

**SEFTON RESOURCES, INC.**  
**("Sefton" or "The Company")**

**Interim results for the six months to  
30 June 2006**

**HIGHLIGHTS**

- Sefton records its first interim profit
- Sales up 306% at \$1.5m
- Profit of \$175,647 (loss \$1,008,626)
- Plans in hand for at least five new wells

Chairman, Jim Ellerton reports that 'the company is financing operations from cash flow while discussing a line of credit with several banking institutions. A line of credit will allow the company to accelerate the development and expand its assets, in California and Kansas'.

**Chairman's Statement:**

I am pleased to report the first profit statement of the Company: Oil and Gas Sales for the six-month period ending 30 June 2006 were \$1,508,114 a 306% increase over the comparable period last year (\$371,414), but slightly down from the second half of last year due to the repair work at Tapia and Eureka that was reported in my 1 August 2006 statement.

Production costs increased 74% to \$356,104 (\$204,947), primarily as a result of the aforementioned repair work. General and administrative costs decreased 4% to \$785,689 (\$815,994). Overall costs and expenses decreased 3% to \$1,332,467 (\$1,380,040), despite a \$78,463 non-cash interest expense related to an equity conversion option in a loan note. These resulted in a profit of \$175,647 for the six-month period, a 118% increase over the loss of \$1,008,626 for the comparable period last year.

On the balance sheet, the current assets exceed the current liabilities. Total liabilities were reduced and shareholders' equity increased significantly for the period ending 30 June 2006 relative to the comparative period in 2005.

The sale of TEG Oil & Gas Canada, Inc. closed June 30, 2006 with an effective date of May 1, 2006 and the Company realized approximately \$400,000 USD cash and at the same time increased its holdings to 100% of the shares in TEG MidContinent, Inc., which contain significant Eastern Kansas landholdings.

Following the sale of TEG Canada, which accounted for 30-40 BOPD and the successful repair work at Tapia and Eureka, production has now settled down at 140 BOPD at Tapia and 15-20 BOPD at Eureka. Plans are in hand for at least five new wells, but these are subject to rig availability, which remains very tight.

Subsequent to June 30, 2006, an initial ruling on the remaining litigation to claim damages against the drilling company following the 2002 Blowout went against the Company and we are awaiting an analysis of the Ruling and options available to the Company from our lawyers. The Company's balance sheet includes the contingent liability (\$178,000) from the remaining litigation and as such, there will be no impact to the Company's financials, if we choose to settle the litigation.

Currently the Company is financing Operations from Cash flow, while discussing a line of credit with several banking institutions. A line of credit will allow the Company to accelerate the development and expand its assets in California and Kansas.

Operations reports for the Company's two wholly owned subsidiaries follow.

**Jim Ellerton**  
**Chairman and Chief Executive Officer**  
**September 22, 2006**

## **Interim Operations Report on TEG Oil & Gas USA, Inc.**

### **TAPIA OIL FIELD**

TEG USA concentrated on facilities improvements during the first half of 2006. The better than expected results from the 2005 drilling program put a strain on the old tank and separation equipment at the Tapia Oil Field. Capital expenditures could not be justified, however, without first proving the viability of new wells in the field. The 2006 program for upgrading the facilities includes repair and or replacement of three tanks at the Lackie facility, four tanks at the Hartje facility, Installation of a vapor recovery and gas flare system, upgrade of tank piping at the Yule tank facility and realignment of the produced water separation and injection system. Through June 30, 2006 TEG USA had completed 80% of the Lackie facility Tank reconstruction, 100% of the Yule tank piping improvements, Reconstruction of the Hartje/Lackie Produced Water Tank, and 100% of the Tapia Vapor Recovery/Gas Flare System. We are on schedule for completing the proposed tasks by year-end. Once completed, the tank work will add an additional 2,000 barrels of storage capacity at Tapia and significantly greater daily throughput capacity.

Production at Tapia for the first six months of the year averaged 130 BOPD despite key wells being down for mechanical reasons for over two months while waiting for a well servicing rig. The increased activity in the California oil market has made service rigs especially scarce. While the service rig was at the field, TEG conducted an acid stimulation of one well that had historically low fluid production rates. The acid stimulation resulted in an increase from 1 BOPD to approximately 10 BOPD. Additionally TEG took the opportunity to replace pumps in all of the key wells so not to risk pump failures in wells after the rig was released and no longer available. Once all service rig work was completed, the production for the field returned to expected production rates of approximately 150 BOPD.

TEG USA revenues averaged \$251,352/mo. for the January through June 2006 time period, dominantly from oil produced at Tapia. This facilitated the payout of the 2005 five well drilling program as well as funding 2006 facilities projects.

TEG has received approval for five of the nine wells from the California Division of Oil, Gas and Geothermal Resources. Approval of another four wells, which will be drilled on Federal minerals parcels, are pending surface owner sign-off (Los Angeles County) before final approval is granted by the U.S. Bureau of Land Management. TEG is now in the process of securing a drilling rig to begin the next round of drilling at Tapia. Rig availability, however, continues to be very tight.

### **EUREKA CANYON OIL FIELD**

TEG has been working with *W.L. Gore and Associates, Inc.* at Eureka Canyon in preparation for a geochemical reconnaissance-mapping program. Gore Geochemical surveys have shown great success worldwide in the identification of prospect areas and in reducing drilling risk within existing mapped areas. The area under minerals lease to TEG comprises just over 1,500 acres in rugged terrain. This rugged terrain and steeply dipping geology makes acquisition of standard subsurface seismic data a challenge. TEG currently produces oil from about 40 acres within this property. We anticipate that the survey will provide TEG with new areas to concentrate exploitation efforts and also add support for two possible infill-drilling locations identified by production mapping of the oil producing area. This program is on track for 3<sup>rd</sup> Quarter 2006 implementation.

### **EVENTS SUBSEQUENT TO JUNE 30, 2006**

Since the close of the 2<sup>nd</sup> Quarter TEG has signed a formal contract for services with W.L.Gore and is at this time in the process of collecting the field geochemical samples at Eureka Canyon. Once collected, the samples will be analyzed and compared to samples from similar, known oil producing areas as well as non-oil-producing areas for calibration. A prospect map will then be generated for the area.

TEG USA took the opportunity to conduct pump changes and well clean outs during late July and early August at Eureka Canyon while a service rig was available. The work resulted in restoring production from less than 10 BOPD to approximately 20 BOPD.

TEG has continued to upgrade the facilities at Tapia and has received delivery of new tank panels for repair of the two 1,000 bbl Hartje stock tanks. We have also received bids on tank insulation and heating equipment that will facilitate better oil separation processing during the cold winter months. All Lackie tanks are reconstructed and tank piping is now being completed.

Harry P, Barnum, P.G., R.E.A.  
President / Managing Director  
TEG Oil & Gas USA, Inc.

## **Interim Operations Report for TEG MidContinent, Inc.**

At the start of 2006, the company had improved its asset base and had positioned itself for future development and growth. During the first six months of the year TEG has moved cautiously; selectively focusing on prime acreage in its lease acquisition program and undertaking geological and engineering studies prior to initiating its drilling program. This less aggressive approach allows others in the industry to perfect drilling and completion technologies unique to the Forest City Basin that TEG can utilize once drilling commences. Meanwhile the company's leasehold is situated in geologically prime areas and as indicated below, industry drilling activity and successes supports TEG's project development decisions and its leasehold value has increased. These favorable factors give TEG the option to undertake its drilling program individually or through joint venture.

### **TEG MIDCONTINENT PROJECTS:**

#### **Leavenworth County**

We have continued to acquire leases in Leavenworth County, an area which TEG management believes is a very viable project. Leavenworth County has produced almost 3 million barrels of oil and in excess of 18 BCF of gas. There remains considerable, undrilled, geologically sound prospects in addition to the unconventional Coalbed Methane potential

Believing this, TEG is undertaking the following two-phase approach to project development:

#### **Lease Acquisition**

During the "Due diligence" phase of the attempted acquisition it was discovered that considerable un-leased/open acreage was situated adjacent to existing wells. The Company initiated a lease acquisition program and today TEG has increased its total acreage holdings to over 7500 acres acquired at competitive lease bonus costs.

#### **Joint Venture Development**

Currently TEG is in contract negotiations with several pipeline Operators that provide gas gathering system infrastructure or market access. One Operator has immediate access to the Southern Star system and is situated such that access could be achieved via a previous "tap" that needs only equipment upgrades to start deliveries. This pipeline could provide immediate market access ("hook-up") for several wells. The contract negotiations with these operators should be concluded during the fourth quarter of 2006.

### **Anderson / Franklin County**

The Anderson and Franklin County leasehold is considerable, has close proximity to pipelines and is supported by extensive geology and coalbed methane production within the Forest City Basin, in the immediate area of TEG's project.

At the end of June TEG had leased in excess of 28,000 acres. The Leases were acquired at competitive prices. All leases are for a minimum of five (5) years, with most having an option to extend for an additional five (5) years. The acreage is situated such that TEG has coverage on both conventional oil and gas possibilities and on the thicker, potentially more productive, Bevier and Riverton coal deposits. The existence of abandoned or temporarily abandoned well-bores on the leased acreage will provide TEG with the opportunity to test various potentially productive zones

The Forest City Basin/Bourbon Arch CBM development play is moving toward TEG's acreage and supports TEG's drilling optimism or ability to attract joint venture partners. This statement is based upon project development by Petrol on the West (19 wells recently completed, and 12 additional wells permitted, three that are immediate offsets to TEG acreage). Petrol is selling gas into the Enbridge system that crosses TEG acreage. Heartland has initiated four pilot projects in an area east of TEG's acreage and has successfully completed 24 wells. Heartland is selling gas into the Enbridge system.

The opportunities in Kansas are extensive. In order to better quantify the opportunities, TEG has contracted Sure Engineering to consolidate and expand available data into a TEG Kansas Operational Study, upon completion of that report TEG will determine its best courses of action relative to both projects.

Bruce Mackay  
President  
TEG MidContinent, Inc.



**SEFTON RESOURCES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>For the Six months ended June 30</u>		<u>For the year ended</u>
	<u>2006</u>	<u>2005</u>	<u>December 31, 2005</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(audited)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net gain (loss)	\$ 175,647	\$ (1,008,626)	\$ (732,464)
Adjustments to reconcile net gain (loss) to net cash (used in) operating activities			
Depletion and depreciation	82,323	98,013	199,713
Loss on fair value	-	266,735	266,735
Stock issued for services	-	-	-
Stock options issued for services	-	-	-
Amortization of discount on convertible notes payable	78,463	-	38,000
Forgiveness of accounts receivable to related parties	-	-	148,000
Changes in operating assets and liabilities			
Accounts receivable	(309,324)	(81,706)	(288,510)
Prepaid expenses	13,507	22,852	(5,373)
Other assets - related party	(19,541)	69,687	(12,544)
Accounts payable	202,466	1,271,654	335,894
Accrued expenses - related party	19,269	(46,871)	32,187
Accrued expenses	7,368	26,859	20,988
Net cash (used) provided by operating activities	<u>250,178</u>	<u>618,597</u>	<u>2,626</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of oil and gas properties	-	-	-
Purchase of oil and gas properties	(382,766)	(2,880,040)	(3,314,760)
Purchase of property and equipment	(26,249)	(25,653)	(25,951)
Establishment of Employee Benefit Pool	-	(325,337)	-
Acquisition of minority interest Canada	(36,484)	-	-
Net cash (used) by investing activities	<u>(445,499)</u>	<u>(3,231,030)</u>	<u>(3,340,711)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from sale of minority interest in subsidiary	-	-	722,071
Proceeds from notes payable - related party	-	-	270,160
Payments on notes payable - related party	-	-	-
Proceeds from notes payable	242,005	325,337	90,820
Payments on notes payable	(41,059)	(140,142)	(93,484)
Proceeds from sale of common stock	-	459,701	-
Proceeds on private placement of common stock	42,305	-	-
Net cash provided by financing activities	<u>243,251</u>	<u>644,896</u>	<u>989,567</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<u>(25,689)</u>	<u>(1,745)</u>	<u>(10,886)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	22,241	(1,969,282)	(2,359,404)
<b>CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR</b>	<u>126,109</u>	<u>2,485,513</u>	<u>2,485,513</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 148,350</u>	<u>\$ 516,231</u>	<u>\$ 126,109</u>

SEFTON RESOURCES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

June 30, 2006

1. The financial results for the half-year to 30 June 2006 and the comparatives to 30 June 2005 are both unaudited. The financial information for the year to 31 December 2005 has been extracted from the full audited financial statements. The financial statements presented in the 30 June 2006 interim statement incorporate by reference the full audit report that is available in the Company's annual report from 31 December 31 2005.
2. The June 30, 2006 statements do not include the Canadian Balance sheet items in consolidation but do include the Canadian operations as a result of the sale of TEG Oil & Gas Canada Inc. (Note 7). All other financial information included in this document has been prepared on a consistent basis and using the same accounting policies as the audited financial statements for the year to 31 December 2005 and has been approved by the Board of Directors of the Company.
3. The reporting currency of the Company is the U.S. dollar. The functional currency of the Company's Canadian subsidiary was the Canadian dollar. 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 reporting period. 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 operations as incurred.
4. On April 1, 2005, Sefton Resources, Inc. sold TEG MidContinent, Inc. to TEG Oil and Gas, Canada, Inc. (TEG Canada) for \$500,000 (United States Dollars), 2,000,000 shares of the common stock of TEG Canada and the assumption of all future costs and expenses related to TEG MidContinent, Inc.
5. In May 2005, the Board of Directors of TEG Canada approved the issuance of up to 6,000,000 shares of TEG Canada at a price of \$0.25 (Canadian Dollars) per share. As of June 30, 2005 subscriptions for 3,114,098 shares of this private placement had been signed, and the Company had received cash of \$459,701.

6. On February 15, 2006 the Sefton Board of Directors authorized the acquisition of shares in TEG Oil & Gas Canada, Inc. owned by minority interests. This was completed with an offer to Canadian shareholders an exchange of Sefton shares for their shares owned in TEG Oil & Gas Canada, Inc. or repayment of original investment. As of March 31, 2006, TEG Oil & Gas Canada became a 100% wholly owned subsidiary of Sefton Resources, Inc.
7. On June 30, 2006 TEG Oil & Gas Canada Inc. was sold by Sefton Resources, Inc. for \$450,000.00 (Canadian) and 100% of the shares of TEG MidContinent, Inc. The effective date of sale was May 1, 2006
8. As discussed in Note 7, TEG Oil & Gas Canada was sold effective May 1, 2006 and oil and gas operations costs have been included in the statements. Canadian oil and gas production costs consist of actual figures through April 30, 2006
9. The sale of TEG Oil & Gas Canada, Inc. for cash and 100% of the shares in TEG MidContinent, Inc. has resulted in the reporting of additional intangible lease value derived from TEG Canada's ownership of TEG MidContinent, Inc. The Auditors will review this transaction at year-end to ensure the accounting is in accordance with US GAAP.
10. In accordance with Emerging Issues Task Force Issue No.98 ("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, 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 \$78,463 is included in interest expense for the period ended June 30, 2006.
11. Copies of the Interim Statement will be sent to shareholders in October 2006. Copies of the Interim Statement will be available from the Company Secretary, Pinsent Masons Secretarial Services Limited, 30 Aylesbury Street, London EC1R 0ER.

For more information, please contact:  
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