FULL ANNUAL REPORT

Sefton Resources, Inc.

Consolidated Financial Statements
31 December 2012

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GAINING MOMENTUM
IN CREATING & REALISING VALUE

Sefton is entering a period of growth as a number of its projects are now reaching a stage in their development in which the Company expects to realise value created from third party financing, whilst increasing revenue and reserves as additional assets come on stream.

CHAIRMAN'S STATEMENT

Dear Shareholder,
Sefton has completed the first of a two year transition period, in which the board has been strengthened, the number of revenue sources increased and new reserves added. In addition, liabilities have been reduced and the Company has remained profitable.

In 2013, the Company believes that an additional revenue source can be added along with further increases in revenues and reserves. Third party financing to fully develop existing assets will be an additional focus, in order to realise the value created at Tapia, which will be the first example of one of Sefton's assets going through the full cycle of acquisition, development and value realisation. The next cycle will be the Kansas Exploration & Production ("E&P") assets where the same process cycle has begun.

In summary, by owning and operating its assets 100%, Sefton controls its own destiny.

Operations

EOR (California)
TEG Oil & Gas USA Inc (wholly owned subsidiary of Sefton Resources, Inc – "TEG USA") is producing oil from both the Tapia Canyon oil field and the Eureka oil field in California.

At Tapia in 2012, the pilot cyclic steam programme continued and the geologic model for use in Dr Ali's thermal simulation study was completed.

This year (2013), the plan is to re-drill a replacement salt water disposal well in addition to drilling the Hartje #20 well which will result in the ability to produce and handle more fluids (oil and water), thus increasing oil production significantly.

Reserves will be re-engineered at Tapia on the back of Dr Ali's final thermal simulation report, from which an increase in the cyclic steaming operations will ensue as Dr Ali's report will also contain the specifications for a larger second steam generator. Moving ahead, third party financing entities with steam expertise will be sought in to fully develop Tapia, in the manner outlined by Dr Ali's reports and updated engineering.

Meanwhile at the Eureka Canyon oil field, the plan for 2013 is to complete the permitting process to drill new wells, in addition to offering third parties a seismic option followed by the drilling of a wildcat well, based on the results of recent geochemical surveys, and seismic results.

TRANSMISSION (Kansas)

In an area (Leavenworth County) with little access to national natural gas markets, TEG Transmission LLC (wholly owned subsidiary of Sefton Resources, Inc - “Transmission”) acquired two inactive pipelines (LAGGS and Vanguard).

In 2012, Transmission certified both the LAGGS and Vanguard pipelines and put in place a transportation agreement and a physical “interconnect” between the LAGGS pipeline and Southern Star Central Gas Pipeline, Inc. (“Southern Star”) interstate pipeline system. This agreement and physical interconnect allows Transmission to gather, transport and sell between 350 mcf/d and 10,000 mcf/d of natural gas from both its own and third party gas wells beyond local markets and into national markets via Southern Star’s interstate pipeline system. This transmission facility will provide a third revenue stream for Sefton.

The operational team is in the process of joining the Vanguard pipeline to the LAGGS pipeline as permitting is completed and construction is now underway. In joining these two pipelines together, the area of gathering, transportation and selling gas will be expanded. This will mean that gas associated with oil can also be gathered, transported and sold, thus increasing oil production in this area.

The initial throughput is expected to be between 500 mcf/d and 1,500 mcf/d of natural gas which is sufficient to provide good cash flow for Transmission. Over the coming years, the plan is to increase throughput to 10,000 mcf/d and beyond.

Transmission owns another inactive pipeline (Waverly) in Anderson County which lies about 60 miles south of Transmission’s LAGGS/Vanguard pipelines. This is similar to its northern counterpart and expectations are to certify Waverly and negotiate a transportation agreement/interconnect to another interstate pipeline system once the LAGGS-Vanguard-Southern Star system is flowing gas economically.

EXPLORATION & PRODUCTION (Kansas)

With the ability to sell natural gas and natural gas associated with oil production beyond local markets in Leavenworth County, NE Kansas, TEG MidContinent Inc (“MidContinent” – a wholly owned subsidiary of Sefton Resources, Inc.) has embarked on a mineral leasing program, based on an in-house geologic study. MidContinent is acquiring mineral leases in proximity to Transmission’s LAGGS/Vanguard pipelines within an area that has been inactive for some time due to lack of pipeline infrastructure and low commodity prices.

By acquiring such mineral leases with existing wells that have the ability to bring oil and gas production back on stream, MidContinent has established at least a dozen project areas which have such capabilities. The initial focus in 2012 was on wells capable of producing oil (until LAGGS joined to Vanguard) and a workover, recompletion and surface equipment refurbishment program in several old but non-depleted fields was initiated. By the end of 2012, production was established which created a second revenue stream for Sefton.

In 2013, production is expected to increase, as this reactivation program continues, which will be expanded by the acquisition of additional leases, “step-out drilling” for extending existing fields and ultimately new fields are expected to be discovered which will enhance this revenue stream further.

In addition to the pipeline system for gathering natural gas, MidContinent has sufficient water disposal facilities already in place plus a water tanker truck which provides ample water disposal capacity to allow for significant increases in water, oil and gas volumes.

As the Waverly pipeline system becomes operational, the exploration/production capabilities of this area (Anderson County) will also be activated.

J. ELLERTON
CHAIRMAN

Revenues

During the year ended 31 December 2012, revenue rose by 3.6% to $4.3 million, assisted by an increase in realised oil prices despite slightly lower volumes being sold compared to 2011.

The realised oil prices maintained an average of $103 a barrel in 2012 – virtually the same average as for 2011, due to worldwide oil prices being maintained along with a favourable premium paid for heavy oil in California.

Oil volume sold in California was 39,158 barrels, compared to 40,323 barrels achieved in 2011, although due to the timing difference between production and sale of oil, production in 2012 was actually higher than the previous year at 42,498 barrels (2011 40,176 barrels).

A small amount of oil (yielding revenue of $12,000) was also sold from tanks in Kansas towards the end of the year. Although oil production was initiated in late 2012, sales of produced oil in Kansas didn’t commence until early in 2013.

Profit for the year

Cost of sales (lease operating expenses and royalties) was $1.5 million compared to $1.2 million in 2011. The increase in costs despite the marginal increase in production, is due to fixed costs not decreasing, higher repairs and maintenance expenses and an increase in royalties payable resulting from the improved revenues.

After deducting the cost of sales from revenue, the gross profit from oil sales in 2012 is $2.8 million, compared to $2.9 million in 2011.

General and administrative expenses recognised in 2012 have decreased by $0.2 million compared to 2011, which has mitigated much of the increase in cost of sales.

Earnings before non-cash charges, interest and taxes were $962,000 in 2012 compared to $1,052,000 in 2011.

Non-cash depletion, depreciation and amortization and share-based payment charges combined at $0.7 million compared to $0.5 million in 2011, mainly due to increased depletion charges resulting from the Group’s increased investment in non-current assets.

After deducting these costs, the net operating income for the year was $0.3 million compared to $0.5 million in 2011. However, if we consider that in 2011 there was an unusual retirement obligation credit of $142,000 compared to a charge in the current year of $56,000 then operating income, excluding the retirement obligation, is comparable year-on-year.

Net profit for the year after deducting finance costs from operating income was $21,000 compared with $0.2 million in 2011.

The Group therefore continued to remain profitable while continuing to fund development and expansion of operations with slightly lower oil sales compared to 2011.

Cash flow

The Group's cash flow statement has been reformatted in the 2012 financial statements to become more compliant with IAS 7. The main differences being that:

1) The cash flow now reconciles back to the operating profit number (instead of earnings before non-cash charges, interest and taxes) and
2) Interest paid on borrowings is now included within financing activities rather than operating activities.

As can be seen in the first part of the Group's cash flow statement, the Group generated $0.6 million from operating cash flow in 2012 compared to the generation of $1.1 million of operating cash flow in 2011.

However if we look at cash flows before changes in operating assets and liabilities the Group generated $1.0 million in 2012 compared to $0.7 million in 2011 – the difference in total operating cash flows between 2012 and 2011 being due to the combination of an increase in receivables and a decrease in payables during the year.

The Group had $947,000 in cash on hand at 31 December 2012 as compared to approximately $2.6 million at the end of 2011.

Equity fundraising

During 2012, the Group raised a net total of $3.7 million ($4.3 million before expenses) in equity funding compared with $5.4 million ($5.7 million before expenses) in 2011.

A single placing in May 2012 raised over $3 million before costs.

In July, a £15 million Equity Financing Facility ("EFF") was agreed with Darwin Strategic Limited ("Darwin"), a subsidiary of the Alphagen Volantis fund ("Henderson") part of the fund management group Henderson Global Investors. Warrants to purchase shares in Sefton were issued to Darwin as part of this arrangement.

The EFF provides Sefton with a facility which, subject to certain limited restrictions, can be drawn down at any time over the next three years; the timing and amount of any drawdown is at the discretion of Sefton.

Sefton is under no obligation to make a drawdown and may make as many drawdowns as it wishes, up to the total value of the EFF, by way of issuing subscription notices to Darwin.

This EFF facility gives Sefton the financial flexibility to continue to develop its operations and assets, thus ultimately delivering value for shareholders.

The Company considered a number of possible financing options and it was concluded that this route not only gives the Group maximum flexibility, but has the potential to deliver a lower level of dilution to existing shareholders as the Company controls the drawdown rate.

In December, a drawdown was made on the EFF raising a further $1 million before costs.

Investments

The Group invested $5.2 million in cash in the development of its oil and gas and natural gas gathering and transportation projects during the year – compared to $3.5 million invested in cash in the previous year.

This investment was split between the operations in California ($3.8 million invested in cash in 2012) and Kansas ($0.9 million invested in oil and gas development activities and $0.5 million invested in gas pipeline projects during 2012). $1.7 million of this cash investment related to the payment of additions recorded in 2011, significantly reducing the trade payables.

In California oil production volumes improved towards the end of the year as the benefits were reaped from the investments made in the acidisation and steaming of the Yule wells ahead of the resolution of the water disposal issues, and good progress has also been made on the thermal simulation report on Tapia.

In Kansas, an additional licence was acquired during the year with a number of oil wells already drilled. The Group is investing in a workover and recompletion programme that will see oil, gas and CBM wells brought back into production with first revenues from oil whilst additional gas assets are being assembled for the future development as all the pipelines become operational.

Investment during 2012 in 3 pipelines owned by the Group is proving positive with the Vanguard pipeline system certified as ready to flow in late 2012.

The LAGGS pipeline in Leavenworth County has been fully refurbished and is now connected to the Southern Star Interstate Pipeline system which allows sales outside the local Kansas market.

Plans are to join the Vanguard pipeline to the LAGGS system in Leavenworth County which will increase the scale of this gathering system. This means the Group will be able to transport its own gas as well as third party gas to market and generate additional revenues.

Non-current assets increased by 13% during 2012 to $26.1 million at 31 December 2012 from $23.0 million at the end of 2011 due to the continued successful asset development in both California and Kansas. Total assets increased to $27.9 million from $26.1 million in the previous year.

Total liabilities decreased by 21% to $8.1 million from $10.3 million in 2011 due principally to further payments reducing the outstanding long-term borrowings and a significant reduction (75%) in trade and other payables at 31 December 2012 compared to the previous year.

Net assets at 31 December 2012 increased to $19.8 million from $15.8 million in 2011.

Liquidity & risk management

Although new short-term loan notes were issued during 2012 to the value of $129,000, overall debt was reduced as the Group repaid $600,000 of bank borrowings during the year (2011: $1.2 million). At 31 December 2012, total borrowings had fallen to $5.6 million from $6.1 million at the end of 2011.

The Group has prepared cash flow and profit forecasts into 2014 covering its operational activities, further investment in its oil and gas production and transportation assets and the replacement repayment in early 2014 of the outstanding bank borrowings which the Group is confident can be achieved whilst maintaining profitability.

For these reasons, the Company continues to prepare the Group's financial statements on a going concern basis.

Risk management

The Group's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Commodity price risk

The Group is exposed to commodity price risk as it sells its oil and gas production on a floating price basis, and may consider partially mitigating this risk in the future through hedging instruments.

Interest rate risk

The Group has a $10 million revolving credit facility (2011: $10 million) with a $5.45 million borrowing base (2011: $6.05 million) with its primary bank lender at a variable interest rate. The Group does not currently hedge its interest rate exposure and consequently, its net income or loss is directly affected by changes in interest rates.

The Group's bank deposits bear interest at nominal rates, and changes in these rates do not have any significant impact on its financial results.

Credit risk

The Group sells its production to a purchaser which it believes demonstrates strong financial ability. Due to the concentration of oil and gas production in the Group's main producing area and the availability of alternate markets, the loss of its significant purchaser would not adversely affect the Group's operations.

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities. The Group manages its liquidity needs through forecasts which are reviewed regularly to ensure sufficient funds exist to finance the Group's current operational and investment cash flow requirements.

At 31 December 2012 the Group held approximately $947,000 in cash (2011: $2.6 million).

There have been no substantive changes in the Group's exposure to financial instrument risks, as objectives, policies and processes for managing those risks or the methods used to measure them from previous periods have not changed.

Market risk

Due to the nature of the Group's operations during 2012 and 2011, it is mainly exposed to risk arising from fluctuations in the price of oil. During the periods under review, the following oil prices (per barrel) applied:

Year ended 31 December	High	Low	Average
2012	$114.63	$90.07	$102.76
2011	$114.80	$83.36	$102.62

Ms A Ovens FCCA
Financial Consultant

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. The Directors have elected to prepare the financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair representation will be achieved by compliance with all IFRS. Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group, for safeguarding the assets and for taking responsible steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SEFTON RESOURCES, INC.

Year ended 31 December 2012

We have audited the consolidated financial statements of Sefton Resources, Inc. (the “Group”) for the year ended 31 December 2012 which comprise the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, and accompanying notes.

The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Group’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 Group’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 Group and the Group’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 set out on page 10, the Group’s Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

These standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group’s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Full Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEFTON RESOURCES, INC., CONTINUED

Year ended 31 December 2012

Opinion

In our opinion:

- The consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of the results of the Group for the year then ended;

- The consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union.

CHANTREY VELLACOTT DFK LLP

Chartered Accountants and Statutory Auditor
London
14 May 2013

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 $000's	2011 $000's
Revenue		**4,289**	4,140
Cost of sales		**(1,478)**	(1,235)
Gross profit		**2,811**	2,905
General and administrative expense		**(1,793)**	(1,995)
Retirement obligation expense	6	**(56)**	142
		(1,849)	(1,853)
Income before non-cash charges, interest and taxes		**962**	1,052
Depletion, depreciation and amortisation	8	**(475)**	(356)
Share-based payments	13	**(211)**	(181)
Operating income		**276**	515
Finance costs	2	**(255)**	(278)
Total comprehensive income for the year attributable to equity holders of the parent		**21**	237
		Per share $	**Per share** $
Basic and diluted earnings per share	14	**0.00004**	0.0008

Sefton Resources, Inc.

Consolidated balance sheet
at 31 December 2012

	Notes	2012 $000's	2011 $000's
Non-current assets			
Intangible assets	7	**4,928**	3,538
Property, plant and equipment	8	**21,139**	19,449
		26,067	22,987
Current assets			
Cash and cash equivalents		**947**	2,563
Trade and other receivables	9	**859**	526
		1,806	3,089
Total assets		**27,873**	26,076
Non-current liabilities			
Long- term borrowings	11	**5,450**	5,750
Retirement obligation	6	**220**	165
Asset retirement obligation	12	**1,678**	1,604
		7,348	7,519
Current liabilities			
Trade and other payables	10	**627**	2,494
Current portion of borrowings	11	**129**	300
		756	2,794
Total liabilities		**8,104**	10,313
Net assets		**19,769**	15,763
Shareholders' equity			
Share capital	13	**23,750**	20,016
Retained deficit		**(3,981)**	(4,253)
Total equity attributable to equity holders of the parent		**19,769**	15,763

The annual financial statements set out on pages 13 to 34 were approved and authorised for issue by the Board of Directors and signed on its behalf on 14 May 2013 by:

J J Ellerton, Chairman of the Board

The accompanying notes form part of these consolidated financial statements.

Sefton Resources, Inc.

Consolidated statement of changes in equity for the year ended 31 December 2012

	Common shares, no par value			
	Shares	Amount $000's	Retained deficit $000's	Total $000's
Balances 1 January 2011	202,469,459	14,622	(4,670)	**9,952**
Shares issued for cash	195,181,547	5,729	-	**5,729**
Share issuance costs	-	(320)	-	**(320)**
Repurchase of common shares	-	(15)	-	**(15)**
Compensation expense related to share options	-	-	180	**180**
Comprehensive income	-	-	237	**237**
Balances 31 December 2011	397,651,006	20,016	(4,253)	**15,763**
Shares issued for cash	179,930,714	4,326	-	**4,326**
Share issuance costs	-	(592)	-	**(592)**
Compensation expense related to share options	-	-	211	**211**
Compensation expense related to share warrants	-	-	40	**40**
Comprehensive income	-	-	21	**21**
Balances 31 December 2012	577,581,720	23,750	(3,981)	**19,769**

Sefton Resources, Inc.

Consolidated statement of cash flows
for the year ended 31 December 2012

	Notes	2012 $000's	2011 $000's
Cash flows from operating activities			
Operating profit		**21**	236
Finance costs		**255**	277
Share based payments		**211**	180
Retirement benefit expense		**55**	(142)
Depreciation		**476**	357
		1,018	684
Changes in operating assets and liabilities:			
Changes in trade and other receivable		**(378)**	177
Changes in trade and other payables		**(82)**	89
Net cash provided by operating activities		**558**	1,175
Cash flows from investing activities			
Purchase of intangible assets		**(1,390)**	(1,001)
Purchase of property, plant and equipment		**(3,814)**	(2,531)
Net cash used in investing activities		**(5,204)**	(3,532)
Cash flows from financing activities			
Proceeds of issue of new shares		**4,326**	5,729
Expenses of new share issue		**(592)**	(320)
Repurchase of common shares		**-**	(15)
Proceeds from notes payable		**129**	-
Payments on notes payable		**(600)**	(1,195)
Interest paid		**(233)**	(226)
Net cash provided by financing activities		**3,030**	3,973
Net (decrease) / increase in cash and cash equivalents		**(1,616)**	1,615
Cash and cash equivalents at beginning of year		**2,563**	948
Cash and cash equivalents at end of year		**947**	2,563

1. Accounting Policies

General information

Sefton Resources, Inc. (the "company" and together with its subsidiaries, the "Group") 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 and gathering and transporting natural gas in the Continental United States. The Group's properties are located in California and Kansas, USA.

The Group's consolidated financial statements are presented in US Dollars, which is the Group's functional and presentation currency.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. All accounting standards and interpretations issued by the International Accounting Standards Board and the IFRS Interpretations Committee effective for the periods covered by these financial statements have been consistently applied to all years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention.

Going concern

The directors have reviewed cash forecasts for the next 12 months and are confident that the Group will have available to it adequate resources to enable it to continue in operational existence for the foreseeable future. For this reason, the consolidated financial statements have been prepared on the going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries) as at 31 December 2012. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Intercompany transactions, balances and unrealised gains on transactions between Group entities (the Company and its subsidiaries) are eliminated on consolidation.

At 31 December 2012, the Group's subsidiaries, all of which are registered and incorporated in the United States, and included in the consolidated Group financial statements, were:

TEG Oil & Gas USA, Inc.	100%
TEG MidContinent, Inc.	100%
TEG Transmission, Co., LLC	100%

New accounting standards and interpretations

The Group has reviewed new and amended standards and interpretations currently in issue but not effective as of 31 December 2012 and determined that none of these new standards and interpretations will have significant impact on reported results.

Amendments to existing standards and new standards which may apply to the Group in future accounting periods are.

		Effective date (periods beginning on or after)	EU adopted	Impact on Sefton Resources Inc
IAS 1	Financial Statement Presentation—Presentation of Other Comprehensive Income	1 July 2012	Yes	Disclosure only
IAS 12	Income Taxes - Deferred Tax: Recovery of Underlying Assets	1 January 2013	Yes	No material impact
IAS 19	Employee Benefits (Amendment)	1 January 2013	Yes	No material impact
IAS 27	Separate Financial Statements (as revised in 2011)	1 January 2013	Yes	No material impact
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013	No	No material impact
IFRS 10	Consolidated Financial Statements	1 January 2013	Yes	No material impact
IFRS 11	Joint Arrangements	1 January 2013	Yes	No material impact
IFRS 12	Disclosure of Involvement with Other Entities	1 January 2013	Yes	Disclosure only
IFRS 13	Fair Value Measurement	1 January 2013	Yes	No material impact

Financial Instruments

Financial instruments are recognised when the Group becomes a party to contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

The Group's financial assets are all classified as loans and receivables. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments which are subject to insignificant risk of changes in value. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated balance sheet.

Trade and other receivables

These arise principally through the provision of supplies of oil and gas (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Financial liabilities

Trade payables and other short-term monetary liabilities are classified as financial liabilities and are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Bank borrowings and loan notes are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

There is no material difference between the book value and fair value of financial instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Exploration and evaluation costs
Exploration and evaluation expenditure, in respect of each area of interest, is accounted for under the successful efforts method.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

Exploration acquisition costs relating to established oil and gas exploration areas are capitalised as exploration and evaluation assets within intangible assets.
The costs of drilling exploration wells are initially capitalised within exploration and evaluation assets pending the results of the well.

Costs are expensed where the well does not result in the successful discovery of potentially economically recoverable reserves.

All other exploration and evaluation expenditure, including general administration costs, geological and geophysical costs, and new venture expenditure is expensed as incurred, except where the expenditure relates to an exploration discovery for which, at balance sheet date, an assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or the expenditure relates to an area of interest under which it is expected that the expenditure will be recouped through successful development and exploitation or by sale.

When an oil or gas field has been approved for commercial development, the accumulated exploration and evaluation costs are transferred to production assets within property, plant and equipment.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement.

Development expenditure includes past exploration and evaluation costs, pre-production development costs, development drilling, development studies and other subsurface expenditure pertaining to that area of interest.

The definition of an area of interest for development expenditure is narrowed from the exploration permit for exploration and evaluation expenditure to the individual geological area where the presence of an oil or natural gas field exists, and in most cases will comprise an individual oil or gas field. Development expenditure is reviewed for impairment at each reporting date where there is an indication that the individual geological area may be impaired.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward development costs are transferred into production assets within property, plant and equipment, and depreciated on the units of production basis over the life of economically recoverable reserves.

Other intangible assets
Other intangible assets include expenditure relating to the development of gas gathering and transportation assets.
Amortisation is not charged on costs carried forward in respect of gas gathering and transportation development assets. When such assets are certified as ready for use, carried forward development costs are transferred into gas transportation assets within property, plant and equipment and depreciated.

Property, plant and equipment
Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Property, plant and equipment is stated at historical cost less depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of these items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other costs, including repairs and maintenance costs, are charged to the statement of comprehensive income in the period in which they are incurred.

Depreciation is provided on all property, plant and equipment and is calculated as follows:

Equipment and vehicle costs	3-7 years straight-line
Production assets	% of estimated reserves (units of production)

Depreciation is provided on cost less residual value. The residual value, depreciation methods and useful lives are annually reassessed.

Impairment of assets

At each balance sheet date the directors review the carrying amounts of the Group's tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately.

Provisions - asset retirement obligation

A provision is recognised on the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

The unwinding of the discount is recognised as an accretion expense in the statement of comprehensive income.

The Group recognises the present value of the future estimated costs of plugging oil and gas wells and removing surface facilities associated with those oil and gas wells in the financial statements in the period in which the obligation arises. Upon initial recognition of the liability, an asset retirement cost is capitalised by increasing the carrying amount, included in oil and gas properties, by the same amount as the liability. In periods subsequent to initial measurement, the capitalised asset retirement cost is allocated to depreciation and amortisation expense at the unit of production rate associated with the corresponding asset.

For additional detail regarding the asset retirement obligation see Note 13.

Revenue recognition

Revenue from the sale of oil and gas is recognised when significant risks and rewards of ownership are transferred to the buyer.

The Group follows the gross method of accounting for royalties where the royalty owners' share of sales is accounted for as an operating expense of the Group, and calculated as a percentage of revenue.

Income taxes

Current income tax is based on taxable profit for the year.

The Group's current tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The Group's ultimate parent is incorporated in the British Virgin Islands and is not subject to US income tax; however, the parent's subsidiaries are incorporated and operate in the US and are subject to US income taxes.

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority on either the same taxable entity or different taxable entities which intend to settle or realize the amounts simultaneously.

Foreign currency

The presentational currency for the Group's consolidated financial statements is US dollars and it is this currency in which the Group reports.

The Group's assets at this time are all in the United States and the majority of transactions are made in US dollars. A bank account is maintained in the UK for the purpose of facilitating the payment of certain administrative costs.

Foreign currency transactions by Group companies are recorded in their functional currency (being US dollars) at the exchange rate at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited in the statement of comprehensive income.

Employment Benefits

Provision is made in the financial statements for all employee benefits.

The Group's contributions to defined contribution pension plans are charged to the Income Statement in the period to which the contributions relate.

The Group provides for long-term retirement obligations for certain employees. These provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Share-based payments

Where share options and warrants have been granted to employees, consultants, Directors and suppliers, IFRS 2 has been applied whereby the fair value of the options is measured at the grant date and spread over the period during which the employees become entitled to the options. A Black Scholes options valuation model is used to assess the fair value, taking into account the terms and conditions attached to the options. The fair value of goods and services received are measured by reference to the fair value of options.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the retained earnings reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipients become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

The charge or credit to the statement of comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

For additional detail regarding share-based compensation see Note 14.

Risk management objectives and policies
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Critical accounting estimates and judgements
In the process of applying the Group's accounting policies, management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of oil and gas reserves
Proved oil and gas reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as the standardised measure of discounted cash flows, depreciation, depletion and amortisation charges, and decommissioning provisions) that are based on proved reserves are also subject to change.

Capitalised exploration and appraisal expenditures
In making decisions about whether to continue to capitalise exploration expenditures, it is necessary to make judgements about the probable commercial reserves and the level of activities that constitute on-going appraisal determination. If there is a change in any judgement in a subsequent period, then the related capitalised exploration and appraisal expenditure would be expensed in that period, resulting in a charge to income.

Asset retirement obligation (provision for abandonment)
Estimates of the amounts of provision for abandonment recognised are based on current legal and constructive requirements, technology and price levels. As actual outflows may be different from estimates due to changes in laws, regulations, technology, prices and conditions, and can take place in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes. For additional detail regarding provision for abandonment see Note 13.

Segmental reporting
The Directors have determined that the Group has two principal business activities — oil and gas exploration and production, and natural gas gathering and transportation — both of which are conducted solely within the United States at this time.

As of 31 December 2012, the Group's revenues derived solely from the production of oil.

Assets relating to natural gas gathering and transportation at 31 December 2012 (and 31 December 2011) are recognised within intangible assets and disclosed within note 7.

Assets relating to oil and gas exploration and production are included within both intangible assets and property, plant and equipment, and are disclosed accordingly in notes 7 and 8.

2. Finance costs

The Group's finance costs during the years ended 31 December 2012 and 2011 were as follows:

	2012 $000's	**2011** $000's
Interest on bank revolving credit agreement	**203**	222
Interest on notes payable	**11**	23
Share warrant expense recognised as a finance charge (note 14)	**6**	-
Accretion of asset retirement obligation	**35**	33
	255	278

3. Income tax expense

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 Oil & Gas USA, TEG MidContinent and TEG Transmission 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 31 December 2012 and 2011 is summarised below:

	2012 %	**2011** %
Tax provision (benefit) at federal statutory rate	**(34.00)%**	(34.00)%
State taxes, net of federal tax effects	**(6.13)%**	(5.36)%
Other adjustments	**(1.15)%**	-%
Valuation allowance	**41.28%**	39.36%
Net income tax provision (benefit)	**–%**	–%

The components of the US deferred tax assets and liabilities as of 31 December 2012 and 2011 are as follows:

	2012 $000's	**2011** $000's
Deferred tax assets:		
Federal and state net operating loss and depletion carry forwards	**7,609**	6,881
Accrued retirement obligation	**667**	638
Deferred tax liabilities:		
Oil and gas properties	**(8,216)**	(7,235)
Net deferred tax asset	**60**	284
Less: valuation allowance	**(60)**	(284)
Net deferred tax asset	**-**	-

The Group has a $16,738,273 operating loss carryover (2011: $14,857,155) and $2,588,857 percentage depletion carry forward for US federal income tax purposes as of 31 December 2012 (2011: $2,589,762). The net operating losses may offset taxable income through the year ended 31 December 2032 and begin expiring in the year ended 31 December 2021. The Group provided a valuation allowance against its deferred tax assets as of 31 December 2012 and 2011 since it is uncertain whether net deferred tax assets will be fully utilised on future income tax returns.

4. Staff costs

The average number of employees, Directors and consultants employed or contracted by the Group during the years ended 31 December 2012 and 2011, by category was:

	2012	2011
Management	**3**	3
Exploration and production	**7**	4
Administration	**3**	3
Total	**13**	10

During the year, 3 additional personnel joined the company in relation to the initiation of operations in Kansas, and a further 3 personnel joined in California in relation to the work on continuous cyclic steaming.

The aggregate compensation expense incurred by the Group for these employees, Directors and consultants during the years ended 31 December 2012 and 2011, by category was as follows:

	2012 $000's	2011 $000's
Salaries and fees	**1,745**	1,739
Social security and other taxes	**64**	48
Pension costs	**22**	17
Retirement obligation	**56**	(142)
Share-based compensation	**211**	181
Total compensation expense	**2,098**	1,843

A portion of the compensation expense of the employees, Directors and consultants included in the table above have been capitalised into the cost of oil and gas properties where those costs are directly attributable costs associated with these assets.

5. Directors' remuneration

Total remuneration comprises emoluments, which include salaries or fees accrued, bonuses accrued and health and life insurance benefits received. Total remuneration also includes pension and retirement benefits accrued, and share-based awards. Ad hoc bonuses may be paid to reward exceptional performance. Such bonuses are decided by the Board on the recommendation of the Compensation Committee. Share options are also awarded to Directors, employees and Consultants from time to time.

The granting of share options to individuals is determined taking into account seniority, commitment to the business and recent performance. Such share option awards are also decided by the Board on the recommendation of the Compensation Committee. For additional information on share awards and share-based compensation see Note 14.

The key management of the Group consists of the Board of Directors. The total remuneration for each Director for the years ended 31 December 2012 and 2011 is shown below.

Year ended 31 December

	2012 Emoluments & compensation $000's	**2012 Pension contributions & retirement benefits** $000's	**2012 Share-based compensation** $000's	**2012 Total** $000's	**2011 Total** $000's
J Ellerton *	**390**	**71**	**59**	**520**	541
K Arleth **	**210**	**-**	**34**	**244**	279
M Smith **	**22**	**-**	**24**	**46**	54
T Milne ***	**10**	-	-	**10**	-
Total	**632**	**71**	**117**	**820**	873

* Includes fees paid under a consultancy agreement with C & J Resources Inc., which is owned by Mr Ellerton and his wife.
** Non-Executive Director.
*** Non-Executive Director appointed in August 2012.

6. Retirement obligation

The Group provides a retirement benefit to certain employees with employment or service contracts as described below. The following outlines the Group's retirement obligation:

	2012 $000's	**2011** $000's
Balance 1 January	**165**	307
Retirement obligation expense	**55**	53
Retirement obligation expense adjustment *	**-**	(195)
Retirement obligation expense – net	**55**	(142)
Balance 31 December	**220**	165

The retirement obligation is based on the individual's ending monthly salary or fee arrangement at the date of retirement times a multiple for years of service. This multiple ranges from one month of base salary or fee for two years of service or less, to two and a half times monthly salary or fee for ten or more years of service. Three employees are covered by this arrangement at 31 December 2012 (2011: two employees), with their retirement dates under the plan being 2016, 2020 and 2022.

* During the prior year an employment contract with one employee lapsed and was not renewed.

7. Intangible assets

Intangible exploration assets for all years presented consist of the Group's investment in oil and gas properties and pipeline interests in Kansas.

As of 31 December 2012 commercial activity had not yet commenced on the acreage and the assets are currently being evaluated for future development potential. There is no indication of impairment.

	Total		Exploration & evaluation assets		Gas gathering and transportation assets	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	$000's	$000's	$000's	$000's	$000's	$000's
Balance at 1 January	**3,538**	2,476	**2,547**	2,361	**991**	115
Additions	**1,390**	1,062	**906**	186	**484**	876
Balance at 31 December	**4,928**	3,538	**3,453**	2,547	**1,475**	991

8. Property, plant and equipment

Production assets consist of the Group's investment in producing oil properties in California. Based on reserve reports prepared for these properties, the Group believes that the investment is supported by the value of the underlying assets.

	Production assets	Other plant and equipment	Total
	$000's	$000's	$000's
Cost			
At 1 January 2011	17,726	165	17,891
Additions	4,385	23	4,408
At 31 December 2011	22,111	188	22,299
Additions	2,140	27	2,167
At 31 December 2012	24,251	215	24,466
Accumulated Depreciation			
At 1 January 2011	2,332	162	2,494
Charge	345	11	356
At 31 December 2011	2,677	173	2,850
Charge	455	21	476
At 31 December 2012	3,132	194	3,326
Net book value			
At 31 December 2012	**21,119**	**21**	**21,140**
At 31 December 2011	19,434	15	19,449

Other plant and equipment assets include office and computer equipment and vehicles.

9. Trade and other receivables

	2012 $000's	2011 $000's
Trade receivables	**421**	205
Prepayments	**155**	5
Related party receivables	**283**	316
	859	526

Trade receivables represent accruals of the prior month's unpaid oil revenues, which are received one month in arrears.

Related party receivables at 31 December 2012 and 2011 consist of:

	2012 $000's	2011 $000's
J Ellerton	**283**	283
M Smith	**-**	25
K Arleth	**-**	8
Total	**283**	316

The receivable from Mr. Ellerton as of 31 December 2012 and 2011 consists of amounts due for cash advances. See Note 10 as Mr. Ellerton, through C&J Resources and C&J Pension Plan is due amounts that the Group owes to the referenced entities controlled by Mr. Ellerton.

The amounts due from Mr. Smith and Mr. Arleth in the prior year were amounts due for share subscriptions.

The carrying value of trade and other receivables approximates their fair value.

10. Trade and other payables

	2012 $000's	2011 $000's
Trade payables	**205**	1,799
Accruals	**188**	381
Related party payables	**235**	314
	628	2,494

Related party payables at 31 December 2012 and 2011 consist of:

Related party	2012 $000's	2011 $000's
K Arleth	**6**	-
Summit Energy Consultants LLC	**-**	2
M Smith	**6**	-
C & J Resources Inc.	**137**	175
C & J Resources Inc. Pension Plan	**80**	137
T Milne	**6**	-
Total	**235**	314

Amounts due to Summit Energy Consultants, LLC, which is owned by Mr Arleth, at 31 December 2011 represented accrued vacation.

Amounts due to C&J Resources, Inc. at 31 December 2012 and 2011 represent accrued bonus and fees. C&J Resources Inc. is owned by Mr. Ellerton and his wife and provides his services under a consultancy agreement.

The obligation to the C&J Resources, Inc. Pension Plan at 31 December 2012 and 2011 represents the outstanding retirement obligation due for Mr. Ellerton's services at that time.

The net amounts due from / (to) organisations under the control of Mr. Ellerton are:

	2012 $000's	**2011** $000's
Mr. Ellerton, C&J Resources, Inc, C&J Resources Inc. Pension Plan	**66**	(29)

The carrying amounts of trade and other payables approximate their fair value.

11. Borrowings

	2012 Within one year $000's	**2012** After one year $000's	**2011** Within one year $000's	**2011** After one year $000's
Bank loan	-	5,450	300	5,750
Notes payable		-	-	-
Total	129	5,450	300	5,750

Bank loan

On 14 August 2007 the Group entered into a Credit Agreement with its primary bank lender for a revolving credit facility with a maximum commitment amount of $10 million.

The Credit Agreement was amended and restated on 21 October 2008, and amended on 31 December 2009, 21 July 2010, 11 February, 2011, and 1 September, 2011.

The 1 September 2011 amendment included an extension of the due date of the Note until 1 June, 2013.

The amount available under the Credit Agreement is determined on a semi-annual borrowing base review and redetermination.

The most recent amendment to the agreement was made on 10 May 2013, where a further extension to January 2014 was agreed, with a number of smaller principal payments being made each month from July 2013.

The interest rate under the Credit Agreement is the prime rate plus 0.5% or a LIBOR based rate, at the Group's election.

Advances under this agreement totalled $5.45 million and $6.05 million at 31 December 2012 and 2011, respectively.

The Credit Agreement contains various covenants that include restrictions on additional debt, sale of collateralised assets, as the Notes are secured by a mortgage on the Group's oil and gas properties, and maintenance of minimum working capital and debt service ratios.

12. Financial Instrument Risk Exposure and Management

The Group's objectives, policies and process for managing risks and the methods used to measure them are detailed within the Financial Report.

Liquidity risk

In managing liquidity risk, the main objective of the Group is to ensure that it has the ability to pay all of its liabilities as they fall due. The Group monitors its levels of working capital to ensure that it can meet its liabilities as they fall due. The table below shows the undiscounted cash flows on the Group's financial liabilities as at 31 December 2012 and 2011 on the basis of their earliest possible contractual maturity.

	Total $000's	Within 2 months $000's	Within 2 -6 months $000's	6 – 12 months $000's	Greater than 12 months $000's
At 31 December 2012					
Trade payables	**205**	**205**	**-**	**-**	**-**
Accruals	**188**	**-**	**188**	**-**	**-**
Bank loan	**5,450**	**-**	**-**	**-**	**5,450**
Other loan notes	**129**	**-**	**129**	**-**	**-**
	5,972	**205**	**317**	**-**	**5,450**
At 31 December 2011					
Trade payables	1,799	1,799	-	-	-
Accruals	381	-	381	-	-
Bank loan	6,050	100	200	300	5,450
	8,230	1,899	581	300	5,450

13. Asset retirement obligation

The undiscounted liability of asset retirement obligations as of 31 December 2012 is estimated at $2,908,000 thousand (2011: $2,891,000), which is expected to be incurred in the period between 2016 and 2036, and does not include any potential salvage values.

The present value of the obligation is estimated using a discount rate of 3.5%.

A reconciliation of the asset retirement obligation is as follows:

	2012 $000's	**2011** $000's
Liabilities, beginning of year	**1,604**	1,320
Liabilities incurred	**-**	124
Accretion expense	**35**	33
Revision to estimate	**39**	127
Liabilities, end of year	**1,678**	1,604

14. Share capital, share options and share-based payments

The Group's share capital for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Authorised		
Three billion common shares at nil par value	-	-
Number of common shares in issue	**577,581,720**	397,651,006
	$000's	$000's
Issued and fully paid		
Share capital	**23,750**	20,016

During the year ended 31 December 2012 the Group issued 179,930,714 common shares (2011: 195,181,547 shares) and received proceeds of $4,326,000 (2011: $5,729,000) before expenses of $592,000 (2011: $320,000).

Equity financing facility

During the year, the Group entered into an equity financing facility with Darwin Strategic Ltd.

The facility will allow drawdowns of up to £15m in total over the course of 3 years. Drawdowns, which are at the group's discretion, comprise the issue of common shares in Sefton Resources Inc to Darwin for cash, with the issue price being based on recent trading prices, less a 5% discount. The common shares issued under these drawdowns are equity instruments.

As part of the arrangement, Darwin also has the right to subscribe for up to 10% of any placings of common shares by the Company. Darwin also received warrants over 3,500,000 of the Company's common shares: these warrants had a fair value at issue date of $40,048.

The Group has received £616,412 as part of this arrangement, in exchange for 58,750,000 common shares.

Share options and share-based payments

The Group maintains an incentive share option plan whereby the Directors may from time to time at their discretion grant to the Directors, consultants and employees of the Group options to purchase common shares.

The plan specifies that the subscription exercise price of such options shall not be less than the applicable market price of the common shares at the date of grant of the relevant option. The number of common shares for which options may be granted will be limited so that at any time the total number of common shares subject to option under the plan will not exceed 10% of the total number of common shares issued and outstanding.

The options vest over a three year period and have a ten year life. The Group records a share-based payment expense based on an estimate of the fair value of the option awarded. The fair value is estimated using a Black-Scholes option pricing model.

The fair value of the various options is determined using a Black-Scholes option pricing model and based on the inputs below.

Grant date	**18-Mar-08**	**25-Jun-08**	**1-Jan-11**
Number of options	3,850,000	2,750,000	13,000,000
Share price at grant - pounds	0.0578	0.0675	0.0150
Exercise price – pounds	0.0600	0.0650	0.0175
Volatility	62.78%	67.17%	161.51%
Dividend yield	nil	nil	nil
Risk free investment rate	0.014	0.0248	0.0325
Option life – years	6.5	6.5	10.0
Fair value per share option - pounds	0.034	0.044	0.0149

Grant date	**7-Feb-11**	**24-Jul-11**	**27-Sep-11**
Number of options	1,000,000	3,500,000	5,500,000
Share price at grant - pounds	0.0180	0.0305	0.0224
Exercise price – pounds	0.0200	0.0350	0.0350
Volatility	122.40%	163.06%	69.01%
Dividend yield	nil	nil	nil
Risk free investment rate	0.0325	0.0325	0.0325
Option life – years	10.0	10.0	10.0
Fair value per share option - pounds	0.0171	0.302	0.0158

Warrants

Warrants issued in June 2012 as part of the arrangement of the equity financing facility were fair valued using a Black-Scholes option pricing mode based on the inputs below:

Grant date	**June 12**
Number of warrants	3,500,000
Share price at grant - pounds	0.0163
Exercise price – pounds	0.0325
Volatility	95.50%
Dividend yield	Nil
Risk free investment rate	0.788
Option life – years	3
Fair value per warrant - pounds	0.0074

These are considered to be a financing cost and as such have been recorded in prepayments initially and then recognised in finance costs over the 3 year term of the facility.

The fair value of the share warrants of $40,048 has been recognised in the retained earnings reserve in the year. The expense recognised in finance costs for the year in relation to the share warrants is $5,562.

The following is a summary of share options and warrants for the years ended 31 December 2011 and 2012, share-based payment expense for the years ended 31 December 2012 and 2011, and Officer and Director option holdings as of 31 December 2012.

Share awards, expirations and relinquishments

	Number of options	**Exercise price**	**Number of warrants**	**Exercise price**
Outstanding at 31 December 2010	9,100,000	\$0.08474-\$0.12105	-	-
Granted	23,000,000	\$0.02717-\$0.05433	-	-
Expired or relinquished	(1,183,334)	\$0.08149-\$0.10090	-	-
Outstanding at 31 December 2011	30,916,666	\$0.0217-\$0.11643	-	-
Granted	-	-	3,500,000	\$0.05055
Outstanding at 31 December 2012	30,916,666	\$0.0217-\$0.11643	3,500,000	\$0.05055
Weighted average exercise price		\$0.052156		\$0.05055
Weighted average remaining contractual life		7.1 years		2.5 years
Options / warrants vested and exercisable at 31 December 2012		7,916,667		3,500,000
Weighted average fair value of options / warrants granted:				
2012		\$0.03796		\$0.01144
2011		\$0.03796		-

Share-based payment expense

The following outlines share-based payment expense in relation to share options for the years ended 31 December 2012 and 2011:

	2012 \$000's	**2011** \$000's
Officers and Directors	**138**	116
Employees	**73**	65
Total	**211**	181

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

The share-based payment expense recognised during the years ended 31 December 2012 and 2011 pertain to the following awards:

Year of award	**2012** $000's	**2011** $000's
2011	**211**	144
2008	**-**	37
Total share-based compensation expense	**211**	181

At 31 December 2012 the Group's Officers and Directors held the following options:

Officer or Director	Number of options held	Expiration dates	Exercise prices £	Average exercise price £
Jim Ellerton	12,116,667	9/2/2014 – 11/11/2021	0.0175 – 0.065	0.0371
Karl Arleth	6,000,000	9/26/2021– 11/11/2021	0.0175 – 0.035	0.0233
Mark Smith	4,000,000	9/26/2021– 11/11/2021	0.0175 – 0.035	0.0219
Total	22,116,667			

Shares 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 Group.

15. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Basic earnings per share

	2012 $'s	**2011** $'s
Earnings per share	**0.00004**	0.0008

The earnings and weighted average number of common shares used in the calculation of basic earnings per share are as follows:

	2012 $000's	**2011** $000's
Earnings used in the calculation of total basic and diluted earnings per share	**21**	237

	2012	2011
Number of common shares		
Weighted average number of common shares for the purposes of basic earnings per share	**474,738,877**	286,143,570

If the Company's share options and warrants were taken into consideration in respect of the Company's weighted average number of common shares for the purposes of diluted earnings per share, it would be as follows:

	2012	2011
Number of common shares		
Dilutive effect of share options and warrants	**32,682,988**	24,797,814
Weighted average number of common shares for the purposes of diluted earnings per share	**507,682,865**	310,941,384

Basic and diluted earnings per share have been computed to be substantially the same.

16. Leases

The Group has the following minimum future payments on non-cancellable operating leases:

	2012 $000's	2011 $000's
Buildings		
Within one year	**10**	9
Equipment		
Within one year	**2**	3
Between two and five years	**-**	4