SHELTON
PETROLEUM

Annual Report 2011

Contents

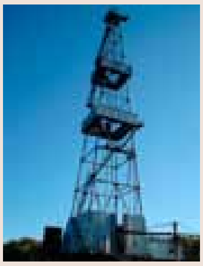

Resource potential, million barrels of oil equivalent
Ukraine
300
Russia
43
Reserves, million barrels of oil 3P
Ukraine
8
Russia
6
Production per day in Q4 2011, barrels
Ukraine
282
Russia
140

License portfolio

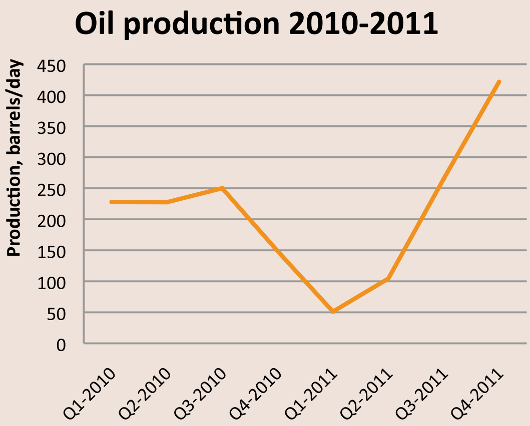
License	Geographic location	Primary product	Reserves			Resource potential	Working interest	Partner
			1P	2P	3P			
Production onshore								
Rustamovskoye	Russia	Oil	1	1	6	43	100 %	
Lelyaki	Ukraine	Oil	3	8	8	–	45 %	Ukrnafta
Exploration onshore								
Aysky*	Russia	Oil	–	–	–	–	100 %	
Suyanovskoye	Russia	Oil	–	–	–	–	100 %	
Exploration offshore								
Arkhangelskoye	Ukraine Black Sea	Gas and NGL	–	–	–	130	50 %	CNG
Biryucha	Ukraine Sea of Azov	Gas	–	–	–	166	50 %	CNG
North Kerchenskoye	Ukraine Sea of Azov	Gas	–	–	–	4	50 %	CNG
Summa			**3**	**9**	**14**	**342**		

All columns do not total due to rounding of figures.
* Aysky and Suyanovskoye have not yet been evaluated by independent Western institutions. The independent company Udmurtgeofizika has estimated that Russian C1+C2 reserves and C3 resources at Aysky can amount to 12 and 10 million barrels of oil, respectively.
The reserves and resources shown in the tables above are given in millions of barrels of oil equivalent net to Shelton Petroleum. The data is based on independent audits conducted by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd. in 2009.

The year in brief 2011



- The company achieves production level exceeding 400 barrels per day in Q4 and reports a profit of SEK 4 million
- Russia
  - Increased production at Rustamovskoye. The second exploration well goes into production.
  - Several steps are taken in the development program at Rustamovskoye
  - Seismic studies at Aysky identify three potential structures
  - Helium studies indicate the presence of hydrocarbons at Aysky and Suyanovskoye
- Ukraine
  - Reinstated oil extraction at Lelyaki
  - Drilling of well #309 started
  - Production at Lelyaki increases by 30 percent in Q4
- Shareholding in the refinery gives cash funds in the amount of SEK 51 million
- Reduced production taxes in both Russia and Ukraine increase the cash flow potential in 2012



Key figures	2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	2010	2009	2008	2007
Production, barrels	77,300	38,800	24,400	9,500	4,600	77,900	0	0	0
Total revenue (SEK thousand)	47,183	21,988	20,573	4,588	34	29,291	0	9	0
Operating profit (SEK thousand)	2,392	3,621	9,964	–5,947	–5,246	–11,440	–16,664	–8,791	–2,871

93,800
barrels of oil sold during the year

30%
production increase at the Lelyaki field in Q4

SEK 20
million invested in oil and gas assets

SEK 4
million in profit in Q4 – first profit in company's young history

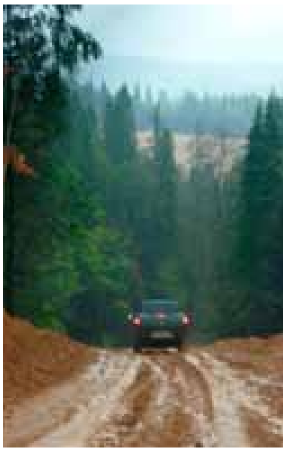
43%
increase in net price for oil sold from Rustamovskoye field during the second half of the year

23%
increase in sales compared to 2010

7%
operating margin for the whole year

65 kilometers of seismic data collected and a helium study of

120 km² conducted in Bashkiria



SEK 51
million obtained via the liquidation of Tomsk Refining

Subscriptions to the new convertible bond amounted to

SEK 23
million

Dear Shareholder,

Shelton Petroleum ended 2011 on a positive note. After intense and trying work to resume production in Ukraine, we were able to produce some 38,800 barrels of oil, or 422 barrels per day, during the fourth quarter. It is the highest level in the company's relatively young history and is also an important milestone. We reached a production level where the company can generate operating profit for its shareholders. This gives us room to maneuver and more freedom to develop the company at the rate that creates the best value for the shareholders.

Increased production volumes

Shelton Petroleum's prioritized objective is to continue increasing production volumes in both Ukraine and Russia. At the Lelyaki field in Ukraine we are conducting a work program consisting of new wells, sidetracks in existing wells and workovers. This has enabled us to increase production by 30 per cent at the end of the year since reinstating production in September.

At the Rustamovskoye field in Russia, the company initiated a development program after successful exploration drilling. In 2011, we designed a drill site, worked to ensure a power and water supply, obtained permits from relevant authorities and procured subcontractors for infrastructure and drilling. This has enabled us to prepare for the new production wells that will be drilled during the year.

Potential in exploration

At the same time, we have been implementing cost-effective measures in exploration to increase our reserve base. Seismic surveys and helium studies in Russia have identified several promising structures that I look forward to exploring further by drilling.

Production taxes lowered in Russia and Ukraine

To stimulate oil companies to increase their investments, the presidents of both Russia and Ukraine approved changes in tax legislations that as of January 1, 2012 greatly increased the profitability in extracting oil.

Ukraine's oil and gas market in a state of change

Ukraine imports nearly two thirds of its energy consumption. At the same time, only about five percent of the offshore resources have been exploited. This equation is just not sustainable in the long term. The Ukrainian market is undergoing change and Shelton Petroleum has already established a base that positions the company well to take advantage of the business opportunities now being created.

Uncertainty in the world economy, but good conditions to increase profitability

No matter the industry or the company, you would be hard-pressed to find any shareholder who would deny that the stock market is greatly affected by the uncertainty in the world market, the tensions in the Middle East and the financial instability in Europe. This, in turn, affects the risk appetite and access to capital that determines the rate at which companies (including Shelton Petroleum) can make planned investments. With the current production levels and oil price in combination with a strong balance sheet, we will be able to overcome these hurdles and make the investments necessary to further increase production volumes in 2012. We will further anchor our position in the Russian and Ukrainian oil and gas markets. The reformed tax systems together with high oil prices create favorable conditions for increased profitability per barrel.

Robert Karlsson, CEO Shelton Petroleum

We have reached a production level where the company generates profit.

Business concept

- Generate a good yield on capital invested through exploration and production of oil and gas
- Combine many years of experience of business in Russia and Ukraine with an understanding of Western financial markets
- Utilize sound understanding of the oil and gas industry coupled with strong local networks

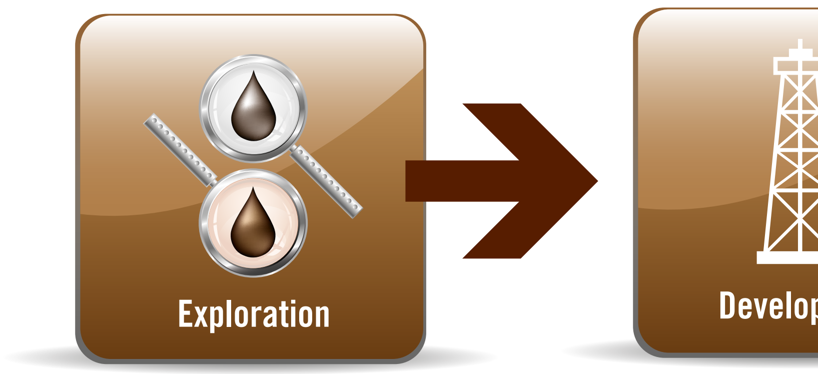
Strategy

- Balance solid cash flow generating production by exploration with higher potential and higher risk
- Grow in Russia and Ukraine by identifying, purchasing and acquiring attractively valued assets
- Form strategic partnerships
- Offer transparency, structure and good corporate governance to investors

Objectives for 2012

- Increase production in both Russia and Ukraine through new wells, workovers and sidetracks
- Convert resources to reserves though continued cost-effective exploration
- Expand through acquisition of new licenses
- Strengthen the company's position on the financial market

The oil industry



Steps taken in exploration in 2011

- Three potential structures were identified at Aysky through collection of 65 kilometers of seismics
- Indications of hydro-carbons were identified at Aysky and Suyanovskoye through a helium study of 120 square kilometers

Exploration

Licensing

An oil company is granted a permit to explore for oil within a specific area for a specific period of time by the government licensing authority, such as Rosnedra in Russia or Gosgeonadra in Ukraine. Alternatively, the company can purchase licenses that have already been issued or partner with other oil companies for a project.

Geological and geophysical studies

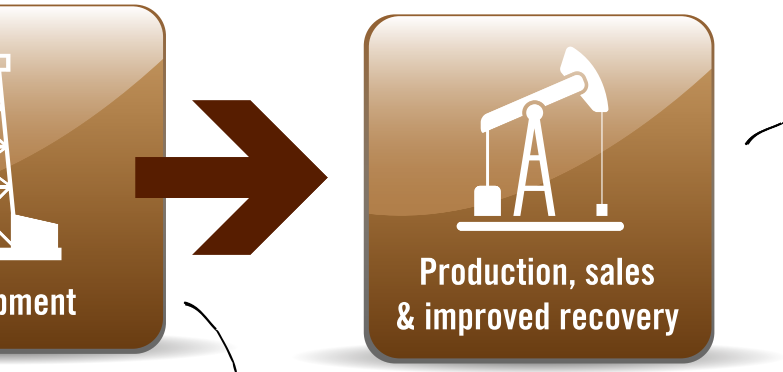
The purpose of studies is to increase knowledge about the deposits as cost effectively as possible. This enables the company to identify possible oil reserves and determine the optimal drilling sites. Examples of surveys include helium studies, where the amount of helium emanating from deep layers in the earth is measured, and seismic studies, which involve creating sound waves and measuring their movement in the ground to identify potential structures.

Test drilling

The only way a company can confirm the existence of commercial quantities of oil and gas with 100% reliability is by drilling. During the drilling process, samples of liquids and rock are taken. An extensive log program is used to examine rock type, number of hydrocarbon zones, porosity and other factors. The characteristics and thickness of the reservoir are calculated. Tests are performed to estimate how much oil the well may be able to produce.

Reserve registration and conversion to production license

After a successful exploration program, the company registers its oil and gas reserves with the government reserves authority. The purpose of this is to convert the exploration license to a production license to have the right to extract oil from the deposit.
It is standard industry practice to hire independent experts to estimate the company's reserves and resources.



Development

Development plan
The oil company develops a field development plan, which includes details such as the number of wells to be drilled and where they should be located to achieve the best results. A design for storage, processing and transporting oil is also created. The plan is approved by the authorities of the country.

Implementation
After approval, the company can start installing infrastructure and drilling production wells. The work requires specialist expertise within several disciplines. Wells have been traditionally drilled vertically through the reservoir. However, in recent years horizontal wells in combination with hydraulic fracturing (a method of fracturing the reservoir rock to increase the oil flow) has become increasingly common as it can produce higher flow quantity, although at a higher cost. When drilling is complete, measures are taken to optimize the production level from existing holes and to improve results when drilling new wells.

Steps taken in development in 2011

- The company has created an extensive design project for the development of Rustamovskoye. The program includes infrastructure for processing, storing and transporting oil and drilling up to six new production wells.
- The company has had a close dialog with authorities to obtain necessary permits.
- The company has also procured subcontractors for infrastructure manufacturing and installation as well as the drilling of production wells. Drill site construction has been completed. Work is being performed to secure water and power supplies.
- Production was started from the second Russian well.

Production, sales & improved recovery

Production and sales
The oil is extracted and then transported via pipeline, truck or railroad. Ukraine has an auction system for oil sales. In Russia the company negotiates its own sales contracts. The oil can also be refined at an own refinery (a vertically integrated oil company) or exported.

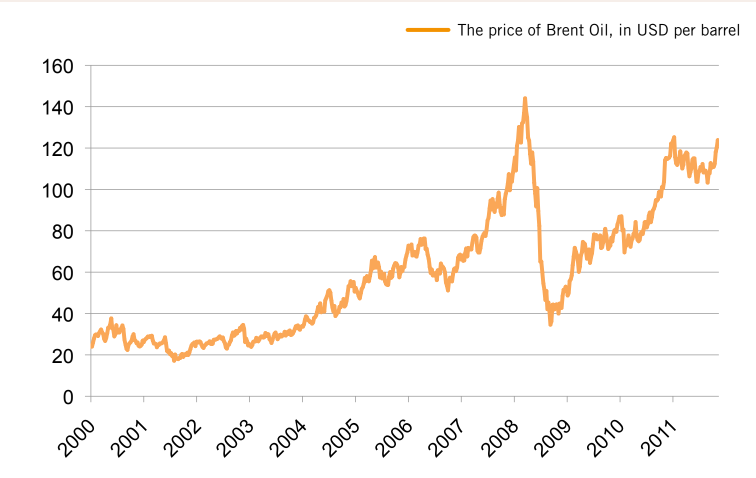
Work program for improved recovery
All oil wells undergo a natural decline in production. To counteract this, the company can stimulate the reservoir, optimize pump equipment and inject water to increase the reservoir pressure or take other measures, such as drilling sidetracks, repairing existing wells and drilling new wells.

Steps taken in production and sales in 2011

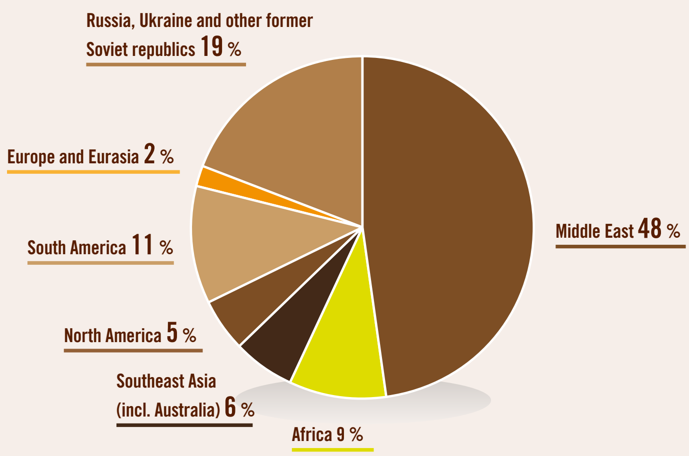
- 77,300 barrels of oil were produced and 93,800 barrels of oil were sold.
- An initial workover of well RS#2 was performed in Russia.
- A better sales flow was created in Russia by establishing a larger network of buyers. This resulted in higher sales prices at the end of the year.
- Drilling of a new well was started at Lelyaki, Ukraine.
- A mobile rig performed workovers that increased production by 30% at Lelyaki in Q4.

The world around us

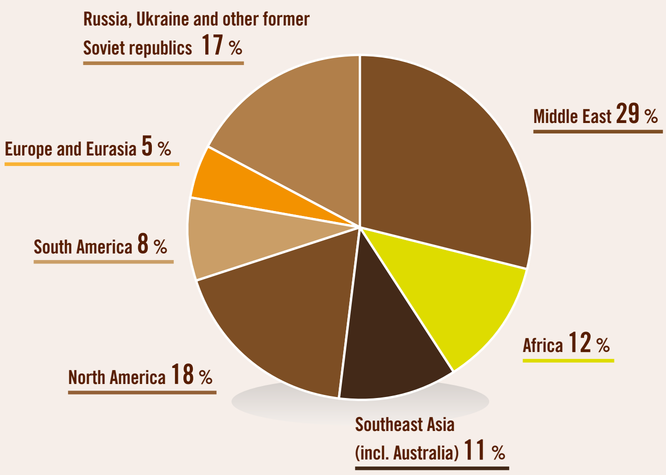
Oil price development



World oil and gas reserves 2010 in per cent by country



World oil and gas production 2010 per day in per cent by country



Source: BP Statistical Review of World Energy (June 2011)

Factors affecting the oil price

State of the world market. During periods of economic growth, the demand for oil increases, which can cause prices to rise. During periods of economic downturn, the reverse usually applies.

Weather and the unforeseen. Low temperatures and storms can either reduce supply, increase demand or both. This leads to higher prices.

OPEC. The OPEC oil cartel produces one-third of the world's oil and can therefore affect the oil market by increasing or decreasing its quotas.

Oil stock. The world oil stock levels can affect what is available on the market.

Politics. Wars, revolutions, boycotts and other forms of unrest could jeopardize oil production and oil transport, which could cause prices to increase. Many believe that the current situation in Iran – the world's fourth largest oil producer – will cause prices to remain high for the foreseeable future.

Other factors include other energy sources, technology, energy saving, competition, speculations and taxes among others.

Transport of oil from Rustamovskoye.

Key drivers in Russia

- Since 1950, Bashkiria has been one of Russia's most important regions for oil and gas, with good access to equipment, knowledge and specialists.
- Bashkiria has Russia's largest oil refinery capacity and there is a good demand for crude oil.
- Bashkiria has a mild climate compared to many other Russian oil-producing regions. This makes it possible to explore for oil and extract it around the year.
- The Republic has a well-developed infrastructure for processing and transporting crude oil.
- Bashkiria is a politically and economically stable part of the Russian Federation and is one of the nine regions with the best investment climate in Russia according to a report from Deutsche Bank.
- Russia is the world's largest producer of oil and gas
- Russian oil consumption is expected to increase by 2.5% per year according to Business Monitor International.
- Reduced production tax from 2012 benefits Shelton Petroleum's Rustamovskoye field, with cash flow potential increasing by approximately 10 dollars per barrel.

Key drivers in Ukraine

- Ukraine is one of Europe's biggest energy consumers.
- The country has been producing oil and gas since the early 1900s.
- Because of its geographic location, Ukraine plays a central role in Europe's energy supply.
- Ukraine has an unsustainable energy balance, where nearly two thirds of the country's oil and gas consumption is imported while only 5% of the offshore resources have been exploited.
- Interest in developing the country's offshore fields is steadily increasing and PSA legislation (Production Sharing Agreement) has recently been implemented to facilitate foreign investments in oil and gas.
- OMV and Exxon recently discovered a deposit of up to 500 million barrels of oil equivalent in the Black Sea
- The major part of Ukrainian oil and gas assets is government-owned through Naftohaz Ukraini. At the same time, privatization of the energy industry and other parts of the economy is expected.
- The Ukrainian president has approved a tax change that reduces oil production taxes by approximately 15 dollars per barrel starting January 1, 2012.

Significant tax reductions in Russia and Ukraine

USD/barrel	Russia	Ukraine
Sales price	46	117
VAT	–7	–19
Production tax	–22	–57
Net price	17	41
Tax amendment	**+10**	**+15**
New net price	27	56

Tax amendment effective as of January 1, 2012

Operations in Russia

Licenses and operations in Russia

Shelton Petroleum's wholly owned subsidiary, Ingeo Holding, holds and operates the company's three licenses in Bashkiria, a federal subject of the Russian Federation. The licenses form a continuous block of about 500 square kilometers. The license area is located 330 kilometers northeast of Bashkiria's capital, Ufa. In the area surrounding the block there is a large number of producing oil and gas fields operated by Bashneft, a Russian oil company with production of approximately 300,000 barrels of oil per day.

Good infrastructure

The area is accessible by road around the year. A pipeline crosses the license area, with a connection point 10 kilometers from the boundary of the block. When the volume of Shelton Petroleum's production grows, the company may apply for access to this pipeline. Currently, the oil produced is transported by truck. The village Ust-Yuguz, which is located in the block not far from the Rustamovskoye drill site, receives its power supply via the local grid, which the company can hook up to.

Production from two wells

Shelton Petroleum currently produces oil from the two exploration wells (RS#1 and RS#2) at the Rustamovskoye field. Production for the year totaled 44,400 barrels of oil and daily production in Q4 was 140 barrels per day. The oil is sold to small local refineries.

Development program to increase production

Shelton Petroleum has initiated a development program at Rustamovskoye. The program includes infrastructure for processing, storing and transporting oil and drilling of up to six new production wells. During the year, the company procured subcontractors for infrastructure manufacturing and installation as well as for the drilling of production wells. Drill site construction has been completed. Work is being performed to secure water and power supplies. At present, oil is produced from a horizon from the Devonian period, but the field has the potential for production from several horizons.

Exploration to increase reserves

To increase knowledge of the local geology and increase the oil reserves, Shelton Petroleum is conducting an exploration program at Aysky and Suyanovskoye. In 2011, the company conducted a 65 kilometer seismic program at Aysky. Three structures were identified, of which one may be an extension of the structure the company already produces oil from at Rustamovskoye. An independent report shows that the reserves and resources may amount to approximately 20 million barrels at Aysky according to Russian standards. The company has also conducted 120 square kilometers of helium studies, which indicate the presence of oil and gas at both Aysky and Suyanovskoye.

Strong local network

In July 2011, the executive management of Shelton Petroleum met with the president of Bashkiria, Rustem Khamitov, to identify possibilities for future joint ventures. Shelton Petroleum's licenses are now included in the president's list of specially prioritized projects in the republic.

Facts about Bashkiria

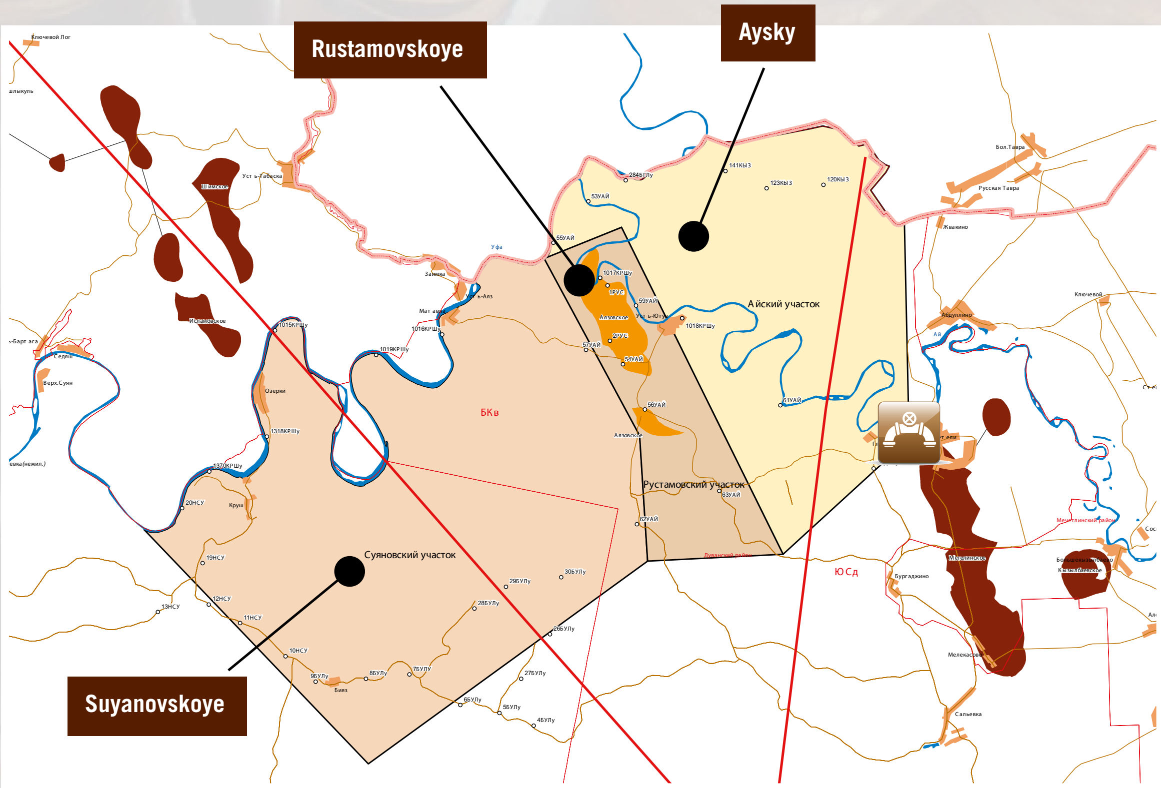
Capital	Ufa
Form of government	Federal subject with its own constitution that specifies that the republic is an independent region of the Russian Federation
Administration	Rustem Khamitov has been the president of the republic since 2010. The single-chamber parliament Kurultai has 120 members and elections are held every five years
Area	143,600 square km (about one-third of Sweden's land area)
Population	Approx. 4 million – 36% Russians, 30% Bashkirs, 24% Tartars and 10% other ethnic groups
Capital	Ufa with 1 million inhabitants
Geographic location	West of Ural Mountains, approx. 1,200 kilometers from Moscow
Interesting facts	• In Russia, Bashkiria is known as "the second Switzerland" because of its rolling landscape, rivers and clean air • Bashkiria prides itself on its honey, Bashkir horses, and its hockey team Salavat Yulaev, Russian champion

Baltic Oil Terminals PLC

In 2010, Shelton Petroleum acquired a shareholding in Baltic Oil Terminals. The company runs terminal operations in areas such as the Russian Kaliningrad region on the Baltic coast; Rotterdam, Holland and Aarhus, Denmark. Its shares are listed on AIM in London.

Shareholding at year end: 13.99%

Book value at year end: SEK 24 million



Shelton Petroleum’s three blocks Rustamovskoye, Suyanovskoye and Aysky form one continuous block of approx. 500 km². Bashneft produces oil from surrounding fields.

Bashneft pipeline connection

License	Type of license	Area	Wells drilled by Shelton Petroleum (Soviet drillings)	Production in Q4 2011, barrels/ day	Reserves 3P, mil. barrels oil equivalent	Resource potential mil. barrels oil equivalent
Rustamovskoye	Exploration license, which has been converted to a production license for parts of the area	52 km², 36 km² of which is production license	2 (5)	140	6	43
Suyanovskoye*	Combined exploration and production license	300 km²	0 (15)	–	–	–
Aysky*	Exploration license	187 km²	0 (10)	–	–	–

The reserves and resources at Rustamovskoye are based on an independent Western audit by AGR TRACS International Consultancy Ltd.
* Aysky and Suyanovskoye have not yet been evaluated by independent Western institutions. The independent company Udmurtgeofizika estimated that Russian C1+C2 reserves and C3 resources at Aysky can amount to 12 and 10 million barrels of oil, respectively.

License	Type of license	Ownership share and partners	Area	Drilled wells	Net production in Q4 2011 to Shelton Petroleum, barrels/ day	Reserves 3P, mil. barrels oil equivalent[1]	Resource potential, mil. barrels oil quiva- lent*
Lelyaki	Production license	45% / Ukrnafta	67 km²	60	282	8	–
Arkhangelskoye	Exploration license	50% / CNG	87 km²	3	–	–	130
North Kerchenskoye	Exploration license	50% / CNG	96 km²	3	–	–	4
Biryucha	Exploration license	50% / CNG	130 km²	1	–	–	166

* All reserves and resources are net to Shelton Petroleum. The information is based on independent audits performed by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd. in 2009.

Operations in Ukraine

Licenses and operations in Ukraine

Shelton Petroleum has been operating on the Ukrainian oil and gas market for several years. The company has created a good position from which to work and grow. Despite Ukraine's long history of petroleum extraction, the country will face an intense period of resource development in the upcoming decade.

Lelyaki – oil production in Poltava
Shelton Petroleum's subsidiary Zhoda 2001 has entered into a joint venture with Ukrnafta – Ukraine's largest oil and gas company – regarding the oil producing field Lelyaki. Production for the year totaled 32,900 barrels of oil net to Shelton Petroleum and daily production during Q4 was 282 barrels per day. Lelyaki is situated in the Dnepr-Donetsk basin near Poltava. It produces light, high-quality oil.

Development with low geological risk
Lelyaki was once one of the Soviet Union's largest producing fields. The original amount of oil in the finding was estimated at about one billion barrels and the field has a cumulative production of about 385 million barrels of oil. At the field, there are good connections to Ukraine's oil and gas infrastructure. The field operator initiated a work program to increase the production levels. Since the properties of the field are well known, this can be achieved through cost-effective investment at low geological risk. The company is executing a program with new wells, sidetracks and workovers. In parallel, the company is planning to create a simulation model to examine how Western reservoir techniques can be used to increase the amount of oil extracted beyond the currently registered reserves. Shelton Petroleum has a forty-five percent ownership in Kashtan Petroleum (which holds the Lelyaki license) via its wholly-owned subsidiary Zhoda 2001 Corporation. Ukrnafta owns the remaining fifty-five percent.

Offshore fields with great potential
One of the few Western companies, Shelton Petroleum has acquired interests in offshore Ukraine through a strategic cooperation with the state-owned license holder Chornomornaftogaz (CNG). Shelton Petroleum has a fifty percent share of Arkhangelskoye, Biryucha and North Kerchenskoye through a Joint Activity Agreement between its subsidiary Shelton Canada and CNG. The exploration potential net to Shelton Petroleum is estimated as 300 million barrels of oil equivalent.
These licenses are situated in shallow waters and could possibly be drilled with a jack-up rig at a cost relatively low for offshore drilling.
The existence of gas in the area is proven. CNG already produces gas from Arkhangelskoye from a horizon that is above the horizon at which Shelton Petroleum has its interests. A similar field a few kilometers from Arkhangelskoye is currently producing about 6,000 barrels of oil equivalent per day from the horizon in which Shelton Petroleum has its share.

The major players increase their presence in the Black Sea
The Ukrainian part of the Black Sea and Sea of Azov has estimated recoverable resources of 11 billion barrels of oil equivalent. Less than five percent of these are exploited. In light of Ukraine's large imports of energy, there is strong national interest to increase the offshore production.
The government recently took steps to make it easier for foreign oil companies to establish themselves, for example by introducing Production Sharing Agreement legislation. OMV/Exxon Mobil's recent finding of up to 500 million barrels of oil equivalent in the Romanian part of the Black Sea will likely lead to additional activity, which will benefit Shelton Petroleum's interests.

Facts about Ukraine

Capital	Kiev
Form of government	Republic
Administration	Run by President Viktor Yanukovych, who is elected for a five-year term. Elections to the Ukrainian parliament, Verchovna Rada, are held every five years.
Area	603,628 km²
Population	46 million

Partners i Ukraine

UKRNAFTA
Ukrnafta was founded in 1945 and is Ukraine's largest oil company with 31,000 employees. In 2010, the company produced 19 million barrels of oil and condensate plus 2.5 billion cubic meters of gas. This is equivalent to 70 percent and 12 percent of the country's production, respectively. The company's proven and probable reserves amount to 800 million barrels of oil equivalent. The company also has a network of roughly 500 service stations. The company is 50 percent owned by the Ukrainian state and its share is quoted in Ukraine, with trading also in Berlin and Frankfurt.

CHORNOMORNAFTOGAZ
Chornomornaftogaz (CNG) is a government-run company that was founded in 1978 to explore reserves in the Black Sea and Sea of Azov. The company has 3,500 employees and produces approximately 28,000 barrels of oil equivalent per day. The company owns 10 offshore rigs and two jack-up rigs. CNG operates 1,200 km pipeline, of which 280 km is in the sea.

Corporate social and environmental responsibility

The modern world is highly dependent on oil and gas. Cities are not self-sufficient and therefore require the continuous transport of both people and goods. Gas is used for heating in households in most parts of the world. Oil is a key ingredient in everything from plastics, tires, rubber boots and cleaning materials to all sorts of medicines.

Shelton Petroleum considers it vital to contribute with this important resource in a responsible manner. The company complies with Russian and Ukrainian environmental legislation, which covers water usage, air pollution, releases to water, handling of hazardous substances, restoration of land, as well as health and safety aspects for employees. It is Shelton Petroleum's policy to comply with the environmental and safety requirements on the markets where the company operates. The company's objective is to set an example in minimizing the environmental risks in the company's operations.

Shelton Petroleum's employees undergo regular education and training in crisis management, preventing blowouts, avoiding spills of oil and other hazardous substances, first aid, environmental protection and fire fighting.

Our CSR priorities

- **Long-term sustainable and responsible operations for the company's stakeholders**
- **Health and safety**
- **Minimizing the environmental impact**
- **Support to the local communities**
- **Social and gender equality**

In 2011, there were no accidents or job-related injuries at the Group's production assets. Shelton Petroleum takes measures to ensure that a safe work environment is created and maintained even in the future.

Shelton Petroleum contributes to the local communities through job opportunities and tax payments. During the year, Shelton Petroleum also contributed to the society in the following ways:

Shelton Petroleum has made the following contributions in Bashkiria:

- Donated money to a school in Ufa and organized a health-focused event for children
- Purchased equipment for a junior hockey team in Mesyagutovo, a community near Rustamovskoye, and provided support to a weight lifting association in Ufa
- Partnered with the local administration of Duvansky rayon to arrange local cultural ceremonies and sport events

Shelton Petroleum has made the following contributions in Ukraine:

- Provided financial support to a local association of labor veterans and war veterans in the Poltava region near the Lelyaki field
- Sponsored the local fire department in Poltava
- Partnered with the Ukrainian youth association "Plast" and donated money to Shevchenko Educational Fund

The share, share capital and owners

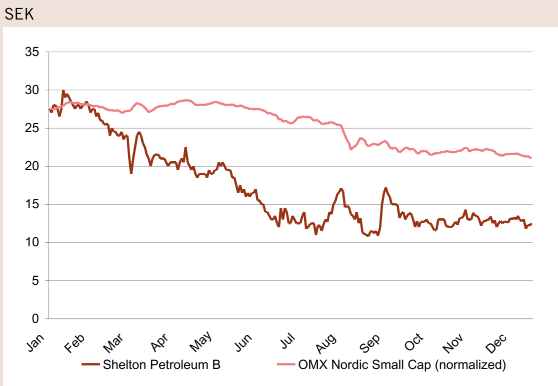
Owners

The table below shows the ten largest shareholders as per December 31, 2011, broken down by holdings.

Owner	No. of A-shares	No. of B-shares	Percentage of capital	Percentage of votes
SIX SIS AG	0	1,635,019	15.4%	13.3%
Skandinaviska Enskilda Banken S.A.	24,648	1,503,270	14.4%	14,3%
Two Eye Fund	18,040	1,053,811	10.1%	10.1%
Avanza Pension	0	562,809	5.3%	4.6%
National Bank Financial	0	347,987	3.3%	2.8%
TD Waterhouse	0	228,912	2.2%	1.9%
Nordnet Pensionsförsäkring AB	0	180,894	1.7%	1.5%
Robur Försäkring	0	163,756	1.5%	1.3%
BNY MELLON SA/NV	0	161,675	1.5%	1.3%
Linrol Ltd	0	122,400	1.2%	1.0%
Other shareholders	137,892	4,499,475	43.6%	47.9%
Total	**180,580**	**10,460,008**	**100%**	**100%**

Source: Euroclear AB

Shelton Petroleum's price trend, recalculated for reverse split
Shelton Petroleum B-shares are listed on the NGM Stock Exchange under the name SHEL B.



Sources: NGM, NASDAQ OMX

Share options

In 2009, a total of 8,676,812 share options were issued. After the reverse split of shares 1:50, these entitle the holders to purchase 173,546 class B shares. The subscription price is SEK 30 per share and the subscription period is July 1-14, 2012.

In 2010, a total of 8,000,000 share options were issued. After the reverse split of shares 1:50, these entitle the holders to purchase 160,000 class B shares. The subscription price is SEK 43.50 per share and the subscription period is January 15-31, 2013.

Share capital

As of December 31, 2011, Shelton Petroleum's share capital amounts to SEK 53,202,940 distributed over 10,640,588 shares. The shares have a quotient value of SEK 5.00 each. The share capital is of two classes, A and B. There are 180,580 class A-shares and 10,460,008 class B-shares. A-shares entitle the holder to ten votes per share, while B-shares entitle the holder to one vote per share. Each shareholder is entitled to vote for the full number of shares he or she holds, as well as to represent the shares at the annual general meeting. All shares have an equal right to a proportion of the company's assets in the distribution of profits. Historical development of the share capital is shown on the next page.

At the Annual General Meeting of Shelton Petroleum on May 17, 2011, the decision was made to execute a reverse split of company shares to achieve a more suitable number of shares and improve the transparency regarding share pricing. The reverse split was at the ratio of 1:50, where 50 current shares were consolidated into one (1) new share of the same type. With the authorization of the Annual General Meeting, the record date of the reverse split was set to July 6, 2011.

In December 2009, the company issued convertible bonds (KV 2009/2011) of approximately SEK 30 million with a due date of December 31, 2011 to the extent not converted prior to that date. In November 2011, the company offered KV 2009/2011 holders to exchange this bond to a new bond (KV 2012/2013), with a due date of December 31, 2013. Holders of approximately SEK 22 million chose to exchange KV 2009/2011 to KV 2012/2013 bonds. In addition, the company received approximately SEK 1 million in new issues of the new convertible bond. The nominal value for KV 2012/2013 amounts to approximately SEK 23 million.

Upon full conversion of the new convertible bond, the share capital will increase by SEK 7,115,625 and the number of shares will increase by 1,423,125. This corresponds to an 11.79 percent dilution.

Year	Transaction	Increase in No. of votes	Change in share capital	Total number of A shares	Total number of B shares	Total number of shares	Share capital (SEK)	Quotient value
2001	New issuance	6,089,361	5,480,425	9,028,593	31,786,568	40,815,161	36,733,645	0.90
2002	Share decrease	–	14,285,306	9,028,593	31,786,568	40,815,161	22,448,339	0.55
2004	Exchange of convertibles	7,272,727	4,000,000	9,028,593	39,059,295	48,087,888	26,448,338	0.55
2004	Exchange of convertibles	10,909,089	5,999,999	9,028,593	49,968,384	58,996,977	32,448,337	0.55
2007	Exchange of convertibles	10,000,000	5,500,000	9,028,593	59,968,384	68,996,977	37,948,337	0.55
2009	Non-cash issuance*	139,246,835	76,585,759	9,028,593	199,215,219	208,243,812	114,534,097	0.55
2009	Share decrease	–	–93,709,715.4	9,028,593	199,215,219	208,243,812	20,824,381	0.10
2010	Non-cash issuance**	155,577,010	15,557,701	9,028,593	354,792,229	363,820,822	36,382,082.2	0.10
2010	Non-cash issuance**	16,348,213	1,634,821.3	9,028,593	371,140,442	380,169,035	38,016,903.5	0.10
2010	Exchange of convertibles	700,000	70,000	9,028,593	371,840,442	380,869,035	38,086,903.5	0.10
2010	Directed new issuance	50,000,000	5,000,000	9,028,593	421,840,442	430,869,035	43,086,903.5	0.10
2010	Directed new issuance	15,000,000	1,500,000	9,028,593	436,840,442	445,869,035	44,586,903.5	0.10
2010	Non-cash issuance***	31,140,845	3,114,084.5	9,028,593	467,981,287	477,009,880	47,700,988	0.10
2010	Non-cash issuance****	54,000,000	5,400,000	9,028,593	521,981,287	531,009,880	53,100,988	0.10
2010	Exchange of convertibles	1,000,000	100,000	9,028,593	522,981,287	532,009,880	53,200,988	0.10
2011	New issuance for reverse split 1:50	19,520	1,952	9,029,000	523,000,400	532,029,400	53,202,940	0.10
2011	Reverse split 1:50	–	–	180,580	10,460,008	10,640,588	53,202,940	5.00

* refers to the merger between TFS and Petrosibir AB ** refers to the merger with Shelton Canada Corp *** refers to Tomsk Refining AB
**** refers to Baltic Oil Terminals Plc.

Information prior to 2009 refers to the company with the name Nordic Growth Market NGM Holding AB.

The Board

Per Höjgård
Chairman

Per Höjgård, born in 1948, is a Board Director and Chairman of the Board of Directors in the company. Per Höjgård has worked within the areas of business, finance and company management, having held the position of CFO of Preem AB, Sweden's largest oil company with sales of USD 12 billion for seventeen years. He serves on the board of Preem AB. Per Höjgård holds a degree in Business Administration from the University of Lund. He is an independent member of the board in relation to the company and its majority shareholders.

Holding: 0
Options: 3,253,805, which entitles to a subscription of 65,076 B-shares

Richard N. Edgar
Director

Richard N. Edgar, born 1946, is trained as a geologist and has been active in the oil industry in both Canada and internationally for nearly 40 years. Mr. Edgar was formerly chairman of the board of Shelton Canada Corp. and currently serves on the boards of Bengal Energy Inc., Poplar Creek Resources Inc. and Passport Energy Ltd. Mr. Edgar is a member of the Petroleum Exploration Society of Great Britain, the Petroleum Exploration Society of Australia and the Canadian Society of Professional Geologists. He has been awarded the designation of Professional Geologist by the Association of Professional Engineers, Geologists and Geophysicists of Alberta. Richard Edgar holds an engineering degree (BSc) from the University of Alberta. Richard Edgar is an independent member of the board in relation to the company and its majority shareholders.

Holdings: 92,756 B-shares
Options: 2,000,000, which entitles to a subscription of 40,000 B-shares

Peter Geijerman
Director

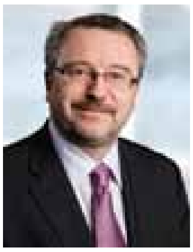
Peter Geijerman, born 1972, has several years' experience of project coordination and company management in Russia. He is the founder of a company that owns and runs an industrial group in western Siberia. Peter Geijerman is also an investment manager at Alpcot Agro, a Swedish company that acquires and manages agricultural property in Russia and the CIS. He holds an MBA from INSEAD and a Master's Degree in clinical medicine from Karolinska Institute. He is an independent member of the board in relation to the company and its majority shareholders.

Holding: 0
Options: 0

Freddie Linder
Board Director

Freddie Linder, born 1947, has forty years of experience from the petroleum industry. He holds a BSc in geology from the University of Lund. He has held several management positions at Preem AB, including Marketing Director and Senior Advisor between the years 1996 and 2012. Prior to that, he was the CEO of Svenska Petroleum Exploration A/S, with a production of 20,000 barrels per day He has held the positions of Technical Director and Exploration Manager, gaining vast experience from a variety of exploration and production projects. He is an independent member of the board in relation to the company and its majority shareholders.

Holding: 0
Options: 0



Zenon Potoczny
Director and President

Zenon Potoczny, born 1957 and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Mr. Potoczny served as President and CEO of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Mr. Potoczny was also CEO of Shelton Corporation Limited, an Ontario-based producer and supplier of oil and oil byproducts, and served on the board of Innovotech Inc. a TSX Venture-listed company. Mr. Potoczny currently serves as president of Canada-Ukraine Chamber of Commerce. He holds an MSc in Engineering and an MBA from the University of Toronto. Due to his management position in the company, Zenon Potoczny is not an independent member of the board in relation to the company and its management but is independent in relation to its majority shareholders.

Holdings: 223,703 B-shares

Options: 4,000,000, which entitles to a subscription of 80,000 B-shares

Katre Saard
Director

Katre Saard, born 1972, is a partner and investment manager at Alpcot Capital Management. She has more than ten years' experience in investment management and of working in the East European financial markets. Katre was one of the founders of East Capital, where she also worked as a fund manager and board member. She has also held senior positions as an investment manager in the European Investment Fund in Luxembourg, and as a stock market analyst at Enskilda Securities. Her language skills include English, Swedish, Estonian, Russian and French. Katre Saard has a Master's Degree in Business Administration and Economics from the Stockholm School of Economics. She is an independent member of the board in relation to the company, but not to its shareholders.

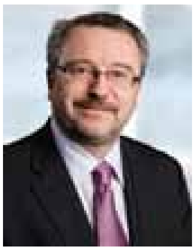
Holding: 213,716 B-shares
Options: 0

Management and auditors

Robert Karlsson
CEO Shelton Petroleum

Robert Karlsson, born in 1970, has vast experience in business, finance and company management. He has spent ten years working in Russia and other former Soviet republics. He was previously CFO of the NASDAQ OMX listed IT consultancy firm Mandator, where he was also in charge of the company's financial communications. He has previously worked as an investment manager in Moscow for the listed investment company ORESA Ventures. He also spent four years with KPMG, including two years in St Petersburg. Mr. Karlsson holds a Master's Degree in Business Administration from the Stockholm School of Economics.

Holding: 17,867 B-shares
Options: 5,423,007, which entitles to a subscription of 108,460 B-shares



Zenon Potoczny
President and Board Director

Zenon Potoczny, born 1957 and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Mr. Potoczny served as President and CEO of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Mr. Potoczny was also CEO of Shelton Corporation Limited, an Ontario-based producer and supplier of oil and oil byproducts, and served on the board of Innovotech Inc. a TSX Venture-listed company.
Mr. Potoczny currently serves as president of Canada-Ukraine Chamber of Commerce. He holds an MSc in Engineering and an MBA from the University of Toronto.

Holding: 223,703 B-shares
Options: 4,000,000, which entitles to a subscription of 80,000 B-shares

Gunnar Danielsson
CFO Shelton Petroleum

Gunnar Danielsson, born 1960, has strong expertise in accounting and financial management and extensive experience from working with listed companies. He previously served as CFO at Kopylovskoye AB, a company listed on NASDAQ OMX First North focusing on exploration and production of gold in Russia. Mr. Danielsson spent more than twenty years in the audit division of Ernst & Young. Seven of those years were in Moscow, where he as partner was responsible for the audit of Nordic companies active in Russia and Russian companies listed on foreign stock exchanges. Gunnar Danielsson holds a degree in Business Administration from Stockholm University.

Holding: 2,000 B-shares
Options: 0
Convertible bonds: nominally SEK 60,000

Sergey Titov
Manager Business Development
Shelton Petroleum

Sergey Titov, born 1956, was one of the initiators of Petrosibir. He has broad experience in the Russian oil sector, including being CEO of Tyumenneftegaz. Sergey Titov has also worked as an independent consultant for a number of small Russian oil companies in the southern parts of Tyumen Oblast.
Mr. Titov is a production engineer, educated at the Tyumensky Neftegazovy University.

Holding: 363,192 B-shares (via companies)
Options: 0

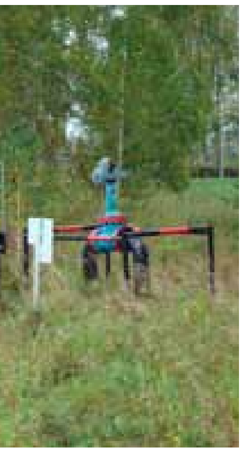
Auditor
Ernst & Young
P.O.Box 7850
SE-103 99 Stockholm, Sweden

Responsible auditor
Per Hedström
Authorized Public Accountant
Member of FAR
(the professional institute for authorized public accountants in Sweden)









304-A

Director's report

OPERATIONS

Shelton Petroleum AB (publ.), corporate identity number 556468-1491, is a Swedish company whose operations focus on exploration and production of oil and gas in Russia and Ukraine. The governance of Shelton Petroleum is described in the corporate governance report on page 29.

In Russia, the operations are conducted through the wholly owned subsidiary ZAO Ingeo Holding. Ingeo Holding holds the licenses in the Rustamovskoye, Aysky and Suyanovskoye areas in Bashkiria, a republic within the Russian Federation. In Russia, the company has made significant findings, has measured commercial flows in the first two drill holes and has begun production of oil. Revenues from this extraction are reported as of 2011.

In Ukraine, the operations are conducted through the Ukrainian joint venture Kashtan Petroleum Ltd, which operates the producing oil field Lelyaki in Chernigov near Poltava. The ownership in Kashtan Petroleum is 45 percent. The remaining 55 percent is owned by Ukrnafta, the largest oil and gas company in Ukraine. In addition, the Group has joint investment agreements with Chornomornaftogaz which gives the company a fifty percent interest in three offshore licenses in Ukraine. Through participation in the producing Lelyaki field, Shelton Petroleum reports revenues from oil sales starting from 2010.

MAJOR EVENTS DURING THE FINANCIAL YEAR

After achieving production volumes assessed as commercially viable, production from the two exploration wells at the Rustamovskoye field in Russia transitioned from the test production stage to commercial production during the year.

In Ukraine, the Company together with its partner Ukrnafta implemented a number of measures to resume the temporarily production shutdown at the Lelyaki field. Production resumed in early September. In the autumn, a work program was initiated with measures such as well maintenance and the drilling of sidetracks. The result of the work program has increased production volumes.

At the Annual General Meeting of May 17, 2011, it was resolved to implement a reverse split of the company's shares 1:50. The reverse split was implemented and registered with the Swedish Companies Registration Office in July.

Since the autumn 2010, Shelton Petroleum owns shares in Tomsk Refining AB ("TRAB") equivalent to approximately 15 percent of capital and votes. In March 2011, TRAB sold its Russian operating subsidiaries and at the Annual General Meeting in May it was decided that TRAB would enter into voluntary liquidation to distribute the assets to its shareholders. At the end of August, Shelton Petroleum received its first payout of approximately SEK 51 million from the liquidation of TRAB.

Since November 2010, Shelton Petroleum owns approximately 14 percent of Baltic Oil Terminals PLC ("BOT"), a company with terminal operations in areas such as Kaliningrad, Russia. BOT is listed on the Alternative Investment Market ("AIM") in London. In 2011, the fair value of the BOT holding changed by approximately SEK –15 million.

In the spring, a 65 kilometer seismic study at the Aysky field was completed as a part of the exploration program. Independent processing and interpretation of the seismic data identified three potential structures. In the summer, helium studies were conducted on parts of Rustamovskoye, Aysky and Suyanovskoye. The studies indicated the presence of oil at Aysky and Suyanovskoye and provided additional support for the structures at Rustamovskoye.

During the year, Russian president Medvedev approved a law that reduces production tax on oil produced from fields with initial reserves of maximum 35 million barrels. The new production tax will have a positive effect on the profitability of oil extraction from Rustamovskoye starting from January 1, 2012.

During the year, the outstanding convertible bond was exchanged for a new one that matures on December 31, 2013. Holders of approximately SEK 22 million have exchanged to the new convertible bond. In addition, approximately SEK 1 million was received through new issue.

FINANCIAL POSITION

At year-end, the Group had cash and cash equivalents of SEK 45,986 thousand (22,171). The equity/assets ratio was 78 percent (80). The consolidated shareholders' equity amounted to SEK 253,453 thousand (268,438) or SEK 23.82 (25.23) per share.

RESULT

The total revenue for the period January-December 2011 amounted to SEK 47,183 thousand (29,291), of which SEK 35,714 thousand (29,110) was revenue from oil sales in Russia and Ukraine. Oil sales for 2011 amounted to approximately 93,800 barrels, while the corresponding figure for 2010 was approximately 78,300 barrels. In 2011, oil was only produced during the last four months in Ukraine, while there was 10 months of production in Ukraine in 2010.

In Russia, the company passed on to commercial oil production in 2011. During the year, approximately 44,500 barrels of oil were produced, compared to approximately 11,900 barrels in the test production in 2010. The oil from the test production was sold in 2011.

Of the total revenue, SEK 11,362 thousand (0) was a gain from the liquidation of Tomsk Refining AB.

Expenditures relating to the exploration program have been capitalized in the balance sheet in accordance with the company's accounting policies. Operating expenses for 2011 amounted to SEK 48,122 thousand and mainly consisted of costs of raw materials, necessities and payroll expenses, as well as depreciation. Operating expenses for 2010 amounted to SEK 42,965 thousand. The higher costs for 2011 can primarily be attributed to higher oil production and a higher oil price, resulting in higher production taxes.

Operating profit/loss for the period amounted to a profit of SEK 2,392 thousand, compared to a loss of SEK –11,441 thousand during the same period of the preceding year. The improvement in net operating income can primarily be explained by greater production and sales volumes in Russia, production and sales occurring in both Russia and Ukraine and an increase in profitability per barrel due to higher oil prices. In addition, the operating profit includes the gain from the liquidation of Tomsk Refining AB in the amount of SEK 11,362 thousand.

Profit/loss before taxes for the period was SEK 1,541 thousand, compared to SEK –11,000 thousand the preceding year. The period's profit/loss after taxes amounted to SEK 634 thousand, compared to SEK –12,417 thousand during the same period of the preceding year. Since the company's operations in Ukraine generate positive net income, the Ukrainian company Kashtan Petroleum Ltd pays Ukrainian income tax. The comprehensive income of SEK –15,792 thousand (–24,548) includes exchange rate differences on intergroup loans in foreign currency, translation differences from foreign subsidiaries and valuation of financial assets available for sale to fair value. None of these items affects the cash flow.

INVESTMENTS/DISPOSALS

The Group invested SEK 19,990 thousand, of which SEK 16,200 thousand was in the exploration and development program in Russia and SEK 3,645 thousand was in the Lelyaki field in Ukraine. The investments were capitalized in the balance sheet.

During the year, the carrying value of holdings in Tomsk Refining AB and Baltic Oil Terminals PLC decreased due to the first payout from liquidation of TRAB, SEK 50,700 thousand, and the sale of 1,780,000 shares in BOT. The sale brought in SEK 4,359 thousand and resulted in a capital loss of SEK 809 thousand. There were no investments in long-term securities in 2011, while in 2010 such investments amounted to SEK 49,220 thousand for the acquisition of shares in Tomsk Refining AB and SEK 43,430 thousand in acquisition of shares in Baltic Oil Terminals PLC.

EMPLOYEES

The average number of full-time employees during the financial year was 37 (24).

RISKS

In its line of business, the Group is exposed to different risks, such as those connected with the business and market, political and country-related risks and financial risks. The Group has implemented risk management structures and control procedures in order to establish calculations, assessment and management of these exposures and related risks. For a more detailed description of the above-mentioned risks, please see Note 1, the section on Risk management.

ENVIRONMENTAL ISSUES

Shelton Petroleum's operations are subject to a number of laws and requirements concerning health, safety and the environment, resulting in the company incurring costs in order to adapt to and comply with these requirements and laws. The Group's subsidiaries are also subject to regular environmental inspections by the authorities, and must also limit the discharge of environmentally harmful substances. Refer to the section Environmental rules in the Note 1.

WORK OF THE BOARD

Shelton Petroleum's Board of Directors consists of six members, including the Chairman. During the 2011 financial year, the board had 7 meetings. In addition, the board has been in regular contact regarding the company's operations and its development. For a more detailed description of the Board's duties, please see the corporate governance report.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

As of January 1, 2012, production taxes were reduced in both Russia and Ukraine. Shelton Petroleum received a letter from the Russian Ministry of Finance that confirmed that reduced production tax would be paid on the production of oil from fields with reserves of maximum 35 million barrels. Profitability is expected to increase by approximately USD 10 per barrel as a result of the reduced production tax in Russia. In Ukraine, the formula used for calculating production tax, also known as royalty, was changed starting January 1, 2012. Profitability is expected to increase by approximately USD 15 per barrel in Ukraine.

In early February 2012, drilling of well #309 at the Lelyaki field was completed and the well was put into operation.

In early April, the second payout from the liquidation of Tomsk Refining AB was received in the amount of approximately SEK 18 million.

FUTURE DEVELOPMENT

The company intends to increase oil production at Lelyaki in Ukraine by drilling new wells as well as reusing and drilling sidetracks in existing wells. In Russia, the production from Rustamovskoye, where the company has completed a successful exploration program and found oil in the first two wells, will be increased with new production wells. The development program in Russia will be implemented in a way and speed that the financial situation allows. Steps will be taken to realize the potential in the offshore exploration licenses in Ukraine and onshore exploration licenses in Russia. The work includes analysis of historic drilling data and collection of new seismic data to prepare for carefully selected drilling. In parallel with this, the company will seek new opportunities to obtain new license areas by itself, or together with partners, as well as new assets in the oil and gas industry in Russia and Ukraine.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held May 22, 2012 at 10:00 am at the premises of Kilpatrick Stockton Advokatbyrå at Hovslagargatan 5 B in Stockholm.

Financial overview

Consolidated	2011	2010	2009
Sales (SEK thousand)	47,183	29,291	0
Net operating income (SEK thousand)	2,392	–11,441	–16,664
Earnings per share (SEK)	0.06	–1.46	–4.87
Equity per share (SEK)	23.82	25.23	24.96
Equity/assets ratio (%)	78	80	71

PROPOSED GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The Board proposes that the AGM determines the guidelines for remuneration of senior executives with mainly the same content as the guidelines set at the previous Annual General Meeting 2011. The remuneration of senior executives should be on market terms and competitive to enable the company to retain qualified employees. For the individual senior executives the remuneration should be based on factors such as position, competence, experience and performance. In addition to the basic salary, senior executives may receive variable remuneration, pension, additional benefits and incentive programs. The fixed salary, which should be individualized and differentiated based on individual responsibility, experience and achievements, is set in accordance with market conditions-based principles. Variable remuneration is based on the company's growth of profit and is designed to promote long term value creation for the company. The annual variable remuneration may amount to maximum 30 percent of the basic salary. For share and share price related incentive programs, the earning period, or the period from entering into an agreement to the time when shares may be acquired, may not be less than three years. Other benefits will be equal to what is considered reasonable in relation to market practices. These different parts are designed to create a balanced remuneration and benefit program that reflects the employee's performance and responsibilities and the company's financial performance. The Board may waive the guidelines for individual cases if there is special justification. Previous years' guidelines are similar to this year's proposal with the exception that this year's proposal also includes an addition on earnings period for incentive programs. For more information on remuneration, see the corporate governance report.

THE PARENT COMPANY

The Swedish parent company Shelton Petroleum AB is a public parent holding company for the company's operational subsidiaries. The parent company is responsible for joint Group functions, such as finance, and has two employees. The parent company's net sales were SEK 435 thousand (453). Income after tax was SEK –17,971 thousand (–11,190). Equity amounted to SEK 277,217 thousand (294,561).

Proposal for the distribution of profits

The following is at the disposal of the AGM:	
Share premium reserve	192,078,552
Fair value fund	–392,973
Profit/loss brought forward	50,300,606
Profit/loss of the year	–17,971,194
Total	224,014,991

The Board proposes that SEK 224,014,991 is to be carried forward to the next year.

With regards to further information concerning the Group's profit/loss and financial position, refer to the following statement of comprehensive income and statement of financial position with related supplementary disclosures. For parent company profit/loss and financial position and supplementary disclosures, see pages 39 and onward.

Corporate governance report

Introduction
Shelton Petroleum AB, corporate identity number 556468-1491, was registered as a limited liability company in 1993 and has its registered office in Stockholm, Sweden. The basis for the company's governance – from shareholders to the board of directors, the CEO and corporate management – is to be found in external legislation, regulations, recommendations and internal regulations. The Articles of Association is also a central document for the governance of the company. According to the Articles of Association, the company carries on production and/or exploration of natural resources in its own name, through subsidiaries or through smaller ownership and other activities compatible therewith. The Articles of Association also contain information pertaining to share capital, voting rights, the number of board directors and auditors as well as provisions regarding notice and agenda for the Annual General Meeting (AGM). The Articles of Association can be found in their entirety on the company website www.sheltonpetroleum.com.

Shelton Petroleum seeks to be a transparent and structured company that lives up to the demands of professional investors. The company's board of directors ensures the quality of financial reporting and communication with the market through internal control systems, and has regular contact with the company's auditors, Ernst & Young.

Good corporate governance creates value by ensuring that the company is run in a manner that is as effective as possible for the shareholders. This in turn aims to improve the confidence in the company on capital markets and among the Swedish public, thereby creating favorable conditions for companies' securing of capital.

Stock exchange rules
The company is listed on the NGM Equity Stock Exchange. The company's B shares are traded under the name SHEL B. Class A shares are not listed. NGM's listing rules are an integral part of the listing agreement between the company and NGM Equity. For more information on listing requirements see www.ngm.com. The listing agreement is an agreement between NGM and the company regarding the requirements that must be met to be listed on the NGM Equity Stock Exchange.

Swedish Corporate Governance Code
The Swedish Code of Corporate Governance ("Code") is a set of guidelines for good corporate governance that all companies listed on stock exchange are obliged to apply. The Code can be found at www.bolagsstyrning.se. The purpose of the Code is to strengthen self-regulation and public transparency of Swedish companies and to increase public awareness of and confidence in the Swedish corporate governance model.

The role of the Swedish Corporate Governance Board is to administer the Code and otherwise promote good corporate governance in listed Swedish companies. The Board's operations are a part of the Swedish trade and industry's self-regulation of the Swedish securities market. The Code is built on the principle of comply or explain, which means that companies that are obliged to apply the Code do not always have to comply with every rule in the Code and that deviating from one or more individual rules is not considered a breach of the Code if there is a justification and an explanation is presented. The company complies with the Code.

Corporate governance report
Swedish companies whose shares are offered for trading on Swedish-regulated markets shall, pursuant to the provisions of the Annual Accounts Act (1995:1554) and the Swedish Code of Corporate Governance from the Swedish Corporate Governance Board, prepare a corporate governance report. This corporate governance report is submitted in accordance with the Annual Accounts Act and the Swedish Code of Corporate Governance and describes Shelton Petroleum's corporate governance during the financial year 2011. The auditor's statement on the corporate governance report is found in the auditor's report on page 74.

Corporate governance in Shelton Petroleum

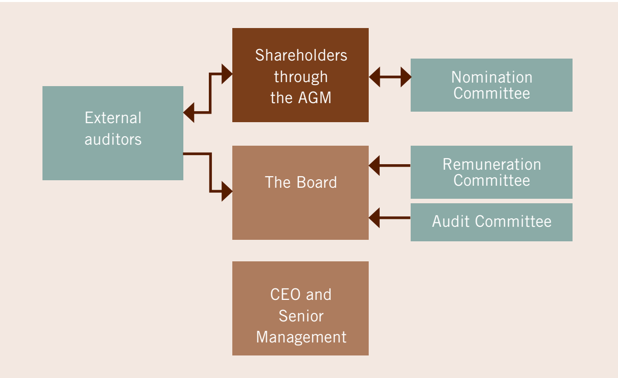
Good corporate governance
The highest decision-making body is the AGM, at which Shelton Petroleum's shareholders exercise their influence over the company. The Nominating Committee safeguards all the shareholders' interests and has a preparatory role before the AGM that includes proposing the composition of the Board. The Board administers the company's affairs on behalf of the owners. Shelton Petroleum's Board is chaired by Per Höjgård. The Board appoints the CEO, who is responsible for the company's day-to-day management in accordance with the instructions of the Board. The distribution of responsibility between the Board and the CEO is clarified in instructions and work procedures that are determined annually by the Board.

In order to make their work on certain issues more efficient and detailed, the Board has set up two committees: the Audit Committee and the Remuneration Committee.

The role of the Audit Committee includes ensuring the quality of financial reporting and the effectiveness of the internal control within the company. The Audit Committee is the main path of communication between the Board and the company's auditor.
The role of the Remuneration Committee includes monitoring and evaluating the application of the guidelines for remuneration of senior management and preparing information on issues related to remuneration and forms of remuneration for executive management.

The Board's and CEO's management and the company's financial reporting are audited by an external auditor who is appointed by the AGM. Internal policies and instructions represent important governing documents for the whole company as they clarify responsibilities and authority.

Information about the company's principles for corporate governance is found on the company's website under Corporate Governance.



AGM

The AGM is the company's highest decision-making body in which all shareholders are entitled to participate. A-shares entitle the holder to ten votes per share, while B-shares entitle the holder to one vote per share. In other aspects, the shares have the same rights. Decisions made at the AGM include inter alia the election of Board Directors and Chairman, any discharge from liability and remuneration for Board Directors, election of auditors and setting the remuneration thereof, and adoption of the parent company and consolidated balance sheets and income statements.

Shelton Petroleum's AGM 2011 was held on May 17 in Stockholm. 12 percent of votes and 11 percent of share capital were represented at the meeting. Other than the items referred to above, the AGM decided in favor of reverse split of class A and class B shares 1:50, resolved to give the Board a mandate to issue shares and other financial instruments corresponding to maximum 5 million new shares (after completed reverse split) up to the next Annual General Meeting. The decision was also made to make certain other changes in the Articles of Association. All documents relevant to the AGM, including the minutes, can be found on the website.

The AGM of Shelton Petroleum is held during the first half of the year. The time and place, together with information about shareholders' right to raise items at the AGM are communicated no later than in relation with the third quarter interim report. Notification of the AGM is made public no earlier than six and no later than four weeks before the AGM.

The 2012 AGM will take place on May 22 in Stockholm. Shareholders who wish to raise an item for discussion at the AGM may submit these up until April 3, 2012.

Other meeting

In 2011, one Extraordinary General Meeting was held, at which the decision was made to approve that the convertible bond holders subject to the regulations in chapter 16 of the Swedish Companies Act shall have the right to participate in the issue of convertible bond 2012/2013.

Nomination and election process

The Nomination Committee's main task is to propose candidates to the board of directors in the company. At the Annual General Meeting the criteria are set for appointing the members of the Nomination Committee. In accordance with the principles adopted by the AGM, the Nomination Committee consists of the Chairman of the Board and one representative each from the owners with the largest number of votes, based on Euroclear Sweden AB's supplied list of registered shareholders (listed by ownership group) as per October 31, 2011. The Nomination Committee members for the 2012 AGM consist of Björn Lindström, Katre Saard, Erik Lindholm and Per Höjgård (Chairman of the Board). Björn Lindström is chairman of the Nomination Committee, as he is seen to have solid knowledge of both the company and the Swedish rules and thus can represent the interests of the shareholders in a good way. It was decided that the Nomination Committee would elect a new chairman if the chairman's mandate ends prematurely.

In addition to the task of recommending candidates for the AGM, the Nomination Committee shall submit proposals to the 2012 Annual General Meeting with regard to remuneration for the Chairman and other Board Directors, remuneration for board committee work, election of auditors and setting the remuneration thereof as well as the election of chairman of the AGM. In its nomination work, the committee has also taken part in the evaluation of the Board and its work, as well as of the Chairman of the Board's report on the company's activities, goals and strategies. The Nomination Committee has also participated in the evaluation of the audit and the Audit Committee's proposals for auditor and remuneration for the audit work.

It is important that each candidate to the Board has the right profile and qualifications for the expertise specifically required. In order to judge how well the current Board fulfills the requirements that will be made of the board as a result of the company's situation and future development, the Nomination Committee has discussed the size and composition of the board with regards to industry experience, expertise, international experience and diversity.

No remuneration has been paid to the Chairman or other members of the committee for their work. The Nomination Committee's proposals, together with the reasons for the proposed Board members selection and supplementary information about the proposed Board members and auditor are published together with the AGM notification and presented together with a report on the committee's work at the 2012 AGM.

The composition of the Board, its functions and procedural rules

In accordance with the Articles of Association, the Board of Directors shall consist of no fewer than three but no more than eight members. Directors are elected at the AGM for the period until the next AGM, usually a year. Board Directors are nominated in accordance with the nomination process, adopted at the AGM. The composition of the Board of Directors is decided by a vote of shareholders at the AGM following recommendation from the Nomination Committee.

Since the 2011 AGM, the Board has consisted of the chairman, five directors and no deputies.

The Chairman of the Board is appointed by the AGM. The Chairman is responsible for ensuring that other members receive the information necessary to be able to monitor the company's profit, financial position, financial planning and development and liquidity as well as to ensure that board decisions are implemented effectively and that the work of the Board is evaluated each year. The Chairman maintains the reporting instructions for the company management, prepared by the CEO and approved by the Board. The Chairman does not participate in any decision making regarding ongoing activities. The Chairman is not an employee of the company, receives no salary from the company and is not eligible to participate in company's incentive programs targeted at employees. During 2009, 3,253,805 share options were issued (which after the reverse split 1:50 entitle the bearer to 65,076 B shares at a price of SEK 30) to the Chairman. The share option issue took place before implementation of the Swedish Code of Corporate Governance, which specifies that Board Directors are not to be included in incentive programs. In addition to laws and recommendations, the work of the Board is governed by the Board's rules of procedure. The Board reviews the rules of procedure annually and adopts them by the Board's decisions.

In accordance with the rules of procedure, the Chairman initiates an evaluation of the work of the Board once a year. The 2011 evaluation was performed by each member of the Board completing a detailed questionnaire on a number of different items covering the Board's composition and expertise, the quality of background material and meetings and how the work of the Board has been performed. The purpose of the evaluation is to gain an understanding of the board members' opinions about how the work of the Board is performed and what action could be taken to make this more efficient. The purpose is also to find out what type of issues the Board thinks should be given more scope and in what areas further competence might be required on the board. The results of the evaluation have been discussed by the Board and have been passed to the Nomination Committee by the Chairman.

The Board constantly assesses the CEO's work by judging the company's development against the established goals. A formal evaluation is made once a year and discussed with the CEO.

The proportion of women and foreign directors on the Board is 17 and 33 percent respectively. For a further presentation of the Board, see page 22 and the website.

The composition of the Board of Shelton Petroleum fulfills the requirement regarding independent members. One board member is one of the owners of a company that receives consultancy fees for performed work. The Nomination Committee and the company do not consider that such fees mean that this board member is dependent on Shelton Petroleum or its management. There are no family connections between the company's board members and senior executives. There is an agreement between the company and Alpcot Capital Management Ltd. since December 15, 2008 regarding financial consultancy and raising capital. The agreement is success-based and involves no ongoing monthly costs. Alpcot Capital Management Ltd. is controlled by a number of the company's shareholders who together own more than 10 percent of the shares and votes, one of them being Katre Saard. Katre Saard is therefore not considered to be independent of major owners. Zenon Potoczny is an employee of the company and is therefore not considered to be independent of the company. A summary of the respective board members' independence is presented in the table on page 32.

The work of the Board in 2011

In accordance with the current rules of procedure, the Board must hold at least one ordinary board meeting per quarter. At the regular board meetings, a fixed agenda is followed, including items covering reports from the CEO about operations, forecasts, economic and financial status including liquidity, investment and disposal decisions and budget.

The Board held seven meetings during the year, four of which were ordinary, one statutory and two extraordinary. The attendance of the respective members is presented in the table on the next page. Besides that the Board meets every fall to go through the strategy, the goals and the business plan.

Before each board meeting, each member received comprehensive written material concerning the items to be discussed at the meeting. Much of the Board's time during the year was spent on operational planning and follow-up, growth, acquisition of assets and financing issues.

Committees

The Board has set up two committees as part of the process of making their work on certain issues more efficient and detailed: the Audit Committee and the Remuneration Committee. The committee members are appointed for one year at a time at the statutory board meeting and the work is regulated by annually determined instructions to the committee. The committees have a primarily preparatory role. The items discussed at committee meetings are minuted and a report is presented at the next board meeting.

Composition of the Board	Nationality	Elected	Attendance 2011	Independent of the company	Independent of the owners	Audit Committee	Remuneration Committee	Total remuneration (SEK thousand)
Per Höjgård, Chairman	Sweden	2009	7/7	Yes	Yes	X	X	175
Richard N. Edgar, Director	Canada	2010	7/7	Yes	Yes		X	75
Peter Geijerman, Director	Sweden	2009	7/7	Yes	Yes	X	X	75
Freddie Linder, Director	Sweden	2011	7/7	Yes	Yes			75
Zenon Potoczny, Director, President*	Canada	2010	6/7	No	Yes			987
Katre Saard, Director	Sweden	2009	7/7	Yes	No	X		75
Total								**1,462**

* Zenon Potoczny is an employee of the company and receives no directors' fees. The figure here refers to salary and pension benefits.

An important part of the work of the Board is the financial reports that are presented at each ordinary board meeting, including those before the release of unaudited Year-end reports and interim reports.

The Board also receives monthly reports regarding the company's financial position. At the ordinary board meetings, reports are also submitted regarding ongoing work in various countries and analyses and proposals for investments as well as financing alternatives. Committee work also represents a significant part of the work of the Board. For a further description of the work of committees in 2011, see the section headed Committees below. During the year, company management presented value creation plans for expansion, including analyses of activities and investment opportunities. These analyses and their consequences have been discussed and judged by the Board both as individual expansion plans and in connection with overall strategy discussions.

Changes in the market and changes in legislation have also made increasing demands on the handling of company governance issues, remuneration issues, application of the rules, issues regarding the work of the Nomination Committee and directors' fees.

In addition to attending meetings of the Audit Committee and ongoing contact with the Chairman and other directors, the company's auditor also attended the board meetings, when members of the board were given the opportunity to ask the auditor questions without representatives of company management being present.

The members of the Audit Committee are Per Höjgård (chairman), Katre Saard and Peter Geijerman. The chairman of the Audit Committee is independent of the company and its major owners. The Audit Committee has held four meetings during the year, normally in conjunction with the quarterly and annual reports. The tasks of the Audit Committee included the following in 2011:

- Handled quarterly reports and the year-end report
- Monitored the effectiveness of the company's internal control and risk management with regards to financial reporting
- Maintained contact with external auditors and monitored any comments reported by them
- Investigated and monitored the auditor's impartiality and independence (including in services other than auditing services)
- Assisted to prepare the proposal to the AGM regarding election of auditor

The members of the Remuneration Committee are Per Höjgård (chairman), Peter Geijerman and Richard N. Edgar. The Remuneration Committee has held two meetings during the year. The tasks of the Remuneration Committee included the following in 2011:

- Prepared issues for the Board regarding remuneration in the form of fixed and variable salaries, pensions, severance pay and any other forms of remuneration to the company management
- Followed and evaluated programs in progress and completed during the year as regards to variable remuneration to the company management and stated that no variable remuneration existed
- Followed and evaluated the application of guidelines for remuneration to senior executives as well as prevailing remuneration structures and remuneration levels and stated that the company follows the guidelines.

Auditors
The task of the auditor is to audit, on behalf of the shareholders, Shelton Petroleum's annual report and accounts as well as the administration by the Board and the CEO. The responsible auditor also presents an auditor's report to the AGM, as well as a statement on the application of guidelines for pay and other remuneration and a statement on the corporate governance report.

Ernst & Young is the company's auditor and the authorized public accountant Per Hedström is the responsible auditor.

In recent years, the auditors have also performed a limited number of other tasks for Shelton Petroleum, in addition to auditing. These have mainly concerned audit-related services such as services in connection with share issues and in-depth reviews in connection with auditing. The auditor's independence of the company is ensured by only using the elected auditor to a limited extent to perform services other than auditing. For a specification of remuneration to auditors, see page 59.

Remuneration
The Chairman and Board Directors are remunerated in accordance with the decision of the AGM or, if necessary, in accordance with decisions made at meetings held at a later date. The Chairman receives a higher fee than other members of the Board because of the extra workload this position entails. Remuneration to the board is stated in the table on page 32, as well as in the notes to the annual report under the heading Remuneration to personnel and senior executives.

Remuneration issues are addressed by the Board within the framework of the Board's regular work and include becoming acquainted with and making decisions on issues related to remuneration to senior management. The overall goal of the Remuneration Committee is to give the Board formal and disclosed processes for decisions on remuneration to senior executives. Remuneration and other conditions of employment for senior executives must be designed so as to secure the company's access to executives with the expertise the company needs at a cost suitable for the company and so as to achieve the desired effects for the business. Remuneration and other conditions of employment shall be based on the guidelines for remuneration to senior management that are determined by the AGM. For more information about remuneration to senior management, see the section Proposal for guidelines for remuneration to senior management on page 28 of the 2011 annual report.

Internal control and guidelines
The Board's work follows rules and policies contained in the Board's rules of procedure, adopted at the board meeting on May 17, 2011. The rules of procedure are determined annually, usually at the first board meeting held after the AGM, and are revised as necessary. The rules of procedure describe how the Board will conduct its internal activities, including the number of board meetings, responsibilities within the Board and the Board's composition and working methods. In addition, the Board ensures that the organization in relation to accounting and resource management includes adequate monitoring, that the Company's business conditions, forecasts and economic and financial status, including liquidity are continuously assessed. The Board adopts in writing the CEO instructions and executes supervision of the fulfillment of the CEO's commitments. The Board has established a specific CEO Instruction for the company.

According to the Code and the Swedish Companies Act, the Board is responsible for the Company's internal control and risk management. It is the ambition of the Board to continue the systematic work of further strengthening internal control in line with the company's growth and development. The Board previously adopted a dividend policy, financing policy and information policy. The basis for control also includes common instructions for the Group regarding accounts and reporting, as well as instructions for authorizations and attestation. There is a clear division of responsibility and inbuilt controls within the Group.

Internal control, supervision, monitoring, risk assessment and management are conducted at several levels within the Group, both at subsidiary level and at group level, and this work is a part of the senior management and managers' ordinary tasks.

Clear reporting to superiors occurs regularly, thus securing a good understanding of how business is reflected in the figures. The formal information and communication channels are supplemented with ongoing dialog between senior management and supervisors within the operational units. As part of the regular follow-up and evaluation, the Board receives monthly financial and operations reports. The content of this financial information is expanded in interim reports, which are always subject to a board meeting at which the Board approves the report.

The CEO is responsible for the compiling of the annual report, the unaudited annual year-end report, interim reports and monthly reports, as well as ensuring that the content of these reports complies with the current requirements. The Board approves the content of the unaudited annual earnings figures and interim reports, after which they are published immediately. The reports shall be presented in accordance with applicable legislation and regulations and in accordance with NGM stock exchange rules.

Group management

The CEO is responsible for ongoing operational activities. The Group Management is presented in more detail under Management and auditors in the Annual Report. The CEO is responsible for the daily operations and together with the Chairman of the Board for ensuring that the Board receives the information needed to make informed decisions. The CEO is assisted in this task by the senior management. All senior executives of the company are responsible for working in accordance with the Company's existing policies. The main responsibility for the subsidiaries' activities rests with the CEO, but the CEO is assisted in this task by each member of senior management at the respective subsidiary.

Larger shareholders

In accordance with Chapter 6, Section 6, paragraph 2 point 3 of the Annual Accounts Act (ÅRL), the Corporate Governance Report shall state direct or indirect shareholding in the company representing not less than one tenth of the votes for all shares in the company. As of the end of March 2012, there were two such holdings, represented by the owner group Alpcot Capital Management, Björn Lindström and Katre Saard (12.8 percent) and Two Eye Fund (10.1 percent).

Consolidated statement of comprehensive income

SEK thousand	Note	2011	2010
Net sales	2	35,714	29,110
Other revenue	2	11,469	181
Total revenue		**47,183**	**29,291**
Capitalized work for own use		3,331	2,233
Operating costs			
Raw materials and necessities		–24,177	–17,639
Other external expenses	5	–10,454	–13,533
Personnel expenses	4	–12,571	–9,895
Depreciation and amortization of tangible and intangible assets	6, 10, 11	–920	–1,898
Total operating costs		**–48,122**	**–42,965**
Operating profit / -loss		**2,392**	**–11,441**
Result from financial items			
Financial income	7	935	1,911
Financial expenses	8	–1,786	–1,470
Total financial items		**–851**	**441**
Profit/loss before tax		**1,541**	**–11,000**
Tax	9	–907	–1,417
Profit/loss for the year attributable to the parent company's shareholders		**634**	**–12,417**
Other comprehensive income			
Financial assets available for sale	12	–15,039	–1,297
Exchange rate differences		–1,387	–10,834
Total other comprehensive income		**–16,426**	**–12,131**
Total comprehensive income		**–15,792**	**–24,548**
Earnings per share before dilution, SEK	22	0.06	–1.46
Earnings per share after dilution, SEK	22	0.06	–1.46
Average number of shares		**10,640,428**	**8,498,582**

Consolidated statement of financial position

SEK thousand	Note	2011	2010
ASSETS			
Non-current assets			
Goodwill	10	6,807	6,807
Intangible oil and gas assets	10	70,137	57,957
Tangible oil and gas assets	11	155,005	146,557
Property, plant, equipment	11	970	1,385
Deferred tax assets	9	0	156
Financial assets available for sale	12	35,147	91,352
Total non-current assets		**268,066**	**304,214**
Current assets			
Inventory	14	321	2,648
Accounts receivable and other receivables	16	9,058	4,265
Prepaid expenses and accrued income		159	321
Tax receivables	2	632	0
Cash and cash equivalents		45,986	22,171
Total current assets		**56,156**	**29,405**
TOTAL ASSETS		**324,222**	**333,619**
EQUITY AND LIABILITIES			
Equity	17		
Share capital		53,203	53,201
Other paid-in capital		179,248	178,445
Reserves	15	–35,350	–18,926
Retained earnings incl. profit/loss for the year		56,352	55,718
Total equity attributable to the shareholders		**253,453**	**268,438**
Non-current liabilities			
Loans	18	21,517	28,976
Deferred tax	9	28,429	27,827
Provisions	24	344	326
Total non-current liabilities		**50,290**	**57,129**
Current liabilities			
Loans	18	7,800	0
Accounts payable		5,272	3,236
Tax liabilities		0	1,715
Other current liabilities	19	3,692	1,267
Accrued expenses and prepaid income	20	3,715	1,834
Total current liabilities		**20,479**	**8,052**
TOTAL EQUITY AND LIABILITIES		**324,222**	**333,619**
Pledged collateral and contingent liabilities	26	Se note	See note

Consolidated statement of changes in equity

SEK thousand	Share capital	Non-registered new issue	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year	Total equity
Opening balance January 1, 2010	**20,824**	**94,559**	**13,088**	**–6,795**	**68,135**	**189,811**
Comprehensive income						
Profit/loss for the year					–12,417	–12,417
Other comprehensive income						
Financial assets available for sale				–1,297		–1,297
Exchange rate differences				–10,834		–10,834
Total comprehensive income	**0**	**0**	**0**	**–12,131**	**–12,417**	**–24,548**
Transactions with shareholders						
Registration of new issue 2009	17,193	–94,559	77,366			0
Option premiums			560			560
New issue	15,014		86,664			101,678
Exchanged convertibles	170		767			937
Total transactions with shareholders	**32,377**	**–94,559**	**165,357**	**0**	**0**	**103,175**
Closing balance December 31, 2010	**53,201**	**0**	**178,445**	**–18,926**	**55,718**	**268,438**
Opening balance January 1, 2011	**53,201**	**0**	**178,445**	**–18,926**	**55,718**	**268,438**
Comprehensive income						
Profit/loss for the year					634	634
Other comprehensive income						
Financial assets available for sale				–15,038		–15,038
Exchange rate differences				–1,386		–1,386
Total comprehensive income	**0**	**0**	**0**	**–16,424**	**634**	**–15,790**
Transactions with shareholders						
New issue	2					2
Convertible bonds, equity part after tax			803			803
Total transactions with shareholders	**2**	**0**	**803**	**0**	**0**	**805**
Closing balance December 31, 2011	**53,203**	**0**	**179,248**	**–35,350**	**56,352**	**253,453**

Consolidated cash flow statement

SEK thousand	Note	2011	2010
Cash flow from operating activities			
Profit/loss after financial items		1,541	–11,000
Adjustments for non-cash items			
Depreciation		920	1,898
Capital gain from financial assets		–10,553	0
Other items not affecting cash flow		–962	–2,014
Tax paid		–1,417	–813
Cash flow from operating activities before changes in working capital		**– 10,471**	**–11,929**
Cash flow from changes in working capital			
Increase (-) / Decrease (+) in inventory		1,529	1,544
Increase (-) / Decrease (+) in current receivables		–6,729	3,226
Increase (+) /Decrease (-) in current liabilities		10,820	–14,538
Cash flow from operating activities		**–4,851**	**–21,697**
Cash flow from investment activities			
Acquisition of intangible assets	10	–7,123	–16,677
Acquisition of tangible fixed assets	11	–12,867	–5,938
Changes in long-term receivables		0	2,533
Sale of fixed assets		0	167
Acquisition of financial assets		–3,341	–7,463
Sale of financial assets		55,059	0
Cash flow from investment activities		**31,728**	**–27,378**
Cash flow from financing activities			
Option premiums		0	560
New issue		2	37,615
Repaid loans		–3,411	0
Loans raised		0	2,305
Cash flow from financing activities		**–3,409**	**40,480**
CASH FLOW FOR THE YEAR		**23,468**	**–8,595**
Cash and cash equivalents at the beginning of the year		22,171	32,725
Exchange rate difference in cash and cash equivalents		347	–1,959
Cash and cash equivalents at the end of the year		45,986	22,171
Supplementary information for cash flow			
The following components are included in cash or cash equivalents: Cash and bank balances		45,986	22,171
Received Interest income		935	1,697
Paid interest expenses		–2 506	–738

Parent company income statement

SEK thousand	Note	2011	2010
Net sales		**435**	**453**
Other revenue	2	11,362	0
Total revenue		**11,797**	**453**
Operating costs			
Other external expenses	5	–5,108	–5,571
Personnel expenses	4	–4,465	–3,369
Total operating costs		**–9,573**	**–8,940**
Operating profit/loss		**2,224**	**–8,487**
Profit/loss from financial investments			
Interest income and similar items	7	1,645	1,568
Interest expenses and similar items	8	–6,123	–4,926
Impairment of financial assets		–16,336	0
Total profit/loss from financial investments		**–20,814**	**–3,358**
Profit/loss before tax		**–18,590**	**–11,845**
Tax	9	619	655
Profit/loss for the year		**–17,971**	**–11,190**

Other comprehensive income

Profit/loss for the year	**–17,971**	**–11,190**
Exchange rate differences	–178	–215
Total other comprehensive income	**–178**	**–215**
Total comprehensive income	**–18,149**	**–11,405**

Parent company balance sheet

SEK thousand	Note	2011-12-31	2010-12-31
ASSETS			
Non-current assets			
Interests in affiliated companies	13	175,555	175,555
Receivables from affiliated companies		61,190	48,323
Other long-term securities	12	35,147	92,650
Total non-current assets		**271,892**	**316,528**
Current assets			
Receivables from affiliated companies		5,296	3,135
Other receivables	16	263	440
Prepaid expenses and accrued income		160	321
Total current receivables		5,719	3,896
Cash and bank balances		33,353	3,617
Total current assets		**39,072**	**7,513**
TOTAL ASSETS		**310,964**	**324,041**
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital		53,203	53,201
Total restricted equity		53,203	53,201
Non-restricted equity			
Share premium reserve		192,078	191,274
Fair value fund		–393	–215
Profit brought forward		50,301	61,491
Profit/loss for the year		–17,971	–11,190
Total non-restricted equity		224,015	241,360
Total equity		**277,218**	**294,561**
Non-current liabilities			
Convertible loans	18	21,517	26,670
Deferred tax liability	9	330	619
Total non-current liabilities		**21,847**	**27,289**
Current liabilities			
Convertible loans	18	7,800	0
Accounts payable		232	536
Other liabilities	19	385	253
Accrued expenses and prepaid revenue	20	3,482	1,402
Total current liabilities		**11,899**	**2,191**
TOTAL EQUITY AND LIABILITIES		**310,964**	**324,041**
Memorandum items			
Pledged collateral	26	See note	See note
Contingent liabilities	26	See note	See note

Parent company changes in equity

SEK thousand	Share capital	Other restricted/ reserve	Current issue	Share premium reserve	Fund for fair value	Profit/loss carried forward	Profit/ loss for the year	Total equity
Opening balance January 1, 2010		**0**	**94,559**	**25,837**	**0**	**63,784**	**–2,293**	**202,711**
Comprehensive income								
Profit/loss for the year							–11,190	–11,190
Other comprehensive income								
Exchange rate differences					–215			–215
Total comprehensive income	**0**	**0**	**0**	**0**	**–215**	**0**	**–11,190**	**–11,405**
Transactions with shareholders								
Registration of new issue 2009			–94,559	77,366				0
Allocation of profit/loss						–2,293	2,293	0
New issue				89,700				104,714
Issue costs				–3,036				–3,036
Equity portion of convertible loan after tax				80				80
Option premiums				560				560
Exchanged convertibles	170			767				937
Total transactions with shareholders		**0**	**–94,559**	**165,437**	**0**	**–2,293**	**2,293**	**103,255**
Closing balance December 31, 2010		**0**	**0**	**191,274**	**–215**	**61,491**	**–11,190**	**294,561**
Opening balance January 1, 2011		**0**	**0**	**191,274**	**–215**	**61,491**	**–11,190**	**294,561**
Comprehensive income								
Profit/loss for the year							–17,971	–17,971
Other comprehensive income								
Exchange rate differences					–178			–178
Total comprehensive income	**0**	**0**	**0**	**0**	**–178**	**0**	**–17,970**	**–18,149**
Transactions with shareholders								
New issue	2							2
Allocation of profit/loss						–11,190	11,190	0
Convertible bonds, equity portion after tax				804				804
Total transactions with shareholders	**2**	**0**	**0**	**803**	**0**	**–11,190**	**11,190**	**806**
Closing balance December 31, 2011		**0**	**0**	**192,078**	**–393**	**50,301**	**–17,970**	**277,218**

Parent company cash flow statement

SEK thousand	Note	2011	2010
Cash flow from operating activities			
Profit/loss after financial items		–18,590	–11 844
Adjustments for non-cash items			
Exchange rate differences		0	–135
Capital gain from financial assets		–10,553	0
Impairment of financial assets		16,336	0
Tax paid		0	0
Cash flow from operating activities before changes in working capital		**–12,807**	**–11,979**
Cash flow from changes in working capital			
Increase (–) / Decrease (+) in current receivables		–1,701	–1,321
Increase (+) / Decrease (–) in current liabilities		5,567	–2,896
Cash flow from operating activities		**–8,941**	**–16,196**
Cash flow from investment activities			
Extended loans		–13,043	–22,000
Acquisition of financial assets	12	–3,341	–7,578
Sale of financial assets		55,059	0
Cash flow from investment activities		**38,675**	**–29 578**
Cash flow from financing activities			
New issue		2	38,174
Cash flow from financing activities		**2**	**38,174**
CASH FLOW FOR THE YEAR		**29,736**	**–7,600**
Cash and cash equivalents at start of year		3,617	11,217
Cash and cash equivalents at year-end		**33,353**	**3,617**
Supplementary information for cash flow			
Received interest		210	221
Paid interest		–2,506	–2,363

Notes

General information

Shelton Petroleum AB (parent company) and its subsidiaries (collectively, the Group) are active in the oil industry and explore, prospect for and exploit oil and gas deposits. Operations are conducted primarily in Russia and Ukraine. The parent company is a public limited liability company. Its registered office is in Stockholm, Sweden. The address of its headquarters is Hovslagargatan 5B, 111 48 Stockholm. The Board approved these consolidated accounts on April 26, 2012. The consolidated statement of comprehensive income and financial position will be presented to the Annual General Meeting on May 22, 2012 for adoption.

NOTE 1
Accounting and valuation policies, basis for preparing the Annual Report

The consolidated accounts are based on the historical cost, except for financial instruments which are reported at fair value in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The principles have been applied consistently for all the years presented, unless otherwise stated. Unless otherwise stated, all amounts are given in thousands of Swedish krona (SEK).

Statement of conformity with applied regulations

The consolidated accounts were prepared in accordance with IFRS, International Financial Reporting Standards, and the interpretations issued by IFRIC, the International Financial Reporting Interpretations Committee, as endorsed by the EU, and in accordance with the Swedish Annual Accounts Act (ÅRL) and the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups. The parent company's annual accounts were prepared in accordance with the Swedish Annual Accounts Act (1995:1554), and with the application of the Swedish Financial Accounting Standards Council Recommendation RFR 2 Reporting of Legal Entities. RFR 2 requires the parent company, in the annual report for the legal entity, to apply all the IFRS endorsed by the EU, provided it is possible within the framework of the Annual Accounts Act, and with due regard to the connection between accounting and taxation. The recommendation defines what exceptions and additions are to be made in relation to IFRS.
Shares in subsidiaries are reported at acquisition values unless otherwise stated. The consolidated accounts were prepared in accordance with the acquisition method, and include the parent company and its subsidiaries.

Accounting in accordance with IFRS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are stated below in the section *Critical accounting estimates and judgments for accounting purposes on page 54.*

New standards and changes

a) New standards that came into force in 2011 and that are applied by the Group

IAS 24 "Related Party Disclosures" (revised 2009). The standard clarifies the definition of related parties, particularly as regards significant influence and joint control. The standard also reduces certain related party disclosure requirements for companies related to the state. Application of the standard has not affected the Group's results, its position or supplementary disclosures.

IAS 1 "Presentation of financial statements". The amendment clarifies that an entity should present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. There were no significant changes to the disclosures in the financial statements as a result of the amendment.

IFRS 7 "Financial Instruments". The standard emphasizes the interaction between quantitative and qualitative disclosures as regards the nature and scope of risks stemming from financial instruments. The change has not resulted in any significant change to disclosures in the annual report.

IAS 34 "Interim Financial Reporting". The standard provides guidance for how the disclosure principles in IAS 34 are to be applied and set additional disclosure requirements regarding a) conditions that will likely affect the fair value of the financial instrument classification, b) transfers of financial instruments between different levels in the fair value hierarchy, c) changes in financial asset classification, and d) change in contingent liabilities and contingent assets. Application of the standard has not had any significant effect on the interim reporting of the Group.

b) New and amended standards, as well as interpretations applicable for financial years beginning on January 1, 2011 but currently not applicable for the Group.

IFRS 32 "Financial Instruments": Classification – Classification of subscription rights" applies to financial years that begin on January 1, 2011 or later.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" applies for financial years that begin on January 1, 2011 or later.

IFRS 1 (amendment) "First-Time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" applies for financial years that begin January 1, 2011 or later.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" applies for financial years that begin on January 1, 2011 or later.

IFRS 3 "Business Combinations" a) Transition regulations for conditional purchase prices stemming from a business combination that occurred before the revised IFRS 3 went into effect, b) Valuation of interests without control, and c) Non-compensated and voluntarily compensated share-based remuneration. Applies to financial years that begin on January 1, 2011 or later.

IAS 27 "Consolidated and Separate Financial Statements" applies for financial years that begin on July 1, 2010 or later.

IFRIC 13 "Customer Loyalty Programmes" applies to financial years that begin on January 1, 2011 or later.

c) New standards and amendments that have been published but go into force later than January 1, 2011 (not yet adopted by EU)

IFRS 7 "Financial Instruments: Disclosures", changes regarding elimination from the balance sheet. Applies to financial years that begin on July 1, 2011 or later.

IAS 12 "Income Taxes", change regarding deferred tax. Applies to financial years that begin on January 1, 2012 or later.

IAS 1 "Presentation of Financial Statements", change regarding other comprehensive income. Applies to financial years that begin on July 1, 2012 or later.

IAS 19 "Employee Benefits", change. Applies to financial years that begin on January 1, 2013 or later.

IFRS 9 "Financial Instruments". Applies to financial years that begin on January 1, 2015 or later.

IFRS 10 "Consolidated Financial Statements". Applies to financial years that begin on January 1, 2013 or later.

IFRS 11 "Joint arrangements". Applies to financial years that begin on January 1, 2013 or later.

IFRS 12 "Disclosures of interests in other entities". Applies to financial years that begin on January 1, 2013 or later.

IFRS 13 "Fair value measurement". Applies to financial years that begin on January 1, 2013 or later.

IAS 27 (revised 2011) "Separate Financial Statements". Applies to financial years that begin on January 1, 2013 or later.

IAS 28 (revised 2011) "Associates and Joint Ventures". Applies to financial years that begin on January 1, 2013 or later.

Principles of consolidation

The consolidated accounts were prepared in accordance with the acquisition method, and include the parent company and its subsidiaries. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given as consideration, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The acquisition cost also includes the fair value of all assets or liabilities which are a result of an agreement on conditional purchase price. Acquisition-related costs are expensed as they occur. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is reported directly in the income statement. Inter-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of a need to write down the transferred asset.

Joint ventures

The Group's interests in jointly controlled entities are accounted for in accordance with the proportional method. The Group combines its share of revenues and expenses, assets and liabilities and cash flows of the joint venture with the corresponding entries in its own consolidated accounts. The Group recognizes the portion of gains or losses from its sale of assets to a joint venture equal to the other owners' holdings. The Group does not report its share of the profits or losses of a joint venture that is a result of the Group's purchase of assets from the joint venture before the assets are resold to an independent party. However, loss on the transaction is reported immediately if the loss means that an asset is recorded at too high a value.

Segment reporting

Information about the operating segments is presented from the perspective of executive management, in the same way as in internal reporting. The executive management decision maker is the function responsible for allocating resources and assessing the performance of the operating segments. In the Group, this function is identified as the Chief Executive Officer. The group has two operating segments – Russia and Ukraine.

Conversion of subsidiaries in foreign currencies

1. Translation of foreign operations

The consolidated accounts are presented in SEK, which is the Group's functional and presentation currency. Assets and liabilities in foreign operations are translated in SEK at the exchange rate at the balance sheet date. The income statements are translated at the average exchange rates for the year. Exchange rate differences arising from foreign currency translation of foreign operations are reported as other comprehensive income in the consolidated statement of comprehensive income. There are no forward currency contracts to hedge flows between countries.

2. Translation of foreign currency

The functional currency for each entity in the Group is determined with regard to the economic environment in which the entities operate their businesses. This generally coincides with the local currency in each country. On the balance sheet date, monetary receivables and liabilities expressed in foreign currencies are translated at the applicable exchange rates. All exchange rate differences are charged to the income statement except the differences attributable to foreign currency loans which form a hedge of a net investment in foreign operations. These exchange differences are reported as other comprehensive income in the consolidated statement of comprehensive income. The following exchange rates have been used (preceding year's rates within brackets):

	Rate on balance sheet date	Average rate
100 Rubles in SEK	21.54 (22.31)	22.1044 (23.7263)
1 Euro in SEK	8.9447 (9.002)	9.0335 (9.5413)
1 USD in SEK	6.9234 (6.8025)	6.4969 (7.2049)
1 CAD in SEK	6.7773 (6.805)	6.5657 (6.9936)
1 UAH in SEK	86.83 (85.25)	81.45 (90.54)

Tangible fixed assets

Oil and gas assets

Oil and gas assets are depreciated using a production volume related depreciation method (unit-of-production method). Thus, depreciation is based on the year's production in relation to the estimated total proven and probable oil and gas reserves. No depreciation is made during the exploration and evaluation phase.

Machinery and inventories

Property, plant and equipment are reported at their acquisition values less accumulated depreciation and impairment losses. The depreciation is based on the estimated useful life of the asset. The estimated useful lives for the various groups of assets are:

Group	Number of years
Office equipment	5–12
Computers	5–8
Software	3–6

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is the value of future cash flows discounted at a rate of interest based on risk-free interest adjusted for the risk associated with the specific asset.

Intangible fixed assets

Under IFRS 6, the company is required to establish a principle defining what expenditure should be reported as exploration and evaluation assets, and should apply these consistently. Under the standards, exploration and evaluation assets should be valued at acquisition value. The Group reports its exploration and evaluation assets using the full cost method. This method means that all expenditure for the acquisition of concessions and licenses, as well as on exploration, drilling, and the evaluation of such interests, should be capitalized. Under IFRS 6, exploration and evaluation assets are classified as either tangible or intangible assets, depending on the nature of the assets acquired, and the classification must be applied consistently. Under the standards, after the first set of accounts, either the acquisition value or the restatement method must be applied to the exploration and evaluation assets. The Group applies the acquisition method, which means that the accounting is done at the acquisition value, less any deduction for any accumulated depreciation and any accumulated impairment losses.

The Group reports its capitalized exploration and evaluation assets as described below. Once the technical and commercial feasibility of extracting oil or gas assets can be demonstrated, the capitalized costs are no longer classified as exploration and evaluation assets.

Reporting, valuation and writing off exploration and evaluation expenditures

Capitalized exploration and evaluation expenditures are classified as intangible or tangible assets in accordance with IFRS 6. Exploration and evaluation expenditures are reported at acquisition values, less any depreciation. Capitalized exploration and evaluation expenditures refer to the following expenditures:

- Acquisition of exploration rights.
- Exploration expenditure – relates to capitalized expenditure for seismic, geophysical, geological and other surveys.
- Drilling – relates to capitalized expenditure for drilling holes and drilling for oil.
- Technical installations – relates to capitalized expenditure for being in a position to drill for oil.
- Equipment – relates to capitalized expenditure for fittings, computers and other technical equipment.

All expenditures for the acquisition of concessions, licenses or shares in production sharing agreements, and for investigating, drilling and expanding these, are all capitalized in separate cost centers – one for each field. Each field covers one source.

At the end of 2011, the Group had carried out exploration work in the Rustamovskoye, Aysky and Suyanovskoye areas, which are north of Ufa in Bashkiria, Russia.

Amortization

The exploration and evaluation assets classified as intangible assets are not amortized. Instead, there is an assessment as to whether there is an impairment loss. For further information, see the section *Impairment losses* below.

Impairment

The Group assesses its intangible assets, its exploration and evaluation assets, and its oil and gas assets for any possible impairment in the light of events or changed circumstances indicating that the reported values of the assets cannot be justified. Such indications include changes in the Group business plans, changes in raw material prices leading to lower revenues, and, for oil and gas holdings, a decrease in the estimated quantities of reserves. The test for impairment is done in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IAS 36 *Impairment of Assets*. The assessment of an impairment loss is done for each cash-generating unit that corresponds to each license and concession right, as well as the oil and gas assets owned by the Group. A cash-generating unit therefore corresponds to each separately acquired license and concession right, plus a proportion of the oil deposits in each country where the Group runs its exploration and extraction business. The assessment of an impairment loss means that the cash-generating unit's carrying value is compared to the recoverable amount total for the assets, which in turn is the higher of the net realizable value and the value in use. The value in use of these assets is the present value of future cash flows discounted at a rate of interest based on risk-free interest adjusted for the risk associated with the specific asset. If it is not possible to determine substantial independent cash flows for a particular asset, then in the test for any impairment loss, the assets are grouped to the lowest level where it is still possible to identify substantial independent cash flows (a cash-generating unit). An impairment loss is recognized when an asset, or a cash-generating entity's reported value, exceeds its value in use. An impairment loss is charged to the income statement. Impairment testing is carried out at least once a year in order to establish that the values for capitalized expenditure can be justified by the expected future net flows from oil and gas reserves that can be attributed to the group's interests in the fields concerned.

Reversal of impairment losses

At least once a year, there is an assessment whether there are any indications that previously recognized impairment losses are no longer justified, or have reduced in scale. If there are such indications, a new estimate is made of the recoverable value. A previously recognized impairment loss is only reversed to the extent that the recognized value of the asset after reversal does not exceed the recognized value that the asset would have had if no impairment loss had been recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount.

After a reversal, the amortization over future periods is adjusted in order to distribute the asset's recognized book value over the asset's remaining expected production life.

Reclassification and depreciation

Once the technical and commercial feasibility of extracting oil or gas assets can be demonstrated, the capitalized exploration and extraction expenditures are reclassified as tangible assets or to a separate part of intangible assets based on their nature. Once the technical and commercial feasibility can be demonstrated, testing the assets for depreciation is commenced. Depreciation is recognized in line with the year's production, in relation to estimated total proven or probable oil and gas reserves in accordance with the unit of production method.

Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not amortized, but tested annually for impairment. Assets that are amortized are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized done with the amount of the asset's carrying amount that exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. In assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For assets other than financial assets and goodwill, previously written down, an assessment is made regarding whether a reversal of the impairment should be done.

Financial instruments

Financial instruments are initially recognized at fair value on the settlement date basis, including any direct transaction costs. Company management determines the classification of the instruments at the first reporting date, and reassesses the classification at each reporting date. The Group only makes use of derivative instruments to a limited extent.

The Group has financial instruments in the following categories:

1. Financial assets available for sale

Financial assets available for sale are assets that are not derivatives and that have been identified as being available for sale. Shelton Petroleum sees this as a residual category with the investment of non-current assets that do not fit into any other category, at present it includes shares and interest in companies where the group owns less than 20 percent of votes and share capital and does not have control. Valuation is done at fair value and it is directly recognized in other comprehensive income.

2. Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or ascertainable payments not quoted on an active market. A distinguishing feature is that they arise when the group provides money, goods or services directly to the customer without the intention of trading with the receivable thus arising.
Loans and accounts receivable are recognized initially at fair value and subsequently measured at accrued acquisition costs by using the effective interest method, less any provision for impairment. A provision for impairment of loans and accounts receivable is made when there is objective evidence that the group will not receive all the amounts falling due under the original terms of the receivables. The size of the provision is determined by the difference between the asset's recorded value, and the present value of estimated future cash flows, discounted by the effective rate of interest. The amount of the provision is reported in the statement of comprehensive income.

3. Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. The liabilities are valued at the accrued acquisition cost. Liabilities shorter than three months are valued at the acquisition cost.
The category to which the Group's financial assets and liabilities are attributed is presented in Note 23, *Financial instruments.*

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, as well as short-term liquid investments with a duration from the time of acquisition of not more than 90 days, which are exposed to an insignificant risk of fluctuations in value. Short term investments consist of investments with a duration longer than 90 days.

Borrowings

Borrowings are initially reported at market value, which represents the amount received with a deduction for any transaction costs, and thereafter at accrued acquisition cost. Any premium or discount from the issue is charged over the duration of the loan, using the effective interest rate method and reporting it in net interest income/expense.

Convertible bonds

The compound financial instruments issued by the Group include convertible bonds, where the owner can demand that they be converted to shares, and where the number of shares to be issued is not affected by changes in the shares' fair value.

The liability component of a compound financial instrument is initially reported at fair value for a similar liability that does not entail the right to convert into shares. The debt component is reported initially as the difference between the fair value for the entire compound financial instrument and the fair value of the liability. Directly attributable transaction costs are allocated to debt and equity components in proportion to their initial carrying amounts.

After the date of acquisition, the debt component of a compound financial instrument is valued to the accrued acquisition cost using the effective interest method. The equity component of a compound financial instrument is not revalued subsequent to the acquisition date, except at the time of conversion or redemption.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the debt for at least 12 months after the end of the reporting period.

Inventory

Inventory is valued at the lowest of the weighted average acquisition cost and fair value. Fair value is the market value less direct sales expenses. The cost of the acquisition includes the cost of materials, labor, and certain fixed costs.

Accounts payable

Accounts payable and other liabilities are reported initially at fair value and subsequently at the accrued acquisition cost in the balance sheet.

Equity

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares or options are shown net of tax in equity as a deduction from the proceeds.

Current tax

Current tax is tax that shall be paid and received for the current year, applying the tax rates and legislation that are in force on the balance sheet date. Also included are any adjustments to the current tax of previous periods valued at the amount that is expected to be received from or claimed by the tax authority. Current tax receivables and liabilities for each company are reported net in the balance sheet.

Deferred tax

Deferred tax is calculated according to the balance sheet method for all temporary differences that arise between the tax value of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Provisions

Provision for environmental restoration measures, restructuring costs and legal obligations are reported when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and that the amount has been calculated in a reliable manner. Provisions for restructuring include costs for terminating the lease and for severance payments.
No provisions are made for future operating losses.

Remuneration to employees

Pension obligations

Group companies in Sweden, Russia and Ukraine have defined contribution pension plans for its employees. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they fall due.

Option program

In 2009, a total of 8,676,812 share options were issued. After a reverse split of shares 1:50, these entitle the bearers to subscribe to 173,546 class B shares. The subscription price is SEK 30 per share and the subscription period is July 1-14, 2012.

In 2010, a total of 8,000,000 share options were issued. After a reverse split of shares 1:50, these entitle the bearers to subscribe to 160,000 class B shares. The subscription price is SEK 43.50 per share and the subscription period is January 15-31, 2013.

Revenue

The Group's revenue comes mainly from the sale of crude oil.

Sale of oil
The oil produced in Russia is sold on a regular basis to a network of local buyers. In Ukraine the oil is sold at auctions. The auction procedure reduces transaction risks and credit risks when delivering oil. Revenue is recognized at fair value when the significant risks and benefits associated with ownership of the goods are transferred to the buyer, when rights of sale transfer to the customer and to the extent to which it is probable that the financial benefits will come to the group and when revenue can be calculated in a reliable manner. Revenue is reported in the period is refers to.

Production taxes
In accordance with applicable legislation, production taxes shall be paid for the producing oil fields in Russia and Ukraine. The production taxes are reported gross in the income statement, and are thus included in both total revenue and cost of sales.

Sales of services
Sales of services are reported in the accounting periods in which the services are rendered.

Interest income
Interest income is recognized on an accrual basis using the effective interest method.

Leasing
In accordance with IAS 17 Leases item 2a, IAS 17 is not applied to leasing contracts related to exploration for mineral assets, or oil and gas deposits. Costs relating to leases that, according to IFRS, can be capitalized are capitalized in accordance with IFRS 6. The Group has no material leases.

Risk management
Through its operations, a group is exposed to many different risks, such as those connected with the business and market, political and country-related risks and financial risks. The Group has implemented risk management structures and control procedures in order to establish calculation, assessment and management of these exposures and related risks. Shelton Petroleum's risk management is described in the company's corporate governance report on page 29.

Risks related to the operations and market

Risks relating to production and exploration licenses and permits

The Group's exploration and its current and future production depend on licenses and/or permits that are granted by governments and authorities. Applications for future licenses and permits may be delayed or rejected and current licenses and permits may have restrictions imposed on them or be recalled by the issuing body, thus delaying or stopping the Group's possibility of commercializing a certain area. Even though licenses and permits can normally be renewed after they have expired, there is no guarantee that this will happen or, if it happens, on what terms.

The Ukrainian licenses in which the group has interests are owned not only by Shelton Petroleum, but also by other parties. Therefore, the Group does not have sole determining influence over operations regarding these licenses. Since the Group does not have sole control over all licenses, the Group is dependent on its partners maintaining or helping to maintain such licenses. If the Group or its partners are not considered to have fulfilled their obligations regarding a license, this may lead to the group's or its partners' licenses being completely or partly withdrawn.

The Group may also come into conflict with one or more of its partners if their interests should differ.

The rights and obligations involved in the group's and its partners' licenses may be subject to interpretation and may also be affected by circumstances that lie outside the Group's control. In the event of disputes, it is not certain that the group's interpretation will prevail or that that group will be able to validate its rights in other respects, which could in turn have negative effects on the Group.

Maintaining licenses is sometimes subject to certain license obligations being fulfilled. If the Group or any of its partners should be deemed not to have fulfilled their obligations under the license or other agreement, this may also lead to the Group's rights in respect of these being wholly or partially withdrawn, which might have a negative impact on the Group's future prospects. If a license holder, on the basis of exploration results or world economic conditions, should open a discussion with the licensing authority with the intention of reducing license obligations, there is no guarantee that they will come to agreement and there is therefore always a risk of the Group or its partners losing licenses if license conditions are not fulfilled, which could negatively impact the group's assets and thereby its future prospects.

The Group continually reviews license agreements to ensure that all terms and conditions of the agreements are fulfilled. The Group also maintains contact with relevant agencies and partners during the license periods to create favorable conditions for the extension of the Group's licenses.

Risks in exploring for and producing oil and natural gas

The Group's operations are subject to risks and uncertainties that are associated with companies involved in exploration, development, production, refining, transport and marketing of oil and natural gas. This can involve risks such as fire and explosion when drilling, leakage and spillage of oil and substances that are hazardous to the environment and the malfunction of heavy equipment. Every one of these risks can result in damage to the Group's oil and natural gas wells, production facilities, other property or the environment, or lead to people being injured. The Group's collection system and processing facilities are also subject to many of these risks. Any major damage to the systems and facilities upon which the Group depends could have a negative effect on the group's ability to sell its production and thereby on the Group's financial position and future prospects. The Group cannot insure itself completely against these risks. There is a risk that the Group may suffer uninsured losses, which could negatively impact the Group's financial position and prospects. The Group has undertaken to comply with Russian and Ukrainian environmental legislations, which are both extensive and complex, and it is Shelton Petroleum's policy to comply with the environmental and safety requirements that apply to the markets in which the company operates. The company's objective is to set an example in minimizing the environmental risks in the company's exploration program.

Geological risk

There is uncertainty regarding the prognoses of the size of the reserves that can be developed and produced in the future, since all estimates of recoverable oil and natural gas reserves are based on probability. No method exists that can determine with certainty the amount of oil or natural gas to be found in a geological layer below the surface of the earth. Reported reserves are based on estimates that have been made by geologists. These estimates are based on factors such as seismic data, measurement data from existing boreholes, core samples, computer simulation models, actual oil flow and pressure data from existing wells, oil prices etc. This means that estimates of oil and natural gas reserves may fluctuate over a period of time. There is no guarantee that the estimated reserves or resources as presented will not be amended over the course of time. If estimates should be revised, this may have a negative effect on the value of the Group's assets and on the Group's future prospects.

The Group manages its geological risks by employing individuals with a high level of geological expertise and by using independent parties to review and confirm the estimates and assessments made by the Group.

Mergers, acquisitions and partners

The Group has acquired assets and companies and may from time to time consider acquiring further assets or companies. Such acquisitions are always subject to risk and uncertainty with regard to counterparties, ownership rights, other rights, assets, liabilities, licenses and permits, claims, legal proceedings, the environment and other aspects. Even if the Group takes the precaution of carefully analyzing acquisitions, unforeseen problems and events can arise. The risks involved can be greater or more difficult or expensive to analyze and limited in the countries and regions in which the Group is active than would be the case in more developed markets.

The Group has entered into, and may in future be dependent on entering into, agreements with partners for exploration and production. There is a risk that partnership agreements that the Group is currently party to may include unsatisfactory or inadequate conditions, in the event that the Group's interests and those of its partners may come to differ. There may be times when the Group and its partners have differing opinions as to how operations should be run and on what rights and obligations each party has. There is no guarantee that the Group's partners will always act in the Group's interests. The Group is also dependent on other operators of fields where the Group is not itself or is not the sole license holder or operator. In such partnerships, the Group cannot solely influence how operations under the license are run and there is no guarantee that the Group's partners will fulfill the obligations of the license or the agreement that has been entered into. In such cases, the Group is thus dependent on, or affected by, how these partners run their businesses. It is not possible for the group to predict all the risks that might arise in the event that such partners, or their subcontractors, do not fulfill license obligations or other obligations.

Risks related to infrastructure

The Group depends on having an available and functioning infrastructure for the areas where there are operations, such as roads, electricity and water supplies, pipelines and a collection system. If any breakdowns occur to infrastructure or systems, or if these do not meet the Group's needs, the Group's activities can be made considerably more difficult, which can lead to lower production and sales and/or higher costs. Much infrastructure in Russia and Ukraine, such as pipelines, railroads, roads, power grids and communications systems, has historically shown weaknesses that could have a negative effect on the Group's operations through stoppages or disturbances, which could lead in turn to lower production or higher costs for the Group.

The Group manages infrastructure risks to some degree through measures such as building new roads or reinforcing existing roads near the license areas, installing its own power supply, building its own pipelines to connect to larger systems.

Sale of oil and natural gas

The Group's ability to sell its produced oil and gas depends on the availability and capacity of collection systems, pipelines and other production and transport systems, the effect of current regulations, prevailing economic conditions and the general availability of and demand for oil. Defects could lead to a reduction in the Group's net income from production and cause a decrease of the Group's operations in oil and natural gas exploration and development.

Price risks for oil and natural gas

The Group's income and profitability will depend on the prices of oil and natural gas, which are affected by a number of factors outside the Group's control. These factors include market fluctuations in combination with export limitations and taxes, the proximity and capacity of oil and natural gas pipelines and economic and political developments. Market prices of oil and natural gas have historically been volatile, a situation which is expected to continue for the foreseeable future. The prices may also be directly affected by political decisions.

The unpredictable nature of energy markets, as well as the effects of regional policy and OPEC's influence on these markets and the policies that are applied, make it particularly difficult to predict future price trends for oil and gas. Any major and lasting fall in the price of oil or natural gas could have a negative effect on the Group's operations, future prospects and profits. The economic assumptions for oil and natural gas production are also changed in the event of lower oil and natural gas prices. A fall in prices could lead to a decrease of the volumes of the reserves that the Group could economically extract, since the Group may abstain from producing from wells if prices fall below a certain level. These factors could lead to a reduction in the Group's net income from production and cause a decrease of the Group's operations in oil and natural gas exploration and development.

At present, the Group does not hedge the oil price of future sales.

Access to equipment and personnel

The Group's exploration and production operations for oil and natural gas depend on access to drilling and associated equipment, as well as qualified personnel in the areas where such operations are carried out or will be carried out. The Group may also on occasion be dependent on third parties such as drilling and transport companies, to implement its business plan. A lack of drilling rigs or personnel or the like could affect the availability of the necessary equipment and personnel for the Group, which could lead to increased costs and thereby affect the Group's profits, and delay the Group's exploration and development activities and lead to reduced production. Such a situation would negatively impact the Group's operations, financial position and position in general.

Significance of key personnel

The Group's future development depends on the knowledge, experience, abilities and commitment of senior management and other key individuals. The Group has entered into employment contracts with such individuals on terms that the Group assesses are appropriate to the market. If the Group should be unsuccessful in attracting and keeping key personnel, this could have negative consequences for the Group's operations, profits and financial position, for example if the Group were unable to achieve its development goals or strategies.

Limited insurance coverage

In the industries and regions in which the Group operates, it is not possible to obtain well-developed insurance coverage. The Group cannot therefore guarantee that it has complete insurance coverage for the risks and losses that might affect operations.

The Group manages insurance risks by continually examining insurance possibilities in the regions in which it operates.

Political and country-related risks

Political risk

Through its operations in countries in the former Soviet Union, the Group is exposed to political risks both regionally and nationally. Russia, Ukraine and other countries in the region have seen major political change, from a communist state with a planned economy to today's more democratic, market economics model. This gradual transition exposes Russia's and Ukraine's political systems to dissatisfaction among some of the countries' inhabitants. Domestic conflicts in both Russia and Ukraine could negatively impact the Group's abilities to plan and implement long-term strategies.

Legal system and legal proceedings

The Group's operations are subject to regulations regarding the environment, safety, health, currency exchange, exports and customs, as well as trade restrictions. Changes in such regulations could have a negative effect on the Group's operations and development. It is relevant here that the Group's assets, oil production and exploration activities are in countries with legal systems that are different from that of Sweden. Exploration rights and related agreements are subject to the laws of Russia and Ukraine, where the company's operations are located. Rules, regulations and legal principles can differ both in terms of material law and as regards issues such as court procedures and execution.

For example, protection of ownership rights is not as well developed in Russia and Ukraine as it is in Sweden. Also, rules at local and regional level may conflict with each other. Courts may lack knowledge of business conditions, there is corruption and respect for court decisions may be low. This means that the Group's and its partners' ability to exercise or assert their rights and obligations and to protect and establish ownership rights for assets may differ from Sweden and from what would be the case if such rights and obligations were subject to Swedish law and jurisdiction. There is thus a considerable investment risk in Russia and Ukraine.

The Group's operations and assets are also subject to a great extent to complex laws and regulations and detailed provisions in licenses and agreements that are governed by these countries' legislation. This in itself involves a risk in regions where corruption exists both within and outside various forms of the exercise of authority. If the Group should become involved in legal disputes for the purpose of defending or exercising its rights under such licenses or agreements or assets, the legal proceedings may be both expensive and time consuming.

The outcome of such disputes is always uncertain. Even if the Group's case is upheld, uncertainty around such disputes and other legal proceedings can have a negative effect on the value of the Group's assets and thereby on the Group and its operations.

Environmental rules

Drilling, production, handling, transport and sale of oil, natural gas and byproducts of petroleum are subject to comprehensive regulation in accordance with national and local environmental legislation where the Group currently has its operations. Environmental rules can include restrictions, undertakings and obligations in connection with water and atmospheric pollution, waste handling and requirements for permits and restrictions on operations, as well as costly administrative or legal proceedings and ultimately the closing down of operations in environmentally sensitive areas. Environmental rules may be made more severe, leading to increased costs. Also, any charges or other orders against the Group in the event of actual or claimed failures to comply with environmental rules or in the event of accidents could have a negative effect on the Group's operations, future prospects and operating revenues. Furthermore, there is no guarantee that the Group's present or future partners will fulfill their environmental obligations.

The Group has undertaken to comply with Russian and Ukrainian environmental legislations, which are both extensive and complex, and it is Shelton Petroleum's policy to comply with the environmental and safety requirements that apply to the market in which the company operates. The company's objective is to set an example in minimizing the environmental risks in the company's exploration and production programs.

Financial risks

Capital and liquidity risk

The Group's aim for the capital structure is to safeguard the Group's capacity to continue its operations, so that it can generate sufficient yield for the shareholders and benefit other interested parties, and to maintain an optimal capital structure in order to keep down the cost of capital. Group management manages capital that has not yet been used for investments or in operations by investing liquid funds in various credit institutions with a high credit rating and at the best possible return. See note 23 for a description of the Group's financial instruments and note 16 for a description of the Group's receivables. As the Group has hitherto mainly raised capital by issuing shares, no target for the debt/equity ratio has yet been set. This policy is continuously reviewed as the business develops.

The Group may require external financing to meet costs and finance planned investments. No guarantee can be made that such financing will be available to the Group or, if it is available, that it will be offered on terms that are acceptable to the Group. If further financing is obtained by, for example, issuing shares or convertible bonds, control of the Group may change and the owners' interests in the Group may be diluted. If the Group cannot secure financing on acceptable terms, the Group may need to curb or defer part of its planned exploration and development activities and may not be able to exploit future acquisition opportunities. This may mean that the Group cannot fulfill working obligations in license agreements, which may in turn cause them to be terminated early. Since the Group's operations depend on such licenses, such a development could have a negative effect on the Group's future prospects.

This may also mean that the Group must divest assets at a time when such realization is difficult or impossible to complete on acceptable or appropriate terms. It may thus be impossible for the Group to sell or otherwise realize any available values in the Group at the desired time or indeed at all. If the Group cannot gain access to capital to make investments, the Group may also need to farm out to other companies part of the future earnings from a license against that company assuming costs responsibility for all or part of the work that must be associated with a license. This would mean that the Group would be able to fulfill any license obligations and carry out planned investments, but could at the same time have a negative effect on the Group's returns and cash flow in the longer term.

The operations in Ukraine are joint ventures with Ukrnafta and Chornomornaftogaz, two leading Ukrainian oil and gas companies of considerable size. There is no guarantee that the partners will agree on when and in what way dividends should occur from such joint ventures. Decisions on dividends are taken jointly, in accordance with the joint venture agreement, and there is therefore a risk that dividends will not occur should the parties' interests differ. If this should occur, and the Group cannot finance its operations in another way, this could have a negative effect on the Group's operations and financial position.

Neither is there any guarantee that the Ruble and Hryvnia will be liquid or effective methods of payment in the future. Changes in the currency market regulations may have an unfavorable effect on the Group's operations. Furthermore, the Group's liquidity could be affected if Russian or Ukrainian companies were to have liquidity problems. For example, Russian companies could run into liquidity problems as a result of limited access to domestic savings, few foreign sources of finance, high taxes and limited borrowing.

The Group manages its financial risk by drawing up earnings and liquidity budgets, which it continually monitors and follows up. Planned investments are adapted to the forecasted financial situation. The Group also maintains regular contact with its partners in Ukraine, where planned investments and dividends are discussed and decided upon.

Impairment risk/Valuing

A large part of the Group's assets are represented by capitalized exploration and extraction expenditures. The value of these depends on the Group's ability to successfully determine the existence of commercially exploitable oil and gas. The Group also has shareholdings of considerable value that are reported at fair value. The future value of such assets is always subject to uncertainty. The Group is exposed to price risk with regard to shares because of investments made by the Group that are classified in the consolidated balance sheet as financial instruments available for sale, which had a value of SEK 35 million at year-end.

Tax risk and possibilities to repatriate capital

The net value of the Group's assets is greatly affected by the tax status of the Russian and Ukrainian subsidiaries. The tax systems in Russia and Ukraine are at a relatively early stage of development and are characterized by many taxes that are subject to frequent change and inconsistent application at federal, regional and local level.

The tax authorities also have up to three years to perform tax audits on previously submitted income tax returns. Tax system changes that are applied retroactively by the authorities can affect previously submitted tax returns. Even if the Group judges that adequate provisions have been made based on the Group's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Russia or Ukraine may have a different interpretation. This involves a risk that the Group may be subject to further taxes or fines that can add up to considerable amounts and have a negative effect on the value of the Group's assets.

Value added tax is normally refunded in Russia and Ukraine. In both countries, however, this is dependent on certificates that show that projects have been completed or that export has occurred, being presented and approved by the tax authorities. There have been cases in Russia and Ukraine where refunds only occurred after court proceedings, which involves a risk of a negative effect on the Group's liquidity.

The Group's legal structure is based on assumptions regarding applicable legislation. Changes to legislation in Russia or Ukraine could involve negative tax consequences. Revision of the Swedish, Canadian or Cypriot tax system could also involve, for example, a change in income tax or company tax and might involve a changed tax situation for the group that could have a negative effect on the Group's financial position.

Currency risk

Exchange rate fluctuations and any Russian or Ukrainian currency regulations can affect the Group's assets and revenues. The Group's subsidiary in Russia uses the Ruble as its base currency and prepares its reports in Rubles. The costs are to a large extent Ruble based. In Ukraine, the corresponding currency is the Hryvnia (UAH). For the time being, the Group has chosen not to hedge any part of its currency exposure. The official exchange rates therefore both directly and indirectly affect the value of the subsidiaries' assets and thereby also the Group's financial position. The Russian central bank has attempted to stabilize the Ruble, but there is no guarantee that such action will be taken in future or lead to a favorable result. A negative development of exchange rates for the Group could thereby have a negative effect on the Group's earnings and financial position. The Russian and Ukrainian economies may also be subject to inflation pressure. Even though borrowing costs currently represent a small part of the Group's costs, inflation may bring higher production costs in general for the Group and affect its profits. The Group has no significant exposure in foreign currencies other than the above. Should the exchange rate of the Ruble change by 10 percent, the value of the Group's total assets and net profit/loss would change by SEK 10 million and SEK 0.5 million respectively. Should the exchange rate of the Hryvnia change by 10 percent, the value of the Group's total assets and net profit/loss would change by SEK 13 million and SEK 0.7 million respectively.

Interest rate risk

The Group is currently mainly financed through equity and internally generated funds from the sale of oil. As the Group does not have any material interest-bearing loan finance with variable interest rate, management considers that the interest rate risk does not constitute a material risk. If and when the Group takes up external loan financing at variable rates, the Group will be exposed to rising market rates. Rising market rates could then have a negative effect on the Group's financial results.

Counterparties, partners and credits

The Group is exposed to various credit risks, for example in the form of prepaid costs or credit being given where any securities do not cover the Group's claims. The failure of buyers to pay can also have a negative effect on the Group' financial position and earnings. Management carefully evaluates the suppliers that the group commissions to carry out works, and to which prepayments are made.

The Group is also exposed to counterparty risk in the form of partnership agreements and joint ventures that the Group has entered into or may enter into in future. The interests of the group and its partners may come to differ, which has a negative effect on the Group's operations. Neither can it be guaranteed that the Group's partners will always be able or willing to fulfill any financial or other obligations towards the Group or a third party. Since the Group does not have sole control of all licenses, there is a risk that licenses may lapse or be recalled due to circumstances over which the Group has no control. There is also a risk that the parties do not interpret their agreement obligations in the same way. On the other hand, there is a risk of the Group's partners, with or without grounds, claiming that the Group is not fulfilling its obligations. This may lead to the Group, with or without grounds, being subject to sanctions or that the Group's partners will take some other action which conflicts with the Group's interests or strategy, which could lead in turn to a considerable negative effect on the Group's financial position, profits and future prospects.

Reporting practice and other information

Accounting, financial reporting and auditing in Russia and Ukraine differ from practices in the West. This is mainly due to accounting and reporting primarily filled a function in relation to tax legislation. Even if more extensive reporting is made and even if it is done in accordance with international standards, no complete guarantee can be given with regard to the completeness or reliability of the information.

Critical accounting estimates and judgments for accounting purposes

Estimates and judgments are continuously evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Testing for impairment losses on capitalized expenditures for exploration and evaluation of mineral assets and goodwill

The Group tests annually whether there has been any impairment loss on capitalized expenditure for exploration and the evaluation of mineral assets, and goodwill in accordance with the accounting policy described above for non-financial assets. Upon assessment of the goodwill value and the value of oil and gas assets, no impairment losses were identified.

The following significant assumptions were used (the same assumptions as preceding year):

- Discount rate of 10 (10) percent
- Reserves of 14 (14) million barrels of oil
- Future oil prices:
  Russia USD 70 (70) per barrel of oil
  Ukraine USD 82-94 (82-94) per barrel of oil

The value of the intangible assets and the capitalized exploration and evaluation expenditures amounts to SEK 70.1 million. If the assumptions for the underlying assessments that lie behind the value of the intangible assets should change, and facts and circumstances come to light indicating that impairment tests need to be conducted, the value may need to be written down. No circumstances or facts indicating that a write-down would be justified have been identified. The value of the assets depends on:

- That permission to drill for oil can be obtained,
- That oil extraction can start,
- That the total of incurred expenditures, plus the discounted value of future expenditures in order to extract the minerals is less than the present value of the income that the extraction of the minerals is expected to generate.

The value of the assets, in the form of the capitalized development expenditure for oil drilling, is contingent on the company obtaining production permits in the places where exploration is taking place.

Going concern

The Group's continued operation and expansion is dependent on being able to raise capital via equity by issuing new shares, via external borrowings and via cash flows from the extraction of oil and gas in Russia and Ukraine. The financial statements have been prepared with the assumption of going concern, taking into account existing cash and cash equivalents and the assumption that the group can finance itself through one or more of the above ways.

Convertible loan

To determine the equity component of the convertible loan a 15 percent discount rate of interest has been used. This is equivalent to what the estimated rate of a corresponding loan without conversion rights would have been for the group.

Deferred tax

The Group reports mainly deferred tax liabilities, which are entirely attributable to value adjustments on intangible and tangible assets of acquired subsidiaries. The Group also has tax losses for which no deferred tax assets have been recognized on the basis of the fact that it is uncertain when these will be utilized.

NOTE 2

Revenue (SEK thousand)

The Group's revenue comes primarily from the sale of crude oil. The Group also reports a profit from the liquidation of Tomsk Refining AB. In 2011, the Group received its first payout from the liquidation in the amount of approximately SEK 51 million, leading to a write down of the book value, and a gain of approximately SEK 11 million was reported.

	Group		Parent company	
	2011	**2010**	**2011**	**2010**
Sales of crude oil	35,714	29,110	0	0
Gain from Tomsk Refining AB	11,362	0	11,362	0
Sales between Group companies	0	0	435	453
Other revenue	107	181	0	0
Total revenue	**47,183**	**29,291**	**11,797**	**453**

NOTE 3

Segment information

The Group reports on the basis of two reportable operating segments. These are Russia and Ukraine. The operating segments are reported on using the same accounting principles witch the Group and Group management use for measuring operating result. The activities of the Russian and Ukrainian segments consist of developing and extracting oil and gas reserves and of exploration to discover new reserves. The activities of the Other segment consist of managing common financing for the Group including borrowing capital from external banks and other ways of capital acquisition. This segment is also responsible for preparing consolidated accounts and financial reporting to the market. The reportable operating segments' income, costs, assets and liabilities include directly referable items as well as items that can be distributed among operating segments in a reasonable and reliable way. Internal reported income refers to onward invoicing of costs referring to management services. Market terms in accordance with the arm's length principle are applied to transactions between operating segments.
Assets that are included in the lists refer to all the assets. The *Eliminations* column refers to elimination of Group transactions between operating segments.

January – December 2011 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Income statement					
Revenue, external	11,302	24,519	11,362		47,183
Revenue, internal	3,331	0	612	–612	3,331
Raw materials and consumables	–8,683	–15,494	0		–24,177
Other operating costs	–6,134	–3,187	–15,236	612	–23,945
Operating profit/loss	**–184**	**5,838**	**–3,172**	**0**	**2,392**

January – December 2010 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Income statement					
Revenue, external	0	29,291	0	0	29,291
Revenue, internal	2,233	0	638	–638	2,233
Raw materials and consumables	0	–17,639	0	0	–17,639
Other operating costs	–5,058	–5,867	–15,038	638	–25,325
Operating profit/loss	**–2,825**	**5,785**	**–14,400**	**0**	**–11,440**

December 31, 2011 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Balance sheet					
Assets					
Tangible and intangible fixed assets	112,173	113,794	6,952	0	232,919
Current assets, external	806	17,859	37,522	0	56,187
Current assets, internal			13,935	–13,935	0
Investments in tangible and intangible fixed assets	16,200	3,645	0	0	19,845

December 31, 2010 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Balance sheet					
Assets					
Tangible and intangible fixed assets	96,569	109,327	3	0	205,899
Current assets, external	6,792	15,449	7,164	0	29,405
Current assets, internal	0	0	11,490	–11,490	0
Investments in tangible and intangible fixed assets	16,677	10,300	0	0	26,977

NOTE 4

Remuneration to personnel and senior executives during the financial year (SEK thousand)

	Base salary/ fees*	Variable remuneration	Other benefits	Pension cost	Total
Per Höjgård, Chairman	175	0	0	0	175
Richard N. Edgar, Director	75	0	0	0	75
Peter Geijerman, Director	75	0	0	0	75
Freddie Linder, Director	75	0	0	0	75
Katre Saard, Director	75	0	0	0	75
Zenon Potoczny, Director **	987	0	0	0	987
Robert Karlsson, CEO	1,225	0	43	300	1,567
Other senior executives, 2 in total	1,183	0	0	133	1,315
Total for board and management	**3,869**	**0**	**43**	**433**	**4,345**

* The fees agreed at the 2011 AGM will be paid during 2012.
** Refers to base salary only, does not receive a directors' fee.

Remuneration to personnel and senior executives during 2010 (SEK thousand)

	Base salary/ fees*	Variable remuneration	Other benefits	Pension cost	Total
Per Höjgård, Chairman	175	0	0	0	175
Ulf Cederin, Director	75	0	0	0	75
Richard N. Edgar, Director	72	0	0	0	72
Peter Geijerman, Director	75	0	0	0	75
Bruce D. Hirsche, Director	72	0	0	0	72
Katre Saard, Director	75	0	0	0	75
Zenon Potoczny, Director	1,029	0	0	0	1,029
Robert Karlsson, CEO	1 100	0	12	292	1,404
Other senior executives, 2 in total	1,101	0	0	127	1,228
Total for board and management	**3,774**	**0**	**12**	**419**	**4,205**

2011 guidelines for remuneration of senior executives

The remuneration of senior executives should be on market terms and competitive for the company to attract and retain qualified employees. For the individual senior executives the remuneration should be based on factors such as position, competence, experience and performance. In addition to the basic salary, senior executives shall receive variable remuneration, pension, additional benefits and incentive programs. The fixed salary, which should be individualized and differentiated based on individual responsibility, experience and achievements, is set in accordance with principles adjusted to market conditions. Variable remuneration is based on the company's earnings growth. The maximum annual variable remuneration may amount to 30 percent of the basic salary. Other benefits will be equal to what is considered reasonable in relation to market practices.

The parts are designed to create a balanced remuneration and benefits program that reflects the employee's per-formance and responsibilities and the company's financial performance. The Board may waive the guidelines if, in an individual case there are special reasons for it.

Benefits for senior executives

Principles
Remuneration to the Board, including the Chairman of the Board, is determined by the shareholders at the AGM, and applies for the period until the next AGM. The principles for remuneration to executive management in the upcoming year are also determined at the AGM.

Remuneration and benefits to the board
The total remuneration to the Board for financial year 2011 amounted to SEK 475 thousand, of which SEK 175 thousand were related to remuneration for the Chairman. For the split among other board members, see the table above.

Remuneration and benefits to the CEO
Remuneration to the CEO in 2011 was SEK 1,567 thousand, consisting of a fixed salary of SEK 1,225 thousand, a car benefit amounting to SEK 43 thousand and a pension cost of SEK 300 thousand. The CEO has a defined contribution pension plan, and receives a contribution to this amounting to 25 percent of salary per year. In accordance with this defined contribution system, the pension is accumulated through the Group's annual payments of premiums.

Pension plans
The company has an established pension plan for personnel and senior executives. The pension charge is a defined contribution.

Severance pay
No severance pay has been made. The notice period for the CEO is 6 months from the CEO's side, and 12 months from the company's side.

Gender distribution
The board members and the CEO in the parent company total 7 people, of which 6 are men and 1 is a woman.

	2011			2010		
Average number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Sweden*	2	2	0	2	2	0
Russia	25	19	6	20	14	6
Ukraine**	9	7	2	9	7	2
Canada	1	1	0	2	2	0
Total	**37**	**29**	**8**	**33**	**25**	**8**

* The line for Sweden regards the parent company
** includes Shelton Petroleum's share of total number of employees in Kashtan Petroleum, which is 45% owned.

	Group		Parent company	
Salaries and remuneration for all employees and board (SEK thousand)*	**2011**	**2010**	**2011**	**2010**
Senior executives and Board	3,780	3,341	2,793	2,360
Pension costs	433	419	433	419
Other employees	4,786	5,041	665	110
Pension costs	375	736	29	0
Social security costs	1,820	1,040	1,100	929
Total	**11,194**	**10,577**	**5,020**	**3,818**

* Remuneration to the board is included in other external costs in the consolidated statement of comprehensive income.

Geographical distribution (SEK thousand)	2011	2010
Sweden	5,133	3,808
Russia	4,101	4,027
Ukraine	680	962
Canada	1,281	1,780
Total	**11,194**	**10,577**

NOTE 5

Payments to auditors (SEK thousands)

	Group		Parent company	
	2011	2010	2011	2010
Ernst & Young				
Audit assignments	908	848	542	509
Non-audit assignments	263	572	263	572
Tax consulting	0	0	0	0
Other services	0	125	0	125
Total Ernst & Young	**1,171**	**1,545**	**805**	**1,206**
Alinga				
Audit assignments	35	34	0	0
Total Alinga	**35**	**34**	**0**	**0**
Total	**1,206**	**1,579**	**805**	**1,206**

Audit assignment means the audit of the Annual Report and of the board's and the CEO's administration. It also includes what the company's auditor additionally carries out as well as consulting and other assistance, all of which result from the audit. Everything else is considered an assignment outside the scope of the audit assignment.

NOTE 6

Depreciation and amortization of tangible and intangible assets (SEK thousand)

	Group	
	2011	2010
Machinery and office equipment	16	16
Intangible fixed assets	60	0
Oil and gas assets	844	1 882
Total	**920**	**1 898**

NOTE 7

Financial income (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
Exchange rate differences	0	0	45	0
Interest income, Group	0	0	1,389	1,347
Interest income, other*	935	1,911	211	221
Total	**935**	**1,911**	**1,645**	**1,568**

* Of which the Group's received interest is 935 (1,697) and the parent company's received interest is 211 (221).

NOTE 8

Financial costs (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
Exchange rate differences	–976	–732	0	–712
Capital gain/loss from financial assets	–809	0	–809	0
Interest expenses, convertible	0	0	–5,313	–4,214
Interest expenses, other*	–1	–738	–1	0
Total	**–1,786**	**–1,470**	**–6,123**	**–4,926**

* Of which the Group's paid interest expense is –1 (–738) and the parent company's paid interest expense is –1 (0).

The convertible loan was raised to finance part of the development program in Russia. The interest expense for the convertible has therefore been capitalized as tangible oil and gas assets in the Group. Capitalized interest expense amounts to SEK 5,313 thousand (4,214).

NOTE 9

Income tax (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
Current tax	–823	–822	0	0
Deferred tax	–84	–595	619	655
Total	**–907**	**–1,417**	**619**	**655**

Reconciliation of tax for the period	**2011**	**2010**	**2011**	**2010**
Reported pre-tax profit/loss	1,541	–11,000	–18,589	–11,845
Tax at current tax rate	–405	2,893	4,889	3,115
Difference in tax rate in foreign operations	–152	–308	0	0
Effect of changes in current tax rate	1,768	0	0	0
Non-taxable items	0	0	0	0
Non-deductible items	–8	863	–8	–12
Deductible items not included in reported profit/loss	0	2,057	0	0
Deferred tax attributable to convertible loan	–422	655	619	655
Tax on dividends received	–462	0	0	0
Other	–782	0	0	0
Non-capitalized loss carry-forwards	–444	–7,577	–4,881	–3,103
Reported tax	**–907**	**–1,417**	**619**	**655**

In 2011, corporate income tax in Ukraine was reduced from 25 percent to 23 percent. The table above reports an effect of the changed tax rate, which can primarily be attributed to the deferred tax liability that occurred upon acquisition of Shelton Canada, the assets of which are primarily located in Ukraine.
The applicable rate of tax amounts to 26.3 percent in Sweden, 20 percent in Russia, 10 percent in Cyprus, 27 percent in Canada and 23 percent in Ukraine.
As of December 31, 201, the Group had loss carry-forwards of SEK 119 million (104 million). Deferred tax assets attributable to loss carry-forwards are only recognized to the extent that it is probable that they will be utilized. As the company's future opportunities to utilize these loss carry-forwards are uncertain, no deferred tax loss has been recognized. The estimated value of the loss carry-forwards is approx. SEK 29 million (25 million). There is no limit to the use of loss carry-forwards.

Deferred tax assets and liabilities are attributable to the following:

	Group		Parent company	
Deferred tax liabilities	**2011**	**2010**	**2011**	**2010**
Intangible assets	8,079	8,580	0	0
Tangible assets	17,052	17,783	0	0
Convertible loan	2,214	1,462	330	619
Other	1,084	–154	0	0
Total	**28,429**	**27,671**	**330**	**619**

Change in net deferred tax assets and liabilities, Group

Deferred taxes 2011	**Opening balance**	**Reported in comprehen-sive income**	**Reported in equity**	**Subsidiary acquisition**	**Exchange rate differences**	**Closing balance**
Intangible fixed assets	8,580	–354	0	0	–147	8,079
Tangible assets	17,785	–1,165	0	0	432	17,052
Convertible loan	1,462	422	330	0	0	2,214
Other	–156	1,181	0	0	59	1,084
Total	**27,671**	**84**	**330**	**0**	**344**	**28,429**

Deferred taxes 2010	**Opening balance**	**Reported in comprehen-sive income**	**Reported in equity**	**Subsidiary acquisition**	**Exchange rate differences**	**Closing balance**
Intangible fixed assets	10,258	–1 146	0	0	–532	8,580
Tangible assets	17,184	1,553	0	0	–952	17,785
Convertible loan	1,354	188	–80	0	0	1,462
Other	–165	0	0	0	9	–156
Total	**28,631**	**595**	**–80**	**0**	**–1,475**	**27,671**

NOTE 10

Intangible assets (SEK thousand)

	Group	
Goodwill	**2011**	**2010**
Accumulated acquisition values at the beginning of the year	6,807	6,807
Carrying amount at year-end	6,807	6,807

Oil and gas properties and licenses	**2011**	**2010**
Accumulated acquisition values at the beginning of the year	57,974	98,411
Capitalization for the year	13,820	16,677
Reclassification to tangible assets	0	–50,963
Exchange rate differences	–1,497	–6,151
Accumulated acquisition values at the end of the year	70,297	57,974
Accumulated amortization at the beginning of the year	–17	–11
Amortization for the year	–134	–6
Exchange rate differences	–9	0
Total accumulated amortization	–160	–17
Carrying amount at year-end	**70,137**	**57,957**

The intangible assets referring to oil and gas assets and licenses have been distributed among cash-generating units and tested for impairment. The Group's cash-generating units are made up of the portion of the Rustamovskoye field in Russia that is oil-producing along with the Lelyaki field in Ukraine. The Group assesses its intangible assets, its exploration and evaluation assets, and its oil and gas assets for any possible impairment in the light of events or changed circumstances indicating that the reported values of the assets cannot be justified. Such indications comprise changes in the Group business plans, changes in raw material prices leading to lower revenues, and, for oil and gas holdings, a lowering of the estimated quantities of reserves. On making such impairment tests management has decided that the same risk exists in 2011 as in 2010. The main assumptions made have been as follows (same as preceding year):

- Discount rate of 10 (10) percent
- Reserves of 14 (14) million barrels of oil
- Future oil price in Russia of USD 70 (70) per barrel
- Future oil price in Ukraine of USD 82–94 (82–94) per barrel

The book value of the Group's and the subsidiaries' intangible and tangible oil and gas assets amounts to SEK 112,173 thousand in Russia and SEK 113,794 thousand in Ukraine.

The book value of the Group's and the subsidiaries' intangible and tangible oil and gas assets is affected by changes in exchange rates. In the Russian subsidiary ZAO Ingeo Holding in 2010 capitalized exploration and evaluation expenditures were reclassified as tangible assets because the company's two exploration wells at the Rustamovskoye field demonstrated commercially viable production and a production license was obtained.

On testing the possible impairment need for capitalized costs related to exploration and evaluation of mineral deposits, no impairment necessity has been identified. Goodwill refers to the excess value that arose from the reverse acquisition of TFS AB in 2009. On evaluating goodwill, no impairment necessity has been identified.

NOTE 11

Tangible assets (SEK thousand)

	Group	
Oil and gas assets and licenses	**2011**	**2010**
Accumulated acquisition values at the beginning of the year	163,292	108,307
Acquisitions	12,054	10,152
Reclassification from intangible assets	0	50,963
Sales	–107	–418
Exchange rate differences	–2,381	–5,712
Accumulated acquisition values at the end of the year	172,858	163,292
Accumulated depreciation		
At the beginning of the year	–16,735	–16,060
Sales	19	224
Depreciation for the year	–844	–1,876
Exchange rate differences	–293	977
Total accumulated depreciation	–17,853	–16,735
Carrying amount at year-end	**155,005**	**146,557**

	Group	
Property, plant and equipment	**2011**	**2010**
Accumulated acquisition values at the beginning of the year	1,984	1,970
Acquisitions	83	148
Sales	–77	–3
Exchange rate differences	–58	–131
Closing accumulated acquisition values	1,932	1,984
Accumulated depreciation at the beginning of the year	–599	–624
Sales	75	30
Depreciation for the year	–464	–16
Exchange rate differences	26	11
Total accumulated depreciation	–962	–599
Carrying amount at year-end	**970**	**1,385**

Total fixed assets, other than financial assets, which are located in Sweden, amount to SEK 6,807 thousand (6,807) and the total of such fixed assets located in other countries is SEK 226,112 thousand (205,899).

NOTE 12

Financial assets available for sale / Other long-term securities (SEK thousand)

	Group		Parent company	
Change during the year	**2011**	**2010**	**2011**	**2010**
As per January 1	91,352	0	92,649	0
Acquisitions	3,340	92,649	3,340	92,649
Sales	–5,168	0	–5,168	0
Liquidation TRAB	–39,338	0	–39,338	0
Losses transferred to other comprehensive income	–15,039	–1,297	0	0
Impairment	0	0	–16,336	0
As per December 31	**35,147**	**91,352**	**35,147**	**92,649**

Financial assets available for sale / Other long-term securities include the following	**Headquarters**	**Interest, %**	**Book value 12-31-2011**	**Book value 12-31-2010**
Listed securities, Shares				
Baltic Oil Terminals PLC	United Kingdom	14 %	23,566	42,132
Unlisted securities, Shares				
Tomsk Refining AB	Stockholm	15 %	11,581	49,220
Total			**35,147**	**91,352**

Shelton Petroleum considers this as a residual category with the investment of long-term assets that do not fit into any other category; at present shares and holdings in companies where the Group owns less than 20 percent of votes and share capital and does not have control. Valuation is performed at fair value directly to other comprehensive income.

Baltic Oil Terminals PLC is listed on AIM in London. In 2011, 1,780,000 shares of Baltic Oil Terminals PLC were sold and as of December 31, 2011 the Group's holding amounts to 13,177,368 shares. The closing price on December 31, 2011 was 16.75 pence and the GBP/SEK exchange rate was 10.68. Shelton Petroleum's holding is equivalent to 13.99 percent of the capital.

Shares of Tomsk Refining AB were acquired in September 2010. In 2011, the AGM of Tomsk Refining AB decided that the company would enter into voluntary liquidation and a first liquidation payout was received in the amount of SEK 50,700,000. The market value is assessed to correspond to the book value as of December 31, 2011.

NOTE 13

Interests in affiliated companies (SEK thousand)

The table below is a specification of the Group's subsidiaries as per December 31, 2011. Petrosibir Exploration AB and Shelton Canada Corp. are owned directly, while Novats Investment Limited, Shelton Canada Exploration Limited, Shelton Canada Energy Limited, Shelton Canada Black Sea Corporation, ZAO Ingeo Holding, Kashtan Petroleum Ltd and JIA # 2847 are owned indirectly.

Subsidiaries	Headquarters	% share	Equity	The Group's share profit for the year	Business
Petrosibir Exploration AB	Stockholm	100	71,337	1,926	Holding company
Novats Investments Ltd	Cyprus	100	24,342	–155	Holding company
Shelton Canada Exploration Ltd	Cyprus	100	–92	–63	Holding company
Shelton Canada Energy Ltd	Cyprus	100	–92	–63	Holding company
Shelton Canada Black Sea Corporation	British Virgin Islands	100	–51	–28	Holding company
ZAO Ingeo Holding *	Russia	100	–19,041	–4,982	Exploration and production of oil and gas
Shelton Canada Corporation	Canada	100	37,015	–74	Holding company
Zhoda (2001) Corporation	Ukraine	100	0	0	Holding company
Kashtan Petroleum Ltd	Ukraine	45	33,146	4,747	Exploration and production of oil and gas
JIA #2847 Ltd	Ukraine	50	674	–1,159	Exploration and production of oil and gas

*Equity is negative after IFRS adjustment. In the Russian accounting and the legal entity, equity is positive.

Participating interests in Joint Ventures

The Group owns a 45 percent participating interest in Kashtan Petroleum Ltd (Kashtan) via Zhoda 2001 Corporation and a 50 percent participating interest in Joint Investment Activity # 2847 (JIA) in Ukraine via Shelton Canada Corporation. Kashtan operates the oil producing field Lelyaki in Chernigov and JIA possesses three offshore licenses in the Black Sea. The company is jointly controlled along with the other shareholders.

The Group's proportion of assets and liabilities as of December 31, 2011 and 2010, which was included in the balance sheet in accordance with the proportional method, is presented in the table below.

	2011	2010
Current assets	17,828	15,449
Tangible assets	21,588	20,315
Intangible assets	988	0
Current liabilities	–5,256	–605
Non-current liabilities	–1,329	–178
Equity	**33,819**	**34,981**

The Group's proportion of revenue and costs as of December 31, 2011 and 2010, which was included in the balance sheet in accordance with the proportional method, is presented in the table below.

	2011	2010
Revenue	24,519	29,291
Operating costs	–19,765	–25,135
Financial items	638	1,657
Tax	–1,804	–822
Profit/loss for the year	**3,588**	**4,991**

NOTE 14

Inventories (SEK thousand)

	Group	
	2011	2010
Crude oil	227	2,568
Other	94	80
Total	**321**	**2,648**

NOTE 15

Reserves (SEK thousand), Group

	Exchange rate differences	Financial assets available for sale	Total reserves
Opening balance January 1, 2010	**–6,795**	**0**	**–6,795**
Change during the year	–10,834	–1,297	–12,131
Closing balance December 31, 2010	**–17,629**	**–1,297**	**–18,926**
Opening balance January 1, 2011	**–17,629**	**–1,297**	**–18,926**
Change during the year	–1,386	–15,038	–16,424
Closing balance December 31, 2011	**–19,015**	**–16,335**	**–35,350**

NOTE 16

Other receivables (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
VAT receivable	516	3,228	24	396
Receivable convertible loan issue	120	0	120	0
Trade receivables	6,570	350	0	0
Advance payments	0	468	0	0
Other receivables	1,852	219	119	44
Total	**9,058**	**4,265**	**263**	**440**

NOTE 17

Equity

The table below shows the changes in Shelton Petroleum's share capital. The company has 10,640,588 outstanding shares, of which 180,580 are A-shares (10 votes per share) and 10,460,008 are B-shares (1 vote per share). The total number of votes is 12,265,808.

	Number of shares
As of 31 December 2010	**532,009,880**
New issuance 2011	19,520
Reverse split 1:50	–521,388,812
As of 31 December 2011	**10,640,588**

In 2009, 8,676,812 share options were issued to the Chairman of the Board and CEO. In 2010, 8,000,000 share options were issued to new directors and company management.

Financing

The Group has thus far financed its business and expansion in Russia by issuing new shares or other financial instruments when the need for additional capital has arisen. At the end of 2009 the company issued convertible bonds of approximately SEK 30 million. Shelton Petroleum also issued shares to the owners of Shelton Canada Corp. in order to complete the merger. The issued convertible bonds that had been issued in 2009 and not yet converted were due for payment on December 31, 2011. In November 2011, holders of the bonds issued in 2009 (KV2009/2011) were offered to exchange them for new convertible bonds (KV 2012/2013) with a convertible period between January 1, 2012 and December 31, 2013. The nominal outstanding amount for the offer was approximately SEK 30 million. Holders of KV 2009/2011 amounting approximately SEK 22 million exchanged them for KV 2012/2013 and another approx. SEK 1 million was obtained through new issue. Approximately SEK 8 million was repaid in January 2012 to KV 2009/2011 holders who chose not to exchange it. KV 2012/2013 can be converted to B-shares between January 1, 2012 and December 1, 2013. If all KV 2012/2013 convertible bonds were to be immediately converted to shares, the number of B shares in the company would increase by 1,423,125. At full dilution, the total number of shares would be 12,063,713. The shares have a quotient value of SEK 5.

Directed new issue

With the support of the AGM decision of May 17, 2011, 407-A shares and 19,113-B shares were issued in June 2011 so that the total number of shares could be evenly divisible by 50 and a reverse split of shares 1:50 could be implemented.

Exchange rate differences in equity

As of December 31, 2011, the reported translation differences under other comprehensive income amounted to SEK -1,387 thousand (-10,834). The exchange rate differences arise upon translating the foreign subsidiaries' balance sheets and income statements, as assets and liabilities are translated at the exchange rate applicable on the balance sheet day, and income and expenses are translated using the average exchange rates.

Exchange rate differences also arise upon the translation of monetary assets and liabilities in foreign currencies, as these are translated on the balance sheet day at the exchange rate applicable that day. These exchange rate differences are normally charged from the income statement, except for loans in foreign currencies that constitute a currency hedge of a net investment in an overseas business. These exchange rate differences are reported for in the statement of comprehensive income.

Management of capital

The managed capital of the company consists of the Group's equity. Group management manages capital that has not yet been distributed to investors or to operations by investing liquid funds in various credit institutions with a high credit rating at the best possible return.

NOTE 18

Loan liabilities (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
Long-term liabilities				
Convertible loans	21,517	26,670	21,517	26,670
Other loan liabilities	0	2,306	0	0
Total long-term liabilities	21,517	28,976	21,517	26,670
Current liabilities				
Convertible loans	7,800	0	7,800	0
Total current liabilities	7,800	0	7,800	0
Total	**29,317**	**28,976**	**29,317**	**26,670**

In 2009, convertible bonds (KV 2009/2011) were issued for approximately SEK 30,540 thousand. SEK 1,020 thousand of these were converted through exchange for shares in 2010. The equity component of the loan constituted SEK 2,078 thousand (1,998) net after deferred tax as of the balance sheet date. In November, the company offered KV 2009/2011 holders to replace this bond with a new convertible bond (KV 2012/2013). Holders equaling SEK 21,720 thousand accepted the invitation and an additional SEK 1,050 thousand were obtained through new issue of KV 2012/2013. The new convertible bond carries a fixed interest rate of 10 percent and is due for payment on December 31, 2013, to the extent that conversion does not take place earlier. The conversion rate is SEK 16 and conversion can take place between January 1, 2012 and December 1, 2013. If all outstanding convertible bonds were to be converted to shares, the number of company B-shares would increase by 1,423,125. The equity component of the loan constituted SEK 804 thousand net after deferred tax as of the balance sheet date. The current component of the convertible loan in the table above refers to holders who chose not to exchange to KV 2012/2013. These holders were repaid in cash in January 2012.

Other loan liabilities are a 2010 loan of RUB 10,338 thousand to suppliers that does not carry interest. The loan was paid in full in 2011.

NOTE 19

Other current liabilities (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
Withholding tax	81	90	81	68
Compulsory employer contributions	215	208	215	184
Value Added Tax	1,108	2	0	0
Royalties	442	0	0	0
Other taxes	1,011	44	89	0
Other	835	923	0	1
Total	**3,692**	**1,267**	**385**	**253**

NOTE 20

Accrued expenses and prepaid income (SEK thousand)

	Group		Parent company	
	2011	2010	2011	2010
Interest costs	0	60	0	60
Acquisition and new issue costs	1,900	700	1,900	700
Audit fees	0	200	0	100
Legal fees	836	0	836	0
Pension costs and social security costs	278	152	279	52
Remuneration to the Board	467	205	467	205
Other	234	517	0	285
Total	**3,715**	**1,834**	**3,482**	**1,402**

NOTE 21

Related party transactions (SEK thousand)

	2011	2010
Purchase of services from ACM	1,641	2,600
Purchase of services from Sergey Titov	325	360
Purchase of services from #Co 1144449 Alberta Ltd	985	840
Purchase of services from law firm Parlee McLaws*	0	422
Total	**2,951**	**4,222**
Balances carried forward at the year-end		
Liabilities to related parties	7	1,639

* Parlee McLaws was not a related party in 2011.

Remuneration to senior executives

In addition to the remuneration to senior executives disclosed in Note 3, the group has also signed a consultancy contract with Sergey Titov, one of the initiators and owners of Petrosibir. The contract relates to services in project management and business development. The remuneration under the contract is approx. SEK 30 thousand per month, which the Group regards as being on the market terms. The contract runs from November 1, 2007 and has a mutual notice period of 3 months. In conjunction with the signing of the consultancy contract, Sergey Titov's employment contract with Ingeo Holding ceased. He receives no other remuneration from the Group.

Other transactions with related parties

During 2008 Shelton Petroleum signed a contract for financial advisory and equity funding with Alpcot Capital Management Ltd ("ACM"). The agreement is result-based and involves no ongoing monthly cost. The financial year is encumbered with SEK 1,641 thousand (2,600) in remuneration to ACM, which relates to advising regarding the transaction with Baltic Oil Terminals PLC. ACM is controlled by a number of Shelton Petroleum's shareholders, one of whom is also a director of Shelton Petroleum.

There has been a consultancy agreement in force since January 1, 2010 between the Group and a company (#Co 1144449 Alberta Ltd) of which Richard N. Edgar (director) is one of several owners. The agreement relates to project management, business development and geological expertise. During the 2011, remuneration was paid at an average rate of CAD 12 thousand per month.

NOTE 22

Earnings per share, before and after dilution

Earnings per share before dilution is calculated by dividing the result attributable to equity holders of the parent company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares repurchased by the parent company and held as treasury shares.

When the result is negative there is no dilution effect due to outstanding share options or convertible bond equities. This is because the result per share would be improved if the dilution effects were taken into account. The result for 2011 is positive, but there is no dilution effect as the convertibles would improve the result.

The Board proposed to the AGM that there be no dividend for the financial year 2011.

	2011	2010
Result attributable to parent company shareholders (SEK thousand)	634	–12,417
Weighted average number of ordinary shares in issue	10,640,428	8,498,582
Earnings per share, before and after dilution (SEK/share)	0.06	–1.46

NOTE 23

Financial instruments (SEK thousand)

Group 2011

Category	Loans and accounts receivable	Other financial liabilities	Financial assets available for sale	Assets and liabilities valued at fair value	Reported value
Assets					
Non-current financial assets			35,147		35,147
Accounts receivable	6,570				6,570
Cash and cash equivalents	45,986				45,986
Total assets	**52,556**	**0**	**35,147**	**0**	**87,703**
Liabilities					
Non-current liabilities		21,517			21,517
Current liabilities		7,800			7,800
Accounts payable		5,272			5,272
Other liabilities		835			835
Total liabilities	**0**	**35,424**	**0**	**0**	**35,424**

Group 2010

Category	Loans and accounts receivable	Other financial liabilities	Financial assets available for sale	Assets and liabilities valued at fair value	Reported value
Assets					
Current financial assets			91,352		91,352
Other receivables	350				350
Cash and cash equivalents	22,171				22,171
Total assets	**22,521**	**0**	**91,352**	**0**	**113,873**
Liabilities					
Non-current liabilities		28,976			28,976
Accounts payable		3,236			3,236
Other liabilities		923			923
Total liabilities	**0**	**33,135**	**0**	**0**	**33,135**

The reported values equals in all material respects the fair value. For accounts receivable, accounts payable, other short-term receivables and liabilities valued at acquisition value, the duration is short, and therefore the fair value equals the reported value.

Fair value estimation

From January 1, 2009, the Group applies the amendment to IFRS 7 Financial Instruments measured at fair value in the balance sheet. Disclosures are required of the valuation at fair value at the level of the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Observable data for assets or liabilities other than quoted prices included in Level 1, either directly (i.e. as the quotations) or indirectly (i.e. derived from the quotations) (level 2); and
- Data for assets or liabilities that is not based on observable market data (i.e. not observable data) (level 3).

As per December 31, 2010, the Group had financial assets available for sale valued in other comprehensive income in the amount of SEK 42,133 thousand at level 1 and SEK 49,220 thousand at level 3. As per December 31, 2011, the Group had financial assets available for sale at fair value in other comprehensive income in the amount of SEK 23,565 thousand at level 1 and SEK 11,582 thousand at level 3. The following table shows changes for instruments at level 3.

	Group	
	2011	2010
Opening balance	**49,220**	**0**
Transfers to and from level 3	0	577
Acquisition	1,700	49,220
Settlement	–39,338	–577
Closing balance	**11,582**	**49,220**

In early April 2012, approximately SEK 18 million of the assets reported above were received.

Maturity structure

The Group's financial liabilities fall due as follows:

As for December 31, 2011	Within 1 year	Between 1 and 2 years	More than 2 years
Convertible loan (including interest payments)	10,129	25,047	0
Accounts payable	5,272		
Other liabilities	835		

The convertible loan due for payment within 1 year refers to settlement of the component of convertible loan KV 2009/2011 that was not exchanged for the new convertible loan, SEK 7,800 thousand, plus interest at SEK 52 thousand. The amount also includes the interest on the new convertible loan to be paid in December 2012, SEK 2,277 thousand.

As for December 31, 2010	Within 1 year	Between 1 and 2 years	More than 2 years
Convertible loan (including interest payments)		27,262	0
Accounts payable	3,236		0
Other liabilities	923	2,306	0

NOTE 24

Provisions (SEK thousand)

	Group	
Reserves for restoration costs	**2011**	**2010**
Ukraine	181	178
Russia	163	148
Total	**344**	**326**

Restoration costs are reported as provisions based on the present value of the costs that are estimated to be needed to fulfill the obligation to restore drilling sites when production is closed down, applying estimated cash flow. The discount rate applied takes into account a market assessment of the time value of money and risks specific to the liability. The obligations are reviewed annually and changes in provisions are capitalized or reversed for the relevant asset. No provisions have been reversed or utilized during the year.

NOTE 25

Commitments

Operational leasing

The group's business is dependent to a certain extent on rented premises and equipment. The rental (leasing) charges are expensed in the period when they fall due. The group has no remaining lease contracts as of December 31, 2010. Future minimum lease payments as per balance sheet date total:

	Group	
	2011	**2010**
Lease payments within 1 year	204	221
Lease payments between 1 and 5 years	0	0
Lease payments after 5 years	0	0
	204	**221**

In 2011, the rental and leasing charges amounted to SEK 210 thousand (300).

NOTE 26

Contingent liabilities (SEK thousand)

In conjunction with the issue of convertible bond KV 2012/2013 in December 2011, the Group and the parent company pledged the wholly-owned Canadian subsidiary Zhoda (2001) Corporation as collateral for the convertible loan. Zhoda (2001) Corporation holds the Group's 45 percent ownership of Kashtan Petroleum Ltd, the Ukrainian company with oil extraction operations at the Lelyaki field in Ukraine. The book value of Zhoda (2001) Corporation amounts to approximately SEK 70 million as of December 31, 2011.

(i) Disputes

The Group has no known disputes that could have a material negative effect on the Group.

(ii) Contingent liabilities related to tax

Russia

The tax systems in Russia and Ukraine are at a relatively early stage of development and are characterized by many taxes that are subject to frequent change and inconsistent application at federal, regional and local level.

The Russian government has initiated a review of the Russian tax system, and has approved certain laws to reform the tax system. The new laws aim to reduce the number of taxes and the general level of taxation for companies, and to simplify tax legislation. However, the application of these new laws is highly dependent on how they are interpreted by local tax authorities. Furthermore, many existing problems have not been taken into account in the new laws. There is a lack of clarity about how the new laws will be implemented. This creates difficulties for the Group's tax planning and the related business decisions.

The Russian tax authorities have up to three years to reopen tax audits of previous income-tax returns. Changes in the tax system that are applied retroactively by the authorities can affect previously submitted tax returns.

Even if the Group judges that adequate provisions have been made based on the Group's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Russia may have a different interpretation. This uncertainty means there is a risk of additional taxation and fines that can be of substantial amounts.

Ukraine

The tax system in Ukraine, like in Russia, is at a relatively early stage of development, and is characterized by numerous taxes that are subject to frequent change and inconsistent application at the federal, regional and local level. The Ukrainian tax authorities have up to three years to reopen tax audits of previous income-tax returns. In some circumstances, tax audits cover longer periods. Changes in the tax system that are applied retroactively by the authorities can affect previously submitted tax returns. Even if the company's management believes that sufficient provisions for tax liabilities have been made, based on the management's interpretation of existing and previous tax legislation, the risk remains that the Ukrainian tax authorities may have different understandings of the interpretation. This uncertainty means there is a risk of additional taxation and fines that can be of substantial amounts.

(iii) Contingent liabilities related to oil operations

Once oil extraction ceases, Shelton Petroleum must restore the Group's drilling sites to their original state. See note 24, Provisions regarding the Group's provisions for restoration costs.

(iv) Russia and Ukraine

Russia and Ukraine are developing markets, and as such do not have a fully developed regulatory framework for commerce, such as a stable banking and legal system, which exist in more developed market economies. The Russian and Ukrainian economies are characterized by currencies that are not fully convertible outside Russia and Ukraine, foreign exchange controls, low liquidity in bond and equity markets and continued inflation. Operating a business in Russia and Ukraine therefore involves risks not normally associated with operating a business in more developed markets.

The stability and success of the Russian and Ukraine economies depends on the effectiveness of the Government's economic policies, and the continued development of the legal and economic systems.

NOTE 27

Events after the balance sheet date

As of January 1, 2012, production taxes were reduced in both Russia and Ukraine. Shelton Petroleum received a letter from the Russian Ministry of Finance that confirms that reduced production tax will be paid on the production of oil from fields with reserves of maximum 35 million barrels. Profitability is expected to increase by approximately USD 10 per barrel as the result of the reduced production tax in Russia. In Ukraine, the formula used for calculating production tax was changed starting January 1, 2012. Profitability is expected to increase by approximately USD 15 per barrel in Ukraine.

In early February 2012, drilling of well #309 at the Lelyaki field was completed and the new well was put into operation.

In early April, the second payout from the liquidation of Tomsk Refining AB was received in the amount of approximately SEK 18 million. With the final liquidation payout from Tomsk Refining AB, the company has received approximately SEK 69 million.

The Board and the CEO certify that the consolidated accounts have been prepared in accordance with international financial reporting standards, IFRS, as adopted by the EU and give a true and fair picture of the Group's position and performance. The annual report has been prepared in accordance with generally accepted accounting principles and gives a true picture of the parent company's financial position and results.

The Director's report for the Group and parent company provides a fair review of the development of the Group and parent company's operations, financial position and results and describes significant risks and uncertainties which the parent company and the Group companies are facing.

The Group's statement of comprehensive income and statement of financial position and the parent company's income statement and balance sheet are subject to adoption at the AGM on May 22, 2012.

Stockholm, April 26, 2012

Per Höjgård Chairman	Richard N. Edgar	Peter Geijerman
Freddie Linder	Zenon Potoczny	Katre Saard
Robert Karlsson CEO		

Our auditor's report was submitted on April 26, 2012
Ernst & Young AB

Per Hedström
Authorized Public Accountant

TRANSLATION FROM THE SWEDISH ORIGINAL.

Auditor's report

TO THE ANNUAL GENERAL MEETING OF SHELTON PETROLEUM AB (PUBL.)
Corporate Identity Number 556468-1491

Statement on annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Shelton Petroleum AB (publ) for 2011, with the exception of the corporate governance report on pages 29-34. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 26-73.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. The audit was conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free of material misstatement.

An audit includes using different procedures to obtain evidence supporting amounts and other disclosures in the annual accounts and consolidated accounts. The auditor assesses which measures are necessary including assessing the risk of material misstatement in the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director as well as evaluating the overall presentation of the annual accounts and the consolidated accounts.

We believe that our audit evidence provides a reasonable basis for our opinions set out below.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the parent company's financial position as per December 31, 2011 and its financial results and cash flows for the year in accordance with the Annual Accounts Act; and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and its financial results and cash flows for the year in accordance with the International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 29-34. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the Annual General Meeting of shareholders adopts the parent company's income statement and balance sheet as well as the Group's statement of comprehensive income and statement of financial position.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we audited the proposed appropriation of the company's profit or loss and the Board of Director's and Managing Director's administration of Shelton Petroleum AB (publ) for 2011. We also conducted a statutory examination of the corporate governance report.

Responsibilities of the Board of Director and Managing Director

It is the Board of Directors that is responsible for the proposed appropriation of the company's profit or loss and it is the Board of Directors and the Managing Director who are responsible for administration in accordance with the Swedish Companies Act and for ensuring that the corporate governance report on pages 29-34 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to, with reasonable assurance, express an opinion on the proposed appropriation of the company's profit or loss and on the administration based on our audit. The audit was conducted in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion regarding the Board's proposed appropriation of the company's profit or loss, we examined the Board's justified statement and a selection of documents to be able to assess whether the proposal complies with the Swedish Companies Act.

As a basis for our opinion concerning discharge from liability we have, in addition to our audit of the annual accounts and consolidated accounts, examined significant decisions, actions taken and circumstances of the company in order to be able to determine if any of the Board members or the Managing Director is liable to the company. We have also examined whether any board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained provides a reasonable basis for our opinions set out below.

Furthermore, we have also read the corporate governance report. Based on this reading and our knowledge of the company and the Group, we believe that we have sufficient basis for our opinion. This means that our statutory examination of the corporate governance report is different focus and significantly less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions

We recommend that the Annual General Meeting appropriates of the profit as proposed in the statutory administration report and the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance report has been prepared and its statutory content is consistent with other aspects of the annual accounts and the consolidated accounts.

Stockholm, April 26, 2012
Ernst & Young AB

Per Hedström
Authorized Public Accountant

Financial overview

Key figures	**2011**	**2010**	**2009**	**2008**	**2007**
Revenue (SEK thousand)	47,183	29,291	0	0	0
Operating profit/loss (SEK thousand)	2,392	–11,441	–16,664	–8,790	–2,871
Profit/loss attributable to parent company shareholders (SEK thousand)	634	–12,417	–15,519	–8,059	–2,526
Earnings per share, SEK	0.06	–1.50	–4.87	–20.50	–19.00
Earnings per share after dilution, SEK	0.06	–1.46	–4.87	–20.50	–19.00
Equity per share, SEK	23.82	25.23	24.96	199.00	219.00
Equity/assets ratio (%)	78	80	71	91	89
Cash and cash equivalents (SEK thousand)	45,986	22,171	32,725	5,517	49,339
Investment in exploration assets (SEK thousand)	19,845	26,917	18,948	28,515	7,453
Number of shares at end of period	10,640,588	10,640,198	7,603,381	395,943	395,943
Average number of shares	10,640,428	8,498,582	3,186,053	395,943	131,887
Average number of shares after dilution	11,483,857	8,516,395	3,186,053	395,943	131,887

The average number of shares for 2007-2010 has been adjusted for the reverse split of shares 1:50, which was implemented in July 2011.

Information for the financial years 2011, 2010 and 2009 was obtained from Shelton Petroleum's audited annual reports for the years 2011, 2010 and 2009, in which consolidated accounts were prepared in accordance with IFRS, International Financial Reporting Standards, and in accordance with the Annual Accounts Act and the parent company's accounts in accordance with the Annual Accounts Act. Information for the financial years 2008 and 2007 was obtained from the then Petrosibir AB's (in which group the subsidiary with the present name Petrosibir Exploration AB was the parent company) audited annual reports, in which consolidated accounts were prepared in accordance with IFRS, International Financial Reporting Standards, and the Annual Accounts Act and the parent company's accounts in accordance with the Annual Accounts Act. Shelton Petroleum's acquisition of Shelton Canada Corp. was completed as of December 31, 2009, after which Shelton Petroleum assumed the name Shelton Petroleum AB. This means that the consolidated balance sheet as of December 31 of 2011, 2010 and 2009 covers Shelton Petroleum including Shelton Canada Corp. but that the income statement for the full year 2009 exclusively refers to Shelton Petroleum before the merger with Shelton Canada Corp. With effect from January 1, 2010, the consolidated income statement includes the activities of Shelton Canada Corp., including the sale of crude oil. Earnings per share for 2010 and 2009 were calculated based on the average number of shares in Shelton Petroleum and for 2008 and 2007 on the average number of shares in the then Petrosibir AB (in which group the subsidiary with the present name Petrosibir Exploration AB was the parent company).

Key figure definitions:
Number of shares at end of period: The number of issued shares of class A and B at the end of the period.
Average number of shares: The average number of issued shares during the period.
Average number of shares after dilution: Average number of shares during the period after full dilution of the outstanding share options and convertible bond equity that lead to dilution.
Income: As of January 1, 2010, the company has had income from the sale of crude oil.
Operating profit: Operating income minus operating costs.
Result attributable to equity holders of the parent company: Result after tax attributable to equity holders of the parent company.
Result attributable to minority shareholders: Result after tax attributable to minority shareholders. At present the company has no minority shareholders.
Earnings per share: The period's profit/loss after tax in relation to the average number of shares for the period. Earnings per share for 2010 and 2009 have been calculated on the average number of shares in Shelton Petroleum AB and for 2008 and 2007 on the average number of shares in the then Petrosibir AB. Since the results are negative, the potential dilution effect of outstanding share options has not been taken into account, because the result per share would be improved if the dilution effects were taken into account.
Earnings per share after dilution: The company has not yet generated a net profit; therefore the calculation of earnings per share after dilution is the same as the earnings per share.
Equity per share: Equity in relation to the number of shares at the end of the period.
Equity/assets ratio: Equity as percent of balance sheet total at the end of the period.
Cash and cash equivalents: Cash and cash equivalents at the end of the period.
Investment in exploration assets: Investments in exploration assets that affected cash flow during the relevant period.

Definitions and abbreviations

Block
A country's exploration and production area is divided into different blocks indicating the geographic location.

Brent Oil
Benchmark oil for the different types of oil found in the North Sea. Used as a basis for oil pricing.

Well
A hole that is drilled to a reservoir in order to locate or extract oil or gas.

Barrel
Oil production is often reported in terms of barrels per day. One barrel of oil = 159 liters or 0.159 cubic meters. Often abbreviated bbl.

Barrels of oil equivalent
Unit of energy for petroleum products. Used when oil, gas and NGL are totaled together. Often abbreviated BOE.

Presence or deposit
Accumulation of petroleum in a geological unit. Is demarcated by types of rock, the area of contact between petroleum and water, or a combination of these.

Gas field
A field that contains natural gas but only small amounts of oil. The gas can contain greater or smaller amounts of condensates, which are separated out as liquid when gas is produced and the pressure and temperature drop.

Hydrocarbons
Compounds of the elements hydrogen (H) and carbon (C). If a deposit mainly contains light hydrocarbons, they are most often in gas form. If it contains mainly heavier hydrocarbons, they will be in liquid form.

Condensate
A mixture of the heavier elements of natural gas, i.e., pentane, hexane and heptane. Liquid at atmospheric pressure. Also called naphtha.

Cubic meters
Unit of volume for gas. Often stated in billion cubic meters.

License
Permit to prospect for and extract oil and gas. Licenses can be divided into two categories: exploration licenses and production licenses.

Natural gas
A mixture of hydrocarbons in gas form, located in bedrock and usually made up of 60–90 percent methane.

NGL
Natural Gas Liquids. Liquid gas made up of three different gases, ethane, propane and butane, as well as smaller quantities of heavier hydrocarbons. Partially liquid at atmospheric pressure. NGL is transported using special tankers.

OPEC
Organization of the Petroleum Exporting Countries. A permanent organization made up of 12 developing countries (Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela) that aims to coordinate and unify member states' respective petroleum-related policies.

Petroleum
General term for hydrocarbons, regardless of whether they are in a solid, liquid or gas form.

Production well
A well drilled in order to extract petroleum from a reservoir.

Exploration well
A general term for wells drilled during exploration for oil and gas in order to obtain data on the quality of the petroleum, the condition of the bedrock, the extent and placement of the reservoir, etc.

Refinery
Facility where crude oil is converted into refined products such as gasoline, motor oil and bitumen.

Reservoir
An accumulation of oil or gas in a porous rock type, such as sandstone or limestone.

Crude oil
The oil produced from a reservoir after associated petroleum gas (APG) has been separated out.

Seismics
Seismic or geophysical surveys are conducted in order to describe geological structures in the underlying bedrock. Sound waves are emitted from the surface and their reflections are recorded by special instruments. Among other things, seismics are used to locate possible deposits of hydrocarbons.

Ton of oil
One metric ton of oil corresponds to approx. 7.5 barrels, depending on the density of the oil.

Production: Propan AB
Photo: Shelton Petroleum AB
Print: Tellogruppen AB
Paper: MultiDesign White

Shelton Petroleum AB
Hovslagargatan 5 B
SE-111 48 Stockholm, Sweden
Phone +46 8-407 18 50
info@sheltonpetroleum.com
www.sheltonpetroleum.com