimated future income taxes are computed using current statutory income tax rates including consideration for estimated future statutory depletion and tax credits. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect the Company’s expectations of actual revenues to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process.

	December 31,	
	2007\$	2006 \$
<u>Total Properties</u>		
Future cash inflows	332,325,458	206,962,125
Future production costs	(82,525,165)	(67,716,181)
Future development costs	(14,858,000)	(15,850,000)
Future income tax expense	(89,497,556)	(45,981,057)
Future net cash flows (undiscounted)	145,444,737	77,414,887
Annual discount of 10% for estimated timing of cash flows	(69,488,880)	(51,187,276)
Standardized measure of future net discounted cash flows	75,955,857	26,227,611

SEFTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in Standardized Measure (Unaudited) – The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	December 31,	
	2007\$	2006 \$
Standardized measure, beginning of period	26,227,611	50,108,919
Sale of oil and gas produced, net of production costs,	(2,304,846)	(1,830,586)
Extensions and discoveries	--	--
Net changes in prices and production costs	51,175,086	(2,739,805)
Net change in estimated development costs	865,198	(1,663,227)
Revisions of previous quantity estimates	1,763,756	(132,303,687)
Accretion of discount	5,787,660	12,008,498
Changes in income taxes, net	(13,234,481)	(5,209,621)
Other	5,675,873	107,857,120
Standardized measure, end of period	75,955,857	26,227,611