SHELTON
PETROLEUM

Annual Report 2012

Contents





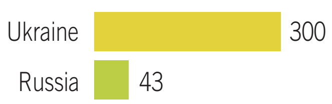

License portfolio

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
Total			**3**	**9**	**14**	**342**		

Some 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

Reserves, million barrels of oil 3P

Resource potential, million barrels of oil equivalent



Production in the fourth quarter 2012, barrels per day

The year in brief 2012

- Doubled turnover and significantly increased profit
- Revenue SEK 100 million
- Operating income SEK 30 million
- The Company achieves production level exceeding 500 barrels per day
- Shareholding in a refinery provide cash funds in the amount of SEK 18 million
- Significantly reduced production taxes in Russia and Ukraine
- Shelton Petroleum's share listed on NASDAQ OMX Stockholm's Main Market

- **Russia**

– Fracking increases flow rates at Rustamovskoye

– The Company initiates a production drilling program at Rustamovskoye by concluding an agreement to drill up to two new wells in an initial phase

– Collection of 73 kilometer seismic data at Aysky in order to create an integrated geological model for the three license areas

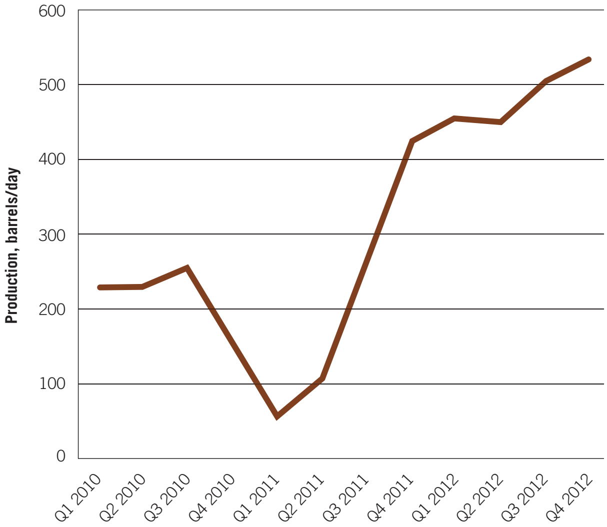
- **Ukraine**

– Production increases by 238 barrels to 328 barrels/day

– 2 new wells drilled and several workovers of old wells carried out

– A Memorandum of Understanding is signed with Nadra of Ukraine regarding co-operation in exploring oil and gas projects

Oil production 2010–2012



Key figures	2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012	2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	2010	2009	2008	2007
Production, barrels	177,850	49,150	46,400	40,900	41,400	77,300	38,800	24,400	9,500	4,600	77,900	0	0	0
Total revenue (SEK thousand)	99,914	23,848	23,890	22,830	29,796	47,183	21,988	20,573	4,588	34	29,291	0	9	0
Operating result (SEK thousand)	29,613	6,696	5,272	5,763	11,882	2,392	3,621	9,964	–5,947	–5,246	–11,440	–16,664	–8,791	–2,871

SEK 100

million in revenue

112%

increase in revenue compared to 2011

A program comprising additional

73 kilometers

of seismic data was initiated in Bashkiria

Approx. 2,000 meters

is the depth of the two new wells in Ukraine

30%

operating margin for 2012

A further

SEK 18 million

obtained from the liquidation of Tomsk Refining

177,850

barrels of oil produced during the year, corresponding to

486

barrels per day

SEK 29 million

invested in oil and gas assets

SEK 30 million

operating profit for 2012

53%

production increase at Rustamovskoye in Q4 2012 compared to Q4 2011

Dear Shareholder,

During 2012, Shelton Petroleum has passed several important milestones in the Company's development. We have doubled the turnover to SEK 100 million and increased operating profit to SEK 30 million.

In the fourth quarter, we achieved a record production level of 534 barrels per day. This growth and the strong operating margin are the result of Shelton Petroleum's development from pure exploration to becoming a production company. This further strengthens our view of our license areas and provides important cashflows for the future development of the Company's assets.

Increased production volumes

Production in 2012 totaled 178,000 barrels, compared to 77,000 barrels in 2011. Our aim is to continue increasing the production volumes. At the Rustamovskoye field in Russia, we completed extensive preparatory work in 2012 for a new production drilling program. During the beginning of 2013, we have started drilling a new well, which, apart from the potential additional oil production, will also provide valuable information about the features of the field. At the Lelyaki field in Ukraine, Shelton Petroleum is carrying out a work program in order to step by step increase productivity and production volumes. The field was once one of the Soviet Union's largest producing fields and the original volume of oil in place has been estimated at around one billion barrels. The Company's geologists believe that by applying western reservoir engineering, it is possible to increase the current production of the field and reserves to significantly exceed current levels.

Interesting position in the Ukrainian offshore market

Shelton Petroleum has a license portfolio with considerable resources of 300 million barrels oil equivalent. As a consequence of the new production sharing legislation (Production Sharing Agreement, PSA), activities in the Ukrainian oil and gas market have increased markedly over the year. Shell recently signed a PSA entailing that they will invest USD 10 billion to develop a gas deposit. In addition, a consortium led by ExxonMobil has acquired an exploration license in the Black Sea at a price of USD 300 million. In other words, we have significant interests in a growing market which will create great value for the country Ukraine as well as for the companies participating in this development and improvement process.

Migration to NASDAQ OMX

At the end of 2012, trading of the Company's share on the Main Market of NASDAQ OMX started, which has contributed to a higher turnover in the Company's share. This should also be seen as a testimony to the Company's ambitions regarding continued growth and profitability. I look forward to realizing the values in the Company's current portfolio and seizing the many new opportunities offered by the market.

Business concept

- Generate a good yield on capital invested through exploration and production of oil and gas

Strategy

- Grow by identifying, purchasing and developing attractively valued assets
- Increase the cashflow generating production and carry out carefully chosen exploration with high potential
- Form strategic partnerships to the extent it promotes the business
- Provide transparency, structure and good corporate governance to investors.

Objectives for 2013

- Increase production in both Russia and Ukraine through new drillings, workovers and sidetracks
- Make visible and create value in the offshore-licenses
- Convert resources to reserves though continued cost-effective exploration works
- Expand through acquisition of new licenses

The E&P Business step by step

Exploration

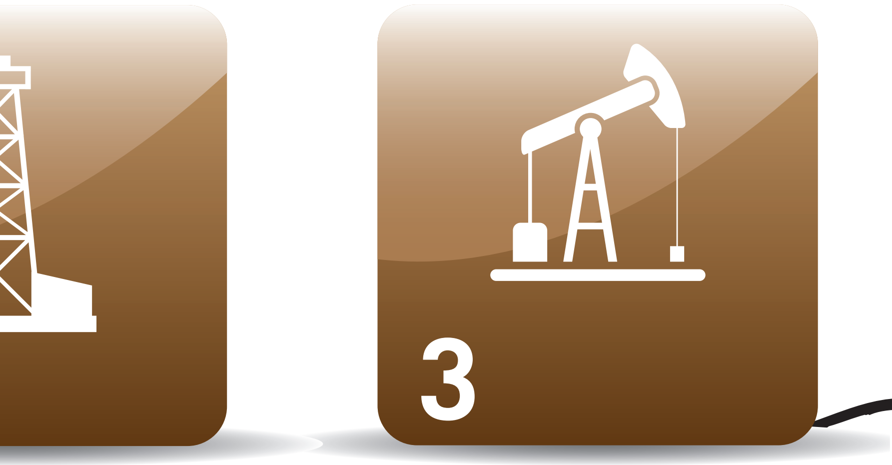
Licensing
An oil company is granted a license to explore for oil within a specific area for a specific period of time by the government licensing authority, such as Rosnedra in Russia or Gosgeonadra in Ukraine. Alternatively, the company can purchase licenses that have already been issued or partner 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 studies include seismic surveys, which involves creating sound waves and measuring their movement in the ground in order to identify potential structures and helium studies, where the amount of helium emanating from deep layers in the earth is measured.

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.

Steps taken in exploration in 2012
- A program with additional 73 kilometers of seismic data was carried out at Aysky. The new seismic data will be processed and analyzed together with previous seismic data to create an integrated geological model for the three Russian license areas.



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 result. A design for oil storage, processing and transporting 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. Traditionally, wells have been drilled vertically through the reservoir, but lately horizontal wells combined with fracking – a method of fracturing the reservoir rock to increase flow of oil – have become increasingly common since these can yield higher flows, albeit at a higher cost. When the drilling is completed, measures are taken to optimize the production level from existing holes and to improve results when drilling new wells.

Steps taken in development in 2012

- A drilling firm was contracted, initially to drill two new wells at the Rustamovskoye field in Bashkiria. The mobilization and assembly of the drilling rig was initiated.
- Two new wells have been drilled in the Lelyaki field.

Production, sales and 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 owned refinery (a vertically integrated oil company) or be exported.

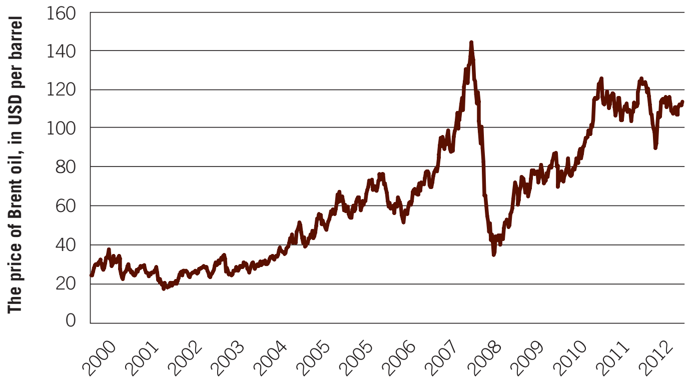
Work programs for improved recovery
All oil wells undergo a natural decline in production. In order to counteract this process, the company can stimulate the reservoir, optimize pump equipment, inject water to increase the reservoir pressure or take other measures, such as drilling sidetracks, repairing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

Steps taken in production and sales in 2012

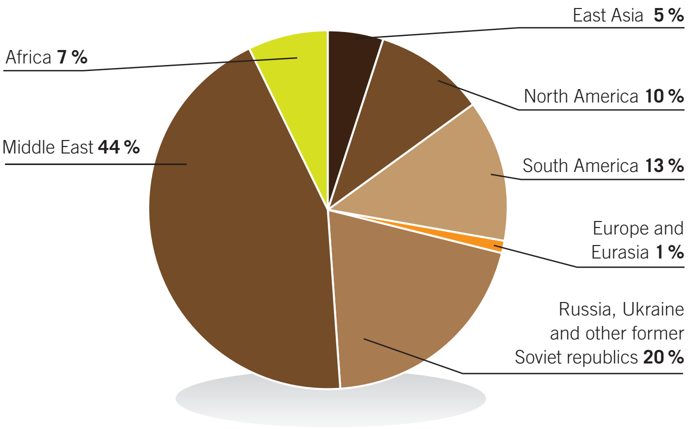
- 177,850 barrels of oil were produced and 178,300 barrels of oil were sold
- Fracking of the two wells in the Rustamovskoye field increased production from 120 to 200 barrels per day.
- A work program was completed in the Lelyaki field, increasing the production volumes by 238 barrels per day to 328 barrels/day.
- A higher world market price combined with larger network of buyers and the production tax reduction increased the net price in Russia.

Market overview

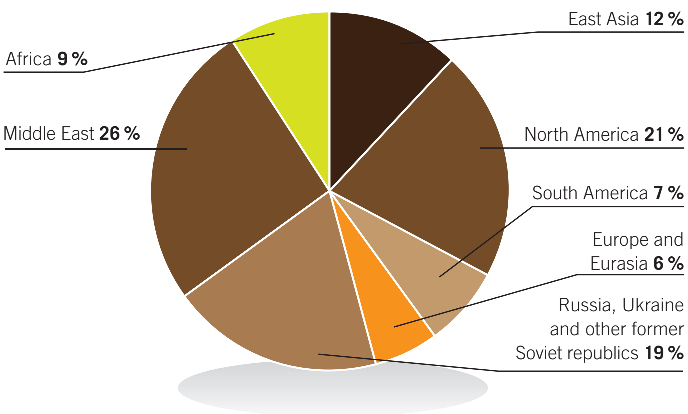
Oil price development



Global oil and gas reserves



Global oil and gas production



Source: BP Statistical Review of World Energy (June 2012)

What affects oil price

State of the world market
When the economy booms, the demand for oil increases which can lead to increased prices. In a recession, the opposite 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 stocks
The world oil stock levels can affect what is available on the market.

Politics
War, revolutions, boycotts and other forms of unrest could jeopardize oil production and oil transport, which could cause prices to increase.

Other factors
Other factors include, among others, technology, energy saving, competition, speculations, taxes and other sources of energy including unconventional oil (shale oil, tar sands etc)

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 refinery capacity and there is good demand for crude oil
- Bashkiria has a mild climate compared to many other Russian oil-producing regions. This makes exploration and extraction of oil possible year-round.
- 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 by Deutsche Bank
- Russia is the world's largest producer of oil and gas
- The Russian oil consumption is expected to increase by 3.4 % per annum according to Business Monitor International
- Reduced production tax from 2012 benefits Shelton Petroleum's Rustamovskoye field, with cash flow potential increasing by about 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 beginning of the 20th century
- Because of its geographic location, Ukraine plays a central role in Europe's energy supply
- Ukraine has an untenable energy balance with nearly two thirds of the country's oil and gas consumption being imported, while only 5 % of offshore resources have been explored
- Tax on oil production was reduced by approximately 15 dollars per barrel as of January 1, 2012
- Interest in developing the country's offshore fields is steadily increasing and PSA-legislation (Production Sharing Agreement) has recently been introduced to facilitate foreign investments in oil and gas
- OMV and ExxonMobil have recently made a discovery of up to 500 million barrels oil equivalents in the Black Sea
- Shell has recently signed a PSA entailing that they will invest USD 10 billion to develop a gas deposit in Eastern Ukraine.
- A consortium led by ExxonMobil has acquired an exploration license in the Black Sea at a price of USD 300 million, and has undertaken to invest a further USD 400 million in exploration








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 about 300,000 barrels of oil per day.

Good infrastructure

The area is accessible by road year-round. 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 is located in the block, not far from the drilling site at Rustamovskoye, and has access to electricity supply via the local grid, to which the Company is connected.

Production from two wells

Shelton Petroleum currently produces oil from the two exploration wells (RS#1 and RS#2) at the Rustamovskoye field. During the summer, the Company completed a vertical seismic profile and fracking of the two wells in order to counteract the natural production decline to which all wells are subject, and in order to increase knowledge about the reservoir to determine with the best precision possible where and how the new production wells should be drilled. As a direct result of the fracking, the field's production increased significantly. Production for the year totaled 57,900 barrels of oil and daily production in Q4 was 216 barrels per day, compared to 141 barrels per day in the corresponding period in 2011. The oil is sold to small, local refineries.

Development program to increase production

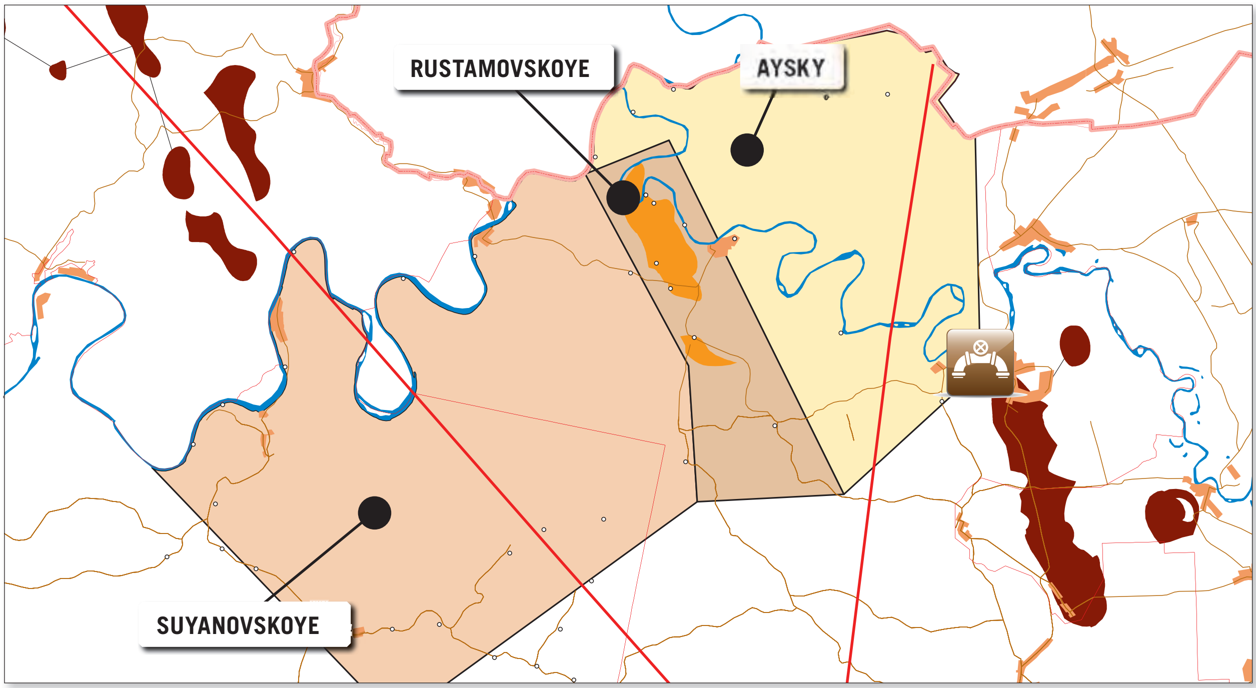
In 2012, Shelton Petroleum proceeded with the development program at Rustamovskoye, comprising infrastructure for processing, storage and transport of oil and drilling new production wells. Based on analyzes and models of the oil field, a decision was made to initiate production drilling in this field. Shelton Petroleum has concluded an agreement with a company to drill up to two new wells, at an initial stage. The mobilization of the drilling rig was initiated in November 2012 and drilling of the first well was commenced in February 2013. The new production well is a so-called deviated well which is drilled at an angle from the same drilling site as the production well RS#2. The planned total depth is around 2,500 meters and the aim is to penetrate the Devonian oil-bearing sandstone formation approximately 800 meters horizontally from RS#2. The field will be developed in stages in order to manage geological risks and to balance investments against the Company's available financial resources. When the first stage is complete, the Company will analyze the drilling data and geological information and develop a new design for the drilling project. The purpose is to produce a new development plan in order to best explore and extract the reserves of the deposit. The new design will consider the potential for horizontal drilling, which can provide for significantly improved well economics, subject to the right geological conditions. Currently, oil is being produced from a horizon of the Devonian period, but the field has 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. Seismic data has been collected at Aysky, and three structures have been 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 about 20 million barrels at Aysky according to Russian standards. At Aysky, the Company also initiated a new seismic program of a further 73 kilometers in 2012. Subsequently, all seismic data at Aysky (65 km + 73 km) and at Rustamovskoye (80 km + 87 km) as well as extensive information from the drillings will be analyzed to create an integrated geological model for the license areas. This is an important step for the future development of the fields and provides, inter alia, structural maps for the selection of optimal drilling sites at Aysky as well as Rustamovskoye.

Strong local network

In September 2012, Shelton Petroleum's board and management participated in "Swedish days in Bashkiria" and met with Bashkiria's Prime Minister Azamat Ilimbetov in order to improve the Company's position and identify joint opportunities. Shelton Petroleum's licenses are now included on the President's list of specially prioritized projects in the Republic.



Shelton Petroleum's three blocks Rustamovskoye, Suyanovskoye and Aysky form one continuous block of approximately 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 2012, 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, of which 36 km² is production license	2 (5)	158	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.

Facts about Bashkiria

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 President of the republic since 2010. The single-chamber parliament Kurultai has 120 members and elections are held every five years

Area 143,600 km² (about one-third of Sweden's land area)

Population approx. 4 million, of which 36 % are Russian, 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 called "the second Switzerland" because of its rolling landscape, rivers and clean air
- Bashkiria's prides: honey, Bashkir horses, the hockey team Salavat Yulaev in KHL

Pan European Terminals PLC

In 2010 Shelton Petroleum acquired a shareholding in Pan European Terminals PLC (previously known as Baltic Oil Terminals). The Company runs terminal business in areas such as the Russian Kaliningrad region on the Baltic coast; Rotterdam, Holland and Aabenraa, Denmark. Its shares are listed on AIM in London.

Shareholding at year end
12.94 %

Book value at year end
SEK 24 million

Operations in Ukraine

Licenses and operations in Ukraine

Shelton Petroleum has been active on the Ukrainian oil and gas market for several years. The Company has created a good position from which to operate 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 Corporation 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 119,950 barrels of oil net to Shelton Petroleum which corresponds to a daily production of 328 barrels, compared to 90 barrels per day in 2011. Lelyaki lies 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 place has been estimated at around one billion barrels. The field has an accumulated production of around 385 million barrels oil, which entails an extraction rate of 38 %. With technology for so-called "enhanced recovery", Western oil companies in some fields have achieved extraction rates exceeding 50 %. This shows that the potential in the remaining amount of oil for extraction may significantly exceed currently registered reserves. At the field, there are good connections to Ukrainian oil and gas infrastructure. In 2012, the drilling of well #309 was completed and production started. Additionally, well #310 was drilled, at a depth of 2,040 meters at the end of the year.

The field operator has continued with the work program initiated in 2011 to increase the production levels. Since the characteristics of the field are well known, this can be achieved through cost-effective investments at low geological risk. The Company is carrying out 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 significant potential

Shelton Petroleum has, as one of the few Western companies, 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 has been estimated at 300 million barrels of oil equivalent.

These licenses are situated in shallow waters and could potentially be drilled with a jack-up rig at a cost which is relatively low for offshore drilling.

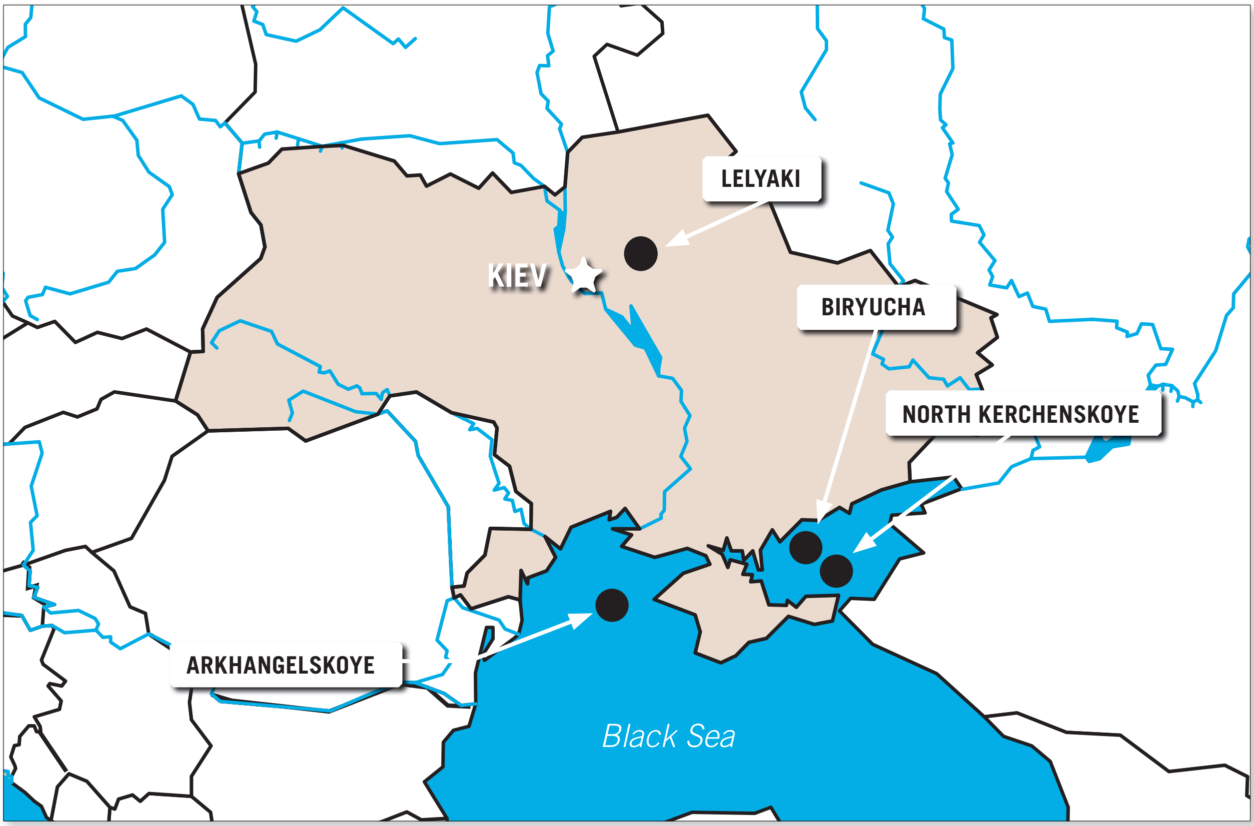
The existence of gas in the area is proven. Chornomornaftogaz already produces from Arkhangelskoye from a horizon that is above the horizon at which Shelton Petroleum has its interests. A similar field a few kilometers from Arkhangelskoye is currently producing about 6,000 barrels of oil equivalent per day from the horizon in which Shelton Petroleum has its share.

High prices of natural gas

The natural gas price for the industry was USD 430 per cubic meter at the start of 2013. This is approximately three times higher than in North America.

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 political 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 (PSA) legislation. As a consequence, activity in the Ukrainian oil and gas market has increased markedly in 2012. Shell has recently signed a PSA entailing that they will invest USD 10 billion to develop a gas deposit in Eastern Ukraine. Additionally, a consortium led by ExxonMobil has acquired an exploration license in the Black Sea at a price of USD 300 million, and have undertaken to invest another USD 400 million in exploration. Shelton Petroleum is currently evaluating several alternatives in order to push its existing offshore portfolio with 300 million barrels oil equivalent forward, and to add new licenses to the portfolio.



License	Type of license	Ownership share and partners	Area	Drilled wells	Net production in 2012 to Shelton Petroleum, barrels/day	Reserves 3P, millions of barrels oil equivalent	Resource potential, mil. barrels oil equivalent
Lelyaki	Production license	45 % / Ukrnafta	67 km²	approx. 150	328	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 data is based on independent audits conducted by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd. in 2009.

Facts about Ukraine

Capital Kiev

Form of government Republic

Administration
Led by the President, Viktor Yanukovych, who was elected for a term of five years. Elections to the Ukrainian parliament, Verchovna Rada, are held every five years.

Area 603,628 km²

Population 46 million

Partners in Ukraine

UKRNAFTA
Ukrnafta was founded in 1945 and is Ukraine's largest oil company with around 28,000 employees. In 2011 the company produced over 17 million barrels of oil and condensate and 2.1 billion cubic meters of gas, which represents 68 per cent and 11 per cent, respectively, of the country's production. The company's proven and probable reserves amount to 800 million barrels of oil equivalent. The company also has a network of 550 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 established in 1978 to explore for reserves in the Black Sea and Sea of Azov. The company has around 4,000 employees and produces approximately 22,000 barrels of oil equivalent per day. The company owns 13 offshore rigs and four jack-up rigs. CNG operates 1,300 km pipeline, of which 370 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 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 the Russian and Ukrainian environmental legislation which covers water usage, air pollution, releases into water, handling of hazardous substances, restoration of soil as well as health and safety aspects for employees. It is Shelton Petroleum's policy to live up to 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 employees undergo regular education and training courses in crisis management, preventing blowouts, avoiding spills of oil and other hazardous substances, first aid and fire fighting. Additionally, regular controls and incident preparation exercises, both internal and external (by state authorities), are carried out. In 2012, 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.

The Company carefully complies with laws and regulations to combat bribery and corruption. Shelton Petroleum takes special care in this respect when hiring employees and contractors. The Company also has internal control systems to ensure on a day-to-day basis that the Company does not give, promise, offer or accept any undue advantage in respect of an employment or contract or a public procurement.

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 and pre-school to purchase sport equipment and toys
- Supported a conference for young geologists
- Cooperated with the local authority in the Duvansky rayon (municipality) for arrangement of local cultural ceremonies

Shelton Petroleum has made the following contributions in Ukraine:

- Cooperated with the Ukrainian youth association "Plast" and helped organize a summer camp for orphans in Ukraine
- Supported "Help Us" charitable foundation and a local office of the Ukrainian social services in the Poltava region, near the Lelyaki field
- Donated money to Parliamentary Elections Observer's Mission in connection with the Parliamentary elections 2012 in Ukraine
- Supported the sports association "Chernihivkart" and the secondary school Kraslianska
- Provided financial support to a local association of labor and war veterans in the Poltava region

Shelton Petroleum's CSR principles

- **Long-term sustainable and responsible operations for the Company's stakeholders**
- **Health and safety**
- **Minimizing environmental impact**
- **Support to the local communities**
- **Social and gender equality**
- **Training and development of our employees**

Shareholders and the share

Owners

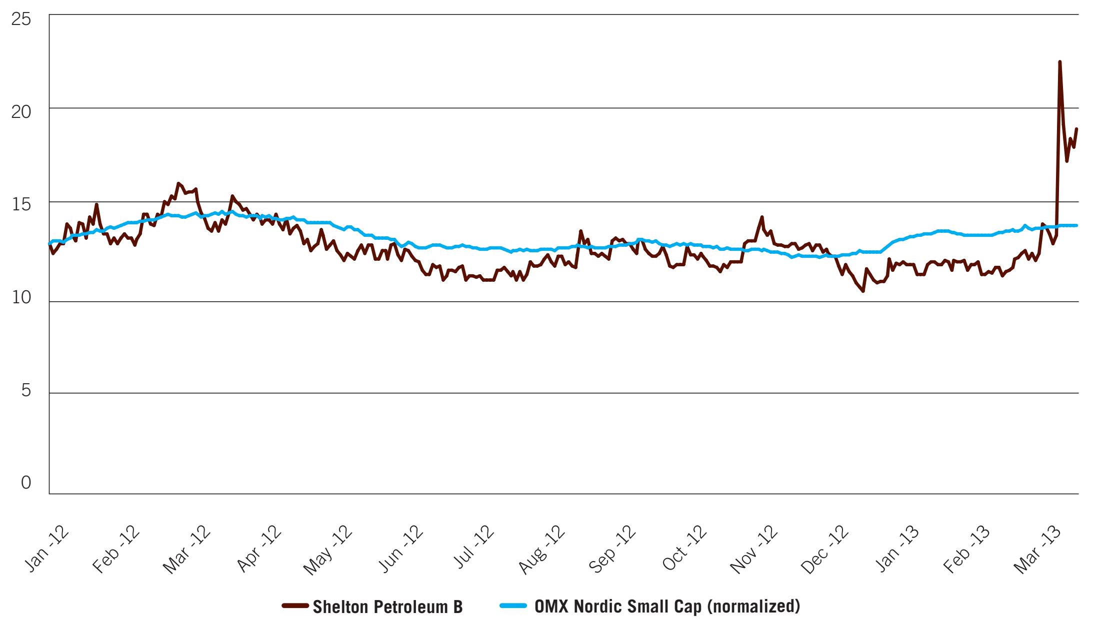
The table below shows the ten largest shareholders as of December 31, 2012, broken down by holdings.

Shareholder	No. of A shares	No. of B shares	Percentage of capital	Percentage of votes
Skandinaviska Enskilda Banken S.A.	26,648	1,503,270	14.4 %	14.4 %
Two Eye Fund	18,040	1,053,811	10.1 %	10.1 %
SIX SIS	0	657,142	6.2 %	5.4 %
Avanza Pension	0	640,133	6.0 %	5.3 %
Giamore Resources Inc.	0	351,592	3.3 %	2.9 %
National Bank Financial	0	302,009	2.8 %	2.5 %
Nordnet Pensionsförsäkring AB	0	229,576	2.2 %	1.9 %
TD Waterhouse	0	224,727	2.1 %	1.9 %
BNY MELLON SA/NV	0	156,683	1.5 %	1.3 %
Ulf Cederin	27,123	111,174	1.3 %	3.1 %
Other shareholders	100,769	5,239,891	50.2 %	51.3 %
Total	**170,580**	**10,470,008**	**100 %**	**100 %**

Source: Euroclear AB

Shelton Petroleum's share price trend
Shelton Petroleum Class B shares are listed on the NASDAQ OMX Main Market under the name SHEL B.

SEK



Sources: NASDAQ OMX, NGM

Listing on NASDAQ OMX Main Market – November 2012

In November 2012, trading with Shelton Petroleum's share started at NASDAQ OMX Stockholm's Main Market, which has contributed to a higher turnover of the Company's share. The migration to an internationally recognized stock exchange combined with the Company's stable operational development creates a good platform for the Company and its shareholders.

Share capital

Share capital

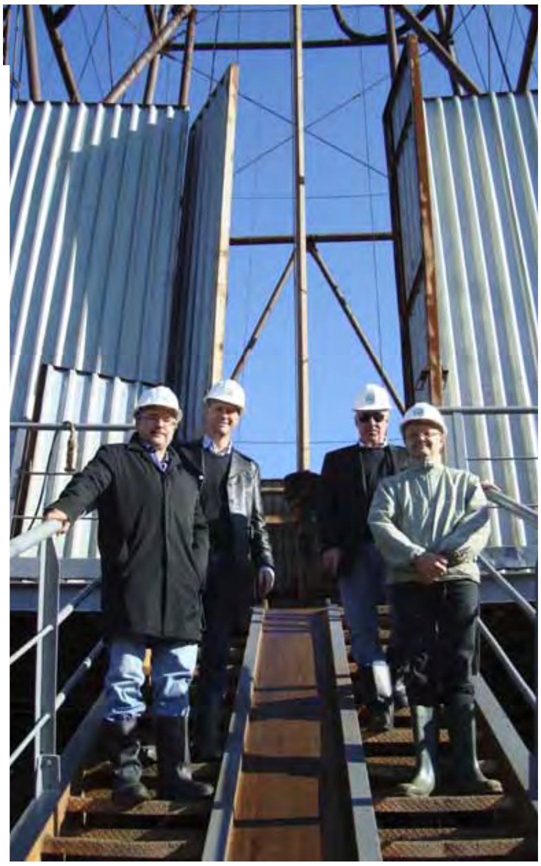
Shelton Petroleum's share capital per December 31, 2012 was SEK 53,202,940 divided into 10,640,588 shares. The shares have a quotient value of SEK 5.00 each. The share capital is of two classes, A and B. The number of Class A shares is 170,580 and the Class B shares 10,470,008 shares. A shares entitle 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 held and represented at the Annual General Meeting. All shares have an equal right to a proportion of the Company's assets in the distribution of profits.

In December 2011, the Company issued convertible bonds (KV 2012/2013) of approximately SEK 23 million with a due date of December 31, 2013 to the extent it has not already been converted. Upon full conversion of the new convertible bond, share capital will increase by SEK 7,115,625 and the number of shares will increase by 1,423,125, corresponding to an 11.79 percent dilution.

Share options

In 2012, a total of 320,000 share options were issued, entitling the holders to subscribe to 320,000 class B shares. The subscription price is SEK 18.67 per share and the subscription period is June 1–15, 2015.

The option programs from 2009 and 2010 matured in June 2012 and January 2013, respectively. Since the subscription price exceeded the stock exchange price, the holders opted not to exercise their options.



Year	Transaction	Increase / decrease of number of shares	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 issue	6,089,361	5,480,425	9,028,593	31,786,568	40,815,161	36,733,645	0.90
2002	Share capital decrease	–	14,285,425	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 issue 1)	139,246,835	76,585,759	9,028,593	199,215,219	208,243,812	114,534,097	0.55
2009	Share capital decrease	–	–93,709,715.4	9,028,593	199,215,219	208,243,812	20,824,381	0.10
2010	Non-cash issue 2)	155,577,010	15,557,701	9,028,593	354,792,229	363,820,822	36,382,082.2	0.10
2010	Non-cash issue 2)	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 issue	50,000,000	5,000,000	9,028,593	421,840,442	430,869,035	43,086,903.5	0.10
2010	Directed new issue	15,000,000	1,500,000	9,028,593	436,840,442	445,869,035	44,586,903.5	0.10
2010	Non-cash issue 3)	31,140,845	3,114,084.5	9,028,593	467,981,287	477,009,880	47,700,988	0.10
2010	Non-cash issue 4)	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 issue 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
2012	Conversion of A shares into B shares 5)	–	–	170,580	10,470,008	10,640,588	53,202,940	5.00

1) refers to the merger between TFS and Petrosibir AB 2) refers to the merger with Shelton Canada Corp 3) refers to Tomsk Refining AB 4) refers to Pan European Terminals Plc (previously known as Baltic Oil Terminals Plc) 5) 10,000 A shares were converted into 10,000 B shares
Information prior to 2009 refers to the Company with the name Nordic Growth Market NGM Holding AB.

Zenon Potoczny speaks at the Ukrainian Energy Forum, arranged by Adam Smith Institute.

Board of directors

Björn Lindström
Chairman

Björn Lindström, born in 1971, is the Chairman of the Board. He has 15 years' experience of investments and business in Eastern Europe.

Björn Lindström is one of the founders of Alpcot Capital Management Ltd and Alpcot Agro AB. Alpcot Capital Management Ltd is authorized by the Financial Services Authority in the UK and manages a total of USD 300 million.

Björn Lindström was one of the founders of East Capital Asset Management AB and Gustavia Capital Management AB, and served as the Chief Executive Officer of both companies. He has also worked as the fund manager of East Capital Russia Fund and Gustavia Balkan Fund.

Björn Lindström holds a Master of Science in Business Administration and Economics from Stockholm School of Economics.

Today, Björn Lindström is a board member of Alpcot Capital Management Ltd and companies in the same group as Alpcot Capital Management Ltd.

Björn Lindström is independent of Shelton Petroleum, its management, but not independent of its major shareholders.

Holding: 40,296 A shares and 945,553 B shares of which 15,649 A shares and 20,000 B shares via Alpcot Capital Management, which is controlled by Björn Lindström and Katre Saard
Options: 0
Convertible bonds: nominally SEK 4,980,000

Hans Berggren
Director

Hans Berggren, born in 1949, has extensive experience of Swedish and international capital markets. Hans worked at NASDAQ OMX as General Counsel between 1987–2005 and Senior Advisor between 2006–2009. He has also served as a board member in several companies in Sweden and abroad, including in Russia. He has a law degree from Stockholm University and also studied at the University of Grenoble in France. Hans Berggren is currently a board member, among others, of the Cyprus based company F G Volga Farming Ltd, which operates an agricultural business in Russia, and of the Institute of Public and International Law.

Hans Berggren is independent of Shelton Petroleum AB, its management and its major shareholders.

Holding: 0
Options: 0
Convertible bonds: 0

Richard N. Edgar
Director

Richard N. Edgar, born in 1946, is a geologist and has been active in the oil industry in both Canada and internationally for nearly 40 years. Richard was formerly Chairman of the Board of Shelton Canada Corp. and currently serves on the boards of Poplar Creek Resources Inc., Passport Energy Ltd., and 1144449 Alberta Ltd, and as President of Poplar Creek Resources Inc. and Executive Vice President of Bengal Energy. 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 independent in relation to the Company and its management, as well as its major shareholders.

Holdings: 92,756 B shares
Options: 0
Convertible bonds: 0

Peter Geijerman
Director

Peter Geijerman, born in 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.

Peter has an MBA from INSEAD and a Masters degree in clinical medicine from Karolinska Institute.

He is an independent member of the board in relation to the Company, its management and its major shareholders.

Holding: 0
Options: 0
Convertible bonds: 0

Freddie Linder
Director

Freddie Linder, born 1947, has forty years of experience in the petroleum industry. He holds a BSc in geology from the University of Lund.

Freddie Linder currently serves as a board member in Clean Oil Technology AB, a Swedish company that develops and markets patented environmental technology for continuous cleaning of lubricating and hydraulic oils while the systems are running.

He has held several management positions at Preem AB, including Marketing Director and Senior Advisor between the years 1996–2012.

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 independent of the Company, its management and its major shareholders.

Holding: 0
Options: 0
Convertible bonds: 0

Zenon Potoczny
Director of Shelton Petroleum and President of Shelton Canada Corp

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 currently serves as president of Canada-Ukraine Chamber of Commerce. He holds an MSc in Engineering and an MBA from the University of Toronto. Zenon Potoczny, due to his management position at the company, is not independent in relation to the Company and its management but is independent in relation to its major shareholders.

Holding: 223,703 B shares
Options: 96,000, which entitles to a subscription of 96,000 B shares
Convertible bonds: 0

Katre Saard
Director

Katre Saard, born in 1972, is a partner and investment manager at Alpcot Capital Management and a Board Member of Alpcot Agro AB. She has over 10 years experience of 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. Katre Saard 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 Masters degree in Business Administration and Economics from the Stockholm School of Economics. Katre Saard is independent in relation to the Company and its management, but not in relation to its major shareholders.

Holding: 15,649 A shares and 240,486 B shares, of which 15,649 A shares and 20,000 B shares via Alpcot Capital Management, which is controlled by Björn Lindström and Katre Saard
Options: 0
Convertible bonds: nominally SEK 600,000

Management and auditors

Robert Karlsson
CEO Shelton Petroleum

Robert Karlsson, born in 1970, has vast experience in business, finance and company management. He has been active in Russia and other former Soviet republics for ten years.

He was previously CFO of a NASDAQ OMX listed IT consultancy firm, 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 at KPMG, including two years in St Petersburg.

Robert has a Masters degree in Business Administration from the Stockholm School of Economics.

Holding: 22,867 B shares
Options: 144,000, which entitles to a subscription of 144,000 B shares
Convertible bonds: 0

Zenon Potoczny
President of Shelton Canada Corp and Director of Shelton Petroleum

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 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: 96,000, which entitles to a subscription of 96,000 B shares
Convertible bonds: 0

Gunnar Danielsson
CFO Shelton Petroleum

Gunnar Danielsson, born 1960, has a solid expertise in accounting and financial management, and extensive experience from working with listed companies. He previously served as CFO at Kopy Goldfields AB, a gold exploration and production company that operates in Russia and is listed on NASDAQ OMX First North. Gunnar Danielsson also worked over twenty years as an auditor at Ernst & Young, of which seven years in Moscow, where he, as a partner, was in charge of auditing Nordic companies operating 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: 80,000, which entitles to a subscription of 80,000 B shares
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 of 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
Convertible bonds: 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)

Directors' report

Operations

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

In Russia, operations are conducted through the wholly owned subsidiary ZAO Ingeo Holding. Ingeo Holding is the holder of the licenses Rustamovskoye, Aysky and Suyanovskoye in Bashkiria, a constituent republic in the Russian Federation. In Russia, the company has made significant findings, has measured commercial flows in the first two drill holes and as of 2011, extracts oil from two wells.

In Ukraine, operations are conducted through the Ukrainian joint venture Kashtan Petroleum Ltd, which operates the producing oil field Lelyaki in Chernigov near Poltava. Shelton Petroleum owns 45 percent of Kashtan Petroleum. 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 that gives the group fifty percent interest in three offshore licenses in Ukraine.

In November 2010 Shelton Petroleum acquired a shareholding in Pan European Terminals PLC ("PAN"), previously known as Baltic Oil Terminals PLC, a company operating terminals in among others Kaliningrad in Russia, Rotterdam in Holland and Aabenraa in Denmark. PAN is listed on the Alternative Investment Market (AIM) in London.

Major events during the financial year

In Russia the Company has conducted exploration work during the year consisting of additional 73 kilometers seismic data and completed fracking of the two producing wells. Production volumes increased significantly following the fracking.

In Ukraine, a new well #309 began production at the beginning of the year. In addition, work programs with workovers have been completed which led to increased production volumes.

In April Shelton Petroleum obtained the second and last payment from the voluntary liquidation of Tomsk Refining AB ("TRAB"). The payment amounted to approximately SEK 18 million. The holding in TRAB has generated a total profit of SEK 18 million, of which SEK 7 million in 2012.

In Russia, production tax on oil produced from fields with initial reserves of a maximum of 35 million barrels was reduced as of January 1, 2012. The new production tax has had a positive effect on the profitability of oil extraction from Rustamovskoye in 2012. Production tax has been reduced in Ukraine as well.

At the beginning of 2012 SEK 7,800 thousand were repaid to the holders of convertible loans who elected not to replace the old convertible loan for the new one, KV 2012/2013.

In November 2012 Shelton Petroleum's B share was listed on NASDAQ OMX main list.

Financial position

As at the balance sheet date, the Group had liquid funds of SEK 30,764 (45,986) thousand. The equity/assets ratio was 80 percent (78). The Group's equity amounted to SEK 270,565 (253,453) thousand or SEK 25.43 (23.82) per share.

Result

The total revenue for the period January–December 2012 amounted to SEK 99,914 (47,183) thousand, of which SEK 93,223 (35,714) thousand is revenue from oil sales in Russia and Ukraine. Oil sales in 2012 totaled approximately 178,300 barrels, while the corresponding figure for 2011 was approximately 93,800 barrels.

In 2012, production in Russia amounted to 57,900 barrels (44,500) and in Ukraine to 119,950 barrels (32,800). In Russia, the Company transitioned from test production to commercial production during 2011, while it produced oil in Ukraine only during 4 months of 2011. Production per day in Russia amounted to 158 barrels (121) and in Ukraine to 328 barrels (89).

Of the total revenue, SEK 6,573 (11,362) thousand was profit from the liquidation of Tomsk Refining AB.

Expenditure relating to the exploration program has been capitalized in the balance sheet in accordance with the Company's accounting policies. Operating expenses for 2012 amounted to SEK 74,299 thousand and mainly consisted of costs of raw materials, necessities and personnel costs, as well as depreciation. Operating expenses for 2011 amounted to SEK 48,122 thousand and the higher costs in 2012 are mainly attributable to a higher production volume resulting in higher production taxes.

Operating profit for the period amounted to SEK 29,613 thousand, compared to a profit of SEK 2,392 thousand during the same period in the preceding year. The improved operating result is primarily explained by larger production and sales volumes in Russia and Ukraine, and that profitability per barrel has increased as a result of higher oil prices.

The year's profit before tax amounted to SEK 30,779 thousand compared to SEK 1,541 thousand the preceding year. The result after tax was SEK 24,815 thousand, compared to SEK 634 thousand in 2011. Since the Company's operations in Ukraine generate a positive net result, the Ukrainian company Kashtan Petroleum Ltd pays tax in Ukraine. The total profits of SEK 16,636 (–15,792) thousand includes exchange rate differences on intra-group loans in foreign currencies, translation differences of foreign subsidiaries, and a fair value adjustment of financial assets available for sale. None of these items affects cash flow.

Investments / Divestments

The Group invested SEK 32,220 thousand, of which SEK 21,988 thousand was for the exploration and development program in Russia and SEK 10,232 thousand was for the Lelyaki field in Ukraine. The investments were capitalized in the balance sheet. In Russia, fracking has been carried out in the two producing wells, which resulted in significantly increased daily production rates. Further, investments have been made in exploration work in Russia. In Ukraine, workovers have been completed continuously over the year, contributing to an increased production, and one new well, #310, has been drilled. The well had not started production as at the year-end of 2012.

The carrying value of financial assets available for sale as at the year-end of 2012 amount to SEK 23,503 thousand compared to SEK 35,147 thousand as at year-end 2011. During 2012, the final payment in the voluntary liquidation of TRAB was obtained, and the holding in TRAB has thus been liquidated and is no longer included in the balance sheet. The value of Shelton's holding in Pan European Terminals Plc ("PAN"), previously known as Baltic Oil Terminals PLC, was adjusted in 2012 by SEK –64 thousand, and amounts to SEK 23,503 thousand. There have been no investments in financial assets during the year.

Employees

The average number of full-time employees during the financial year was 33 (34).

Risks

In its line of business, the Group is exposed to several different risks, such as those associated 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. For a more detailed description of the above risks, please see Note 1, section Risk management.

Environment

Shelton Petroleum's operations are subject to a number of laws and requirements concerning health, safety and the environment, which lead to 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 note 1.

The work of the Board

Shelton Petroleum's Board of Directors consists of seven members including the Chairman. During the 2012 financial year, the Board had 13 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 financial year.

In January 2013, the drilling of well #310 in the Lelyaki field was completed.

In January 2013, the assembly of a drilling rig was initiated in Bashkiria in Russia, and in February 2013 the drilling of a new production well commenced.

In April, Shelton Petroleum sold its holding in PAN for approximately SEK 27 million.

Future Development

The Company intends to increase production at Lelyaki in Ukraine by drilling new wells and re-using and drilling sidetracks in existing wells. In Russia, 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 as the financial situation allows. Steps will be taken to realize the substantial potential of the exploration licenses which are located offshore in Ukraine and onshore in Russia. The work includes analysis of historical drilling data, the collection of new seismic data to prepare for carefully selected drilling locations. 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 21, 2013 at 10 A.M. at the premises of Kilpatrick Stockton Advokatbyrå at Hovslagargatan 5 B in Stockholm.

Financial overview

Group	2012	2011	2010	2009
Turnover, (SEK thousand)	99,914	47,183	29,291	0
Operating profit/loss (SEK thousand)	26,613	2,392	–11,441	–16,664
Earnings per share, (SEK)	2.33	0.06	–1.46	–4.87
Equity per share, (SEK)	25.43	23.82	25.23	24.96
Equity/assets ratio (%)	80	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 2012 Annual General Meeting. The remuneration of senior executives should be the going rate and 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 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 and is designed to promote long term value creation for the Company. The maximum annual variable remuneration may amount to 30 percent of the basic salary. For share and share price related incentive programs, the earnings period, or the period from entering into an agreement to when a share may be acquired, may not be less than three years.

Other benefits should be equal to what is considered reasonable in relation to market practices. The different parts are designed to create a balanced remuneration and benefits program that reflects the employees performance and responsibilities and the Company's financial performance. The Board may waive the guidelines for individual cases if there is special justification. The guidelines of previous years are consistent with this year's proposal. For more information on remuneration, see the corporate governance report.

Parent Company

The Swedish parent company Shelton Petroleum AB is a public parent company and 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 turnover was SEK 491 (435) thousand. The result after tax was SEK –1,869 (–17,971) thousand. Equity amounted to SEK 276,247 (277,218) thousand.

Proposal for the appropriation of profits

The following amounts are at the disposal of the AGM:	
Share premium reserve	192,583,744
Retained earnings	32,329,412
Loss for the year	–1,869,096
Total	**223,044,060**

The Board proposes:
To carry forward to the next year SEK 223,044,060

For further information concerning the Group's results and position, we refer to the following Statement of comprehensive income and Statement of financial position with related supplementary information. For parent company results and financial position see the following Income statement and Balance Sheet with related supplementary information.

Corporate Governance Report

Introduction

Shelton Petroleum AB, corporate identity number 556468-1491, was registered 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 – can 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, the Company shall operate production and/or exploration of natural resources in its own name, through subsidiaries or through partnerships 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 companies are operated as efficiently, for the shareholders, as possible. This in turn aims to improve the confidence of companies in capital markets and among the Swedish public, thereby creating favorable conditions for companies' supply of venture capital.

Stock exchange rules

The Company is listed on NASDAQ OMX Stockholm Small Cap. The Company's B shares are traded under the name SHEL B. Class A shares are not listed. Shelton Petroleum has undertaken to comply with NASDAQ OMX's Rulebook for issuers. More information about the rules is available at www.nasdaqomxnordic.com.

In 2012, there were no infringements of NASDAQ OMX's rules.

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 the 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 increase public transparency in 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 Corporate Governance 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 every rule in the Code must not always be complied with and that departure from one or more individual rules does not constitute a breach of the Code if there is justification and an explanation is provided.

In 2012, there were no deviations from the Code.

Corporate Governance Report

Swedish companies whose shares are offered for trading on a Swedish-regulated market shall, pursuant to the provisions of the Annual Accounts Act (1995:1554) and the Code 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 Code and describes Shelton Petroleum's corporate governance during financial year 2012. The auditor's statement on the corporate governance report is found in the auditor's report on page 78 of the annual report.

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 Nomination 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 Chairman Björn Lindström. The Board appoints the CEO, who is responsible for the management of the company in accordance with the directions 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.

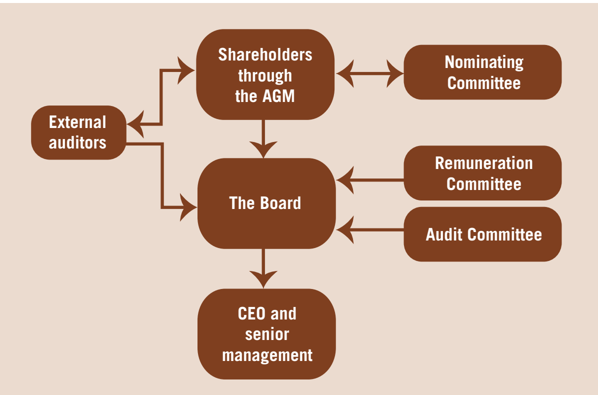
In order to make their work on certain issues more efficient and detailed, the Board has set up two committees: the Audit Committee and the Remuneration Committee.

The role of the Audit Committee includes ensuring the quality of financial reporting and the efficiency of the internal control within the Company. The Audit Committee is the main path of communication between the Board and the company auditor.

The role of the Remuneration Committee includes monitoring and evaluating the application of the guidelines for remuneration of senior executives and to prepare information on issues related to remuneration and remuneration forms 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 and they clarify responsibilities and authority.

Information about the Company's principles for corporate governance can be 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 all other aspects, the shares have the same rights. Decisions made at the AGM include among others the election of Board Directors and Chairman, any discharge from liability and remuneration for Board Directors, election of auditors and setting their remuneration, the adoption of the Group and Company income statements and balance sheets.

Shelton Petroleum's AGM 2012 was held on May 22 in Stockholm. 14 percent of votes and 10 percent of share capital were represented at the meeting. At the AGM, in addition to the matters stated above, a resolution was passed to grant the Board mandate to issue shares and other financial instruments representing a maximum of 5 million new shares until the next AGM and to issue a maximum of 320,000 options to senior executives. At the AGM, a resolution was passed that the remuneration of the Board Members should amount to SEK 160,000 for the Chairman and SEK 80,000 for the other members, except Zenon Potoczny, who is an employee of the Company. The total remuneration payable to the Board amounts to SEK 560,000. 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 location, together with information about shareholders' right to raise items at the AGM are issued no later than together with the third quarter report. Notification of the AGM is made public no earlier than six and no later than four weeks before the AGM.

The 2013 AGM will take place on May 21 in Stockholm. Shareholders who wish to raise an item for discussion at the AGM may submit these up until April 2, 2013.

Other meetings

No Extraordinary General Meetings were held in 2012.

Nomination and election process

The Nomination Committee's main task is to propose board candidates 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 of the three largest shareholders, based on Euroclear Sweden AB's list of registered shareholders (per group of shareholders) as per October 31, 2012. The Nomination Committee's members for the 2013 AGM are Björn Lindström (Chairman of the Board), Anders Velander and Oscar Berglund. At the first meeting of the Nomination Committee, Oscar Berglund was appointed Chairman of the Nomination Committee. It was resolved that the Nomination Committee shall 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 2013 Annual General Meeting with regard to remuneration for the Chairman and other Board Members, remuneration for board committee work, election of auditors and setting the remuneration thereof and the election of Chairman of the AGM. In its nomination work, the committee has also taken part of 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 taken note of the evaluation of auditing and the Audit Committee's proposals for auditor and remuneration for the auditing work.

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

Remuneration has not been paid to the Chairman or other members of the Nomination Committee for their work. The Nomination Committee's proposals, together with the reasons for their selection and supplementary information about the proposed Board members and auditor are published no later than together with the AGM notification and presented together with a report on the Committee's work at the 2013 AGM.

Composition of the Board, information and work procedures

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 2012 AGM, the Board has consisted of the Chairman, six 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 earnings, financial position, financial planning and development and liquidity and to ensure that Board resolutions 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 incentive programs targeted at employees. 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 determines them by a vote.

In accordance with the rules of procedure, the Chairman initiates an evaluation of the work of the Board once a year. The 2012 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 of 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 evaluating the Company's development against the established targets. A formal evaluation is made once a year and discussed with the CEO.

The proportion of women and foreign directors on the Board are 14 and 29 percent, respectively. For a more detailed presentation of the Board, see page 26 and the website.

The composition of the Board of Shelton Petroleum fulfills the requirements regarding independent members. One of the Board Members is a shareholder of a company that earns consultancy fees for work performed. 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.

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, including Björn Lindström and Katre Saard. Björn Lindström and Katre Saard are therefore not considered to be independent of major shareholders. Zenon Potoczny is employed by the Company and is therefore not considered to be independent of the Company. A summary of the respective Board members' independence or otherwise is presented in the table on the following page.

The work of the Board in 2012

In accordance with the current rules of procedure, the Board has held at least one ordinary board meeting per quarter. At the regular board meetings, a fixed agenda shall be followed including points covering reports from the CEO about market conditions, forecasts, economic and financial status including liquidity, investment and disposal decisions and budget.

Since the 2012 AGM, there have been thirteen board meetings of which four ordinary, one statutory and eight extraordinary board meetings. The attendance of the respective members is presented in the table below. In addition, the Board meets annually in the autumn to review strategy, targets 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 has been spent on operational planning and follow up, growth, acquisition of assets and financing issues.

An important part of the work of the Board is the financial reports that are presented at each ordinary board meeting, including the year-end report and interim reports.

Composition of the Board	Nationality	Elected	Attendance 2012	Independent of the company	Independent of the owners	Audit Committee	Remuneration Committee
Björn Lindström, Chairman	Sweden	2012	13/13	Yes	No	X	X
Hans Berggren, Director	Sweden	2012	12/13	Yes	Yes	X	
Richard N. Edgar, Director	Canada	2010	13/13	Yes	Yes		X
Peter Geijerman, Director	Sweden	2009	13/13	Yes	Yes		X
Freddie Linder, Director	Sweden	2011	13/13	Yes	Yes		
Zenon Potoczny, Director, President Shelton Canada Corp.	Canada	2010	13/13	No	Yes		
Katre Saard, Director	Sweden	2009	13/13	Yes	No	X	
Total							

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 and administrative role. The items discussed at committee meetings are minuted and a report is presented at the next board meeting.

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 the various countries and detailed analyses and proposals for investments and financing alternatives. Committee work also represents a significant part of the work of the Board. During the year, company management presented value creation plans for expansion, including analyzes of activities and investment opportunities. These analyses and their consequences have been discussed and judged by the Board both for the purpose of individual expansion plans and in connection with overall strategy discussions.

Changes in the market and changed legislation have also placed increasing demands on the handling of corporate governance issues, remuneration issues, the application of 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 has also attended board meetings, when members of the Board have had the opportunity to put questions to the auditor without representatives of Company management being present.

The members of the Audit Committee are Hans Berggren (Chairman), Björn Lindström and Katre Saard. The chairman of the Audit Committee is independent of the company and major owners. The Audit Committee 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 2012:

- Reviewed quarterly reports and the year-end report
- Monitored the efficiency of the company's internal control and risk management with regard to financial reporting
- Reviewed accounting principles, new and future
- Maintained contact with external auditors and monitored any comments reported

- 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 Björn Lindström (Chairman), Peter Geijerman and Richard N. Edgar. The Remuneration Committee has had two meetings during the year. The tasks of the Remuneration Committee included the following in 2012:

- Prepared issues for the Board regarding remuneration in the form of fixed and variable salary, pensions, severance pay and any other forms of remuneration to Company management
- Followed and evaluated programs in progress and completed during the year as regards variable remuneration to Company management
- Followed and evaluated the application of guidelines for remuneration to senior executives as well as prevailing remuneration structures and remuneration levels, and concluded that the Company complies with 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 audit report to the AGM, as well as a statement on the application of guidelines for salaries and other remuneration and a statement on the corporate governance report.

Ernst & Young is the Company's auditor and Chartered Accountant Per Hedström is the auditor in charge.

In recent years, the auditors have also performed a limited number of other tasks for Shelton Petroleum, in addition to auditing.

These have included mainly auditor-related services such as in-depth reviews in connection with the audit. 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 note 5 in the Annual Report.

Remuneration

The Chairman and Board Directors are remunerated in accordance with the resolution of the AGM or, if necessary, in accordance with resolutions passed 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. The remuneration of the Board is specified in the table in note 4 in the Annual Report under Remuneration of Employees and Senior Executives.

Remuneration issues are addressed by the Board within the framework of the Board's regular work and including the notification of, and the reaching of decisions of all issues concerning remuneration to senior management. The overall goal of the Remuneration Committee is to provide the Board with formal and notified processes for decisions on remuneration to senior executives. Remuneration and other conditions of employment for senior executives shall 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 executives that are established by the AGM.

For more information about remuneration to senior executives, see the section Proposal for guidelines for remuneration to senior executives in the Director's Report.

Internal control and guidelines

The Board's work follows certain rules and policies contained in the Board's rules of procedure, adopted at the board meeting on May 22, 2012. The rules of procedure are approved annually, usually at the first board meeting held after the AGM, and are revised as needed. 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 shall ensure that the organization in relation to accounting and resource management includes adequate monitoring, to continuously assess the Company's business conditions, forecasts and economic and financial status, including liquidity, to establish in writing the CEO Instruction, and to execute 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, finance 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 and risk assessment and management are conducted at several levels within the Group, both at subsidiary level and at group level, and the work is a part of the senior management and managers' ordinary tasks. Given the Company's size and complexity, this is deemed to be a satisfactory level of control. Accordingly, the Group does not have an internal auditor.

Clear reporting to superiors occurs regularly, thus securing a good understanding of how business is reflected in the figures. The formal information and communications channels are supplemented with ongoing dialog between senior management and responsible persons 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 preceded by a board meeting at which the Board approves the report.

The CEO is responsible for the compilation of the annual report, the press release of unaudited annual earnings figures, interim reports and monthly reports, as well as ensuring that the content of these reports complies with the current requirements. The Company's Board approves the content of the press release of 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 NASDAQ OMX Rules for issuers.

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.

Major 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 2013, there were two such holdings, represented by the owner group Alpcot Capital Management, Björn Lindström and Katre Saard (12.9 percent), and Two Eye Fund (10.1 percent).

Source: Euroclear and www.fi.se.

Consolidated statement of comprehensive income

SEK thousand	Note	2012	2011
Net sales	2	93,223	35,714
Other revenue	2	6,691	11,469
Total revenue		**99,914**	**47,183**
Capitalized work for own use		3,998	3,331
Operating costs			
Raw materials and necessities		–48,142	–24,177
Other external expenses	5	–13,553	–10,454
Personnel expenses	4	–10,342	–12,571
Depreciation and amortization of tangible and intangible assets	6, 10, 11	–2,262	–920
Total operating costs		**–74,299**	**–48,122**
Operating profit		**29,613**	**2,392**
Result from financial items			
Financial income	7	1,833	935
Financial expense	8	–667	–1,786
Total financial items		**1,166**	**–851**
Profit before tax		**30,779**	**1,541**
Tax	9	–5,964	–907
Profit for the year attributable to the parent company's owners		**24,815**	**634**
Other comprehensive income			
Financial assets available for sale	12	–63	–15,039
Deferred tax equity part of convertible loan		29	0
Exchange rate differences		–8,145	–1,387
Total other comprehensive income		**–8,179**	**–16,426**
Total comprehensive income		**16,636**	**–15,792**
Earnings per share, SEK	22	2.33	0.06
Diluted earnings per share, SEK	22	2.23	0.06
Average number of shares		**10,640,588**	**10,640,428**
Diluted average number of shares		**12,063,713**	**11,483,856**

Consolidated statement of financial position

SEK thousand	Note	December 31, 2012	December 31, 2011
ASSETS			
Non-current assets			
Goodwill	10	6,807	6,807
Intangible oil and gas assets	10	74,150	70,137
Tangible oil and gas assets	11	170,664	155,005
Machinery and equipment	11	700	970
Financial assets available for sale	12	23,503	35,147
Total non-current assets		**275,824**	**268,066**
Current assets			
Finished goods and commodities	14	139	321
Tax receivable		0	632
Accounts receivable and other receivables	16	29,423	9,058
Prepaid expenses and accrued income		169	159
Cash and cash equivalents		30,764	45,986
Total current assets		**60,495**	**56,156**
TOTAL ASSETS		**336,319**	**32,422**
EQUITY AND LIABILITIES			
Equity	17		
Share capital		53,203	53,203
Other paid-in capital		179,753	179,248
Reserves	15	–43,558	–35,350
Retained earnings including profit for the year		81,167	56,352
Total equity attributable to the shareholders		**270,565**	**253,453**
Non-current liabilities			
Convertible loan	18	22,102	21,517
Deferred tax	9	27,337	28,429
Provisions	24	349	344
Total non-current liabilities		**49,788**	**50,290**
Current liabilities			
Convertible loan	18	0	7,800
Accounts payable		6,108	5,272
Tax liabilities		1,395	0
Other current liabilities	19	4,032	3,692
Accrued expenses	20	4,431	3,715
Total current liabilities		**15,966**	**20,479**
TOTAL EQUITY AND LIABILITIES		**336,319**	**324,222**
Pledged collateral and contingent liabilities	26	See note	See note

Consolidated statement of changes in equity

SEK thousand	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit for the year	Total equity
Opening balance January 1, 2011	**53,201**	**178,445**	**–18,926**	**55,718**	**268,438**
Comprehensive income					
Profit 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**	**–16,424**	**634**	**–15,790**
Transactions with shareholders					
New issue	2				2
Convertible loan, equity portion net of tax		803			803
Total transactions with shareholders	**2**	**803**	**0**	**0**	**805**
Closing balance December 31, 2011	**53,203**	**179,248**	**–35,350**	**56,352**	**253,453**
Opening balance January 1, 2012	**53,203**	**179,248**	**–35,350**	**56,352**	**253,453**
Comprehensive income					
Profit for the year				24,815	24,815
Other comprehensive income					
Financial assets available for sale			–63		–63
Changes deferred tax					
equity portion convertible loan					29
Exchange rate differences		29	–8,145		–8,145
Total comprehensive income	**0**	**29**	**–8,208**	**24,815**	**16,636**
Transactions with shareholders					
Option premium		476			476
Total transactions with shareholders	**0**	**476**	**0**	**0**	**476**
Closing balance December 31, 2012	**53,203**	**179,753**	**–43,558**	**81,167**	**270,565**

Consolidated Cash flow statement

SEK thousand	Note	2012	2011
Cash flow from operating activities			
Profit after financial items		30,779	1,541
Adjustments for non-cash items			
Depreciation		2,262	920
Capital gain from financial assets		–6,573	–10,553
Other items not affecting cash flow		–3,117	–962
Taxes paid		–461	–1,417
Cash flow from operating activities before changes in working capital		**22,890**	**–10,471**
Cash flow from changes in working capital			
Increase (–) / Decrease (+) in inventory		–1,513	1,529
Increase (–) / Decrease (+) in current receivables		–22,983	–6,729
Increase (+) /Decrease (–) in current liabilities		5,053	10,820
Cash flow from operating activities		**3,447**	**–4,851**
Cash flow from investing activities			
Acquisition of intangible assets	10	–5,672	–7,123
Acquisition of tangible fixed assets	11	–23,685	–12,867
Acquisition of financial assets		0	–3,341
Sale of financial assets		18,447	55,059
Cash flow from investing activities		**–10,910**	**31,728**
Cash flow from financing activities			
Option premium		476	0
New issue		0	2
Repayment of loans		–7,800	–3,411
Cash flow from financing activities		**–7,324**	**–3,409**
CASH FLOW FOR THE YEAR		**–14,787**	**23,468**
Cash and cash equivalents at the beginning of the year		45,986	22,171
Exchange difference in cash and cash equivalents		–435	347
Cash and cash equivalents at the end of the year		30,764	45,986
Supplementary information for cash flow			
The following components are included in cash or cash equivalents: Cash and bank		30,764	45,986
Interest income		1,833	935
Interest expense		–56	–2,506

Parent company income statement

SEK thousand	Note	2012	2011
Net sales		491	435
Other revenue	2	6,573	11,362
Total revenue		**7,064**	**11,797**
Operating costs			
Other external expenses	5	–3,700	–5,108
Personnel expenses	4	–4,051	–4,465
Total operating costs		**–7,751**	**–9,573**
Operating profit/loss		**–687**	**2,224**
Profit/loss from financial investments			
Interest income and similar items	7	2,178	1,645
Interest expenses and similar charges	8	–3,451	–6,123
Impairment of financial assets		–63	–16,336
Total profit/loss from financial investments		**–1,336**	**–20,814**
Profit/loss before tax		**–2,023**	**–18,590**
Tax	9	154	619
Profit/loss for the year		**–1,869**	**–17,971**

Other comprehensive income

Profit/loss for the year	**–1,869**	**–17,971**
Exchange rate differences	0	–178
Deferred tax equity part of convertible loan	29	0
Total other comprehensive income	**29**	**–178**
Total comprehensive income	**–1,840**	**–18,149**

Parent company balance sheet

SEK thousand	Note	December 31, 2012	December 31, 2011
ASSETS			
Non-current assets			
Interests in affiliated companies	13	175,555	175,555
Receivables from affiliated companies		71,008	61,190
Other long term securities	12	23,503	35,147
Total non-current assets		**270,066**	**271,892**
Current assets			
Receivables from affiliated companies		7,641	5,296
Other receivables	16	383	263
Prepaid expenses and accrued income		169	160
Total current receivables		**8,193**	**5,719**
Cash and bank		24,780	33,353
Total current assets		**32,973**	**39,072**
TOTAL ASSETS		**303,039**	**310,964**
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital		53,203	53,203
Total restricted equity		**53,203**	**53,203**
Non-restricted equity			
Share premium reserve		192,583	192,078
Fair value fund		0	–393
Retained earnings		32,330	50,301
Profit/loss for the year		–1,869	–17,971
Total non-restricted equity		223,044	224,015
Total equity		**276,247**	**277,218**
Non-current liabilities			
Convertible loan	18	22,102	21,517
Deferred tax	9	147	330
Total non-current liabilities		**22,249**	**21,847**
Current liabilities			
Convertible loan	18	0	7,800
Accounts payable		164	232
Other liabilities	19	281	385
Accrued expenses and deferred income	20	4,098	3,482
Total current liabilities		**4,543**	**11,899**
TOTAL EQUITY AND LIABILITIES		**303,039**	**310,964**
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	Share premium reserve	Fair value fund	Profit/loss carried forward	Profit/loss for the year	Total equity
Opening balance January 1, 2011	**53,201**	**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**	**–178**	**0**	**–17,971**	**–18,149**
Transactions with shareholders						
Allocation of profit/loss				–11,190	11,190	0
New issue	2					2
Convertible bonds, equity portion net of tax		804				804
Total transactions with shareholders	**2**	**804**	**0**	**–11,190**	**11,190**	**806**
Closing balance December 31, 2011	**53,203**	**192,078**	**–393**	**50,301**	**–17,971**	**277,218**
Opening balance January 1, 2012	**53,203**	**192,078**	**–393**	**50,301**	**–17,971**	**277,218**
Comprehensive income						
Profit/loss for the year					–1,869	–1,869
Changes in deferred tax on equity portion of convertible loan		29				29
Exchange rate differences			393			393
Total comprehensive income	**0**	**29**	**393**	**0**	**–1,869**	**–1,447**
Transactions with shareholders						
Option premium		476				476
Allocation of profit/loss				–17,971	17,971	0
Total transactions with shareholders	**0**	**476**	**0**	**–17,971**	**17,971**	**476**
Closing balance December 31, 2012	**53,203**	**192,583**	**0**	**32,330**	**–1,869**	**276,247**

Parent company cash flow statement

SEK thousand	Note	2012	2011
Cash flow from operating activities			
Profit/loss after financial items		–2,023	–18,590
Adjustments for non-cash items			
Capital gain from financial assets		–6,573	–11,362
Write-down of financial assets		64	17,145
Taxes paid		0	0
Cash flow from operating activities before changes in working capital		**–8,532**	**–12,807**
Cash flow from changes in working capital			
Increase (–) / Decrease (+) in current receivables		–2,473	–1,701
Increase (+) /Decrease (–) in current liabilities		737	5 567
Cash flow from operating activities		**–10,268**	**–8,941**
Cash flow from investing activities			
Extended loans		–9,428	–13,043
Acquisition of financial assets		0	–3 341
Disposal of financial assets		18,447	55,059
Cash flow from investing activities		**9,019**	**38,675**
Cash flow from financing activities			
Repayment of loans		–7,800	0
Option premium		476	0
New issue		0	2
Cash flow from financing activities		**–7,324**	**2**
CASH FLOW FOR THE YEAR		**–8,573**	**29,736**
Cash and cash equivalents at the beginning of the year		33,353	3,617
Cash and cash equivalents at end of the year		**24,780**	**33,353**
Supplementary cash flow information			
Interest income		383	210
Interest expense		–53	–2,506

Notes

General information

Shelton Petroleum AB (parent company) and its subsidiaries (collectively, the Group) are active in the oil industry and explore, prospect 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 the head office is Hovslagargatan 5B, 111 48 Stockholm.

The Board has on April 30, 2013 authorized the consolidated accounts for approval. The consolidated statement of comprehensive income and financial position will be presented to the Annual General Meeting on May 21, 2013 for adoption.

NOTE 1

Accounting and valuation policies, basis for preparing the Annual Report

The consolidated accounts are based on the historical acquisition cost, apart from certain 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. All amounts are given, unless otherwise stated, in thousands of Swedish krona (SEK).

Statement of conformity with applied regulations

The consolidated accounts have been 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 Boards recommendation RFR 1 *Supplementary Accounting Rules for Groups*.

The parent company's annual accounts have been 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 cost unless otherwise stated. The consolidated accounts have been prepared in accordance with the purchase method, and cover the parent company and its subsidiaries.

Accounting according to 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*.

Amendments in accounting principles and disclosures

a) New and amended standards applied by the Group

None of the IFRS or IFRIC-interpretations which are mandatory for the first time in the financial year that began on January 1, 2012 have had any significant impact on the Group.

IAS 1 "Presentation of Financial Statements". The standard specifies that a company must present an analysis for each item in other comprehensive income for each equity component, either in the statement of changes in equity or in the notes to the annual report. The amendment has not resulted in any significant change to disclosures in the annual report.

IAS 19 "Employee Benefits" was amended in June 2011. Costs of service in previous years will be recognized immediately. Interest costs and expected return on plan assets will be replaced by a net interest calculated using the discount rate, based on the net surplus or deficit in the defined benefit plan. The Group has no defined benefit pension plans.

IFRS 7 "Financial Instruments". The standard emphasizes the interaction between quantitative and qualitative information as regards the nature and scope of risks stemming from financial instruments. The amendment 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 sets additional disclosure requirements regarding a) conditions that will likely affect the actual value of the financial instrument classification, b) transfers of financial instruments between different levels in the fair value hierarchy, c) changes in classification of financial assets, and d) changes in contingent liabilities and contingent assets. The application of the standard has not had any significant impact on the Group's interim reports.

b) New standards, amendments and interpretations of existing standards that have not been adopted early by the Group.

A number of new standards and amendments of interpretations and existing standards come into force for the financial year starting after January 1, 2012 and have not been applied when the Group's financial statements were prepared. None of these are expected to have any significant impact on the Group's financial reports except those below:

IAS 1 "Presentation of Financial Statements" will come into force on January 1, 2013. IAS 1 has introduced changes to other comprehensive income. The most significant change in the revised IAS 1 is the requirement that the items recognized in "other comprehensive income" will be presented in two groups. The distribution is based on whether or not the items may be reclassified to the income statement (reclassification adjustments). The amendment does not state what items should be included in "other comprehensive income".

IFRS 13 "Fair value measurement" comes into force on January 1, 2013 and aims to make fair value more consistent and less complex by providing a precise definition and a common source of IFRS fair value measurements and related disclosures. The standard provides guidelines to fair value measurements for all types of assets and liabilities, financial as well as non-financial. The requirements do not extend to when fair value should be applied but provide guidance on how it should be applied when other IFRSs already require or permit fair value.

IFRS 9 "Financial instruments" handles classification, measurement and recognition of financial assets and liabilities. IFRS 9 was issued in November 2009 for financial assets and in October 2010 for financial liabilities and replaces those parts of IAS 39 related to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two categories: measurement at fair value or at amortized cost.

Classification is determined at initial recognition based on the company's business model and characteristics of the contractual cash flows. For financial liabilities, no major changes occurred compared to IAS 39. The main change relates to liabilities identified at fair value. For these, the portion of changes in fair value that is attributable to own credit risk shall be recognized in other comprehensive income instead of the result unless this causes inconsistency in reporting (accounting mismatch). The Group intends to apply the new standard no later than in the financial year starting on January 1, 2015 and has not yet evaluated the effects. The Group will evaluate the effects of the remaining phases relating to IFRS 9 when they have been completed by IASB.

IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying control as the determining factor for confirming whether an entity should be included in the consolidated financial statements. The standard provides further guidance to assist in confirmation of control when this is hard to determine. The Group intends to apply IFRS 10 for the financial year starting on January 1, 2014 and does not believe that this will have any significant effect on the financial reports.

IFRS 11 "Joint Arrangements" governs the reporting of so-called joint arrangements in which two or more parties have joint control of the arrangement. It focuses on rights and obligations rather than the legal form of the arrangement. There are two types of joint arrangements, joint operations and joint ventures. A joint operation is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities of the arrangement and where the parties recognize their share of assets, liabilities, income and expenses, according to the proportional method. A joint venture on the other hand is an arrangement where parties with joint control have rights to the net assets of the arrangement and recognize their interests under the equity method. Shelton Petroleum currently recognizes according to the proportional method.

Shelton Petroleum has evaluated how the joint arrangements to which the Company is a party should be classified and concluded that they should be classified as joint operations. The Group intends to apply IFRS 11 for the financial year starting on January 1, 2014 and does not believe that this will have any significant effect on the financial reports.

IFRS 12 "Disclosure of interests in other entities" includes disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group intends to apply IFRS 12 for the financial year starting on January 1, 2014 and has not as yet evaluated the full effect this will have on the financial reports.

No other of the IFRS or IFRIC-interpretations which have not yet come into force is expected to have any significant effect on the Group.

Basis of consolidation

The consolidated accounts have been prepared in accordance with the purchase method, and cover 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 de-consolidated from the date that control ceases. The purchase method of accounting 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 exchange, plus costs directly attributable to the acquisition.

The acquisition cost also includes the fair value of all assets or liabilities that are a result of an agreement on conditional purchase price. Acquisition-related costs are recognized when incurred. Identifiable assets acquired 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 Statement of comprehensive income. 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 an impairment of the asset transferred.

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 Groups purchase of assets from the joint venture before the assets are resold to an independent party. However, a loss on a 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 in a way that corresponds to the internal reporting given to the chief operating decision-maker. The chief operating 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.

Translation 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 into SEK at the exchange rate at the balance sheet date. The income statements are restated 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 currency futures 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 respective businesses which generally coincides with the local currency in each country. On the balance sheet date, monetary assets and liabilities expressed in foreign currencies are restated at the prevailing currency 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 in parentheses):

Exchange rates

	Rate on balance sheet date	Average rate
100 Rubles in SEK	21.47 (21.54)	21.18 (22.10)
1 Euro in SEK	8.62 (8.94)	8.71 (9.03)
1 USD in SEK	6.52 (6.92)	6.78 (6.50)
1 CAD in SEK	6.55 (6.78)	6.78 (6.57)
100 UAH in SEK	81.25 (86.83)	84.69 (81.45)

Tangible fixed assets

Oil and gas assets

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

Depreciation periods

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

Machinery and equipment

Tangible fixed assets are reported at cost less a deduction for accumulated depreciation. The depreciation is based on the estimated useful life of the asset. The asset's 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 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 standard, exploration and evaluation assets should be valued at cost. 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 standard, 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 cost, less deduction for any accumulated depreciation and any accumulated impairment losses.

The Group reports its capitalized exploration and evaluation assets as shown below. Once the technical and commercial feasibility of extracting oil or gas can be demonstrated, the classification as exploration and evaluation assets is no longer carried out.

Reporting, evaluation and depreciation of exploration and evaluation expenditure

Capitalized exploration and evaluation expenditure is classified as intangible or tangible assets in accordance with IFRS 6. Exploration and evaluation expenditures are reported at cost, less any impairment losses. Capitalized exploration and evaluation expenditure relates to among others the following:

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

All expenditure for the acquisition of concessions, licenses or shares in production sharing agreements, and for investigating, drilling and expanding these, is capitalized in separate cost centers, one for each field. Each field covers one well.

At the end of 2012, the Group had carried out exploration work on two wells in the Rustamovskoye, Aysky and Suyanovskoye areas, which are north of Ufa in Bashkiria, Russia.

Depreciation

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

Impairment losses

The Group assesses its intangible assets, its exploration and evaluation assets, and its oil and gas assets for any impairment loss 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 reduction of the estimated quantities of reserves. The test for impairment loss 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 which 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 operates its exploration and extraction business. The assessment of an impairment loss means that the cash-generating unit's carrying value is compared with the recoverable value 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, 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 which 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 as to 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 is 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 depreciation 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 can be demonstrated, the capitalized exploration and extraction expenditures are reclassified as tangible oil and gas assets or to a separate part of intangible assets, based on their nature. Once the technical and commercial feasibility can be demonstrated, depreciation is commenced. Depreciation is recognized in line with the year's production, in relation to estimated total proved or probable reserves of oil and gas 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 which are amortized are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment is done with the amount of the assets carrying amount that exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use. For purposes of 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, a determination is made at each year end regarding the reversal that can 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 review this decision at each reporting date. The Group only use 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 shares and holdings in companies where the group owns less than 20 percent of votes and capital and does not have determining influence. Valuation is at fair value directly to 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 amortized cost 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 trade and other payables, are included in this category. The debts are valued at the amortized cost. Debts less than three months are reported 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 consists 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, and which are exposed to an insignificant risk of fluctuations in value. Short term investment consists of investments with a duration below 90 days.

Borrowings

Borrowings are initially reported at fair value, which represents the amount received with a deduction for any transaction costs, and thereafter at amortized 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 loans

The compound financial instruments issued by the Group include convertible loans 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 fair value of the shares.

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 conversion into shares. The equity 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 at amortized cost using the effective interest method. The equity component of a compound financial instrument is revalued not in line with the acquisition date, but 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 cost of the acquisition cost and fair value. Fair value is the market value less cost to sell. The cost of the acquisition includes the cost of materials, labor, and certain fixed costs.

Accounts payable

Trade and other payables are reported initially at fair value and subsequently at amortized cost in the Statement of financial position.

Equity

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

Current tax

Current tax is tax that shall be paid or received for the current year, applying the tax rates and legislation that are in force on the date of the balance sheet. 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 as net in the balance sheet.

Deferred tax

Deferred income tax is reported in full, using the balance sheet method, on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 acquisition that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by 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 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 have been made for future operating losses.

Remuneration to employees

Pension obligations

Group companies in Sweden and Russia and Ukraine have arranged a defined contribution pension plan for 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, which, after the reverse share split 1:50, entitle the bearers to subscribe to 173,536 class B shares. The subscription price is SEK 30 per share and the subscription period is July 1–14, 2012. The options matured in 2012 and were not exercised since the subscription price exceeded the stock market rate.

In 2010, a total of 8,000,000 share options were issued, which, after the reverse share split 1:50, 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. The options matured in 2013 and were not exercised since the subscription price exceeded the stock market rate.

In 2012, a total of 320,000 share options were issued, entitling the bearers to subscribe to 320,000 class B shares. The subscription price is SEK 18.67 per share and the subscription period is June 1–15, 2015.

Revenue

The Group's revenue stems 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, oil is sold via monthly auctions. The auction system reduces transaction risks and counterparty risks in supplying oil. Revenue is assessed 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 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 during the period it refers to.

Production taxes

For the producing oil fields in Russia and Ukraine production taxes must be paid pursuant to applicable legislation. The production taxes are reported gross in the income statement and are thus included both in total revenues and raw materials and supplies.

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 other material leases.

Risk management

In its line of business, the Group is exposed to several 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, assessments and management of these exposures and related risks. Shelton Petroleum's risk management is described in the Group's corporate governance report in this Annual Report.

Risks associated with the business 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 on what terms.

The Ukrainian licenses in which the Group has interests are not owned by Shelton Petroleum, but by other parties. The Group does not therefore 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 the Group will be able to validate its rights in other respects, which could in turn have negative effects on the Group.

Maintaining licenses is normally 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 to be wholly or partially withdrawn, which might involve a negative effect on the group's future prospects. If a license holder, on the basis of exploration results and 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 lead to negative effects on the Group's assets and thereby its 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 authorities 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 loss 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 personal injury. 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 have a negative effect on the Group's financial position and prospects. The Group has undertaken to comply with Russian and Ukrainian environmental legislation, which is 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 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 time. There is no guarantee that the estimated reserves or resources as presented will not be amended over time.

If the assessments are reviewed, this may entail an adverse effect on the value of the Group's assets and the future prospects of the Group.

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. The Group and its partners may from time to time have different viewpoints on how operations should be run and on what the partners' rights and obligations are. 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 sub-contractors, do not fulfill license obligations or other obligations.

Risks relating 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 breakdown 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 that can be connected to larger systems, etc.

Sale of oil and natural gas

The Group's ability to sell its produced oil and gas depends among others 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 lessening 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 natural 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 conditions 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 reduction in the volumes of the reserves that the Group could economically extract, since the Group may cease production 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 lessening 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 occasions 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, which would in turn have a negative effect on the Group's operations, financial position and position generally.

Significance of key personnel

The Group's future development depends on the knowledge, experience, abilities and commitment of senior management and other key persons. The Group has agreed contracts of employment with such persons on terms that the Group feels 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 cover. 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 economic 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 have a negative effect on the Group's opportunities 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. Amendments of such regulations may affect the Group's operations and development adversely. In addition 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 activities are carried out. 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 ability of the Group and its partners to exercise or pursue their rights and obligations and to protect and maintain their ownership rights over assets may be different from in Sweden and from what the outcome might have been if these 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 by-products 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 tightened, 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.

Neither is there any 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 legislation, which is 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 program.

Financial risks

Capital and liquidity risk

The Group's aim for the capital structure is to safeguard the Group's capacity to continue in business, so that it can generate sufficient return for the shareholders and benefit other interested parties, and to maintain an optimal capital structure in order to hold 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 finance by issuing shares, no target for the debt/equity ratio has yet been set. This policy is continually 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 entail that these are terminated early. Since the Group's activities 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 surplus values in the Group at the desired time or indeed at all. If the Group cannot gain access to capital to perform investments, the Group may also need to offer 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 distribution should occur from such joint ventures. Decisions on distribution are taken jointly, in accordance with the joint venture agreement, and there is therefore a risk that distribution 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 activities. Furthermore, the Group's liquidity could be affected if the Russian or Ukrainian companies had liquidity problems. The Russian company for example 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 distributions are discussed and decided upon.

Impairment risk/Valuation

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 assessed at fair value. The 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 statement of financial position as financial instruments that are available for sale and that had a value at year end of SEK 24 (35) million.

Tax risk and capital repatriation possibilities

The net value of the Group's assets is greatly affected by the tax status of the Russian and Ukrainian subsidiaries. The tax system in Russia and Ukraine is at a relatively early stage of development and is characterized by many taxes that are subject to frequent change and inconsistent application at federal, regional and local level. It is also the case that the tax authorities have up to three years to perform tax audits on previously submitted 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 deems that sufficient reserves have been made with respect to tax liabilities based on the Group's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Russia or Ukraine may be of a different opinion with regard to such interpretation. This entails a risk that the Group may be subject to further taxes or fines which may be significant and have a negative impact on the value of the Group's assets.

Value added tax is normally returned in Russia and Ukraine. In both countries, however, this is dependent on a certificate, that shows that the project has been completed or that export has occurred, being presented and approved by the tax authorities. There have been cases in Russia and Ukraine where return of VAT 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. Revisions 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. The corresponding currency in Ukraine 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 can thereby have a negative effect on the Group's results and financial position. The Russian and Ukrainian economies may also be subject to inflation pressure. Even though loan 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. In the event of a change of the Ruble rate of exchange by 10 per cent, the Group's assets and net result would change by SEK 10 million and SEK 0.3 million, respectively. In the event of a change of the Hryvnia rate of exchange by 10 per cent, the Group's assets and net result would change by SEK 13 million and SEK 2.5 million, respectively.

Interest rate risk

The Group is currently financed largely by equity and internally generated funds from the oil sales. As the Group does not have any significant interest-bearing loan finance with variable rates of interest, management considers that the interest 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's financial position and profits. Management carefully evaluates the suppliers that the Group commissions to carry out work, 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 Group and its partners' interests may differ, which may adversely affect 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 that conflicts with the Group's interests or strategy, which in turn could lead to a considerable negative effect on the Group's financial position, profits and future prospects.

Reporting practice and other information

Reporting, financial reporting and auditing in Russia and Ukraine differ from what is found in the West. This is mainly because 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 continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the 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.

Impairment of capitalized costs related to exploration and evaluation of mineral resources and Goodwill

The Group annually tests 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. In assessing the value of goodwill, no circumstances or facts indicating that a write-down would be justified have been identified.

The following material assumptions have been used:

- Discount rate of 14 (10) percent
- Reserves of 14 (14) million barrels of oil
- Future global market oil prices reflected in:
  Russia USD 40 (70) per barrel of oil
  Ukraine USD 100 (82–94) per barrel of oil

The value of the intangible assets, and the capitalized exploration and evaluation expenditure, amounts to SEK 70.1 million. Should the conditions for the assumptions on which the value of intangible assets is based change and facts and circumstances arise, 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 assets is contingent on among others:

- Obtaining permission to drill for oil
- That extraction can start
- That the total of expenditure incurred, plus the discounted value of future expenditure 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

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

Convertible loans

To determine the equity component of the convertible loan a 15 percent discount rate of interest was set in 2011. This is equivalent to what the calculated 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 mainly 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 recorded on the basis 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. Additionally, the Group reports a profit from the voluntary liquidation of Tomsk Refining AB of approx. SEK 7 (11) million. In 2012, the Group received the second and final payment from the liquidation, of approx. SEK 18 (51) million.

	Group		Parent Company	
	2012	2011	2012	2011
Sale of crude oil	93,223	35,714	0	0
Profit Tomsk Refining AB	6,573	11,362	6,573	11,362
Sales within the Group	0	0	491	435
Other revenue	118	107	107	0
Total revenues	**99,914**	**47,183**	**7,064**	**11,797**

NOTE 3

Segment information

The Group reports on the basis of two reportable operating segments: Russia and Ukraine. The operating segments are reported using the same accounting principles as the Group and the Group management, the chief operating decision-maker, reviews the income measurement operating income. The activities of the Russian and Ukrainian segments consist of developing and extracting oil and gas reserves and of exploration to discover new reserves. Other consist of handling overall financing for the Group including borrowing capital from external banks and other capital acquisition. Other 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, for Russia, to capitalized work performed for own use and for Other to re-invoicing of expenses related to management services. Market terms in accordance with the arms length principle are applied to transactions between operating segments.

Assets that are included in the lists refer to all assets, excluding financial assets available for sale. The Eliminations column refers to elimination of Group transactions between operating segments.

January–December 2012 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Income statement					
Income, external	14,295	79,046	6,573		99,914
Income, internal	0	0	707	–707	0
Capitalized internal work	3,998	0	0	0	3,998
Raw materials and necessities	–6,290	–41,852	0		–48,142
Other operating costs	–8,455	–4,593	–13,724	615	–26,157
Operating profit/loss	**3,548**	**32,601**	**–6,444**	**–92**	**29,613**

January–December 2011 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Income statement					
Income, external	11,302	24,519	11,362		47,183
Income, internal	0	0	612	–612	0
Capitalized internal work	3,331	0	0	0	3,331
Raw materials and necessities	–8,683	–15,494	0		–24,177
Other operating costs	–6,134	–3,187	–15,146	522	–23,945
Operating profit/loss	**–184**	**–5,838**	**–3,172**	**–90**	**2,392**

December 31, 2012 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Balance sheet					
Assets					
Tangible and intangible assets	132,765	11,609	6,947	0	252,321
Current assets, external	1,167	32,490	26,838	0	60,495
Current assets, internal	0	0	24,872	–24,872	0
Investments in tangible and intangible assets	19,125	10,232	0	0	29,357

December 31, 2011 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Balance sheet					
Assets					
Tangible and intangible assets	112,173	113,794	6,952	0	232,919
Current assets, external	806	17,828	37,522	0	56,156
Current assets, internal			13,935	–13,935	0
Investments in tangible and intangible assets	16,200	3,645	0	0	19,845

NOTE 4

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

	Basic salary/fees	Variable compensation	Other compensation	Other benefits	Pension cost	Total
Per Höjgård, Chairman through AGM 2012	73	0	0	0	0	73
Björn Lindström, Chairman	93	0	0	0	0	93
Hans Berggren, Director*	47	0	40	0	0	87
Richard N. Edgar, Director**	78	0	652	0	0	730
Peter Geijerman, Director	78	0	0	0	0	78
Freddie Linder, Director	78	0	0	0	0	78
Katre Saard, Director	78	0	0	0	0	78
Zenon Potoczny, Director ***	1,019	85	0	0	0	1,104
Robert Karlsson, CEO	1,341	271	0	50	330	1,992
Other senior executives, 2 in total	1,311	90	0	0	152	1,554
Total for board and management	**4,196**	**446**	**692**	**50**	**482**	**5,866**

* Other remuneration refers to remuneration for special committee work
** Other remuneration refers to consultancy services in geology and business development
*** Refers to base salary only, does not receive a directors' fee

Remuneration to personnel and senior executives during 2011 (SEK thousand)

	Basic salary/fees	Other compensation	Other benefits	Pension cost	Total
Per Höjgård, Chairman	175	0	0	0	175
Richard N. Edgar, Director	75	985	0	0	1,060
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**	**985**	**43**	**433**	**5,329**

2012 guidelines for remuneration of senior executives

The remuneration of senior executives should be the going rate and enable the company to attract and retain qualified employees. For the individual senior executives 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. For share and share price related incentive programs, the earning period, or the period from entering into an agreement to when a share 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. The parts are designed to create a balanced remuneration and benefits program that reflects the employee's performance 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. At the AGM, principles for senior executives for the coming year are also adopted.

Remuneration and benefits to the Board

The total remuneration for the financial year 2012 to the Company's Board amounted to SEK 1,217 thousand. Of this amount, SEK 525 thousand consisted of Board remuneration, of which SEK 166 thousand to the previous and current chairman. For the allocation of Board remuneration and other compensation to the remaining directors, see the table above.

Remuneration and benefits to the CEO

Remuneration to the Chief Executive Officer in 2012 amounted to SEK 1,992 thousand consisting of a fixed salary of SEK 1,341 thousand, a variable remuneration of SEK 271 thousand car benefit of SEK 50 thousand and a pension cost of SEK 330 thousand. The Chief Executive Officer 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 entitlement is earned by 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 agreements on severance pay have 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 8 people, of which 7 are men and 1 is a woman.

	2012			2011		
Average number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Sweden*	2	2	0	2	2	0
Russia	22	17	5	22	17	5
Ukraine**	8	6	2	9	7	2
Canada	1	1	0	1	1	0
Total	**33**	**26**	**7**	**34**	**27**	**7**

* The line for Sweden refers to 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)*	**2012**	**2011**	**2011**	**2011**
Senior executives and Board	5,334	4,854	3,579	2,793
Pension expenses	482	433	482	433
Other employees	4,858	4,786	211	665
Pension expenses	287	375	0	29
Social security costs	1,955	1,820	955	1,100
Total	**12,916**	**12,268**	**5,243**	**5,020**

* Remuneration to the Board is included in other external costs in the consolidated statement of comprehensive income and the parent company's income statement.

Geographical distribution (SEK thousand)	2012	2011
Sweden	5,359	5,221
Russia	4,969	4,101
Ukraine	832	680
Canada	1,756	2,266
Total	12,916	12,268

NOTE 5
Payments to auditors (SEK thousands)

	Group		Parent Company	
	2012	**2011**	**2012**	**2011**
Ernst & Young				
Audit assignments	707	780	450	414
Non-audit assignments	130	128	130	128
Tax consultancy	0	0	0	0
Other services	105	263	105	263
Total	**942**	**1,171**	**685**	**805**
Alinga				
Audit assignments	48	35	0	0
Total	**48**	**35**	**0**	**0**
Total	**990**	**1,206**	**685**	**805**

Audit assignment means the review of the Annual Report and of the Board's and the CEO's administration, other assignments that the Company's auditor performs as well as consultancy or other assistance that follows from the investigation or performance of such other assignments. 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)

	2012	**2011**
Machinery and equipment	309	16
Intangible assets	220	60
Oil and gas assets	1,733	844
Total	**2,262**	**920**

NOTE 7
Financial income (SEK thousand)

	Group		Parent Company	
	2012	**2011**	**2012**	**2011**
Exchange rate differences	0	0	0	45
Interest income, Group	0	0	1,795	1,389
Interest income, other*	1,833	935	383	211
Total	**1,833**	**935**	**2,178**	**1,645**

* Of which the Group's received interest is 1,833 (935) and the parent company's received interest is 383 (211).

NOTE 8

Financial expense (SEK thousand)

	Group		Parent Company	
	2012	2011	2012	2011
Exchange rate differences	–611	–976	–534	0
Capital gain/loss from financial assets	0	–809	0	–809
Interest expense, convertible*	0	0	–2,863	–5,313
Interest expense, other**	–56	–1	–54	–1
Total	**–667**	**–1,786**	**–3,451**	**–6,123**

* Interest expenses on the convertible loan is capitalized in the Group
** Of which the Group's paid interest is –56 (–1) and the parent company's paid interest is –54 (–1).

NOTE 9

Income tax (SEK thousand)

	2012	2011
Current tax	–6,256	–823
Deferred tax	292	–84
Total	**–5,964**	**–907**

Reconciliation of tax for the period	2012	2011
Reported pre-tax profit/loss	30,779	1,541
Tax at current tax rate	–8,095	–405
Difference in tax rate in foreign operations	1,677	–152
Effect of changes in current tax rate	1,707	1,768
Non-deductible items	–26	–8
Deferred tax attributable to convertible loan	0	–422
Tax on dividends received	–461	–462
Other	0	–784
Non-capitalized loss carry-forward	–767	–442
Reported tax	**–5,964**	**–907**

In 2012, corporate income tax in Ukraine was reduced from 23 percent to 21 percent. The table above shows an effect of the amended tax rate which is primarily attributable to the deferred tax liability arising in connection with the acquisition of Shelton Canada, whose material assets are located in Ukraine. In Sweden, the corporate tax rate is reduced from 26.3 percent to 22 percent as of January 1, 2013. The effect has been taken into account and reduced the deferred tax liability on the convertible loan by SEK 29 thousand.

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 at December 31, 2012, the Group had tax loss carry forwards of approx. SEK 132 million (119). Deferred tax assets attributable to loss carry-forward 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 asset has been recognized. The value of the loss carry-forward is approximately SEK 28 million (29). There is no limit to the use of loss carry-forward.

Deferred tax assets and liabilities are attributable to the following:

	2012	2011
Intangible assets	7,554	8,079
Tangible fixed assets	14,891	17,052
Convertible loan	2,593	2,214
Other	2,299	1,084
Total	**27,337**	**28,429**

Change in net deferred tax assets and liabilities, Group

Deferred taxes 2012	Opening balance	Recognized in the income statement	Charged to comprehensive income	Charged to equity	Translation differences	Closing balance
Intangible assets	8,079	–331	0	0	–194	7,554
Tangible fixed assets	17,052	–939	0	0	–1,222	14,891
Convertible loans	2,214	408	0	–29	0	2,593
Other	1,084	1,154	0	0	61	2,229
Total	**28,429**	**292**	**0**	**–29**	**–1,355**	**27,337**

Deferred taxes 2011	Opening balance	Recognized in the income statement	Charged to comprehensive income	Charged to equity	Translation differences	Closing balance
Intangible assets	8,580	–354	0	0	–147	8,079
Tangible fixed assets	17,785	–1,165	0	0	432	17,052
Convertible loans	1,462	422	0	330	0	2,214
Other	–156	1,181	0	0	59	1,084
Total	**27,671**	**84**	**0**	**330**	**344**	**28,429**

NOTE 10

Intangible assets (SEK thousand)

	Group	
Goodwill	**2012**	**2011**
Accumulated acquisition cost		
At the beginning of the year	6,807	6,807
Carrying value at the end of the year	**6,807**	**6,807**

Oil and gas assets and licenses	**2012**	**2011**
Accumulated acquisition cost		
At the beginning of the year	70,297	57,974
Capitalized during the year	5,672	13,820
Translation differences	–1,448	–1,497
Total accumulated acquisition cost	74,521	70,297
Accumulated depreciation at the beginning of the year	–160	–17
Depreciation for the year	–220	–134
Translation differences	9	–9
Total accumulated depreciation	–371	–160
Carrying value at the end of the year	**74,150**	**70,137**

The intangible assets related to oil and gas properties 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 impairment loss 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. The main assumptions that have been used were:

- Discount rate of 14 (10) percent
- Reserves of 14 (14) million barrels of oil

Future global market oil prices reflected in:

- Russia USD 40 (70) per barrel of oil
- Ukraine USD 100 (82–94) per barrel of oil

The carrying value of the Group's and the subsidiaries' intangible and tangible oil and gas assets amounts to SEK 132,765 thousand in Russia and SEK 112,609 thousand in Ukraine.

The carrying value of the Group's and the subsidiaries' intangible and tangible oil and gas assets is affected by changes in exchange rates.

When testing for impairment losses on capitalized costs related to exploration and evaluation of mineral deposits, no impairment losses were identified. Goodwill relates to the value that occurred at the reverse acquisition of TFS AB in 2009. When goodwill was evaluated, no impairment loss was identified.

NOTE 11
Tangible fixed assets (SEK thousand)

	Group	
Oil and gas assets and licenses	**2012**	**2011**
Accumulated acquisition cost		
At the beginning of the year	172,858	163,292
Additions	21,409	12,054
Pre-payments on drilling program	5,188	0
Disposals	0	–107
Translation differences	–10,492	–2,381
Total accumulated acquisition values	188,964	172,858
Accumulated depreciation at the beginning of the year	–17,853	–16,735
Disposals	0	19
Depreciation for the year	–1,733	–844
Translation differences	1,286	–293
Total accumulated depreciation	–18,300	–17,853
Carrying amount at the end of the year	**170,664**	**155,005**

	Group	
Machinery and equipment	**2012**	**2011**
Accumulated acquisition cost		
At the beginning of the year	1,932	1,984
Additions	1	83
Disposals	0	–77
Translation differences	–3	–58
Total accumulated acquisition cost	1,931	1,932
Accumulated depreciation at the beginning of the year	–962	–599
Disposals	0	75
Depreciation for the year	–309	–464
Translation differences	41	26
Total accumulated depreciation	–1,231	–962
Carrying amount at the end of the year	**700**	**970**

Total fixed assets, besides financial assets, which are localized in Sweden is SEK 6,807 thousand (6,807) and the total of such fixed assets which are in other countries is SEK 240,407 thousand (226,112).

NOTE 12

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

	Group		Parent Company	
Change during the year	**2012**	**2011**	**2012**	**2011**
As at January 1	35,147	91,352	35,147	92,649
Acquisitions	293	3,340	293	3,340
Disposals	0	–5,168	0	–5 168
Liquidation TRAB	–11,874	–39,338	–11,874	–39,338
Losses transferred to other comprehensive income	–63	–15,039	0	0
Write downs	0	0	–63	–16,336
As per December 31	**23,503**	**35,147**	**23,503**	**35,147**

Financial assets available for sale / Other long-term securities includes the following	**Domicile**	**Interest in %**	**Book value Dec. 31, 2012**	**Book value Dec. 31, 2011**
Listed securities, Shares				
Pan European Terminals PLC	United Kingdom	12.94%	23,503	23,566
Unlisted securities, Shares				
Tomsk Refining AB	Stockholm	15.00%	0	11,581
Total			**23,503**	**35,147**

Shelton Petroleum views this category as a residual category with placements of long-term assets which do not fit into any other category. Currently, there are shares and other interests in companies where the Group owns less than 20 % of the votes and capital and does not have control. Valuation is at fair value directly to other comprehensive income.

The share in Pan European Terminals PLC is traded on the AIM in London. The Group's holding amounts to 13,177,368 shares as per December 31, 2012. The closing rate per December 31, 2012 was 17 pence and the GBP/SEK rate of exchange was 10.49. Shelton Petroleum's holding is equivalent to 12.94 (13.99) percent of the capital. In 2012 PAN completed a private placement with an investor, and as a result Shelton's share of the capital decreased.

Shares of Tomsk Refining AB were acquired in September 2010. In 2011 the AGM of Tomsk Refining AB resolved that the company should enter into voluntary liquidation and the first payment from the liquidation was received in 2011 and amounted to SEK 50,700 thousand. In 2012 the second and final payment was received, amounting to SEK 18,447 thousand. As a result of this payment, the holding has been liquidated.

NOTE 13

Interests in affiliated companies (SEK thousand)

The table below is a specification of the Group's subsidiaries as per December 31, 2012. 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	72,890	2,285	Holding company
Novats Investments Ltd	Cyprus	100	23,414	–36	Holding company
Shelton Canada Exploration Ltd	Cyprus	100	–99	–11	Holding company
Shelton Canada Energy Ltd	Cyprus	100	–99	–11	Holding company
Shelton Canada Black Sea Corporation	British Virgin Islands	100	–117	–72	Holding company
ZAO Ingeo Holding *	Russia	100	–11,909	–1,297	Exploration and production of oil and gas
Shelton Canada Corporation	Canada	100	39,707	4,070	Holding company
Zhoda (2001) Corporation	Ukraine	100	0	0	Holding company
Kashtan Petroleum Ltd	Ukraine	45	45,660	25,728	Exploration and production of oil and gas
JIA #2847 Ltd	Ukraine	50	606	–26	Exploration and production of oil and gas

* Equity is negative after IFRS adjustment. In the Russian accounting and 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 entities are jointly controlled along with the other shareholders.

The Group's proportion of assets and liabilities as of December 31, 2012 and 2011, which were included in the balance sheet in accordance with the proportional method, is presented in the table below.

The group's proportion of assets and liabilities	2012	2011
Current assets	32,490	17,828
Tangible fixed assets	24,021	21,588
Intangible assets	860	988
Current liabilities	–8,614	–5,256
Non-current liabilities	–2,323	–1,329
Equity	**46,434**	**33,819**

The Group's proportion of revenue and costs as of December 31, 2012 and 2011, which were included in the income statement in accordance with the proportional method, is presented in the table below.

The group's proportion of revenue and costs	2012	2011
Revenue	79,046	24,519
Operating costs	–46,445	–18,683
Financial items	1,405	638
Tax	–6,751	–2,021
Profit/loss for the year	**27,255**	**4,453**

NOTE 14
Finished goods and commodities (SEK thousand)

	Group	
	2012	**2011**
Crude oil	139	227
Other	0	94
Total	**139**	**321**

NOTE 15
Reserves (SEK thousand)

	Translation differences	Financial assets available for sale	Total reserves
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**
Opening balance January 1, 2012	**–19,015**	**–16,335**	**–35,350**
Change during the year	–8,145	–63	–8,208
Closing balance December 31, 2012	**–27,160**	**–16,398**	**–43,558**

NOTE 16
Other receivables (SEK thousand)

	Group		Parent Company	
	2012	**2011**	**2012**	**2011**
Value added tax	418	516	295	24
Receivable convertible loan issue	0	120	0	120
Accounts receivable	28,395	6,570	0	0
Other receivables	610	1,852	88	119
Total	**29,423**	**9,058**	**383**	**263**

NOTE 17

Equity

In 2012 there was no change in the total number of shares. In 2012 10,000 A shares were converted into 10,000 B shares. The Company has 10,640,588 outstanding shares, of which 170,580 are A shares (10 votes per share) and 10,470,008 are B shares (1 vote per share). The total number of votes is 12,175,808.

	Number of shares
As of December 31, 2011	10,640,588
As of December 31, 2012	**10,640,588**

In 2012 320,000 options were issued to the Company's management.

Financing

The Group has so far to a large extent used equity to finance 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 has also issued shares to the owners of Shelton Canada Corp. in order to complete the merger. In November 2011, holders of the bonds issued in 2009 (KV2009/2011) were offered to exchange them for new convertible bonds (KV 2012/2013) which matures on December 31, 2013. The nominal outstanding amount for the offer was approximately SEK 30 million. Holders of approximately SEK 22 million elected to exchange KV 2009/2011 for KV 2012/2013 and a further approximately SEK 1 million was received in new issues. 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 into B shares between January 1, 2012 and December 1, 2013. If all outstanding convertible bonds KV 2012/2013 were to be converted to shares, the number of B shares would increase by 1,423,125. At full dilution the number of shares would amount to 12,063,713. The shares have a quotient value of SEK 5.

Translation differences in equity

As of December 31, 2012, the reported translation differences under other comprehensive income amounted to SEK –8,145 (–1,387) thousand. The translation differences arise upon translating the foreign subsidiaries balance sheet and income statements, as assets and liabilities are translated at the exchange rate applicable on the balance sheet day, and income and expenses are restated using the average exchange rates.

Translation differences also arise upon the restatement of monetary assets and liabilities in foreign currencies, as these are restated on the balance sheet day at the exchange rate applicable that day. These exchange rate differences are normally accounted for in 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 accounted for in other comprehensive income.

Management of capital

The managed capital of the Company consists of equity. 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.

NOTE 18

Loans (SEK thousand)

	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011
Non-current				
Convertible loan	22,102	21,517	22,102	21,517
Other loans	0	0	0	0
Total non-current	**22,102**	**21,517**	**22,102**	**21,517**
Current				
Convertible loan	0	7,800	0	7,800
Total current	**0**	**7,800**	**0**	**7,800**
Total	**22,102**	**29,317**	**22,102**	**29,317**

In 2009, convertible bonds (KV 2009/2011) were issued of 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 (1,998) thousand net after deferred tax as of the balance sheet date. In November 2011, the Company offered KV 2009/2011 holders to replace this bond with a new convertible bond (KV 2012/2013). Holders of an equivalent of SEK 21,720 thousand accepted the offer and in addition SEK 1,050 thousand was received by virtue of new issues 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 B shares would increase by 1,423,125. The equity component of the loan constituted SEK 833 thousand net after deferred tax as of the balance sheet date. SEK 7,800 thousand of the old convertible loan was repaid in cash in January 2012.

NOTE 19

Other current liabilities (SEK thousand)

	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011
Source tax	94	81	94	81
Compulsory employer contributions	187	215	187	215
Value Added tax	2,468	1,108	0	0
Production taxes	766	442	0	0
Other taxes	338	1,011	0	89
Other	179	835	0	0
Total	**4,032**	**3,692**	**281**	**385**

NOTE 20

Accrued expenses (SEK thousand)

	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011
Interest	2,277	0	2,277	0
Acquisition and new issue costs	1,093	1,900	1,093	1,900
Legal fees	0	836	0	836
Pension costs and social security	355	279	355	279
Remuneration to the Board	373	467	373	467
Other	333	233	0	0
Total	**4,431**	**3,715**	**4,098**	**3,482**

NOTE 21

Related party transactions (SEK thousand)

In addition to what is reported elsewhere in this Annual Report further information about related parties is provided below:

	2012	2011
Purchase of services from ACM	0	1,641
Purchase of services from Sergey Titov	348	325
Purchase of services from #Co 1144449 Alberta Ltd	652	985
Total	**1,000**	**2,951**
Balances carried forward at the year-end		
Liabilities to related parties	0	7

Remuneration to senior executives

The Group has concluded a consultancy agreement with Sergey Titov, one of the initiators and owners of the Company. The contract relates to project management and business development. According to the agreement, monthly remuneration amounting to approximately SEK 30 thousand per month is payable, which the Group believes is the going rate. The contract runs from November 1, 2007 and has a mutual notice period of 3 months. He receives no other remuneration from the Group.

Other transactions with related parties

The Group has concluded a consultancy agreement with a company (#Co 1144449 Alberta Ltd) in which Richard N. Edgar (director) is one of several owners. The agreement relates to business development and geological expertise. Remuneration in the financial year 2012 has been renegotiated from a fixed monthly fee to a variable hourly rate. The Group believes these terms to be going rate.

NOTE 22

Earnings per share, before and after dilution

Earnings per share before dilution are calculated by dividing the result attributable to equity holders of the parent company by the weighted average number of ordinary shares during the year, excluding ordinary shares repurchased by the parent company and held as treasury shares. The parent company holds no treasury shares.

Earnings per share after dilution are calculated by adjusting the average number of shares by the estimated number of shares from the convertible bond. Potential shares from issued options are included when the share price of the shares is equal to or exceeds the current stock exchange rate. For 2012, no potential shares from issued options are included.

The Board has proposed to the AGM that there be no dividend distribution for financial year 2012.

	2012	2011
Result attributable to parent company shareholders (SEK thousand)	24,815	634
Weighted average number of ordinary shares	10,640,588	10,640,428
Diluted weighted average number of ordinary shares	12,063,713	11,483,856
Earnings per share, (SEK/share)	2.33	0.06
Diluted earnings per share (SEK/share)	2.23	0.06

NOTE 23
Financial instruments (SEK thousand)

Group 2012

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			23,503		23,503
Accounts receivable	28,395				28,395
Cash and cash equivalents	30,764				30,764
Total assets	**59,159**	**0**	**23,503**	**0**	**82,662**
Liabilities					
Non-current liabilities		22,102			22,102
Accounts payable		6,108			6,108
Other liabilities		2,271			2,271
Total liabilities	**0**	**30,481**	**0**	**0**	**30,481**

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**

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

Fair value estimation
Starting 1 January 2009, the Group applies the amendment to IFRS 7 for financial instruments valued at fair value in the Statement of financial position. Thus, disclosure is 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);
- Other 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).

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. Per December 31, 2012, the Group has financial assets available for sale at fair value in other comprehensive income in the amount of SEK 23,503 thousand at level 1 and SEK 0 at level 3.

The following table shows changes for instruments at level 3.

	2012	2011
Opening balance	11,582	49,220
Expenditure	293	0
Adjustment	–11,875	–37,638
Closing balance	**0**	**11,582**

Maturity

The Group's financial liabilities fall due as follows:

As of December 31, 2012	Within 1 year	Between 1 and 2 years	More than 2 years
Convertible loan (including interest payments)	27,318	0	0
Accounts payable	6,180		
Other liabilities	179		

As of 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		

Convertible loans maturing for payment within 1 year relates to payment of the principal amount, SEK 22,770 thousand, and interest for 2012, SEK 2,271 thousand and for 2013, SEK 2,277 thousand. Interest for 2012 was paid at the beginning of January 2013.

NOTE 24
Provisions (SEK thousand)

	Group	
Provision for restoration costs	**2012**	**2011**
Ukraine	169	181
Russia	180	163
Total	**349**	**344**

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 capitalized or reversed for the relevant asset. No provisions have been reversed or utilized during the year.

NOTE 25

Obligations (SEK thousand)

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. Future minimum lease payments as per balance sheet date are:

	Group	
	2012	**2011**
Lease payments within 1 year	2,548	1,467
Lease payments between 1 and 3 years	1,486	0
Lease payments after 5 years	0	0
Total	**4,034**	**1,467**

In 2012, leasing charges amounted to SEK 2,233 thousand (724).

NOT 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 % 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 71 million as per December 31, 2012.

(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 system in Russia and Ukraine is at a relatively early stage of development and is 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 associated 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 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 management judges that adequate provisions have been made for tax liabilities based on the management's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Ukraine may have a different interpretation. This uncertainty means there is a risk of additional taxation and fines that can be substantial amounts.

(iii) The 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, as exists in more developed market economies. The Russian and Ukrainian economies are characterized by currencies which are not fully convertible outside Russia and Ukraine, foreign exchange controls, low liquidity in bond and equity markets and continued inflation. Running a business in Russia and Ukraine therefore involves risks not normally associated with running a business in more developed markets.

The stability and success of the Russian and Ukrainian 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

At the beginning of 2013, a drilling rig was assembled and drilling commenced of a new production well in the Rustamovskoye field in Russia.

In April, Shelton sold its entire holding in Pan European Terminals plc. The purchase price was approximately SEK 27 million. The book value as at December 31, 2012 amounted to approximately SEK 24 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 provide a true picture of the Group's position and performance. The annual report has been prepared in accordance with generally accepted accounting principles and provides a true picture of the parent company's financial position and results.

The statutory Directors' 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 consolidated statement of comprehensive income and financial position will be presented to the Annual General Meeting on May 21, 2013 for adoption.

Stockholm, April 30, 2013

Björn Lindström
Chairman

Hans Berggren

Richard N. Edgar

Peter Geijerman

Freddie Linder

Zenon Potoczny

Katre Saard

Robert Karlsson
CEO

Our auditor's report was submitted on April 30, 2013
Ernst & Young AB

Per Hedström
Authorized Public Accountant

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 for Shelton Petroleum AB (publ) for 2012, with the exception of the corporate governance report on pages 31–36. The Company’s annual accounts and consolidated accounts are included in the printed version of this document on pages 28–77.

Responsibilities of the Board 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 in accordance with the Annual Accounts Act and the 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 necessary to enable the preparation of annual 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. We have conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of 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 fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of 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 consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 financial position of the parent company as of 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with the Annual Accounts Act. 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 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with 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 31–36. The statutory directors’ report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend that the Annual General Meeting of shareholders adopts the parent company’s income statement and balance sheet as well as the consolidated 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 have also audited the proposed appropriation of the company's profit or loss and the administration of the Board of Director's and Managing Director of Shelton Petroleum AB (publ) for the year 2012. We have also conducted a statutory examination of the corporate governance report.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriation of the company's profit or loss. The Board and the Managing Director are responsible for administration under the Companies Act and that the corporate governance report on pages 31–36 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

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

As a basis for our opinion on the Board of Director's proposed appropriation of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors 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 which we have obtained is sufficient and appropriate in order to provide a basis for our opinions.

Furthermore we have read the corporate governance report and based on that reading and our knowledge of the company and the group, we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standard in Sweden.

Opinions

We recommend to the Annual General Meeting of shareholders that the profit (handle the loss) be dealt with in accordance with the proposal in the statutory Director's report and that the members of 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 the other parts of the annual accounts and the consolidated accounts.

Stockholm, April 30, 2013
Ernst & Young AB

Per Hedström
Authorized Public Accountant

Financial overview

Key figures	2012	2011	2010	2009	2008	2007
Revenue (SEK thousand)	99,914	47,183	29,291	0	0	0
Operating profit/loss (SEK thousand)	29,613	2,392	–11,441	–16,664	–8,790	–2,871
Result attributable to shareholders in the parent company (SEK thousand)	24,815	634	–12,417	–15,519	–8,059	–2,526
Earnings per share, SEK	2.33	0.06	–1.46	–4.87	– 20.50	–19.00
Earnings per share after dilution, SEK	2.23	0.06	–1.46	–4.87	–20.50	–19.00
Equity per share, SEK	25.43	23.82	25.23	24.96	199.00	219.00
Equity/assets ratio (%)	80	78	80	71	91	89
Cash and cash equivalents (SEK thousand)	30,764	45,986	22,171	32,725	5,517	49,339
Investment in exploration assets (SEK thousand)	29,357	19,845	26,917	18,948	28,515	7,453
Number of shares at end of period	10,640,588	10,640,588	10,640,198	7,603,381	395,943	395,943
Average number of shares	10,640,588	10,640,428	8,498,582	3,186,053	395,943	131,887
Average number of shares after dilution	12,063,713	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 2012, 2011, 2010 and 2009 has been obtained from Shelton Petroleum's audited annual accounts for the years 2012, 2011, 2010 and 2009, in which consolidated accounts have been 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 has been 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 accounts, in which consolidated accounts have been 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 2012, 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 utilization of the outstanding share options and convertible bonds 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.
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.
Earnings per share after dilution: The result after tax for the period in relation to the average number of shares for the period adjusted for potential dilution effect of convertible bonds and options.
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
A benchmark oil for the different types of oil found in the North Sea. Used as a basis for pricing oil.

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. Barrels of oil, often abbreviated to 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
Substances composed 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, heptane, etc. Liquid at atmospheric pressure. Also called naphtha.

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

License
Permit to explore for and produce 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
Abbreviation of Natural Gas Liquids. Liquid gas made up of three different gases: ethane, propane and butane, as well as small quantities of heavier hydrocarbons, is partly 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 state.

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 to 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 gas has been separated out.

Seismics
Seismic 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.

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

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