

Sefton Resources, Inc. and Subsidiaries

**Consolidated Financial Statements
December 31, 2009 and 2008**

FULL ANNUAL REPORT DATED June 30, 2010

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

We have audited the financial statements of Sefton Resources, Inc (“Sefton” or the “Company”) for the years ended 31 December 2009, which comprise the consolidated balance sheets, consolidated statement of operations, consolidated statement of stockholders equity and comprehensive income (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 generally accepted accounting principles 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 judgments 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 2009 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.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the disclosures made in notes 1 and 8 to the financial statements concerning the going concern assumptions made. In making their assessment the directors have considered the fact that the Bank Note payable falls due on August 31 2010 and have made the assumption that the Company will be able to agree terms with the Bank which will permit the Company to redeem the Note in accordance with its predicted cash flows. As this is a significant uncertainty, which may cast significant doubt upon the Company's ability to continue as a going concern, International Standards on Auditing (UK and Ireland) require the auditor to draw this fact to the attention of readers of the financial statements. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

CHANTREY VELLACOTT DFK LLP

**Chartered Accountants
Statutory Auditor
London
30 June 2010**

SEFTON RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008**

	December 31, 2009 \$	December 31, 2008 \$
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	297,887	97,357
Accounts receivable	300,327	451,264
Other receivables - related party	323,373	273,040
Prepaid expenses and other assets	26,975	26,974
Total current assets	<u>948,562</u>	<u>848,635</u>
OIL and GAS PROPERTIES FULL COST METHOD, net	17,172,699	14,595,804
EQUIPMENT AND VEHICLES, net	<u>15,114</u>	<u>23,577</u>
TOTAL ASSETS	<u><u>18,136,375</u></u>	<u><u>15,468,016</u></u>
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	274,062	939,477
Accrued expenses	173,133	347,508
Accrued expenses - related parties	179,605	221,083
Notes payable, current portion	21,452	211,515
Retirement obligation	654,854	-
Total current liabilities	<u>1,303,106</u>	<u>1,719,583</u>
NOTES PAYABLE:		
Notes payable	539,505	390,000
Note payable – bank	6,894,867	3,436,513
	<u>7,434,372</u>	<u>3,826,513</u>
RETIREMENT OBLIGATION	568,802	1,112,109
ASSET RETIREMENT OBLIGATION	1,209,231	1,164,263
Total liabilities	<u>10,515,511</u>	<u>7,822,468</u>
STOCKHOLDERS EQUITY:		
Common stock, no par value, 200,000,000 shares authorized, 117,484,379 and 116,387,779 December 31, 2009 and 2008 shares issued and outstanding	13,522,850	13,254,180
Stock subscription receivable	(30,047)	(30,047)
Treasury stock	(66,393)	(66,393)
Accumulated (deficit)	(5,805,546)	(5,512,192)
Total stockholders equity	<u>7,620,864</u>	<u>7,645,548</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>18,136,375</u></u>	<u><u>15,468,016</u></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	
	2009	2008
	\$	\$
OPERATING REVENUE:		
Oil and gas sales	2,739,282	4,688,183
OPERATING COSTS AND EXPENSES:		
Oil and gas production	617,042	1,040,573
Depletion and depreciation	484,554	462,685
General and administrative	1,379,483	1,774,819
Share based compensation	196,223	162,528
Total costs and expenses	2,677,302	3,440,605
PROFIT FROM OPERATIONS	61,980	1,247,578
OTHER INCOME (EXPENSE)		
Other income	-	390,000
Interest expense	(243,786)	(192,264)
Retirement liability	(111,547)	(1,112,109)
Total other income (expense)	(355,333)	(914,373)
NET INCOME (LOSS)	(293,353)	333,205
NET INCOME (LOSS) PER SHARE		
Basic and diluted	(0.0025)	0.0029

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

The annual financial statements set out on pages 5 to 24 were approved by the board of directors and signed on their behalf on 30 June 2010.

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, 2009 AND 2008**

	Common stock no par value		Stock subscription receivable \$	Treasury stock \$	Accumulated deficit \$	Total \$
	Shares	Amount \$				
Balances, January 1, 2008	116,040,354	13,049,227	(30,047)	(58,602)	(5,845,397)	7,115,181
Stock issued for cash	300,000	35,425	-	-	-	35,425
Stock issued on conversion of notes payable	47,425	7,000	-	-	-	7,000
Compensation expense related to stock options	-	162,528	-	-	-	162,528
Stock repurchased	-	-	-	(7,791)	-	(7,791)
Net income	-	-	-	-	333,205	333,205
Balances, January 1, 2009	116,387,779	13,254,180	(30,047)	(66,393)	(5,512,192)	7,645,548
Stock issued on conversion of notes payable	1,096,600	72,446				72,446
Compensation expense related to stock options		196,223				196,223
Net income					(293,353)	(293,353)
Balances, December 31, 2009	117,484,379	13,522,849	(30,047)	(66,393)	(5,805,545)	7,620,864

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 31,	
	2009	2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	(293,353)	333,205
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depletion and depreciation	484,554	462,685
Share based compensation	196,223	162,528
Changes in operating assets and liabilities:		
Accounts receivable	150,937	(36,463)
Prepaid expenses	-	(20,206)
Other receivables - related party	(50,333)	(113,348)
Accounts payable	(665,416)	128,535
Accrued retirement obligation	111,547	1,112,109
Accrued expenses - related party	(41,478)	41,534
Accrued expenses	(174,376)	184,843
Net cash provided by (used in) operating activities	(281,694)	2,255,422
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of oil and gas properties	(3,006,786)	(4,589,000)
Purchase of property and equipment	(1,233)	(12,805)
Net cash used by investing activities	(3,008,019)	(4,601,805)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	3,458,354	2,647,695
Payments on notes payable	(40,558)	(244,378)
Proceeds from sale of common stock	72,447	42,425
Purchase of treasury stock	-	(7,791)
Net cash provided by financing activities	3,490,243	2,437,951
Effect of exchange rate changes on cash	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	200,530	91,568
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	97,357	5,789
CASH AND CASH EQUIVALENTS AT END OF YEAR	297,887	97,357

The accompanying notes are an integral part of these 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. The Company’s oil and gas properties are located in California and Kansas, USA.

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.

The financial statements have been prepared on the going concern basis, assuming the Group and the Company to continue as going concerns, and therefore realize their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial statements.

As stated in Note 8 the advances due under the Bank Note Payable are due on August 31 2010.

The Directors’ assumptions in using the going concern basis include an assumption that the Company will be able to agree terms with the Bank which will permit the Company to redeem the Note with the Bank in accordance with its predicted cash flows. This is a significant uncertainty which may cast significant doubt upon the Company’s ability to continue as a going concern.

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.

Financial Results and Liquidity – The Company reported a net loss of \$293,353 for the year ended December 31, 2009. At December 31, 2008, the Company had a working capital deficit of \$870,948 and additional availability of \$2,563,487 under a bank loan with its primary lender (Note 8). At December 31, 2009, this availability was reduced to \$105,133 with working capital of \$300,311.

Significant oil field development expenditures of approximately \$13,000,000 are necessary to fully access the reserves of the Tapia and Eureka fields, 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 successfully develop these reserves and 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, 2009 and December 31, 2008.

The Company has recorded trade accounts receivable from its business operations. The Company periodically evaluates the collectability 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 year average oil and gas prices and related industry economic factors and, therefore, are subject to volatility. 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, 2009 and 2008, oil and gas revenues were generated from the following significant customers:

2009	2008
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Customer A	98%	94%
Customer B	2%	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. 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 \$441,000 at December 31, 2009 and \$418,000 at December 31, 2008 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.

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 FASB ASC Topic 740, *Income Taxes*, which 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 (net of royalties paid) 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 reports net income per share in accordance with FASB ASC Topic 260, *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 (loss) of (\$293,353) and \$333,205 for the years ended December 31, 2009 and 2008, 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 2009 and 2008 are equivalent.

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.

The Company records expense associated with the fair value of stock-based compensation in accordance with FASB ASC Topic 718, *Compensation – Stock Compensation*. Compensation expense relating to stock options for the years ended December 31, 2009 and 2008 was \$196,223 and \$162,528, respectively. The total intrinsic value of options exercised for the year ended December 31, 2008 was \$3,891. No options were exercised in 2009. As of December 31, 2009 and 2008, there was \$218,489 and \$441,604, respectively, of total unrecognized compensation cost related to non-vested options.

The fair value of the common stock options granted during 2008 (no options were granted during 2009), 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,	
	2009	2008
Expected dividend yield	N/A	-
Expected price volatility	N/A	67.17%
Risk-free interest rate	N/A	2.48%
Expected life of options	N/A	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 – The Company accounts for asset retirements and well abandonments in accordance with FASB ASC Topic 410 *Asset Retirement and Environmental Obligations*. ASC Topic 410 requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred and 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 ASC Topic 410, 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.

New Accounting Pronouncements – In December 2008, the SEC issued *Modernization of Oil and Gas Reporting: Final Rule*, which published the final rules and interpretations updating its oil and gas reporting requirements. The final rule includes updates to definitions in the existing oil and gas rules to make them consistent with the petroleum resource management system, which is a widely accepted standard for the management of petroleum resources that was developed by several industry organizations. Key revisions include the ability to include nontraditional resources in reserves, the use of new technology for determining reserves, permitting disclosure of probable and possible reserves, and changes to the pricing used to determine reserves in that companies must use a 12-month average price. The average is calculated using the first-day-of-the-month price for each of the 12 months that make up the reporting period.

In January 2010 and April 2010, the FASB issued Accounting Standards Updates No. 2010-03 and 2010-14, which provide amendments to FASB ASC topic *Extractive Activities-Oil and Gas*. The objective of ASU 2010-03 and ASU 2010-14 is to align the oil and gas reserve estimation and disclosure requirements of the FASB ASC with the requirements in the SEC's *Modernization of Oil and Gas Reporting: Final Rule*. In contrast to the SEC rule, the FASB does not permit the disclosure of probable and possible reserves in the supplemental oil and gas information in the notes to the financial statements. The Company adopted ASU 2010-03 and ASU 2010-04 effective December 31, 2009. The effect of adoption on the Company's oil and gas reserves are described in Note 17.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification* ("Codification") as the single source of authoritative U.S. GAAP for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which became effective July 1, 2009, changes the referencing and organization of accounting guidance and is effective for interim and annual periods ending after September 15, 2009. Upon adoption the Company began to use the new guidelines and numbering system prescribed by the FASB ASC when referring to GAAP.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"), as codified in FASB ASC topic, *Subsequent Events*. This standard is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

3. **OIL AND GAS PROPERTIES:**

A summary of oil and gas properties is as follows:

	2009 \$	2008 \$
Oil and gas properties	16,168,149	13,736,635
Unproved property	2,079,325	1,509,281
Accumulated depletion	(1,585,578)	(1,144,114)
	16,661,896	14,101,802
Surface land holdings	510,803	494,002
Oil and gas properties, net	17,172,699	14,595,804

4. EQUIPMENT AND VEHICLES

Equipment and vehicles consists of the following:

	2009 \$	2008 \$
Furniture and office equipment	64,638	63,406
Vehicles	100,119	100,119
Accumulated depreciation	(149,643)	(139,948)
Equipment and vehicle, net	<u>15,114</u>	<u>23,577</u>

Depreciation expense for equipment was \$9,696 and \$20,099 for the years ended December 31, 2009 and 2008, respectively.

5. ASSET RETIREMENT OBLIGATION

The Company follows the provisions of FASB ASC Topic 410 *Asset Retirement and Environmental Obligations*. Reconciliation of the asset retirement obligation for the years ended December 31, 2009 and 2008 is as follows:

	2009 \$	2008 \$
Beginning of year	1,164,263	504,096
Liabilities incurred	11,573	635,581
Accretion expense	33,395	24,586
Revision to estimate	-	-
End of year	<u>1,209,231</u>	<u>1,164,263</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 2010.

6. NOTES PAYABLE - RELATED PARTIES

On March 5, 2007, the Company executed note agreements with three directors and officers totaling \$37,000. These notes bore interest at 10% per annum, were due and repaid on March 5, 2008. On July 11, 2008, the Company executed an additional note agreement with a director for \$20,000. This noted was converted to Company shares in July, 2009. Interest expense to related parties was \$925 for the year ended December 31, 2008.

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. Principal payments totaling \$140,000 have been made on this note through December 31, 2009 and the remaining principal balance of \$210,000 is due on March 31, 2012. Interest of \$16,801 and \$19,133 was capitalized as surface land holdings for the years ended December 31, 2009, and 2008, respectively.

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, 2009 and 2008, the Company made cash payments towards the outstanding principal on the assumed loan note of \$69,824 and \$63,163 resulting in a balance due on the note of \$18,510 at December 31, 2008. The assumed note matured and was repaid in April 2009.

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 originally 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, amended to £0.06 per share, upon extension. Through December 31, 2008, payments of \$25,000 were made on these notes and \$7,000 of the notes was converted to shares in the Company. In May of 2007, \$180,000 of the outstanding notes issued in May 2006 was extended until October 2008 and has been subsequently extended to October 2011. Of the remaining \$30,005 of the notes outstanding \$20,005 has been extended to May 2011 and the balance to May 2010.

On October 5, 2006, the Company entered into loan agreements with certain individuals which totaled \$102,500. During the year ended December 31, 2009 and 2008, payments of \$2,000 and \$32,000 were made to repay individual note holders. The remaining individual note holders totaling \$68,500 are secured by the stock of TEG USA, bearing interest of 10% per annum with interest payable quarterly. These notes were originally due on October 5, 2007. Notes totaling \$59,500 and \$9,000 have been extended through May 30, 2011 and May 30, 2010, respectively. 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 conversion price was amended to £0.06 per share upon extension of the notes and the conversion rights expire on the extended due dates of the notes.

On July 7, 2008, the Company entered into loan agreements with three individuals totaling \$72,500, bearing interest at 8% and due on July 7, 2009. Notes totaling \$70,500 have been extended to July, 2011 and the balance to July, 2010.

Future minimum debt payments on notes payable described above are as follows:

<u>Year ending December 31</u>	\$
2010	21,500
2011	329,505
2012	210,000
	<u>561,005</u>

8. BANK NOTE PAYABLE:

On August 14, 2007 the Company entered into a Credit Agreement, as amended and restated October 21st, 2008 and December 31, 2009, with its primary bank lender for a revolving credit facility with a maximum commitment amount of \$10,000,000. The amount available under the facility is determined on a semi annual basis based on the Company's borrowing base. The most recent re-determinations was made on December, 31, 2009, increasing the available credit limit to \$7,000,000. The interest rate under the facility is the prime rate plus 0.5% or a LIBOR based rate, at the Company's election. The interest rate on the facility at December 31, 2009 was 3.48%. Advances under this agreement totaled \$6,894,867 and \$3,436,513, at December 31, 2009 and 2008. 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, 2010, and are secured by a mortgage on the Group's oil and gas properties.

9. STOCKHOLDERS' EQUITY:

Common Stock – During 2009 and 2008, 1,096,600 and 47,425 shares were issued to loan note holders, directors, and officers on conversion of \$72,446 and \$7,000 of notes and accounts payable, respectively. During 2008, an additional 300,000 in shares were issued to Directors who exercised stock options.

Stock Options and Warrants –The Company maintains an incentive stock option plan 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 12% 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, 2009, 2008, and 2007:

	No. of options	Exercise price
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
Granted	4,450,000	\$0.09411
Exercised	(300,000)	\$0.117
Expired	--	--
Outstanding and exercisable, December 31 2008	14,516,667	\$0.076-\$0.1086
Granted	--	--
Exercised	--	--
Expired or relinquished	(2,800,000)	\$0.08516-\$0.10544
Outstanding and exercisable, December 31 2009	11,716,667	\$0.08516-\$0.12166

Weighted average exercise price \$0.0974

Weighted average remaining contractual life 6.87 years

Options vested and exercisable at December 31,
2009 10,333,34
5

Weighted average fair value of options granted:

2007	\$0.066
	7
2008	\$0.077
	1

2009

N/A

Share option exercise prices are set in sterling and have been converted to U.S. dollars at the respective year end exchange rates.

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.

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.

The weighted average number of shares outstanding for the purposes of calculating basic and diluted earnings per share during the years ended December 31, 2009 and 2008, were and 116,936,079 and 116,214,067, respectively.

11. RELATED PARTY TRANSACTIONS

Receivables

The stock subscription receivable represents \$30,347 due from the President of the Company at December 31, 2009 and 2008.

At December 31, 2009 and 2008, advances totaling \$323,373 and \$262,952, respectively, were due from the President of the Company. Amounts payable to the President (included in accrued expenses noted below) for accrued compensation at December 31, 2009 and 2008 totaled \$89,694 and \$97,665 respectively. Amounts payable to C+J Resources Inc. (included in accrued expenses noted below) for accrued consulting fees at December 31 2009 totaled \$30,980 (December 31 2008 Nil). C+J Resources Inc (“C+J”) is owned by the president and his wife. Additionally, the Company's retirement obligation to the President, as more fully described in Note 12, totaled \$902,832 and \$784,819 at December 31, 2009 and 2008.

The Chairman of the Board had outstanding advances from the Company of \$10,088 at December 31, 2008 with no advances being outstanding at December 31, 2009. The Chairman receives an annual director's fee of \$20,000.

Accrued Expenses

Accrued expenses at December 31, 2009 and 2008 include \$158,079 and \$187,530 of accrued bonuses and salary due to three officers of the Company (including amounts for the President noted above).

Employment Contracts with Officers

Two of the three executive officers and Directors of the Company and certain key employees executed Employment Contracts with the Company. The contracts are for a period of two years and are automatically renewable if either party fails to notify the other at least three months year prior to termination (Rolling Two Year Contract). As of June 30, 2009, the most recent notice date, no notice of termination was given by either the Company or the key employees and these contracts renewed for an additional two year period beginning effective October 1, 2009.

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. Additionally, the contracts contain a provision for severance, retirement and death benefits based on years of service with the Company.

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.

The President of the Company also entered into an employment contract with the Company dated October 1, 2007. In April 2009, the Company began compensating him, through his affiliated company, C&J Resources, Inc, as a consultant instead of as an employee.

The contract with the President of the Company is subject to a dispute as more fully described in Note 16.

12. RETIREMENT OBLIGATIONS AND 401K PLANS

The Company has entered into a retirement payment agreement with the President of the Company, under which a total payment in the amount of \$902,832, was due to him on reaching 65 years of age on September 15, 2009. The Company recognized \$118,103 and \$784,819 as retirement expense under this agreement for the years ended December 21, 2009 and 2008, respectively. The amount comprises:

	\$
Due within 12 months – payable in stock	550,854
Subject to binding arbitration – payable in stock	104,000
	<hr/>
	654,854
Payable in more than 12 months	247,978
	<hr/>
	902,832
	<hr/>

The Company will settle \$550,854 of this liability by issuing 12,577,000 new shares of the Company's stock valued at 3p. per share, to the C&J Resources, Inc. Pension Plan

A further 2,374,000 new shares will be issued at 3p per share to the C&J Resources, Inc. Pension Plan and held in escrow pending the outcome of binding arbitration between the

President, C&J Resources, Inc. and the Company over an amount of \$104,000 included in the amount due to the President of \$902,832.

The Directors agreed an adjustment to the terms of the agreement revising the issue price of the new shares to 3p per share rather than the higher of 110% of the price on the day that the election to exchange was exercised and 4p per share.

The amount payable in more than one year is capable of being offset against any receivable from the President.

The Company has similar retirement agreements with four additional officers and employees which require a retirement payment based on the monthly salary at date of retirement times a multiple for years of service. This multiple ranges from one month of base salary for 2 years of service or less to two and a half times monthly salary for 10 or more years of service. Employees covered by this arrangement have retirement dates ranging from 1 to 15 years from December 31, 2009. As of December 31, 2009, one of these officers had resigned prior to vesting under the retirement agreement resulting in a forfeiture of the amounts accrued for his future benefits. For the years ended December 31, 2009 and 2008, the Company recognized (\$6,466) and \$327,290 as retirement expense (forfeiture) related to these arrangements.

On June 6, 2008, the Company established the Sefton 401(k) Plan, a qualified defined contribution 401(k) plan covering substantially all employees. Under the plan, employee contributions are matched by the Company at 100% for the first 3% of compensation and at 50% for the next 2% of compensation. Company contribution into the plan for the years ended December 31, 2009 and 2008, totaled \$23,858 and \$7,875, 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, 2009, and 2008 is summarized below:

	2009	2008
Tax provision (benefit) at federal statutory rate	(34)%	(34)%
State taxes, net of federal tax effects	(5.24)%	(5.31)%
Other	(0.0)%	(0.0)%
Valuation allowance	39.24%	39.31%
Net income tax provision (benefit)	–%	–%

The components of the U.S. deferred tax assets and liabilities as of December 31, 2009 and 2008 are as follows:

	2009 \$	2008 \$
--	---------	---------

Deferred tax assets:		
Federal and state net operating loss & depletion carryovers	4,306,086	3,485,460
Accrued retirement obligation	487,436	271,656
Deferred tax liabilities:		
Oil and gas properties	(4,336,131)	(3,515,959)
Net deferred tax asset	<u>457,391</u>	<u>241,157</u>
Less: valuation allowance	(457,391)	(241,157)
Net deferred tax asset	<u>-</u>	<u>-</u>

The Company has a \$9,355,096 net operating loss carryover and \$1,549,132 percentage depletion carry forward for U.S. federal income tax purposes as of December 31, 2009. The net operating losses may offset taxable income through the year ended December 31, 2029 and begin expiring in the year ended December 31, 2021.

The Company provided a valuation allowance against its deferred tax assets as of December 31, 2009 and 2008, 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 2008, the Company had the following operating leases:

- Office space for its Denver headquarters; the lease requires monthly payments of \$1,759 and expired in October 31, 2008 and is currently month to month.
- Office space for its California operations; the lease requires monthly payments of \$1,550 and is month-to-month.
- Office equipment for its Denver office; the lease requires monthly payments of \$229 and is month-to-month.

Rent expense was \$43,444 and \$38,385 for the years ended December 31, 2009 and 2008, respectively.

In addition to the leasing commitments set out above the Company had commitments, as at December 31, 2008, for capital expenditures relating to drilling and completion costs for wells in progress at December 31, 2008 totaling \$1,075,000.

15. CASH FLOW ITEMS

Supplemental disclosures of cash flow information:

Cash paid for interest was \$235,710 and \$181,275 for the years ended December 31, 2009 and 2008, respectively.

The Company paid no income taxes for the years ended December 31, 2009 and 2008.

Supplemental non-cash financing and investing activities:

During 2009 and 2008, the Company recorded an increase in its asset retirement obligation totaling \$11,573 and \$660,167, respectively. Movements in the asset retirement obligation have been recorded in accordance with Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations".

16. 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.

The President and the other directors have agreed to submit to binding arbitration a dispute relating to the President's and C&J Resources, Inc. contract terms. This includes compensation adjustments and retirement benefits amounting to \$109,009. The full amount has been provided in the financial statements, of which \$104,000 would be payable in shares in the event of a decision in favour of the President and C&J Resources, Inc. As described in note 12 these shares will be issued and held in escrow pending the resolution of the arbitration.

17. 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:

	<u>December 31,</u>	
	<u>2009 \$</u>	<u>2008 \$</u>
Property acquisition costs	413,593	112,837
Development costs	2,593,193	4,476,163
Exploration costs	-	-
Total	<u>3,006,786</u>	<u>4,589,000</u>

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

	<u>December 31,</u>	
	<u>2009\$</u>	<u>2008 \$</u>
Oil and gas sales	2,739,282	4,688,183
Production costs	(617,042)	(1,040,573)
Exploration costs	-	-
Depletion and depreciation	(484,554)	(462,685)
Results of operations from oil and gas producing Activities	<u>1,637,686</u>	<u>3,184,925</u>

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, 2009, was obtained from a report prepared by an independent engineer dated February 23, 2010. All proved reserves of oil and gas at December 31, 2009 and 2008 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, 2009 and 2008. However, additional oil field development expenditures of approximately \$12,834,000 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			
	2009		2008	
	Oil (bbls)	Gas (mcf)	Oil (bbls)	Gas (mcf)
Proved reserves, beginning of year	3,326,084	–	3,953,311	–
Revisions of previous estimates	265,865	–	(574,447)	–
Production	(52,386)	–	(52,780)	–
Purchased reserves	–	–	–	–
Proved reserves, end of year	3,539,563	–	3,326,084	–
Proved developed reserves	1,401,579	–	1,354,700	–
Proved undeveloped reserves	2,137,984	–	1,971,384	–

Standardized Measure of Discounted Future Net Cash Flows (Unaudited) – FASB ASC topic *Extractive Activities-Oil and Gas*. 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 average twelve month prices and year end 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,	
	2009 \$	2008 \$
<u>Total Properties</u>		
Future cash inflows	210,021,547	93,952,562
Future production costs	(81,939,354)	(43,597,223)
Future development costs	(12,834,000)	(10,810,000)
Future income tax expense	(28,560,459)	(10,912,516)
	<hr/>	<hr/>
Future net cash flows (undiscounted)	86,687,734	28,632,823
Annual discount of 10% for estimated timing of cash flows	(46,345,419)	(14,219,553)
	<hr/>	<hr/>
Standardized measure of future net discounted cash flows	40,342,315	14,413,270

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,	
	2009 \$	2008 \$
Standardized measure, beginning of period	14,413,270	75,955,857
Sale of oil and gas produced, net of production costs,	(2,122,240)	(3,647,610)
Extensions and discoveries	–	–
Net changes in prices and production costs	31,491,722	(90,554,291)
Net change in estimated development costs	(1,641,586)	3,119,829
Revisions of previous quantity estimates	4,315,060	(4,220,092)
Accretion of discount	1,773,707	11,400,421
Changes in income taxes, net	(6,888,055)	36,208,777
Other	(999,563)	(13,849,621)
	<hr/>	<hr/>
Standardized measure, end of period	40,342,315	14,413,270

The adoption of the oil and gas reserve estimation and disclosure authoritative accounting guidance issued by the FASB effective for reporting periods ending on or after December 31, 2009 resulted in an approximate reduction of \$12,855,000 on the Company's standardized measure of discounted future net cash flows as of December 31, 2009, due to a decrease in prices used in calculating the cash flows under the new guidance.