SHELTON PETROLEUM

Annual Report 2010

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The year in brief

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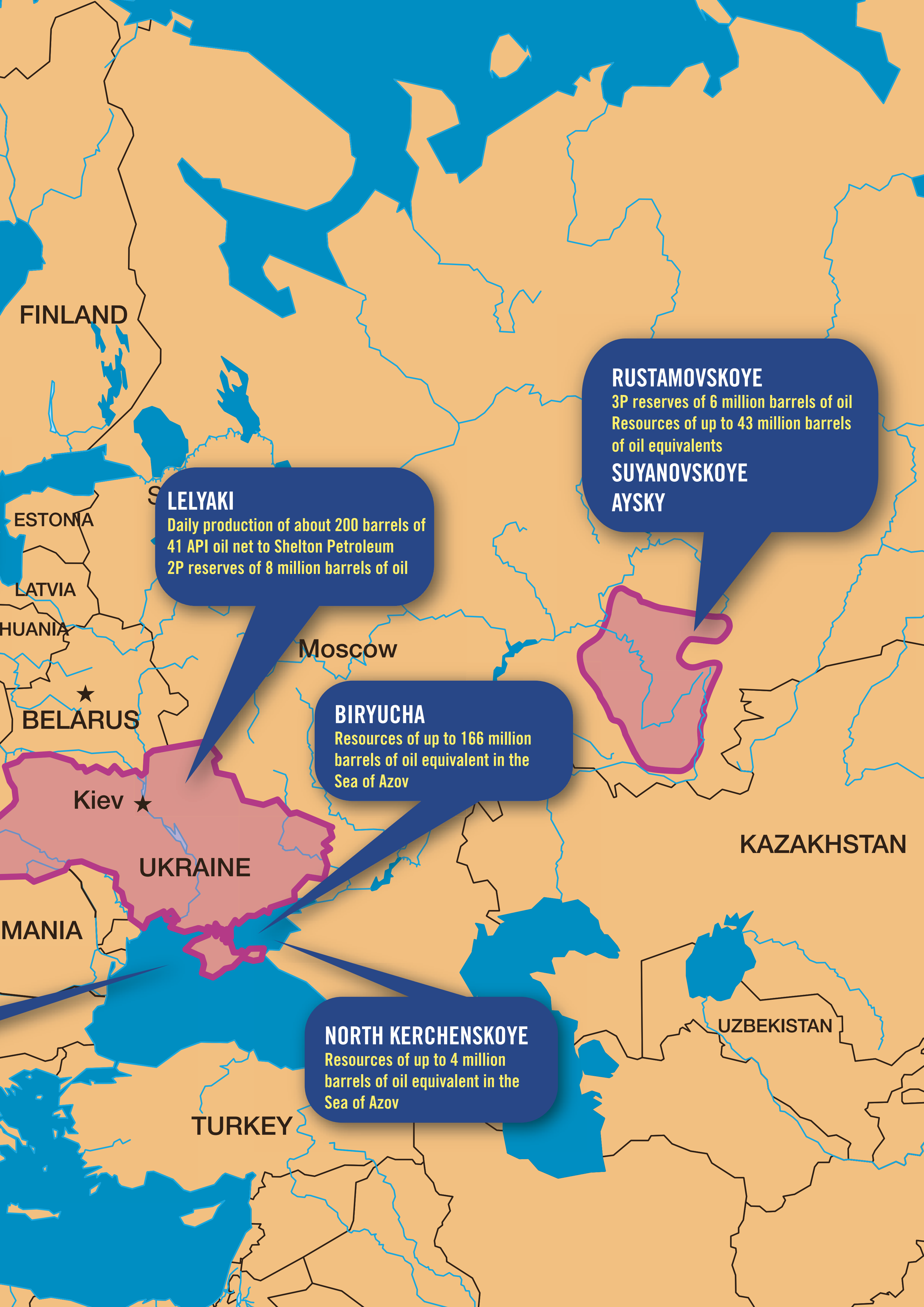
- Temporary shutdown of production at Lelyaki
- A change in auction procedure in Ukraine gives better profits from the sale of oil
- Two directed share issues successfully completed
- Steps toward vertical integration through the purchase of substantial shareholdings in a refinery and an oil terminal operation

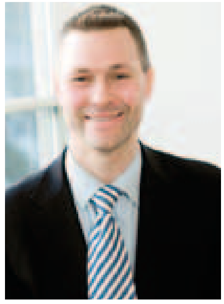
Objectives in 2011

- Increase oil production from Lelyaki in Ukraine and Rustamovskoye in Russia
- Further exploration work in order to convert resources to reserves
- Continue expanding by acquiring new licenses
- Vertical integration in downstream


FINLAND
ESTONIA
LATVIA
HUANIA
BELARUS
Moscow
Kiev
UKRAINE
MANIA
TURKEY
KAZAKHSTAN
UZBEKISTAN
LELYAKI
Daily production of about 200 barrels of
41 API oil net to Shelton Petroleum
2P reserves of 8 million barrels of oil
RUSTAMOVSKOYE
3P reserves of 6 million barrels of oil
Resources of up to 43 million barrels
of oil equivalents
SUYANOVSKOYE
AYSKY
BIRYUCHA
Resources of up to 166 million
barrels of oil equivalent in the
Sea of Azov
NORTH KERCHENSKOYE
Resources of up to 4 million
barrels of oil equivalent in the
Sea of Azov

A word from the CEO

Dear Shareholder,



Looking back on 2010 we can confirm that Shelton Petroleum has taken several important steps in its development in a highly dynamic market. During the year, Shelton Petroleum has gone from being a pure exploration company in a single geographical market to being an oil producing company with a portfolio of licenses in both Russia and Ukraine. Development of the Rustamovskoye field has been particularly pleasing; as operator we completed a successful exploration program and found oil in two out of two wells. That is something that is far from guaranteed when exploration starts. Dry wells are part of the risk in our business and we should therefore be very satisfied with the oil flow from our first wells.

The world around us is complex and Shelton Petroleum is always seeking new commercial opportunities.

Shelton Petroleum's strategy is to create an integrated oil company. By integration, we mean a combination of so-called upstream (exploration and production) and downstream (refining, transport and storage). During 2010 we completed several strategic steps within the framework for this strategy. Firstly, Shelton Petroleum purchased a substantial shareholding in Baltic Oil Terminals, a British company with terminal operations in Kaliningrad and Rotterdam. Secondly, we acquired an ownership interest in a refinery in Siberia, which is however now being profitably wound up following a bid for the company in 2011. An integrated business model has several advantages: more revenue streams, better control over buying and selling crude oil and oil products and less exposure to changes in the price of oil. A vertical integration also means that the company's activities, financial position and market value increase, which in turn means better financing opportunities, lower capital costs and more interest among investors.

As I mentioned earlier, Shelton Petroleum is working in an exceptionally dynamic market that is continuously changing. Everyone must be aware of the fluctuations in the price of oil. Ukraine has elected a new president and the multinational oil companies have become more active around the Black Sea's promising but as yet largely unexplored resources. New technology is opening up opportunities to recover unconventional oil and gas, which were previously not thought to have any great commercial value. The world around us is complex and Shelton Petroleum is always seeking new commercial opportunities.

The oil industry in general and the countries in which Shelton Petroleum operates in particular are very demanding of permits and authorizations, with an administration and bureaucracy that constantly creates knots that must be unravelled. We have experienced this in Ukraine where, for clearly groundless reasons, we have been forced to shut down production. Generally speaking, it is difficult to do business in our markets, but for those who have the ability to identify and nurture business opportunities, along with a moderate dose of patience, there are very good earning opportunities.

Shelton Petroleum has achieved a great deal during the year, but in oil company terms we are still a young company. I look forward with confidence to 2011, to increasing existing production, pushing exploration forward and consolidating the company's position as an integrated oil company.

Robert Karlsson, CEO Shelton Petroleum

This is Shelton Petroleum

Shelton Petroleum is a Swedish company focused on exploration and production of oil and gas in the Volga-Ural region of Russia and selected resource rich areas in Ukraine. Operations in Russia began in 2007 and those in Ukraine were purchased at the end of 2009. During 2010, the company also purchased two substantial shareholdings in a refinery and a terminal operation. The company is listed on the NGM Stock Exchange. Through its local presence in Russia and Ukraine, Shelton Petroleum has built effective relationships, strategic regional partnerships and a portfolio of both on and offshore projects.

In Russia the company owns three licenses in the Russian republic of Bashkiria southwest of the Urals. The three adjacent licenses form a continuous block of over 500 square kilometers and are surrounded by several producing oil fields. Shelton Petroleum has discovered oil and measured commercial flows from the company's first two wells in Bashkiria. The company has a strong local presence and many years' experience of the oil industry and of business in Russia.

Through a joint venture with Ukrnafta, Ukraine's largest oil and gas company, the Shelton Petroleum group has a stake in the producing oil field Lelyaki in Chernigov near Poltava. In addition, Shelton Petroleum's wholly owned subsidiary signed a strategic cooperation agreement with Chornomornaftogaz, the leading Ukrainian company in offshore development of oil and gas deposits. The agreement gives the company a fifty percent share of the significant license areas in the Black Sea and Sea of Azov.

Shelton Petroleum has reserves of 14 million barrels and a resource potential of up to 342 million barrels of oil equivalents.

> The objective of the Swedish company Shelton Petroleum is exploration and production of oil and gas in the Volga-Ural region of Russia and selected resource rich areas in Ukraine.



Business concept, objectives and strategy

BUSINESS CONCEPT

Shelton Petroleum's business concept is to generate a good yield on capital invested by exploring for and extracting oil and gas. Management and owners have a documented capability to seize business opportunities successfully, by combining many years experience of business in Russia and Ukraine with an understanding of Western financial markets. The company has a sound understanding of the oil and gas industry, coupled with a strong local network.

STRATEGY

Balancing solid cash flow generating production by exploration with higher potential and higher risk

The Shelton Petroleum group has a diversified portfolio of licenses including both extraction and exploration. The portfolio includes Rustamovskoye in Russia, which has just started test production, the Aysky and Suyanovskoye exploration licenses in Russia, the producing Lelyaki oilfield in Ukraine and the gas field in the Black Sea, where Shelton is in an exploratory phase.

Growth in Russia and Ukraine

Through local knowledge and experience, the company shall identify, purchase and develop attractively valued assets in Russia and Ukraine, including oil and gas assets with operations in both upstream and downstream activities.

Form strategic partnerships

Shelton Petroleum's subsidiary has entered into a joint venture with Ukrnafta, the largest oil and gas company in Ukraine, which gives the company a forty-five percent share in the Lelyaki field. In addition, the subsidiary has signed a strategic cooperation agreement with Chornomornaftogaz, the leading Ukrainian company within offshore development of oil and gas deposits. The agreement gives the company a fifty percent share of the three significant license areas in the Black Sea and Sea of Azov.

Providing transparency, structure and good corporate governance to investors

Shelton Petroleum is listed on the NGM Stock Exchange and shall be a transparent and well structured company, which meets the demands set by professional investors.

OBJECTIVES 2011

Increase production from Rustamovskoye, Russia

Shelton Petroleum has completed a successful exploration program and begun test production at Rustamovskoye. The company plans to increase production by starting to drill production wells.

Increase production from Lelyaki, Ukraine

The company has initiated a working program to increase production by drilling new wells and reusing and drilling side tracks in existing wells close to existing pipeline infrastructure.

Convert resources to reserves

Shelton Petroleum will take steps 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 and the collection of new seismic data to prepare for selective, carefully decided drillings.

Acquire new licenses and integrate vertically

The company shall actively seek out and evaluate attractive new licenses and assets, which include oil and gas assets with operations in both upstream and downstream activities in Russia and Ukraine.

Reserves and resources

A GOOD RESERVE AND RESOURCE BASE TO WORK ON

Shelton Petroleum has a diversified portfolio of licenses including both extraction and exploration. The company's reserves amount to 14 million barrels of oil, and the potential of the oil and gas fields amount to a further 342 million barrels of oil equivalent.

INDEPENDENT REPORT CONFIRMS THE POTENTIAL OF THE LICENSE PORTFOLIO

The reserves and resources shown in the table below are based on independent audits carried out by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd. The amounts are expressed in millions of barrels of oil equivalent and are based on information as at 30 September 2009.

Aysky and Suyanovskoye were acquired in autumn 2009 and are not included in the reserve studies. Earlier Soviet drilling confirms the presence of oil in these fields but the company has not yet completed its own exploration of these fields.

				Reserves[1]			Resources[1]	
License	**Country**	**Primary product**	**1P**	**2P**	**3P**	**Low**	**Medium**	**High**
Lelyaki	Ukraine	Oil	3	8	8	–	–	–
Rustamovskoye	Russia	Oil	1	1	6	7	14	43
Arkhangelskoye	Ukraine Black Sea	Gas and NGL	–	–	–	1	55	130
Biryucha	Ukraine Azov Sea	Gas	–	–	–	1	10	166
North Kerchenskoye	Ukraine Azov Sea	Gas	–	–	–	1	2	4
Aysky[2]	Russia	Oil	–	–	–	–	–	–
Suyanovskoye[2]	Russia	Oil	–	–	–	–	–	–
Total[3]			**3**	**9**	**14**	**9**	**82**	**342**

1 Amount relates to million barrels of oil equivalent. All reserves and resources are net to Shelton Petroleum where the company has a participating interest in the field.
2 Aysky and Suyanovskoye were acquired in the autumn 2009 and have not yet been evaluated by independent consultants.
3 All columns do not total due to rounding of figures.

Oil exploration and production – getting under way

Oil and gas exploration is a very complex activity where the exploration company step-by-step, as cost effectively as possible, will increase its knowledge of the deposit. Oil may lie at a depth of several thousand meters in the earth's crust, and before it can be profitably extracted, a number of different investigations have to be made, as the wells must be placed exactly right for successful production. All this requires specialist know-how in several disciplines, in order to move a step at a time in the process. It is also a capital-intensive industry where each step requires investment and perseverance. Results and profitability can only be achieved once the oil has been extracted and transported elsewhere.

REGISTRATION OF LICENSES AND LICENSE CONDITIONS

Exploration for and production of oil require permits – licenses – that are granted and registered by government licensing authorities. Licenses can be divided into two categories: exploration licenses and production licenses. Licenses are normally granted for a certain period.

SEISMICS

Seismics are geophysical investigations based on the fact that sound waves travel at different speeds through the various materials in the earth's crust, and that they change direction or are reflected where different materials meet. By blasting, or using vibrators, sound waves are generated in the ground, and the movements and reflections of these sound waves can be measured. The result is a map from which geophysicists can read out potential oil reserves, and where the wells should be drilled.

TEST DRILLING AND MEASUREMENTS

During prospecting and drilling, samples of fluids and rocks are taken in order to discover hydrocarbons. When an oil or gas layer in the earth's crust is reached, we get what is called a "show" – an indication of an oil/gas layer. By raising and investigating a core sample, estimates of the properties and depth of the reserves can be obtained. Logging means using electrical, acoustic and radioactive measuring instruments to investigate the types of rock, the number of hydrocarbon zones, porosity etc. Testing means that after a positive logging, oil and gas is taken up to measure the quality and potential production levels.

RESERVES AND RESOURCES

Reserves are the amount of oil and natural gas which a deposit is expected to provide with existing technology and reasonable economy. Reserves are often classified as proved, probable or possible.

Resources are estimated volumes of oil and gas that are judged to be potentially recoverable with existing and established technology from known or as yet unconfirmed deposits, but that for one or more reasons cannot currently be assessed as commercially recoverable.

OPTIMIZATION AND FIELD ENLARGEMENT

In order to extract as much as possible from an oil deposit, we have to estimate how many wells need to be drilled, and where they should be placed for optimum results. This is called reserve optimization. Thereafter, there is a field enlargement – adding equipment and plant for drilling, storing and transport etc. A system should also be built to transport the oil produced. It is only after the relevant authorities have approved the field development plan and the company has performed extensive and detailed geological, technical and economic studies, that the company can commence with construction, installation, drilling and start-up. The work is performed to varying degrees by the company's own or contracted staff.

PRODUCTION AND TRANSPORT

Now extraction and selling of oil can start. The oil is often transported by a pipeline connected to a larger pipeline, for onward transport to refineries and/or other countries.

RESTORATION

Once the oil deposit has been emptied to the point where it is no longer commercial, the oilfield is closed down by plugging the wells with cement, dismantling and removing the installation, and restoring the drilling site.

Results and profitability can only be achieved once the oil has been extracted and transported elsewhere.

Social & environmental responsibility

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

Shelton Petroleum sees it as a vital task to contribute responsibly with this essential resource. The company has therefore undertaken to comply with Russian and Ukrainian environmental legislation, which is both extensive and complex, covering water usage, air pollution, releases to water, the handling of hazardous substances, the restoration of land, as well as health and safety aspects for personnel. It is Shelton Petroleum's policy to live up to the environmental and safety requirements in the market where we operate. Our objective is to set an example in minimizing the environmental risks in the company's exploration program.

Shelton Petroleum assumes social responsibility in the regions where the company operates. Shelton Petroleum and its employees in 2010 have contributed to a number of organizations in different ways. In Bashkiria, we have contributed inter alia through financial contributions to the club 'Young Geologists' and have made donations to an orphanage. In previous years, the company and its employees contributed to the sanatorium in Bashkiria for children suffering from TB, the Association for Young Ecologists and UNESCO in Bashkiria.

In Ukraine, the company and its employees provided financial assistance for the purchase of office materials for a nearby school, to a fire station, to families affected by a helicopter accident on an offshore platform, sponsored events organized by the Canadian-Ukrainian Chamber of Commerce, sponsored events organized by Ukrainian charities for local orphanages, and provided financial support for election monitors in the Presidential elections.

The company's objective is to be exemplary in minimizing the environmental impact of the company's exploration program and take social responsibility in all areas that the company operates.

Licenses and operations in Russia

Shelton Petroleum's Russian assets lie in Bashkiria, a constituent republic in the Russian Federation, located between the Volga River and the Ural mountains, 1,170 km from Moscow. Bashkiria is one of Russia's main oil extracting centres. Bashkiria has Russia's largest oil refineries. The refining volume amounts to over one million barrels per day, which means that large quantities of oil from Siberia are refined in Bashkiria.

Bashkiria has a mild climate in comparison to many other oil regions in Russia. This makes it possible to prospect for oil and extract it all year round. Moreover, the infrastructure in Bashkiria is good compared to many other oil producing regions in Russia.

The political and business climate is also favorable. Bashkiria was one of the Russian Federation's very first constituent republics and has its own constitution which states that the Republic is an autonomous region of the Russian Federation. The Republic is a politically and economically stable part of Russia and the CIS. According to a report on Russia from Deutsche Bank in 2009, Bashkiria belongs to the group of nine regions with the best investment climate in Russia. According to the report, Bashkiria provides a higher than average investment potential with a below average risk.

LICENSE AREAS IN RUSSIA

Shelton Petroleum owns 100 percent of the three licenses in Bashkiria. Rustamovskoye was acquired in 2007 and the company has implemented a successful exploration program on this block and has thereafter been awarded a production license for the northern part of the block.

Suyanovskoye and Aysky, licenses awarded in 2009, are adjacent. Together, these three licenses create a connecting block of over 500 square kilometers. The license area is located 330 kilometers north-east of Bashkiria's capital, Ufa and 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 will apply for access to this pipeline. In the early stage, transport is by road tanker.

In the area surrounding the block there is a large number of productive oil and gas fields, operated by the medium-sized Russian oil company Bashneft. According to an independent report published in 2009, Bashneft has oil reserves of 2.1 billion barrels and a production of 280,000 barrels of oil per day.

Facts about Bashkiria

Capital	Ufa
Inhabitants	Approx 4.1 million
Area	143,600 km² (about one-third of Sweden's land area)
Form of government	Republic
Population presentation	Kurultai, the unicameral parliament with 120 members and parliamentary elections every 5 years
Distance to Moscow	1,170 km

Progress in 2010

- Rustamovskoye converted to a production license
- The first exploration well goes into production

RUSTAMOVSKOYE: COMMERCIAL FLOW OF OIL

A successful exploration program at Rustamovskoye has been concluded and the company has gathered 167 kilometers of 2D seismic and drilled two exploration wells. Several oil and gas-bearing structures have been detected. Production tests show that the wells can produce commercial flows of oil from the Kynovsko-Pashiysky horizon. The first exploration well went into production in autumn 2010 and the second exploration well at the beginning of 2011.

License: Exploration license which has been converted to a production license. The production license covers a surface area of 36 km² of the northern part of Rustamovskoye. Both the exploration wells and the locations for possible production wells are within the area covered by the production license. The southern part of the block is covered by the original exploration license.

Area: 52 square kilometers.

Reserves: 6 million barrels of oil.

Resources: Up to 43 million barrels of oil equivalents.

Number of wells: A total of seven wells. In addition to Shelton Petroleum's two exploration wells, wells were drilled in the area during the 1960s, of which four showed the presence of hydrocarbons.

AYSKY: EXPLORATION WILL BE COMMENCED

The license at Aysky is the second awarded to Shelton Petroleum and gives Shelton Petroleum the right to explore for oil and gas for five years. In accordance with the terms of the license, the first exploration well is to be drilled no later than 2014.

License: Five-year exploration license, awarded 2009

Area: 187 square kilometers.

Reserves: No independent Western reserve assessment has been conducted at present.

Previous drilling: Around ten wells were drilled in the Aysky area during the Soviet era and oil was found in several horizons. Bashneft, the leading oil company in Bashkiria, currently produces oil from the neighboring field Metelinskoye with initial recoverable reserves of 15 million barrels of oil calculated solely on formation from the geological Carboniferous period. In addition, seismic data collected in Shelton Petroleum's Rustamovskoye field shows that its structures continue into Aysky.

SUYANOVSKOYE: THE LARGEST LICENSE IN BASHKIRIA

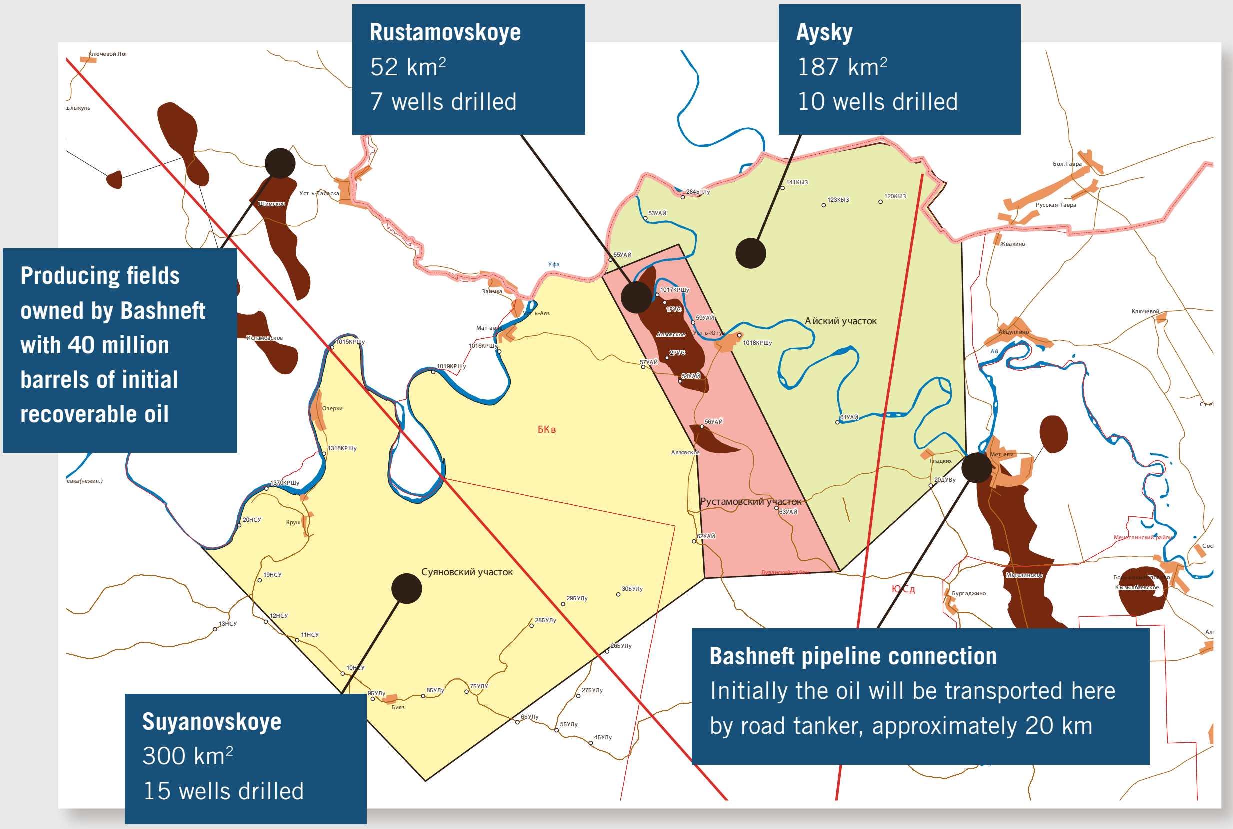
Shelton Petroleum was awarded the license at auction. Bashneft, the leading oil company in Bashkiria, currently produces oil from the neighboring fields Shimskoye, Kungakskoye and Islamovskoye with initial recoverable reserves of around 40 million barrels of oil. In keeping with the terms of the license, drilling the first of three exploration wells shall begin within three years of the award of license.

License: 25 years of combined exploration and production license awarded 2009.

Area: 300 square kilometers.

Reserves: No independent Western assessment has been conducted at present.

Previous drilling: Around 15 wells were drilled in the license area during the Soviet era, and oil was intercepted in horizons from the geological Carboniferous period. None of the Soviet wells was drilled as far down as the Devonian period, where Shelton Petroleum recently measured excellent oil flow rates in the neighboring Rustamovskoye block, indicating further potential.



Shelton Petroleum's three blocks Rustamovskoye, Suyanovskoye and Aysky form a continuous block of 540 km².

Oil and gas in Ukraine

- Ukraine is one of Europe's biggest energy consumers.
- Ukraine imports two-thirds of its oil and gas consumption, despite its significant untapped resources.
- Only about 5 percent of Ukraine's offshore resources have been exploited so far.
- Ukraine's geographic location makes it an important transit point for oil and gas between the former Soviet Union and Europe.

Licenses and operations in Ukraine

Shelton Petroleum's Ukrainian assets are included in the company's portfolio as of the end of December 2009. From 1 January 2010, the company therefore reports its first revenues from oil sales. The Ukrainian licenses provide a good balance between production at low cost and risk, and exploration with significant potential. The company intends to continue to expand with the goal of becoming a leading oil and gas company in the growing Ukrainian petroleum industry.

In Ukraine, Shelton Petroleum's subsidiary has signed a strategic cooperation agreement with Ukrnafta, Ukraine's largest oil and gas company, and Chornomornaftogaz, the state-owned company in the offshore business.

PARTNERSHIP WITH UKRNAFTA

Shelton Petroleum's subsidiary is part of a joint venture with Ukrnafta for the oil field Lelyaki. Ukrnafta was founded in 1945 and is Ukraine's largest oil company with 31,000 employees. Daily production amounts to 100,000 barrels of oil equivalent. The company's proven and probable reserves amount to 800 million barrels of oil equivalent. The company also has a network of 563 service stations. The company is 50 percent owned by the Ukrainian state and its shares are quoted in Ukraine, with trading also in Berlin and Frankfurt.

LELYAKI: ONSHORE OIL EXTRACTION AT LOW GEOLOGICAL RISK AND LOW COST

Location: Dnieper-Donets Basin in the Chernigov region, east-central Ukraine. Good connections to Ukraine's oil and gas infrastructure and the existing pipeline to European markets.

History: Previously one of the Soviet Union's largest fields, with an output of over 65,000 barrels a day. Cumulative production amounts to 385 million barrels of oil.

Partnership with: Ukrnafta, Ukraine's largest oil and gas company.

The company's share of the partnership: 45 percent.

Area: 67 square kilometers.

Production: Oil production in 2010 net to Shelton Petroleum amounted to about 200 barrels a day of 41° API oil. According to an independent report, the potential is estimated at over 1,300 barrels a day.

Reserves: Proved and probable reserves (2P) of 8 million barrels of oil net to Shelton Petroleum according to an SPE report from Trimble Associates Ltd.

Objectives 2011: Increase production by drilling new wells. Recycle and drill side tracks in older wells, which requires significantly less investment than drilling new wells. Perform development and completion works.

STRATEGIC COOPERATION AGREEMENT WITH CHORNOMORNAFTOGAZ

Shelton Petroleum has, as one of the few Western companies, acquired interests in offshore Ukraine through a strategic cooperation with the state company Chornomornaftogaz (CNG). Shelton Petroleum has a fifty percent share in Arkhangelskoye, Biryucha and North Kerchenskoye. 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 are strong political interests to increase the offshore extraction.

CNG was established in 1978 to explore for reserves in the Black Sea and Sea of Azov. The company has 3,500 employees and produces approximately 28,000 barrels of oil equivalent per day. The company owns ten offshore rigs and two jackup rigs. CNG operates 1,200 km pipeline, of which 280 km is in the sea.

ARKHANGELSKOYE: HUGE GAS POTENTIAL WITH DIRECT CONNECTION TO THE EXISTING PIPELINE

Location: Offshore in the Black Sea, west of the Crimean Peninsula with a water depth of 50 meters.

Proportion ownership: Fifty percent share through partnerships with CNG.

Resources: Up to 130 million barrels oil equivalent gas net to Shelton Petroleum according to independent Western assessment.

Area: 87 square kilometers.

Previous drilling: CNG currently produces 800 barrels of oil equivalent per day from the Maikop formations. Shelton Petroleum's interests are in the lower Paleocene formation, where gas has been identified in three Soviet drillings.

Adjacent field: CNG currently produces 6,000 barrels of oil equivalent per day from Paleocene formations in the neighboring field of Shtormovoye. Cumulative production amounts to 30 million barrels of oil equivalent.

BIRYUCHA: THREE FIELDS IN GAS-RICH AREA IN THE SEA OF AZOV

Location: Azov Sea, 50 km from the Ukrainian coast at a water depth of 20 meters.

Proportion ownership: Fifty percent share through partnerships with CNG.

Resources: Up to 166 million barrels oil equivalent gas net to Shelton Petroleum according to independent Western assessment.

Area: Total of 130 square kilometers.

Previous drilling: Gas-rich area with reservoir potential in strata from both the Maikop and Cretaceous periods. In 2006, Shelton Petroleum and CNG drilled an exploration well in western Biryucha to a depth of 1,700 m. Up to 60-meter thick sandstone blocks with a porosity of 30 percent were identified. The presence of small amounts of gas was found.

NORTH KERCHENSKOYE: GAS FOUND IN TWO OUT OF THREE WELLS

Location: In the southern parts of the Sea of Azov about 20 km off the coast of the Crimean peninsula, at a water depth of 12 meters.

Proportion ownership: Fifty percent share through partnerships with CNG.

Resources: Up to 4 million barrels oil equivalent gas net to Shelton Petroleum according to independent Western assessment. CNG estimates resources as 14 million barrels net to Shelton Petroleum.

Area: 96 square kilometers.

Previous drilling: Two of the three wells have encountered gas in formations from the Miocene period.

Adjacent field: North Bulganakskoye has a daily production of 3,500 barrels of oil equivalent and a cumulative production of seven million barrels from sediments of the same age. The corresponding figures for East Kazantipskoye are 3,500 barrels per day and seven million barrels cumulative production.




Shelton Petroleum has a potential of up to 300 million barrels of oil equivalent off the Ukrainian coast.



Integrated business model

Shelton Petroleum is striving to create a vertically integrated company in the oil and gas industry. An integrated business model has several advantages, including:

- more revenue streams,
- better control over buying and selling crude oil and oil products and
- less exposure to changes in the price of oil.

Shelton Petroleum's creating a company with a higher degree of vertical integration also means that the company's activities, financial position and market value increase, which in turn means better financing opportunities, lower capital costs and more interest among investors.

During the year, Shelton Petroleum has taken several steps towards becoming an integrated oil and gas company. In November, Shelton Petroleum entered into a strategic cooperation with Baltic Oil Terminals PLC, a British company listed on AIM in London with terminal operations in Kaliningrad in Russia. Shelton Petroleum now owns 16 percent of Baltic Oil Terminals' share capital.

In September 2010, Shelton Petroleum acquired 15 percent of the shares of Tomsk Refining AB and is now the company's second largest owner. Tomsk Refining AB owns a newly built refinery in the Tomsk region in Russia. In 2011, Tomsk Refining AB has accepted a cash bid for the operating company.

These two investments are minority interests with a view to acquiring the remainder of the companies as and when that is considered to be attractive. Shelton Petroleum will not make further investments in assets with a long term goal of being minority owners. As part of this strategy, Shelton Petroleum is continuing to evaluate attractive assets in refining in Russia, among others.

An integrated business model has several advantages, including more secure deliveries and more stable earnings.

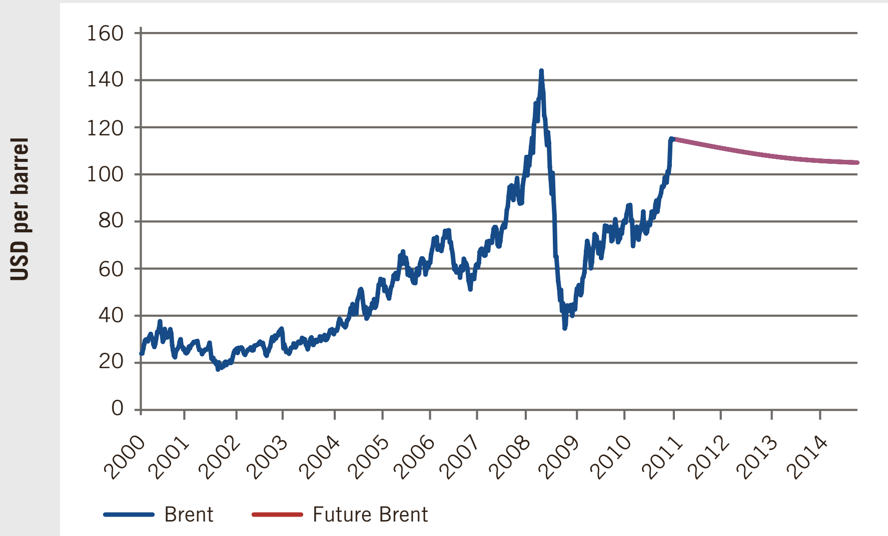
BALTIC OIL TERMINALS PLC

The company:	Terminal operations in the Kaliningrad region of Russia on the Baltic coast. Its shares are listed on AIM in London. Headquarters in Kaliningrad with a representation office in London.
Date of acquisition:	November 2010
Shareholding at year end:	19.5 percent
Book value:	SEK 42 million

TOMSK REFINING AB

The company:	Refinery in Tomsk in western Siberia refining crude oil into gasoline and diesel products. Tomsk is one of Russia's leading oil and gas regions. The refinery was built during the period 2006 to 2008 and has an existing production capacity of about 250,000 tons of crude oil a year. In 2011, Tomsk Refining has accepted a cash bid for the operating subsidiary.
Date of acquisition:	September 2010
Shareholding at year end:	15 percent
Book value:	SEK 49 million

Long term oil price trend



The world around us

OIL

Oil has become the commodity in the world that constitutes the largest commodity group in global trade, if both crude oil and oil-based products are included. Together, oil and gas account for almost 60 percent of the world's total energy supply. Oil also plays a central role in the production of a variety of petrochemical products such as plastics, synthetic fibres, pharmaceuticals, detergents, paints and cosmetics.

Furthermore, the range of uses is increasing, in line with the increasing use of plastics for pipes, conduits, packaging etc. Oil is also a finite resource. Many countries in the world are in agreement that the dependence on oil must be reduced, and that particularly in the transport sector oil must be replaced by renewable fuels. But even if the development of alternative fuels should make a major breakthrough, together with a political will to limit fossil fuels, oil will remain an irreplaceable commodity in our society for a long time to come.

Historically, there has been a strong correlation between oil demand and economic growth in GDP. According to the International Energy Agency, IEA, global demand for oil increased by about 3.4 percent in 2010 as a result of recovery from the financial crisis. Demand for oil will continue to increase in the foreseeable future, in line with the industrial development of countries like India and China and in regions like Africa and the Middle East. According to the IEA, demand for energy will increase by 36 percent by 2035. It is countries outside the OECD that are expected to drive demand, with China's demand estimated to grow by 75 percent. Oil's share of the world's energy supply is expected to remain as it is today.

According to the IEA, global crude oil production in 2010 was about 87.4 million barrels a day, an increase of about 2.6 percent over 2009. Increased production depends on greater investment in both existing oilfield infrastructure and future exploration activities. The IEA believes that there is a real risk that underinvestment in the sector could lead to the supply of oil not keeping up with the anticipated increase in demand. The countries that are expected to contribute most to increased production are those within OPEC, whose share of world production is estimated to increase from the present 41 percent to 52 percent by 2035.

In recent years, the price of oil has been extremely volatile. In 2008 oil prices reached record levels well above 100 dollars per barrel, before dropping to below 40 dollars per barrel. Oil prices recovered in 2009 and 2010 and are at the time of writing about 115 dollars per barrel.

NATURAL GAS

Most oil deposits also contain natural gas, an increasingly important raw material for producing energy. Natural gas is used above all for producing heat, but also for many petrochemical products such as vehicle fuel, plastics, synthetic fibers, detergents and solvents. According to the IEA, natural gas will be the fastest growing major energy source, with demand increasing by 44 percent by 2035. Nearly half of the current world production needs to be replaced by 2030 due to decreased production from existing fields, but the IEA estimates that world natural gas resources will cover the demand even after 2035, even if the cost of producing natural gas will increase over time.

BP Statistical Review of World Energy estimated the world's proven gas reserves in 2009 to be over 1,200 billion barrels of oil equivalent. Russia has the largest proven natural gas reserves in the world, with an estimated 23.7 percent of world reserves.

Gas is not as easy to transport as oil and therefore does not have one world market price as oil does. In some markets, prices are controlled by the government for political reasons, so as to be able to regulate the price to households. In step with the increasing importance of natural gas as an energy source, rising prices for natural gas are expected, according to the IEA.

World oil reserves 2009

Country	billion barrels	% of total
Saudi Arabia	265	19.8%
Venezuela	172	12.9%
Iran	138	10.3%
Iraq	115	8.6%
Kuwait	102	7.6%
United Arab Emirates	98	7.3%
Russia	74	5.6%
Libya	44	3.3%
Kazakhstan	40	3.0%
Nigeria	37	2.8%
Others	249	18.7%
Total	**1,333**	**100.0%**

World gas reserves 2009

Country	billion barrels oil equivalent	% of total
Russia	293	23.7%
Iran	195	15.8%
Qatar	167	13.5%
Turkmenistan	53	4.3%
Saudi Arabia	52	4.2%
USA	46	3.7%
United Arab Emirates	42	3.4%
Venezuela	37	3.0%
Nigeria	35	2.8%
Algeria	30	2.4%
Others	286	23.1%
Total	**1,237**	**100.0%**

World oil production 2009

Country	million barrels per day	% of total
Russia	10.0	12.5%
Saudi Arabia	9.7	12.1%
USA	7.2	9.0%
Iran	4.2	5.3%
China	3.8	4.7%
Canada	3.2	4.0%
Mexico	3.0	3.7%
United Arab Emirates	2.6	3.3%
Kuwait	2.5	3.1%
Venezuela	2.4	3.0%
Others	41.3	51.7%
Total	**79.9**	**100.0%**

World gas production 2009

Country	million barrels oil equivalent per day	% of total
USA	10.6	19.9%
Russia	9.4	17.7%
Canada	2.9	5.4%
Iran	2.3	4.4%
Norway	1.8	3.5%
Qatar	1.6	3.0%
China	1.5	2.9%
Algeria	1.4	2.7%
Saudi Arabia	1.4	2.6%
Indonesia	1.3	2.4%
Others	18.9	35.6%
Total	**53.1**	**100.0%**

Source: BP Statistical Review of World Energy (June 2010)

Russia is the world's third largest consumer of energy – but also one of the biggest producers

The market in Russia and Ukraine

THE RUSSIAN OIL AND GAS MARKET

Reserves

More than a quarter of the oil and gas consumed in the EU comes from Russia, which therefore plays an important economic and strategic role in this market. The BP Statistical Review estimates Russia's oil and gas reserves at around 360 billion barrels of oil equivalent, of which oil reserves are thought to be 74 billion barrels.

Production

Russia's production of about 20 million barrels of oil equivalent per day is equally split between oil and gas. Russia has gradually increased daily production of crude oil the last 10 years to nearly 10 million barrels per day. At the current production rates, it is estimated that Russia's existing gas reserves will last for more than 70 years, and oil reserves for just over 20 years. The Russian energy authority forecasts that the country's natural gas production in 2030 will be 34–50 percent higher than 2007 levels.

Consumption

According to the Energy Information Administration (EIA), Russia is the world's third largest consumer of energy in general and the world's largest consumer of natural gas. According to the BP Statistical Review, Russia consumed an average of 2.7 million barrels of oil a day in 2009. The Russian energy authority predicts a consumption increase of 18–31 percent between 2007 and 2030.

The table below shows how production and export tax vary at different oil price levels when oil is sold for export

Oil price per barrel Ural Blend (USD):	100	75	50	25
Production tax (USD)[1]	19	13	8	2
Export tax (USD)	53	37	20	4
Total (USD)	72	50	28	6

1 At a RUB:USD exchange rate of 35.00 (projection from the Economist Intelligence Unit).

Oil production – thousand barrels per day	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Russia	6,178	6,536	7,056	7,698	8,544	9,287	9,552	9,769	9,978	9,886	10,032
Global	72,377	74,916	74,847	74,478	77,031	80,326	81,225	8,659	81,533	81,820	79,948
Percentage of global production	8.4	8.7	9.4	10.3	11.1	11.6	11.8	12.0	12.2	12.1	12.5

Gas production – thousand barrels of oil equivalent per day	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Russia	9,803	9,696	9,650	9,881	10,294	10,514	10,639	10,890	10,806	10,704	9,384
Global	41,751	43,177	44,188	44,972	46,590	48,100	49,377	51,156	51,098	54,538	53,140
Percentage of global production	23.5	22.5	21.8	22.0	22.1	21.9	21.5	21.3	21.1	19.6	17.7

Transporting and exporting

Russia exports more natural gas than any other country in the world and, according to the EIA, is the second largest in oil exports. According to forecasts from the Russian energy authority natural gas exports in 2030 will be 70–80 percent higher than in 2007.

Transneft is a Russian state-owned company that transports oil by pipeline. The company's pipeline has a future potential capacity of around 450 million tonnes of crude oil per year, representing more than 90 percent of the total oil production in Russia. Transneft handles more than 90 percent of transports both for internal sales and export.

Due to limited transport capacity to other countries, oil companies are forced to sell part of their production on the local market. This leads to oversupply and lower prices on the domestic market. Transneft is in the process of expanding its system of pipes in order to increase capacity. One of the larger pipeline projects is the East Siberia Pacific Ocean (ESPO) pipeline, which in the future will transport oil to important markets in China, Japan and the Korean peninsula, and which is expected to increase export capacity by over 50 percent. Due to the ESPO system and a number of other Transneft projects, experts believe that bottlenecks will eventually be removed, which should give Russian oil producers a better opportunity to increase their crude oil exports.

Gas is not as easy to transport as oil and therefore does not have one world market price as oil does. In Russia, the price of natural gas is set by the government.

Taxes

In general, companies operating in Russia are subject to four taxes.

1. *Production tax* is calculated based on the number of tonnes of crude oil produced, using the following formula:

$$419 \text{ RUB x } \frac{\text{(Price per barrel Urals Blend –15 USD) x (exchange rate RUB:USD)}}{261}$$

2. *Export tax* is levied on all oil and gas exported and is also the largest tax for Russian producers. At an oil price above USD 25 per barrel, the export tax is calculated monthly, using the following formula:
(Oil price – 25) x 0.65 + 4

Export tax is not charged on oil sales to the domestic market, but the domestic price, on the other hand, has historically been lower than export prices.

3. *Corporate income tax* in 2010 amounted to 20 percent of taxable profits. Of these 20 percent, 2.5 percent goes to the Russian government and 17.5 percent to the regional authorities. Income cannot be declared on the group level; rather, each Russian company pays taxes on the profit it makes.

4. *Value Added Tax* on oil sold domestically is 18 percent. Output VAT can be offset against input VAT under certain conditions. There are far-advanced proposals for reducing the tax burden on producing Russian oil.

Oil production – thousand barrels per day	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ukraine	101	91	90	86	90	94	101	109	108	107	99
Global	72,377	74,916	74,847	74,478	77,031	80,326	81,225	81,659	81,533	81,820	79,948

Gas – thousand barrels of oil equivalent per day	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ukraine	292	288	295	301	311	329	335	339	341	333	343
Global	41,751	43,177	44,188	44,972	46,590	48,100	49,377	51,156	51,098	54,538	53,140

Sources: BP Statistical Review of World Energy (June 2010), International Energy Agency (EIA): www.iea.org, Energy Information Administration: www.eia.doe.gov and Business Monitor International Ltd.

THE UKRAINIAN OIL AND GAS MARKET

Reserves

EIA estimates Ukraine's proven oil and gas reserves to be around 7.5 billion barrels of oil equivalent, of which gas reserves are estimated to be about 7 billion barrels of oil equivalent. Ukraine's natural gas reserves are the 23rd largest in the world.

Production

Ukraine has a substantial oil and gas production. Oil production in 2009 was approximately 100,000 barrels per day, which was about 6 percent below 2008 levels. The country's total gas production has risen gradually in recent years, with an increase of approximately 3 percent from 2008 to around 125 million barrels of oil equivalent in 2009. Ukraine is estimated by EIA to be the 35th largest gas producer in the world.

Consumption

Ukraine is one of Europe's biggest energy consumers. Nearly half of Ukraine's energy comes from natural gas from Russia.

In 2009, 112 million barrels of oil were consumed in Ukraine, according to the EIA. The total gas consumption in 2009 amounted to approximately 310 million barrels of oil equivalent. Ukraine is in fifteenth place in the world in terms of natural gas consumption, and the country is the eighth largest gas importer in the world.

National objectives are to increase production

In other words, Ukraine is a large net importer of gas and oil, despite its large domestic oil and gas production. Therefore, there are strong incentives for Ukraine to further exploit its reserve base. The government has declared a priority national goal of increasing their own production over the next decade. Only 5 percent of Ukraine's offshore reserves are considered to be developed and the region has aroused growing interest from domestic and international interests in recent years.

Pricing

Import prices for natural gas are set by the state after negotiations with the Russian state, which means that the price of gas in Ukraine is influenced by import prices from Russia. Domestic gas produced from fields operated by joint-venture partnerships between Ukrainian state-owned enterprises and private enterprises; where the private interest of the company's share is less than 50 percent, the gas must be sold at a certain price to the state-owned Naftogas. If the company shares exceed 50 percent then the gas can be sold directly to industrial consumers at higher prices. Domestic oil is sold at auction.

Taxes

Ukrainian oil and gas companies are in general subject to two taxes and royalties on oil and natural gas production. Oil and gas production are subject to a royalty, which varies depending on whether it is extracted from a depth above or below 5 km. For natural gas the size of the royalty also depends on whether the gas is sold to industrial consumers or to Naftogas There is also a factor based on 560 UAH per barrel compared with world market price, which cannot be less than 1. Royalty for oil produced from wells shallower than 5 km per barrel is calculated as follows:

$$\frac{\text{1,530 Ukrainian hryvna x Average Urals crude oil price}}{\text{560 Ukrainian hryvna per barrel}}$$

During the first half of 2010, the Ukrainian government decided to change the auction procedure so as to achieve oil prices that were closer to the world market price. The calculation of royalties has also changed, so that with effect from 1 January 2011, the royalty per tonne is calculated as follows:

$$\frac{\text{2,142 Ukrainian hryvna x Average Urals crude oil price}}{\text{560 Ukrainian hryvna per barrel}}$$

Corporate income tax in 2010 amounted to 25 percent of taxable profits. Value Added Tax or VAT on oil sold domestically amount to 20 percent. Output VAT can be offset against input VAT under certain conditions.

Economic development in Russia and Ukraine

RUSSIA'S ECONOMIC DEVELOPMENT

Economy

The global economic and financial crisis affected the Russian market and business environment negatively, especially in 2009 when GDP fell by 7.8 percent and the Government deficit was almost 6 percent of GDP. The budget deficit was reduced in 2010 as a result of reduced expenses, high oil prices and economic recovery. In 2010, the Russian economy grew by 4.0 percent and the budget deficit was reduced to 4.1 percent of GDP. The Economist Intelligence Unit, EIU, predicts that Russia's economy will grow by an average of a little over 4 percent a year during 2011 to 2015.

The Russian stock market has been very volatile in recent years. The market was at its highest ever in spring 2008, and then fell sharply to a total decline of about 70 percent over the year. From that level, the market grew strongly during 2009, with a total increase of about 130 percent, and 2010, with a total increase of 24 percent.

Russia has, for the most part, similar objectives with its economic policies as other European countries, namely to maintain low inflation while maintaining and strengthening the competitiveness of industry. Inflation fell as a result of the financial crisis and the EIU believes that from a historical perspective inflation will remain relatively low in the coming years.

The country has a floating exchange rate, though the central bank is able to influence the rate through various control measures. At the end of December 2010, the exchange rate for the Russian rouble against the USD was 30.49, compared to 30.23 at the end of December 2009.

Politics

Dmitry Medvedev took over as president in May 2008 while Vladimir Putin was appointed Prime Minister of the Russian lower house of parliament, the Duma. Medvedev seems to want to push the country towards modernization of the social fabric and economy, and a rule-based democratic market economy. Medvedev and Putin have come in for criticism for not being sufficiently successful in improving many of the focus areas: the state governed by law, corruption, modernization, reducing the dominance of the ruling party and Russia's relations with the USA. The EIU believes however that Medvedev will be re-elected as president in the 2012 elections.

In recent years the state has extended its control over a large part of the economy, not just in the energy sector. As part of reducing state involvement in the economy, Medvedev has indicated that the number of companies judged to be entitled to privatization is significantly increasing. The government plans to sell companies for around USD 60 billion over the next five years, including the country's biggest oil producer, Rosneft, and the two leading banks, Sberbank and VTB.

Russia's economy in figures

Area	2007	2008	2009	2010p	2011p	2012p
Growth (%)	8.5	5.2	–7.8	4.0	4.5	4.5
Unemployment (%)	6.1	6.4	8.4	7.5	6.8	6.2
Inflation (%)	11.9	13.3	8.8	8.8	8.5	7.2
Surplus in the Government finances (% of GDP)	5.4	4.1	–5.9	–4.1	–2.7	–2.9
Exchange rate RUB: USD (average)	25.6	24.9	31.7	30.4	29.0	28.0

Source: Economist Intelligence Unit

UKRAINE'S ECONOMIC DEVELOPMENT

Economy

Ukraine's economy is heavily dependent on exports of steel and related products as well as on foreign investment. Therefore the country was hit harder than many other countries by the global financial crisis. The economy grew by 4.2 percent in 2010, driven by international demand and the recovery of prices. The EIU believes that growth will continue at around 4 percent a year over the coming years, as the economy benefits from a reduction in financial and political instability.

The Ukrainian Hryvna currency was one of the hardest hit by the global crisis. A careful strengthening of the currency is expected in the next few years due to improved economic factors such as reduced budget deficits and higher steel prices.

In July 2010, the IMF approved a new two and a half year loan package worth USD 15.2 billion, on conditions relating to restraint in public expenditure and impairment of pensions.

Politics

Yanukovych's victory in the 2010 Presidential campaign and the formation of a new government mean a respite from the previous years of political instability, but have aroused some anxiety that the democratic gains of the Orange Revolution may be lost.

Relations between Ukraine and Russia have improved considerably. Ukraine's parliament has passed a law that prohibits the country's membership of military blocks and the lease agreement for the Russian Black Sea fleet in the Crimea has been extended for a further 25 years in exchange for a reduction in the price of imported gas from Russia. Russia and Ukraine are expected to continue to strengthen economic ties. Since independence, Ukraine has been characterized by economic mismanagement, corruption and nepotism. The western world's anxiety over the country's democratic development has also made relations difficult. EU membership is a distant possibility at best, even if a free trade agreement may come into force sooner.

Ukraine's economy in figures

Area	2007	2008	2009	2010p	2011p	2012p
Growth (%)	7.9	2.4	–15.1	4.2	4.5	4.7
Unemployment (%)	6.4	6.4	8.8	8.2	7.5	7.1
Inflation (%)	16.6	22.3	12.3	9.1	10.2	8.7
Surplus in the Government finances (% of GDP)	–1.1	–1.5	–6.5	–5.2	–4.0	–3.0
Exchange rate HRN:USD (31 Dec)	5.1	7.7	8.0	8.0	7.9	7.8

Source: Economist Intelligence Unit

The share, share capital and owners

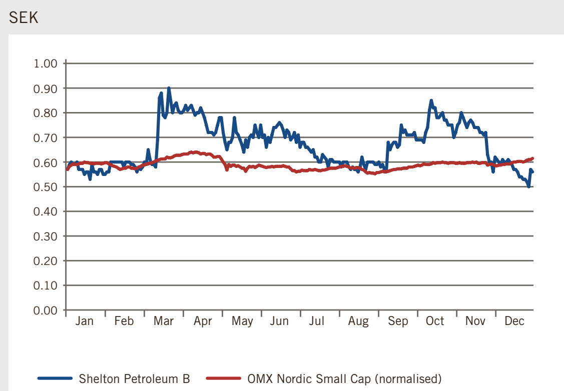
OWNERS

The table below shows the twenty largest shareholders as per 31 December 2010, broken down by holdings.

Owner	No. of Series A shares	No. of Series B shares	Percentage of votes	Percentage of capital
Skandinaviska Enskilda Banken S.A., NQI	1,232,360	64,477,667	12.5%	12.4%
Two Eye Fund Ltd	901,956	52,690,522	10.1%	10.1%
SIX SIS AG	0	51,316,155	8.4%	9.6%
Carnegie Investment Bank AB	0	31,140,845	5.1%	5.9%
Avanza Pension	0	24,607,998	4.0%	4.6%
National Bank Financial Inc	0	19,490,778	3.2%	3.7%
TD Waterhouse Inv Serv (CAN) Inc	0	12,348,898	2.0%	2.3%
BNY Mellon SA/NV	0	8,246,031	1.3%	1.5%
Nordnet Pensionsförsäkring AB	0	7,815,877	1.3%	1.5%
Ildar Yulbarisov	84,909	7,171,998	1.3%	1.4%
Linrol Ltd	0	6,120,000	1.0%	1.2%
CIBC World Markets	0	5,830,158	1.0%	1.1%
Robur Försäkring	0	5,625,184	0.9%	1.1%
Magnus Nordin	872,692	4,600,588	2.2%	1.0%
Non treaty clients account	0	5,014,193	0.8%	0.9%
Danica Pension Försäkrings AB	0	5,000,900	0.8%	0.9%
Roman Ovchinnikov	84,909	4,112,326	0.8%	0.8%
HSBC SEC Canada Inc	0	4,121,925	0.7%	0.8%
Ulf Cederin	1,166,667	2,479,696	2.3%	0.7%
Marie-Louise Cederin	189,434	3,029,000	0.8%	0.6%
Others	4,495,666	197,740,548	39.6%	38.0%
Total	**9,028,593**	**522,981,287**	**100.0%**	**100.0%**

Source: Euroclear AB

Shelton Petroleum shares
Shelton Petroleum Class B shares are listed on the NGM Stock Exchange under the name SHEL B.



Sources: NGM, NASDAQ OMX

SHARE OPTIONS

At the Extraordinary General Meeting held on 9 July 2009, it was decided to issue a total of 8,676,812 share options, including 5,423,007 to the Board Director and CEO Robert Karlsson and 3,253,805 to Chairman of the Board Per Höjgård. The options are on market terms. A premium of 5.4 öre per share option was paid. The issue relates only to Class B shares that must be purchased between 1 and 14 July 2012 and the share price will be SEK 0.60.

At the Extraordinary General Meeting held 19 January 2010, it was decided to issue an additional total of 8,000,000 share options, 4,000,000 to Board Director and President Zenon Potoczny, 2,000,000 to Board Director Richard Edgar, and 2,000,000 to CFO Joakim Hedlund. The options are on market terms. A premium of 7.0 öre per share option was paid. The issue relates only to Class B shares that must be purchased between 15 and 31 January 2013 and the share price will be SEK 0.89.

SHARE CAPITAL

Shelton Petroleum's share capital as at 31 March 2011 amounts to SEK 53,200,988 distributed over 532,009,880 shares. The shares' quotient value is SEK 0.10 each. The share capital is of two classes, A and B. The number of Class A shares is 9,028,593 and the Class B 522,981,287 shares. A shares entitle the holder to ten votes per share, while B shares entitle the holder to one vote per share. Each shareholder is entitled to vote for the full number of shares he or she holds, as well as to represent the shares at the annual general meeting. All shares have an equal right to a proportion of the company's assets in the distribution of profits. Historical development of the share capital is shown in the table below.

In December 2009 the company issued convertible bonds of approximately SEK 30 million. The convertible bonds were addressed to selected qualified investors and certain other selected investors. Convertibles corresponded to a dilution if immediately converted of around 12 percent of the number of shares after conversion. The convertible matures on 31 December 2011 and carries an annual interest rate of 8 percent. The conversion price is SEK 0.60 per share during the first year and SEK 0.70 per share during the second year. The convertibles will not be listed on any trading place. Conversion may take place over the duration.

The merger with Shelton Canada Corp. was completed on 31 December 2009. Shelton Canada Corp. has since been a wholly-owned subsidiary of Shelton Petroleum AB. The acquisition was completed by a non-cash share issue directed to Shelton Canada Corp.'s shareholders, options and convertible holders.

Year	Transaction	Change in number of shares	Number of shares	Change in share capital	Share capital (SEK)
2001	New stock issue	6,089,361	40,815,161	5,480,425	36,733,645
2002	Decrease	–	40,815,161	14,285,306	22,448,339
2004	Exchange convertible	7,272,727	48,087,888	4,000,000	26,448,339
2004	Exchange convertible	10,909,089	58,996,977	5,999,999	32,448,337
2007	Exchange convertible	10,000,000	68,996,977	5,500,000	37,948,337
2009	Non-cash issue*	139,246,835	208,243,812	76,585,760	114,534,097
2009	Decrease	–	208,243,812	93,709,715.8	20,824,381.2
2010	Non-cash issue**	155,577,010	363,820,822	15,557,701	36,382,082.2
2010	Non-cash issue**	16,348,213	380,169,035	2,634,821.3	38,016,903.5
2010	Exchange convertible	700,000	380,869,035	70,000	38,086,903.5
2010	Directed new issue	50,000,000	430,869,035	5,000,000	43,086,903.5
2010	Directed new issue	15,000,000	445,869,035	1,500,000	44,586,903.5
2010	Non-cash issue***	31,140,845	477,009,880	3,114,084.5	47,700,988.8
2010	Non-cash issue****	54,000,000	531,009,880	5,400,000	53,100,988.0
2010	Exchange convertible	1,000,000	532,009,880	100,000	53,200,988.0

* Refers to the merger with TFS, July 2009.
** Refers to the merger with Shelton Canada Corp.
*** refers to Tomsk Refining AB.
**** refers to Baltic Oil Terminals Plc.

Information up to 2009 refers to the company with the name Nordic Growth Market NGM Holding AB. In July 2009 the former Petrosibir AB merged with Temporär Förvaltning i Stockholm AB ("TFS"), a Swedish company listed on the NGM exchange.

Corporate governance report

CORPORATE IDENTITY NUMBER: 556468-1491

Introduction

Shelton Petroleum AB 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 – is in external legislation, regulations, recommendations and internal regulations. The Articles of Association is also a central document for the governance of the company. According to the Articles of Association, the company engages in production and / or exploration of natural resources in its own name, through subsidiaries or through small 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 assures 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 is about ensuring that the companies are run 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 capital. Guidelines on the Corporate Governance Report are included in Chapter 6, Sections 6-9 of the Annual Accounts Act (ÅRL). The rules came into force on 1 March 2009 and are to be applied by the company with effect from 1 January 2010.

Exchange rules

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

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 Swedish Code of Corporate Governance from the Swedish Corporate Governance Board, create a corporate governance report. The law applies for the first time to financial years starting after 28 February 2009. For companies whose financial year is the same as the calendar year, this means that the legal requirement first applies for 2010. The company's 2010 financial year begins on 1 January 2010. The auditor's statement on the corporate governance report may be found on page 37.

Swedish Corporate Governance Code

The Swedish Code of Corporate Governance ("Code") is a set of guidelines for good corporate governance which all stock exchange listed companies are obliged to apply. The purpose of the Code is to strengthen self-regulation and 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 Board's operations are a part of the Swedish trade and industry's self-regulation of the Swedish securities market. The Code is built on the principle of comply or explain, which means that companies that are obliged to apply the Code do not always have to comply with every rule in the Code and that there is no breach of the Code to depart from one or more individual rules if there is justification and an explanation is presented. The company complies with the Code.

Corporate governance in Shelton Petroleum

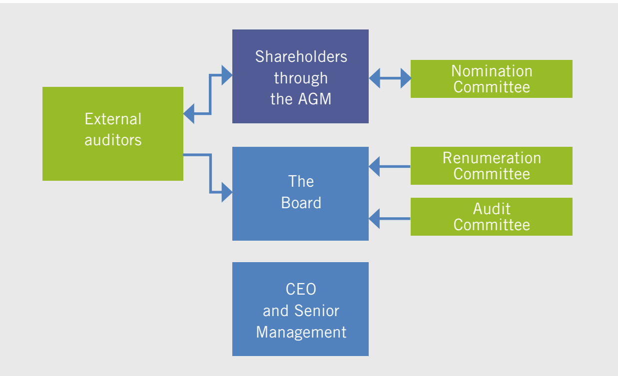
Good corporate governance

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 is chaired by Per Höjgård. The Board appoints the CEO, who is responsible for the company's ongoing management 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 Board's and CEO's management and the company's financial reporting are investigated by an external auditor who is appointed by the AGM. Internal policies and instructions represent important governing documents for the whole company and they make clear the division of responsibilities and authority.

Information about the company's principles for corporate governance may 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. Otherwise the shares have the same rights. Decisions determined at the AGM include: the election of Board Directors and Chairman, any discharge from liability and remuneration for Board Directors, election of auditors and setting the remuneration thereof, the determination of the Group and Company Statements of financial position and Consolidated Statement of comprehensive income.

Shelton Petroleum's AGM 2010 was held on 17 May in Stockholm. 24 percent of votes and 21 percent of share capital were represented at the meeting. Other than the items referred to above, the AGM decided to give the Board a mandate to issues shares and other financial instruments corresponding to 200 million new shares up until the next Annual General Meeting. All documents relevant to the AGM including the minutes may be found on the website.

The AGM of Shelton Petroleum is held during the first half of the year. The time and place, together with information about shareholders' right to raise items at the AGM are 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 2011 AGM will take place on 17 May in Stockholm. Shareholders who wish to raise an item for discussion at the AGM may submit these up until 1 April 2011.

Other meetings

During 2010 one extraordinary general meeting was held, where decisions were reached on amendments to the Articles of Association, election of Board members, issue of share options and approval of the decision on issue of convertibles.

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 endorsed by the AGM, the Nomination Committee consists of three members; two of them (Per Höjgård and Lars Hylander) are independent and one member (Björn Lindström) represents large shareholders. Björn Lindstrom is Chairman of the Nomination Committee, as he is seen to have the best knowledge of both the company and the Swedish rules and thus can best represent the interests of the shareholders. It was decided that the Nominating 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 Nominating Committee shall submit proposals to the 2011 Annual General Meeting with regard to remuneration for the Chairman and other Board Directors, remuneration for Board committee work, election of auditors and setting the remuneration thereof and the election of Chairman of the AGM. In its nomination work, the committee has also participated in the evaluation of the Board and its work, as well as of the Chairman of the Board's report on the company's activities, goals and strategies. The Nominating Committee has also participated in 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 fulfils the requirements that will be made of the Board as a result of the company's situation and future direction, the Nominating 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 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 together with the AGM notification and presented together with a report on the committee's work at the 2011 AGM.

The composition of the Board, its functions and procedural rules

In accordance with the Articles of Association, the Board of Directors shall consist of at least three, and at most 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 for the first time at the 2007 AGM. The composition of the Board of Directors is decided by a vote of shareholders at the AGM following recommendation of the Nominating Committee.

At an extraordinary general meeting in 2010, three persons who had been members of the Board of Shelton Canada Corp. before the merger with Shelton Petroleum were voted onto the Board. One of these is also a member of company management as President. To fulfil the requirement that only one Board member may be a member of the company's management, Robert Karlsson, who became the company's CEO after the merger with Shelton Canada Corp., left the Board. Since the 2010 AGM, the Board has consisted or 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 decisions are implemented effectively and that the work of the Board is evaluated each year. The Chairman maintains the reporting instructions for the company management, prepared by the CEO and approved by the Board. The Chairman does not participate in any decision-making regarding ongoing activities. The Chairman is not an employee of the company, receives no salary from the company and is not eligible to participate in company incentive programs targeted at employees.

Other than by 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 2010 evaluation was performed by each member of the Board completing a detailed questionnaire on a number of different items covering the Boards 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 think should be given more scope and in what areas further competence might be required on the Board. The results of the evaluation have been discussed by the Board and have been passed to the Nominating Committee by the Chairman.

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

The proportion of women and foreign directors on the Board are 14 and 43 percent respectively. For a further presentation of the Board, see page 38 and the website.

The composition of the Board of Shelton Petroleum fulfils the requirement regarding independent members. Some Board members are active in companies that receive consultancy fees for work performed at Shelton Petroleum's expense. The Nomination Committee and the company do not consider that such fees mean that these Board members are dependent on Shelton Petroleum or its management. There are no family connections between the company's Board members and leading executives. There has been an agreement between the company and Alpcot Capital Management Ltd. since 15 December 2008 regarding financial consultancy and acquisition of capital. The agreement is results-based and involves no ongoing monthly cost. Alpcot Capital Management Ltd. is controlled by a number of the company's shareholders who together own more than 10 percent of the shares and votes, one of them being Katre Saard. Katre Saard is not therefore considered to be independent of major owners. Zenon Potoczny is employed by the company and is not therefore considered to be independent of the company. A summary of the respective Board members' independence or otherwise is presented in the table on page 35.

The work of the Board in 2010

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.

Board members	Nationality	Elected	Presence 2010	Independent company	Independent owners	Audit Committee	Remuneration Committee	Total renumeration, SEK
Per Höjgård, Chairman	Sweden	2009	11/11	Yes	Yes	X	X	175
Richard N. Edgar, Director*	Canada	2010	11/11	Yes	Yes		X	72
Ulf Cederin, Director	Sweden	2009	11/11	Yes	Yes			75
Peter Geijerman, Director	Sweden	2009	9/11	Yes	Yes		X	75
Katre Saard, Director	Sweden	2009	9/11	Yes	No	X		75
Bruce D. Hirsche, Director*	Canada	2010	11/11	Yes	Yes	X		72
Zenon Potoczny, Director and President**	Canada	2010	11/11	No	Yes			1,029
Total								**1,573**

* For Richard N. Edgar and Bruce D. Hirsche remuneration refer to 11.5 months.

** Zenon Potoczny is employed by the company and receives no remuneration for Board work. Total remuneration refers pension and salary.

The Board held eleven meetings during the year, five of them ordinary, one statutory and five extraordinary. The attendance of the respective members is presented in the table on page 35. Before each Board meeting, each member has 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 are the financial reports that are presented at each ordinary Board meeting, including before the press release of unaudited annual earnings figures and interim reports. The Board also receives monthly reports regarding the company's financial position. At the ordinary Board meetings, reports are also submitted regarding ongoing work in the various countries and analyses and proposals for investments and financing alternatives.

Committee work also represents a significant part of the work of the Board. For a further description of the work of committees during 2010 see the section headed Committees below. During the year, company management has presented value creation plans for expansion, including analyses of activities and investment opportunities. These analyses and their consequences have been discussed and judged by the Board both for the purpose of individual expansion plans and in connection with overall strategy discussions.

Changes in the market and changed legislation, as well as acquisitions, have also made increasing demands on the handling of company 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 assisted at Board meetings, when members of the Board have had the opportunity to put questions to the auditor without representatives of company management being present.

Committees

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

The members of the Audit Committee are Per Höjgård (chairman), Katre Saard and Bruce D. Hirsche. The chairman of the Audit Committee is regarded as independent of the company and major shareholders. The tasks of the Audit Committee include:

- Monitoring the company's financial reporting,
- Monitoring the company's internal control, internal auditing and risk management with regard to financial reporting,
- Keeping themselves informed about auditing of the annual report and group report,
- Investigating and monitoring the auditor's impartiality and independence (including in services other than auditing services) and
- Helping to prepare the proposal to the AGM regarding election of auditor

The members of the Remuneration Committee are Per Höjgård (chairman), Peter Geijerman and Richard N. Edgar. The tasks of the Remuneration Committee include:

- Prepare issues for the Board regarding remuneration in the form of fixed and variable salary, pensions, severance pay and any other forms of remuneration for company management,
- Follow and evaluate ongoing and single year programs for variable salary for company management and
- Follow and evaluate the application of guidelines for remuneration to leading executives as well as prevailing remuneration structures and remuneration levels.

Auditors

The task of the auditor is to investigate, 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 pay and other remuneration and a statement on the corporate governance report.

At the Extraordinary General Meeting of 9 July 2009, Ernst & Young was elected as the company's auditors, with Authorized Public Accountant Per Hedström as the responsible auditor for the period until the AGM in 2013.

In recent years, the auditors have also performed a limited number of other tasks for Shelton Petroleum, in addition to auditing. These have mainly concerned audit-related services such as services in connection with share issues and in-depth reviews in connection with auditing. The auditor's independence of the company is ensured by only using the elected auditor to a limited extent to perform services other than auditing. For a specification of remuneration to auditors, see page 64.

Remuneration

Remuneration to the Board: the Chairman and Board Directors are remunerated in accordance with the decision of the AGM or, if necessary, in accordance with decisions taken at meetings held at a later date. The Chairman receives a higher fee than other members of the Board because of the extra workload this position entails. Remuneration to the Board is stated in the table on page 35, as well as in the notes to the annual report under the heading Remuneration and benefits to the Board.

Remuneration to senior management: 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 give the Board formal and notified processes for decisions on remuneration to leading executives. Remuneration and other conditions of employment for leading 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 management that are determined by the AGM. For more information about remuneration to senior management, see the section *Proposal for guidelines for remuneration to senior management* on page 42.

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 17 May 2010. The rules of procedure are determined annually, usually at the first Board meeting held after the AGM and are revised as necessary. The rules of procedure describe how the Board will conduct its internal activities, including the number of Board meetings, responsibilities within the Board and the Board's composition and working methods. In addition, the Board ensures that the organization in relation to accounting and resources 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 fulfilment 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 controls 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. In line with this, the Board meeting of 29 November 2010 adopted a new 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.

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 subject to a Board meeting at which the Board approves the report.

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

Group management

The CEO is responsible for ongoing operational activities. At the Board meeting on 9 July 2009, Robert Karlsson was appointed as CEO. The group management is presented in more detail under Management and auditors in the Annual Report.

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

Larger shareholders

In accordance with Chapter 6, Section 6, paragraph 2 point 3 of the Annual Accounts Act (ÅRL), the Corporate Governance Report shall state direct or indirect shareholding in the company representing not less than one tenth of the votes for all shares in the company. As of the end of March 2011, there were two such holdings, represented by the owner group Alpcot Capital Management, Björn Lindström and Katre Saard (12.8 percent) and Two Eye Fund (10.1 percent).

Auditor's statement regarding the corporate governance report

TO THE ANNUAL GENERAL MEETING OF SHELTON PETROLEUM AB (PUBL.)
Org.no 556468-1491

It is the Board that is responsible for the corporate governance report for 2010 on pages 32-37 and for ensuring that this has been prepared in accordance with the Annual Accounts Act.

As a basis for our statement that the corporate governance report has been prepared and is consistent with the annual report and consolidated report, we have read the corporate governance report and judged its statutory content based on our knowledge of the company.

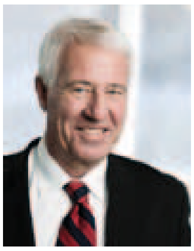
A corporate governance report has been prepared and the information within it that is required by law is consistent with the annual report and consolidated report.

Stockholm, 26 April 2011
Ernst & Young AB

Per Hedström
Authorized Public Accountant

The Board

Per Höjgård, Chairman
Per Höjgård, born in 1948, is the Chairman of the Board of Directors in the company. Per Höjgård has worked within the areas of business, finance and company management, having held the position of CFO of Preem AB for seventeen years, Sweden's largest oil company with sales of USD 12 billion. He serves on the board of Preem AB. Per Höjgård holds a degree in Business Administration from the University of Lund. He is an independent member of the board in relation to the company and its majority shareholders.
Holding: -
Options: 3,253,805

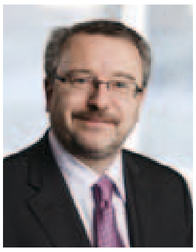


Richard N. Edgar, Director
Richard N. Edgar, born in 1946, is trained as a geologist and has been active in the oil industry in both Canada and internationally for nearly 40 years. Richard was formerly Chairman of the board of Shelton Canada Corp. and currently serves on the boards of Bengal Energy Inc., Poplar Creek Resources Inc. and Passport Energy Ltd. Richard is a member of the Petroleum Exploration Society of Great Britain, the Petroleum Exploration Society of Australia, the Canadian Society of Professional Geologists and the Association of Professional Engineers, Geologists and Geophysicists of Alberta which has awarded him the designation of Professional Geologist. Richard Edgar has an engineering degree (BSc) from the University of Alberta. Richard Edgar is an independent member of the board in relation to the company and its majority shareholders.
Holding: 4,637,771 B shares
Options: 2,000,000

Ulf Cederin, Director
Ulf Cederin, born in 1958, has 20 years' experience within finance, company management and financial markets. Cederin was the founder, CEO and member of the board of the NGM stock exchange, as well as the CEO of the listed company Nordic Growth Market NGM Holding AB for eight years. Before that, Ulf Cederin worked at Fischer Partners Mutual Fund and before that was head Sales Manager for the Nordic department at Bridge Financial Ltd. Ulf Cederin has studied medicine and economics and is an independent member of the board in relation to the company and its majority shareholders.
Holding: 1,166,667 A shares and 2,479,696 B shares
Options: -

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. The group's main business activity is road building and railway transport. 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. and is an independent member of the board in relation to the company and its majority shareholders.
Holding: -
Options: -

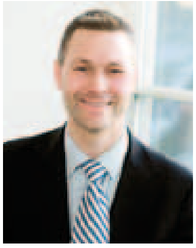
Bruce D. Hirsche, Director
Bruce D. Hirsche, born in 1948, is a partner at the law firm Parlee McLaws LLP in Edmonton. Bruce D. Hirsche has vast experience from boards of directors, corporate governance and stock exchange law in listed companies. He was a Director of Shelton Canada Corp. 1997–2009 and he has served on the board of directors of a number of oil and gas and knowledge-based companies, six of which are public companies listed on various Canadian and United States Stock Exchanges. Bruce holds a law degree from the University of Alberta and is admitted to the Alberta bar. Bruce holds a Master's degree specializing in securities law from York University, Osgoode Hall Law School. Bruce Hirsche is an independent member of the board in relation to the company and its majority shareholders.
Holding: 5,023,412 B shares
Options: -



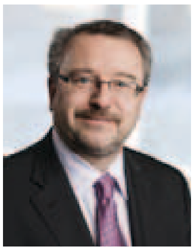
Zenon Potoczny, Director and President
Zenon Potoczny, born in 1957, was born and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Zenon Potoczny served as President and Chief Executive Officer of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Potoczny is also Managing Director of Shelton Corporation Limited, an Ontario-based producer and supplier of oil and oil byproducts, and a Director of Innovotech Inc. a TSX Venture-listed company. 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 an independent member of the board in relation to the company and its management but is independent in relation to its majority shareholders.
Holding: 11,185,124 B shares
Options: 4,000,000

Katre Saard, Director
Katre Saard, born in 1972, is a partner and investment manager at Alpcot Capital Management. She has more than 10 years' experience of investment management and of working in the East European share 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. She is an independent member of the board in relation to the company, but not to its shareholders.
Holding: 10,685,765 B shares
Options: -

Management & auditors



Robert Karlsson, CEO Shelton Petroleum
Robert Karlsson, born in 1970, has vast experience within business, finance and company management. For almost half of his career he has worked in Russia. He was previously CFO of the NASDAQ OMX listed IT consultancy firm Mandator, where he was also in charge of the company's financial communications. He has previously worked as an investment manager in Moscow for the listed investment company ORESA Ventures. He 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: 1,143,333 B shares
Options: 5,423,007



Zenon Potoczny, Director and President
Zenon Potoczny, born in 1957, was born and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Zenon Potoczny served as President and Chief Executive Officer of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Potoczny is also Managing Director of Shelton Corporation Limited, an Ontario-based producer and supplier of oil and oil byproducts, and a Director of Innovotech Inc. a TSX Venture-listed company. 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: 11,185,124 B shares
Options: 4,000,000

Joakim Hedlund, CFO Shelton Petroleum
Joakim Hedlund, born in 1973, previously worked for nine years in the investment banking division at Carnegie in Stockholm. Prior to that, he spent two years in the finance and accounting department at the insurance company Pensionsgaranti. Joakim Hedlund holds a Master of Science in Business Administration from the Stockholm School of Economics.
Holding: 100,000 B shares
Options: 2,000,0000

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. Sergey is a production engineer, educated at the Tyumensky Neftegazovy University.
Holding: 18,159,583 B shares via companies.
Options: -

Auditor
Ernst & Young
Box 7850
SE-103 99 Stockholm

Responsible auditor
Per Hedström
Authorized Public Accountant
Member of FAR (the Institute for the Accountancy Profession in Sweden)

Directors' report

BUSINESS ACTIVITIES

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. Governance of Shelton Petroleum is described in the corporate governance report on page 32.

In Russia, operations are conducted through its wholly owned company Petrosibir Exploration, which in turn owns the Cypriot subsidiary Novats Investments, which in turn owns 100 percent of the shares of the Russian company ZAO Ingeo Holding. Ingeo Holding is the holder of an exploration license in the Rustamovskoye, Aysky and Suyanovskoye areas of Bashkiria, a constituent republic in the Russian Federation. Both Novats Investments and Ingeo Holding were acquired during 2007. In Russia, the company has made significant findings and has measured commercial flows in the first two drill holes and has begun the production of oil and gas. Revenues from this production will be reported with effect from 1 January 2011.

In Ukraine, operations are wholly-owned by Shelton Canada Corp., which in turn owns 100 percent of the shares of the Canadian company Zhoda (2001) Corporation, which in turn owns 45 percent of the shares of the Ukrainian joint venture Kashtan Petroleum Ltd., which operates the producing oil field Lelyaki in Chernigov near Poltava. In addition, Shelton Canada Corp. has joint investment agreements with Chornomornaftogaz which gives the company fifty percent interest in three offshore licenses in Ukraine. Shelton Canada Corp., including its subsidiaries, was acquired on 31 December 2009. Through participation in the producing Lelyaki field, Shelton Petroleum reports its first revenues from 1 January 2010.

MAJOR EVENTS DURING THE FINANCIAL YEAR

On 19 January 2010, an extraordinary general meeting of Petrosibir AB was held, which decided, among other things, to change the name to Shelton Petroleum AB; three new directors were elected to the board, and the company's CEO Robert Karlsson left the board.

In February, the company published an independent Western report on reserves for the company's licenses in Russia and Ukraine. The reserves amount to 14 million barrels of oil and the potential of the oil and gas fields amount to a further 343 million barrels of oil equivalent.

The Ukrainian government decided to change the auction procedure so as to achieve oil prices that were closer to the world market price. The new procedure was used for the first time in May and involves a price increase of 42 percent. Even though royalty also increases, this means a positive effect on the profitability of the Lelyaki field.

Two new directed share issues were carried out in June and August. They brought the company about SEK 40 million before issue costs and the resulting liquidity is to be used in the company's drilling program in Bashkiria.

In September, Shelton Petroleum began production of its first Russian oil. Well RS#2 is Bashkiria tested an initial flow of 158 barrels a day from a perforated three meter interval of the Kynovsko-Pashiysky formation from the Devonian period. Following a successful exploration program in the Rustamovskoye field in Bashkiria, the Russian Natural resources Ministry awarded Shelton Petroleum a production license for the field in September. In September 2010, 15 percent of the share capital of Tomsk Refining AB was purchased. Shelton Petroleum acquired the shares of Tomsk Refining AB for a purchase sum of USD 1,000,000 and set-off of a loan of USD 3,000,000 USD as well as a new issue of 31,140,845 class B shares in Shelton Petroleum.

In November 2010, the company announced that a strategic collaboration agreement had been entered into with Baltic Oil Terminals PLC, a British company whose shares are listed on AIM in London. As part of the strategic agreement, Shelton Petroleum issued 54,000,000 new B shares to Baltic Oil Terminals PLC and Baltic Oil Terminals PLC issued 14,957,368 new shares in Baltic Oil Terminals PLC to Shelton Petroleum. After these transactions, Shelton Petroleum's votes and share capital in Baltic Oil Terminals PLC amounted to about 19.5%, which after a share issue now amounts to about 16%.

The company closed down production in the Lelyaki field in October after a review by the Geological Investigation Institute, which is part of Ukraine's environment ministry. It is Shelton Petroleum's opinion that the decision to close down is based on groundless requirements and action is being taken, together with the company's partner Ukrnafta, Ukraine's largest oil and gas company, to obtain approval from the authorities and quickly resume production. Meanwhile Kashtan Petroleum, operator of the Lelyaki field, is preparing to continue the work program with the aim of increasing the field's production.

FINANCIAL STATUS

At year-end, the group had liquid funds of SEK 22,171 thousand (32,725). The equity/assets ratio was 80 percent (71). The consolidated shareholders' equity amounted to SEK 268,438 thousand (189,811) or SEK 0.50 (0.91) per share.

RESULT

Through the acquisition of Shelton Canada Corp., Shelton Petroleum reports its first revenues from 1 January 2010. Revenues for the period January–December 2010 amounted to SEK 29,291 thousand and refer to the sale of oil from the Ukrainian operation. Revenues in Russia amount to zero, since sales had not yet commenced.

Expenditure relating to the exploration program has been capitalized in the Statement of financial position in accordance with the company's accounting policies. Operating expenses for 2010 amounted to SEK 42,965 thousand and mainly consisted of costs of raw materials, necessities and personnel costs, as well as depreciation. Operating expenses for the corresponding period in 2009 were SEK 17,921 thousand and the higher costs for 2010 were mainly due to the new operations in Ukraine, as well as the increased extent and pace of exploration of the potential of the license area.

Operating result for the period was SEK –11,441 thousand, compared with SEK –16,664 thousand the preceding year. The improvement in operating result is mainly due to the company reporting revenues from operations in Ukraine from January 1, 2010. Result before tax for the period was SEK –11,000 thousand, compared with SEK –16,400 thousand the preceding year. Result after tax for the period was SEK –12,417 thousand, compared with SEK –15,519 thousand the preceding year. Since the company's operation in Ukraine generates a positive net result, the Ukrainian company Kashtan Petroleum Ltd pays tax in Ukraine. The total result of SEK 24,548 thousand (–21,369) includes exchange rate differences from internal loans in foreign currency and translation differences in subsidiaries that do not affect cash flow or financial assets available for sale.

INVESTMENTS

The group has invested SEK 26,917 thousand, most of which relates to the exploration program in the Rustamovskoye field in Russia. This amount has been capitalized in the statement of financial position. Investments in long term securities during 2010 amounted to SEK 49,220 thousand regarding the acquisition of shares in Tomsk Refining AB and SEK 43,430 thousand regarding the acquisition of shares in Baltic Oil Terminals PLC.

In 2009 the group invested SEK 18,948 thousand in Russia in the exploration program in the Rustamovskoye field. In 2009 Shelton Petroleum had no operations in Ukraine. Investments in connection with company acquisitions in 2009 amounted to SEK 136,918 thousand for the then Petrosibir AB through a new issue directed at shareholders and Shelton Canada Corp. through an issue directed at existing shareholders and holders of options and convertibles issued by Shelton Canada Corp.

EMPLOYEES

The average number of full-time employees during the financial year was 24 (20).

RISKS

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

ENVIRONMENTAL ISSUES

Shelton Petroleum's business is covered by 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 company is also subject to regular environmental inspections by the authorities, and must also limit the discharge of environmentally harmful substances.

THE BOARD'S DUTIES

Shelton Petroleum's Board of Directors consists of seven members including the Chairman. During the 2010 financial year, the board had 11 Board Meetings. In addition, the board has been in regular contact with the company's business and its development. For a more detailed description of the Board's duties, please see the corporate governance report.

MAJOR EVENTS AFTER THE FINANCIAL YEAR

In January 2011, Shelton Petroleum started production of oil from well RS#1 in the Rustamovskoye field in Bashkiria. The company is therefore now producing oil from both wells that were successfully drilled as part of the exploration program in the field. The company sells the oil on the local Russian market. The wells are now in a test phase aimed at optimizing production conditions and infrastructure, which involves irregular production with a lower average daily production than will be achieved when the company goes over to the ordinary production phase.

Shelton Petroleum owns fifteen percent of the Swedish company Tomsk Refining AB, which owns a newly built refinery in Russia through a subsidiary. At an extraordinary general meeting in February, the owners of Tomsk Refining decided to sell the company's subsidiary, and at the AGM on 4 May the company will decide to put Tomsk Refining into voluntary liquidation and to distribute the company's assets to the shareholders.

FUTURE DEVELOPMENT

The company intends to increase production at Lelyaki in Ukraine by drilling new wells and reusing and drilling side tracks 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 an initial 5-6 new production wells. 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 wells. 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 17 May 2011 at 10.00 at the premises of Kilpatrick Stockton Advokatbyrå at Hovslagargatan 5 B in Stockholm.

Financial overview

Group	2010	2009
Earnings per share, SEK	–0.03	–0.10
Equity per share, SEK	0.50	0.91
Equity/assets ratio, %	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 2010 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 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. Previous years' guidelines are similar to this year's proposal with the exception that this year's proposal also includes an addition on earnings period for incentive programs. For more information on remuneration, see the corporate governance report.

THE PARENT COMPANY

The Swedish parent company Shelton Petroleum AB is a public parent 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 sales were SEK 453 thousand (245) The result after tax was SEK –11,190 thousand (–2,293). Shareholders' equity was SEK 294,561 thousand (202,711).

Proposal for the appropriation of result

The following profits are at the disposal of the AGM:	
Share premium reserve	191,274,241
Fair value fund	–215,102
Retained profit	61,490,615
Profit for the year	–11,189,510
Total	241,360,244

The Board proposes that:
To be carried forward to the next year SEK 241,360,244.

With regard to further information concerning the Group's results and position, refer to the following Statement of comprehensive income and Statement of financial position with related supplementary information.

Statement of comprehensive income

Income statement (SEK thousand)	Note	2010	2009
Net sales		29,110	0
Other operating income		181	0
Total revenue		**29,291**	**0**
Capitalized internal work		2,233	1,257
Operating costs			
Raw materials and necessities		–17,639	0
Other external expenses	5	–13,532	–11,919
Personnel expenses	4	–9,895	–5,708
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	6, 11	–1,898	–294
Total operating costs		**–42,965**	**–17,921**
Operating profit		**–11,441**	**–16,664**
Result from financial items			
Financial income	7	1,912	645
Financial expenses	7	–1,470	–381
Total financial income and expense		**441**	**264**
Result before tax		**–11,000**	**–16,400**
Tax	9	–1,417	881
Result for the year attributable to the parent company's owners		**–12,417**	**–15,519**
Other comprehensive income			
Financial assets available for sale	12	–1,297	0
Exchange rate differences		– 10,834	–5,850
Total other comprehensive income		**–12,131**	**–5,850**
Total comprehensive income		**–24,548**	**–21,369**
Earnings per share before dilution, SEK	23	–0.03	–0.10
Earnings per share after dilution, SEK	23	–0.03	–0.10
Average number of shares		**424,929,104**	**159,302,635**

The merger between Petrosibir and Shelton Canada Corp., was carried out on 31 December 2009 and the Group adopted the name Shelton Petroleum in the first quarter of 2010. This means that the consolidated Statement of financial position at year end includes both groups but that the Statement of comprehensive income for 2009 exclusively relates to the former Petrosibir Group, affecting, among other things, the comparative figures between the years. From 1 January 2010, the consolidated Statement of comprehensive income also covers operations in Ukraine, including the existing oil sales. Earnings per share were calculated using the average number of shares in Shelton Petroleum AB.

Statement of financial position

Balance sheet (SEK thousand)	Note	2010-12-31	2009-12-31
ASSETS			
Fixed assets			
Goodwill	10	6,807	6,807
Intangible oil and gas assets	10	57,957	98,400
Tangible oil and gas assets	11	146,557	92,247
Inventory	11	1,385	1,346
Deferred tax assets	9	156	165
Financial assets available for sale	12	91,352	0
Other long-term receivables	14	0	2,533
Total fixed assets		**304,214**	**201,498**
Current assets			
Finished goods and commodities	15	2,648	4,192
Current financial assets	16	0	577
Loan receivables	16	0	21,061
Other receivables	17	4,265	6,965
Prepaid expenses and accrued income		321	164
Cash and cash equivalents		22,171	32,725
Total current assets		**29,405**	**65,684**
TOTAL ASSETS		**333,619**	**267,182**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity capital	18		
Capital stock		53,201	20,824
Current issue		0	94,559
Other paid-up capital		178 445	13,088
Reserves		–18,926	–6,795
Result brought forward incl. result for the year		55,718	68,135
Total equity attributable to the shareholders		**268,438**	**189,811**
Long-term liabilities			
Convertible loan	19	28,976	25,799
Deferred tax	9	27,827	28,796
Provisions	25	326	187
Total non-current liabilities		**57,129**	**54,782**
Current liabilities			
Accounts payable		3,236	7,688
Advance payments from customers		0	6,675
Tax liabilities		1,715	18
Other current liabilities	20	1,267	4,452
Accrued expenses and deferred income	21	1,834	3,756
Total current liabilities		**8,052**	**22,589**
TOTAL EQUITY CAPITAL AND LIABILITIES		**333,619**	**267,182**
Collateral pledged and contingent liabilities	**27**	**0**	**0**

Statement of changes in equity

Changes in equity (SEK thousand)	Share capital	Non regis-tered issue capital	Other paid up capital	Reserves	Result brought forward incl. result for the year	Total equity capital
Opening balance 01.01.2009	**19,797**	**0**	**69,976**	**–945**	**–10,056**	**78,772**
Overall result						
Profit for the year					–15,519	–15,519
Other comprehensive income						
Exchange rate differences				–5,850		–5,850
Total comprehensive income				**–5,850**	**–15,519**	**–21,369**
Transactions with the company's owners						
Warrant premiums			469			469
New share issue	94,737		–56,785			37,952
Reduction in share capital	–93,710				93,710	0
Current share issue		94,559				94,559
New share issue costs			–2,570			–2,570
Convertible bond						
Equity share after tax			1,998			1,998
Total transactions with the company's owners	**1,027**	**94,559**	**–56,888**	**0**	**93,710**	**132,408**
Closing balance 31.12.2009	**20,824**	**94,559**	**13,088**	**–6,795**	**68,135**	**189,811**
Opening balance 01.01.2010	**20,824**	**94,559**	**13,088**	**–6,795**	**68,135**	**189,811**
Overall result						
Profit for the year					–12,417	–12,417
Other comprehensive income						
Financial assets available for sale				–1,297		–1,297
Exchange rate differences				–10,834		–10,834
Total comprehensive income				**–12,131**	**–12,417**	**–24,548**
Transactions with the company's owners						
Registration of new issue 2009	17,193	–94,559	77,366			0
Warrant premiums			560			560
New share issue	15,014		86,664			101,679
Exchange convertibles	170		767			937
Total transactions with the company's owners	**32,377**	**–94,559**	**165,358**	**0**	**0**	**103,176**
Closing balance 31.12.2010	**53,201**	**0**	**178,445**	**–18,926**	**55,718**	**268,438**

Cash flow statement

Cash flow statement (SEK thousand)	Note	2010	2009
Cash flow from operating activities			
Profit after financial items		–11,000	–16,400
Adjustments for non-cash items			
Depreciation		1,898	294
Other items not affecting cash flow		–2,014	–413
Tax paid		–813	0
Cash flow from operating activities before changes in working capital		**–11,929**	**–16,519**
Cash flow from changes in working capital			
Increase (+) /Decrease (-) in current receivables		4,770	4,622
Increase (+) /Decrease (-) in current liabilities		–14,538	6,945
Cash flow from operating activities		**–21,697**	**–4,952**
Cash flow from investment activities			
Acquisition of subsidiaries	2	0	39,950
Acquisition of intangible assets	10	–16,677	–18,948
Acquisition of tangible fixed assets	11	–5,938	–991
Changes in non-current receivables		2,533	0
Sale of fixed assets		167	6,179
Acquisition of financial assets		–7,463	–20,692
Cash flow from investment activities		**–27,378**	**5,498**
Cash flow from financing activities			
Warrant premiums		560	468
New share issue		37,615	–2,570
Loans raised		2,305	28,834
Cash flow from financing activities		**40,480**	**26,732**
CASH FLOW FOR THE YEAR		**–8,595**	**27,278**
Cash and cash equivalents at start of year		32,725	5,517
Exchange difference in cash and cash equivalents		–1,959	–70
Cash and cash equivalents at year-end		22,171	32,725
Additional notes to the cash flow statement – group			
The following components are included in cash or cash equivalents: Cash and bank balances		22,171	32,725
Interest rate earnings		1,697	211
Interest rate expenses		–738	–197

Notes

General information

Shelton Petroleum AB (parent company) and its subsidiaries (collectively, the Group) are active in the oil industry and research, explore and exploit oil and gas deposits. Operations are conducted primarily in Russia and Ukraine.

The parent company is a public limited liability company. Its registered office is in Stockholm, Sweden. The address of its registered office is Birger Jarlsgatan 2, 114 34 Stockholm.

The Board has on 26 April 2011 authorized the consolidated accounts for approval. The Consolidated Statement of comprehensive income and Statement of financial position will be presented to the Annual General Meeting on 17 May 2011 for adoption.

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

The consolidated accounts are based on the historical acquisition values, apart from 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 Board's 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 values unless otherwise stated. The consolidated accounts have been prepared in accordance with the acquisition 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are stated below in the section *Critical accounting estimates and judgements* on page 58.

Application of new or revised standards

(a) Standards that came into force in 2010 and that are applied by the group

IFRS 3 (revised), *"Business combinations",* and the resulting changes to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31 "Interests in joint ventures", shall be applied with future effect for business combinations where the date of acquisition is within the financial year commencing 1 July 2009 or later. IFRS 3 (revised) has had no effect in the present period, since the group did not implement any business combinations in 2010.

IAS 36 (amended), *"Impairment of assets"* applies to financial years that begin on 1 January 2010 or later. The change clarifies that the largest cash generating unit (or group of units) to which goodwill shall be distributed for the purpose of testing the need for impairment is an operating segment as per the definition in point 5 of IFRS 8, "Operating segments" (i.e. amalgamating segments with similar financial properties).

IAS 38 (amended), *"Intangible assets"* (applies to financial years that begin on 1 January 2010 or later). The change gives guidelines for fixing the fair value of an intangible asset that is acquired in a business combination and that permits reporting of a group of assets as one asset if the individual assets have similar useful periods.

(b) New and amended standards, as well as interpretations that shall be applied for the first time during financial years that begin on 1 January 2010 but that are not being applied by the group at present.

IFRIC 17, *"Distributions of Non-cash Assets to Owners",* applies to financial years that begin on 1 July 2009 or later.

IFRIC 18, *"Transfers of assets from customers",* Applies to transfers of assets that occurred on 1 July 2009 or later.

IFRIC 9 and IAS 39 *(amendment),* Embedded derivatives, applies to financial years that close on 30 July 2009 or later.

IFRIC 16 (amendment), *"Hedges of a Net Investment in a Foreign Operation",* applies to financial years that begin on 1 July 2009 or later.

IAS 1 (Amendment), *"Presentation of Financial Statements".* The change clarifies that the potential adjustment of a liability through the issue of shares is not relevant for its classification as current or non-current.

IFRS 2 (amendment), *"Group cash-settled and share based payment transactions"*, applies to financial years that begin on 1 January 2010 or later.

IFRS 5 (amendment), *"Non-current Assets held for sale and Discontinued Operations".*

(c) New standards and amendments and interpretations of existing standards that have not yet come into force and that are not applied early by the group.

IFRS 9, *"Financial instruments"* (published in November 2009). The standard is not applicable until financial years that begin 1 January 2013 but is available for early application. Also, the standard has not yet been adopted by the EU.

IAS 24 (revised), *"Related Party Disclosures",* published November 2009. This replaces IAS 24, "Related Party Disclosures", published in 2003. IAS 24 (revised) shall be applied to financial years that begin on 1 January 2011 or later.

IAS 32 (amendment), *"Classification of Rights Issues",* published in October 2009 (applies to financial years that begin on 1 February 2010 or later).

IFRIC 19, *"Extinguishing Financial Liabilities with Equity Instruments"* (applies to financial years that begin on 1 July 2010 or later).

IFRIC 14 (amendment) *"Prepayments of a Minimum Funding Requirement".* The amendment adjusts an unintended consequence of IFRIC 14, "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction"

It is the preliminary assessment of company management that other new and amended standards and interpretations will not have any significant effect on the group's financial reports in the period they are applied for the first time.

Consolidated accounts

The consolidated accounts have been prepared in accordance with the acquisition 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 acquisition 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, 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 sum. Acquisition related costs are expended as they occur. 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 in accordance with the Proportional Method. The Group combines its share of revenues and expenses, assets and liabilities and cash flows of the joint venture with the corresponding entries in its own consolidated accounts. The Group recognizes the portion of gains or losses from its sale of assets to a joint venture equal to the other owners' holdings. The Group does not report its share of the profits or losses of a joint venture that is a result of the Group's purchase of assets from the joint venture before the assets are resold to an independent party. However, loss on the transaction is reported immediately if the loss means that an asset is recorded at too high a value.

Segment reporting

Information about the operating segments is presented from the perspective of executive management, in the same way as in internal reporting. The executive management decision-maker is the function responsible for allocating resources and assessing the performance of the operating segments. In the Group this function is identified as the Chief Executive Officer. With effect from 2010, the group has two operating segments, Russia and Ukraine.

Restatement of subsidiaries in foreign currencies

1. Restatement of overseas operations

The consolidated accounts are presented in SEK, which is the Group's functional and presentation currency. Assets and liabilities in overseas operations are restated in 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. Restatement of foreign currency

The functional currency for each entity in the Group is determined with regard to the economic environment in which the entities run their businesses. This generally coincides with the local currency in each country. On the balance sheet date, monetary receivables and liabilities expressed in foreign currencies are 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:

	Rate on balance sheet date	Average rate
100 roubles in SEK	22.31 (23.86)	23.7263 (24.0632)
1 Euro in SEK	9.002 (10.353)	9.5413 (10.6213)
1 USD in SEK	6.8025 (7.6457)	7.2049 (7.6457)
1 CAD in SEK	6.805 (6.8850)	6.9936 (6.6971)
1 UAH in SEK	0.8525 (0.8992)	0.9054 (–)

As the Ukrainian operations were acquired on 31 December 2009, no average rate has been applied for these in 2009.

Tangible assets

Oil and gas assets

Oil and gas assets are amortized with a production line depreciation method *(unit-of-production method)*. Impairment losses are recognized in line with the year's production, in relation to estimated total proved or probable reserves of oil and gas. No depreciation is made during the exploration and evaluation phase.

Machinery and inventories

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

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

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

Intangible fixed assets

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

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

Reporting, valuing and writing off of exploration and evaluation expenditure

Capitalized exploration and evaluation expenditure are classified as intangible non-current assets, in accordance with IFRS 6. Exploration and evaluation expenditures are reported at acquisition values, less a deduction for any depreciation. Capitalized exploration and evaluation expenditures refer to the following expenditure:

- Acquisition of exploration rights.
- Exploration expenditure - relates to capitalized expenditure for seismic, geophysical, geological and other investigations.
- 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, are all capitalized in separate cost centres, one for each field. Each field covers one well.

At the end of 2010, the Group had carried out exploration work on two wells in the Rustamovskoye area, lying north of Ufa in Bashkiria in Russia.

Depreciation

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

Impairment losses

The Group assesses its intangible non-current 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 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 entity which corresponds to each license and concession right, as well as the oil and gas assets owned by the Group. A cash-generating entity therefore corresponds to each separately acquired license and concession right, plus a proportion of the oil deposits in each country where the Group runs its exploration and extraction business.

The assessment of an impairment loss means that the cash-generating entity's carrying value is compared with the recoverable total for the assets, which in turn is the higher of the net realizable value and the value in use. The value in use of these assets is the present value of future cash flows discounted at a rate of interest based on risk-free interest adjusted for the risk associated with the specific asset. If it is not possible to determine substantial independent cash flows for a particular asset, then in the test for any impairment loss, the assets are grouped to the lowest level where it is still possible to identify substantial independent cash flows (a cash-generating entity). 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 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 impairment loss costs over future periods are 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 possibilities of extracting oil or gas assets can be demonstrated, the capitalized exploration and extraction expenditures are reclassified as property plant and equipment, or to a separate part of intangible assets, taking their character into account. Once the technical and commercial possibilities can be demonstrated, testing the assets for impairment loss is commenced. Impairment losses are 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 production unit 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. Impairment is done with the amount of the asset's carrying amount that exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. In assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For assets other than financial assets and goodwill, previously written down at each accounting year-end, a determination is made regarding the reversal that should be done.

Financial instruments

Financial instruments are initially recognized at fair value on the settlement date basis, including any direct transaction costs. Company management determines the classification of the instruments at the first accounts, and reviews this decision at each report. The Group only makes use of derivatives 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 trading. 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 share 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 accrued acquisition value 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 accrued acquisition value. Debts less than three months are valued at the acquisition value. The category to which the Group's financial assets and liabilities are attributed is presented in Note 22, *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 market value, which represents the amount received with a deduction for any transaction costs, and thereafter at accrued acquisition value. 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 bond equity

The compound financial instruments issued by the Group include convertible bond equities where the owner can demand that they be converted to shares, and where the number of shares to be issued is not affected by changes in the shares' fair value.
The debt component of compound financial instruments is initially reported at fair value for a similar liability that does not entail the right to conversion into shares. Equity component is reported initially as the difference between the fair value for the entire compound financial instrument and the fair value of the debt. 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 compound financial instruments is valued to the accrued acquisition value 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 debt for at least 12 months after the end of the reporting period.

Stock

Stock is valued at the lowest of the weighted cost of the acquisition and fair value. Fair value is the market value minus the direct sales expenses. The cost of the acquisition includes the cost of materials, labour, and certain fixed costs.

Accounts payable

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

Share capital

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 and received for the current year, applying the tax rates and legislation that are in force on the date of balance. 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. Taxes on oil production are presented in accordance with local legal and tax conditions in each country, which can vary within the country depending on which oil field they refer to. Tax is calculated on taxable profits for each oilfield at the relevant local tax rates. Current tax receivables and liabilities for each company are reported as net in the statement of financial position.

Deferred tax

Deferred income tax is reported in full, using the liability method, on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the accounting year-end and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income 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. No provisions have been made for future operating losses.

Remuneration to employees

Pension obligations

Group companies in Sweden, 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

At the Extraordinary General Meeting held on 9 July 2009, the Board's proposal to issue 8,676,812 share warrants, 5,423,007 to the Board Director and CEO Robert Karlsson and 3,253,805 to Chairman Per Höjgård, was approved. Each warrant gives the right to apply for one (1) series B share in Shelton Petroleum AB. This subscription may be made from 1 July 2012 to 14 July 2012. Subscription shall occur at the subscription price of SEK 0.60 per share. If the warrants are fully exercised, the company's share capital will increase by SEK 867,681.20. A premium of SEK 0.054 was paid for each warrant. The premium was set by a market evaluation calculated in accordance with the Black & Scholes options pricing model. Since fair value was paid for the options, they do not affect the accounts. In 2009 all 8,676,812 share warrants were acquired, and share option premiums totalling SEK 468,548 were paid to the company.

At the extraordinary general meeting held on 19 January 2010, it was decided to issue 4,000,000 options to board member and President Zenon Potoczny and 2,000,000 options to board member Richard N. Edgar. It was also decided to issue 2,000,000 options to CFO Joakim Hedlund. All these options are outstanding. Each option gives the holder the right to apply for one (1) class B share at a price of SEK 0.89 per share; otherwise conditions are the same as those decided for the program in July 2009. The issue is of class B shares only and must be subscribed during the period 15–31 January 2013. If fully subscribed the company's share capital will increase by SEK 800,000. A premium of SEK 0.07 applies to each option. The premium was set by a market evaluation calculated in accordance with the Black & Scholes options pricing model. Since fair value was paid for the options, they do not affect the accounts. In 2010 all 8,000,000 share warrants were acquired, and share option premiums totalling SEK 560,000 were paid to the company.

Income

With effect from 1 January 2010, the company has had revenue from the sale of crude oil. Income hitherto has consisted of interest income. Revenue includes the fair value of services sold, excluding Value Added Tax. Revenue is reported as follows:

Sale of oil

Through the acquisition of Shelton Canada Corp., the company reports its first revenues from 1 January 2010. Revenues for the period January - December 2010 refer to the sale of oil from the Ukrainian operation. Sale of oil in Ukraine is by auction. 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 to which it is probable that the financial benefits will come to the group and when revenue can be calculated in a reliable manner. Revenue is recognized during the period it refers to. Income in Russia amounted to zero since sales had not yet begun.

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 a time-proportion basis using the effective interest method.

Leasing

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

Risk management

In its line of business, a group is exposed to many different risks: risks connected with the business and market, political and country related risks and financial risks. The Group has implemented risk management structures and control procedures in order to establish calculation, assessment and management of these exposures and related risks. Shelton Petroleum's risk management is described in the company's corporate governance report on page 32.

Risks connected 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 owned not 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 that group will be able to validate its rights in other respects, which could in turn have negative effects on the group.

Maintaining licenses is 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 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.

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 uninsurable 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 a period of time. There is no guarantee that the estimated reserves or resources as presented will not be amended over the course of time. If estimates should prove to be incorrect, this may have a negative effect on the value of the Group's assets and on the group's future prospects.

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 limit 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 fulfil 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 fulfil 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 breakdowns occur to infrastructure or systems, or if these do not meet the Group's needs, the Group's activities can be made considerably more difficult, which can lead to lower production and sales and/or higher costs. Much infrastructure in Russia and Ukraine, such as pipelines, railroads, roads, power grids and communications systems, has historically shown weaknesses that could have a negative effect on the Group's operations through stoppages or disturbances, which could lead in turn to lower production or higher costs for the group.

Sales of oil and natural gas

The Group's ability to sell its produced oil and gas depends on the availability and capacity of collection systems, pipelines and other production and transport systems, the effect of current regulations, prevailing economic conditions and the general availability of and demand for oil. Defects could lead to a reduction in the Group's net income from production and cause a 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 gas. Any major and lasting fall in the price of oil or natural gas could have a negative effect on the Group's operations, future prospects and profits. The economic assumptions for oil and natural gas production are also changed in the event of lower oil and natural gas prices. A fall in prices could lead to a lessening of the volumes of the reserves that the Group could economically extract, since the Group may abstain from producing from wells if prices fall below a certain level. These factors could lead to a reduction in the Group's net income from production and cause a lessening of the Group's operations in oil and natural gas exploration and development.

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 cover

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 cover for the risks and losses that might affect operations.

Political and country related risks

Political risk

Through its operations in countries in the former Soviet Union, the Group is exposed to political risks both regionally and nationally. Russia, Ukraine and other countries in the region have seen major political change, from a communist state with a planned economy to today's more democratic, market economics model. This gradual transition exposes Russia's and Ukraine's political systems to dissatisfaction among some of the countries' inhabitants. Domestic conflicts in both Russia and Ukraine could 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. Changes in such regulations could have a negative effect on the group's operations and development. It is relevant here that the Group's assets, oil production and exploration activities are in countries with legal systems that are different from that of Sweden. Exploration rights and related agreements are subject to the laws of Russia and Ukraine where the 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 can be tightened up, 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 fulfil their environmental obligations.

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 yield 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 distributed to investors 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 notes 15 and 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 bond equities, 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 fulfil working obligations in license agreements, which may in turn 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 any available 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 farm out to other companies' part of the future earnings from a license against that company assuming costs responsibility for all or part of the work that must be associated with a license. This would mean that the Group would be able to fulfil 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 Rouble and Hryvna will be liquid or effective methods of payment in the future. Changes in the currency market regulations 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.

Impairment risk

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 existing of commercially exploitable oil and gas. The Group also has shareholdings of considerable value that are assessed at fair value. The future value of such assets is always subject to uncertainty.

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 existing 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 91 million.

Tax risk and capital reversal 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 declarations. Changes in the tax system that are applied retroactively by the authorities can affect previously submitted declarations. Even if the Group judges that adequate provisions have been made based on the Group's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Russia or Ukraine may have a different interpretation. This involves a risk that the Group may be subject to further taxes or fines that can add up to considerable amounts and have a negative effect on the value of the Group's assets.
Value added tax is normally reversed 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 reversal only occurred after court proceedings, which involves a risk of a negative effect on the Group's liquidity.
The Group's legal structure is based on assumptions regarding applicable legislation. Changes to legislation in Russia or Ukraine could involve negative tax consequences. Revision of the Swedish, Canadian or Cypriot tax system could also involve, for example, a change in income tax or company tax and might involve a changed tax situation for the group that could have a negative effect on the Group's financial position.

Currency risk

Exchange rate fluctuations and any Russian or Ukrainian currency regulations can affect the Group's assets and revenues. The Group's subsidiary in Russia uses the Rouble as its base currency and prepares its reports in Roubles. The costs are very largely Rouble-based. The corresponding currency in Ukraine is the Hryvna (UAH). The Group has chosen, for the time being, 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 Rouble, 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.

Interest risk

The Group is currently mainly financed through equity. As the Group does not have any material interest-bearing loan finance, the management considers that the interest risk does not constitute a material risk. If and when the Group takes out 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 credit

The Group is exposed to various credit risks, in the form for example 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. The 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 interests of the group and its partners may come to differ, which has a negative effect on the Group's operations. Neither can it be guaranteed that the Group's partners will always be able or willing to fulfil 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 that the group's partners, with or without grounds, claim 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 could lead in turn 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 judgements for accounting purposes

Estimates and judgements 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.

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

The Group tests annually whether there has been any impairment loss on capitalized expenditure for exploration and the evaluation of mineral assets, and goodwill in accordance with the accounting policy described above for non financial assets. In assessing the value of goodwill, no circumstances or facts indicating that a write-down would be justified have come to light.

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

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

The value of the intangible assets, and the capitalized exploration and evaluation expenditure, amounts to SEK 58.0 million. If the assumptions for the underlying assessments that lie behind the value of the intangible assets should change, and facts and circumstances come to light-indicating that impairment tests need to be conducted, the value may need to be written down. No circumstances or facts indicating that a write-down would be justified have come to light.
The value of the assets depends on:

- 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 capital 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 cash equivalents and the assumption that the group can finance itself through one or more of the above ways.

Convertible loan

To determine the equity component of the convertible loan a 15 percent discount rate of interest has been used, which 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 entirely attributable to value adjustments on intangible and tangible assets of acquired subsidiaries. The Group also has tax losses for which no deferred tax assets have been recorded on the basis of the fact that it is uncertain when these will be utilized.

NOTE 2

Acquisition of subsidiaries

1. Petrosibir Exploration AB

On 20 May 2009, Shelton Petroleum AB ("Shelton") (the former Temporär Förvaltning i Stockholm AB) acquired Petrosibir Exploration AB ("Exploration") (formerly Petrosibir AB). The acquisition took place through a private placement of shares to existing shareholders in Exploration. As a result of the issue, the former shareholders of Exploration became the principal owners of Shelton and the continuing operations essentially became a continuation of Exploration's activities. The transaction has therefore been recorded as a 'reverse takeover' in accordance with IFRS 3 *Business Combinations*, which means that no revaluation of Exploration's assets and liabilities has been done and that the consolidated accounts are prepared as if Exploration had been acquired by Shelton.

The number of shares issued amounted to 139,246,835 with an appraised value of SEK 0.55 per share. In addition, there were acquisition costs of SEK 1,840 thousand. This is reflected in the parent company's equity. However, the consolidated accounts does have acquisition value, in accordance with IFRS 3, calculated on the number of shares outstanding in Exploration immediately prior to the acquisition, namely 68,996,977 shares, with an estimated value of SEK 0.55. After the acquisition, Shelton's holding in Exploration amounted to 100 percent. Shelton's contribution to the consolidated net income for the period 20 May to the end of the period amounted to SEK 428 thousand.

If the acquisition had been completed on 1 January 2009 the Group pro forma revenues would not have been affected and the Group's pro forma results would have been SEK 981 thousand lower.

The table below shows the fair values of acquired assets, liabilities and contingent liabilities in accordance with IFRS at the date of acquisition. The fair values comply with book values.
The acquired financial assets relate to a loan made by Shelton for Exploration prior to the acquisition. The cash flow statement has this loan, together with the acquired cash and cash equivalents, accounted for as a positive entry under investment activities.

	Fair value (SEK thousand)
Financial assets	12,000
Current assets	1,992
Cash and cash equivalents	20,013
Current liabilities	–1,023
Net assets	32,982
Goodwill	6,807
Purchase price	**39,789**

2. Shelton Canada Corp.

31 December 2009, Shelton acquired Petroleum AB, the Canadian company Shelton Canada Corp. ("Shelton Canada"). The acquisition was completed through a directed new share issue of shares to existing shareholders in Shelton Canada and to holders of warrants and convertible bond equities issued by Shelton Canada. The number of shares issued amounted to 171,925,223 with an appraised value of SEK 0.55 per share.
In addition, there were acquisition costs of SEK 2,571 thousand. The total cost of acquisition of shares thus amounted to SEK 97,129 thousand. After the acquisition, Shelton's holding in Shelton Canada amounted to 100 percent. Since the acquisition was completed on 31 December 2009, Shelton Canada has not affected the Group's 2009 results.

If the acquisition had been completed on 1 January 2009 the Group pro forma revenues would have been SEK 24,373 thousand higher and the Group's pro forma results would have been SEK 14,002 thousand lower.
The following table presents the book values and adjustments of fair values of acquired assets, liabilities and contingent liabilities in accordance with IFRS at the date of acquisition.

SEK thousand	Book value	Adjustment	Fair value
Intangible fixed assets	33	18,331	18,364
Tangible assets	18,942	73,324	92,266
Financial assets	165		165
Stock	4,191		4,191
Other operating revenue	6,141		6,141
Cash and cash equivalents	12,347		12,347
Deferred tax	0	–22,912	–22,912
Provisions	–187		–187
Current liabilities	–13,246		–13,246
Net assets	**28,386**	**68,743**	**97,129**

Acquired intangible and tangible assets based on the values of Shelton Canada's Ukrainian exploration licenses and Shelton Canada's current oil production in Ukraine.

The provisional allocation for intangible non-current assets, i.e., exploration licenses, fixed assets (oil and gas properties where production has commenced), and the deferred tax liabilities based on preliminary evaluation data, estimates and assumptions that are subject to change. Amendments to the final determination of the fair value of assets and liabilities may affect the value of the intangible non-current assets, property, plant and equipment, deferred tax liabilities and possibly goodwill.

When the acquisition is completed by a non-cash share issue the cash flow is only affected by the acquired cash and cash equivalents and acquisition costs in connection with the acquisition. The cash flow statement is recorded as a positive record under investment activities.

NOTE 3

Segment information

The Group reports on the basis of two reportable operating segments: Ukraine and Russia. The operating segments are reported on using the same accounting principles as the Group and Group management perform income measurement on operating revenues and revenues before tax. The activities of the Russian and Ukrainian segments consist of developing and extracting oil and gas reserves and of exploration to discover new reserves. The activities of the Other segment consists of handling overall financing for the Group including borrowing capital from external banks and other capital acquisition. This segment is also responsible for preparing consolidated accounts and financial reporting to the market. The reportable operating segments' income, costs, assets and liabilities include directly referable items as well as items that can be distributed among operating segments in a reasonable and reliable way. Internal reported income refers to onward invoicing of costs referring to management services. Market terms in accordance with the arms length principle are applied to transactions between operating segments. Financial income and costs are stated as gross in the tables below and net in the consolidated statement of comprehensive income. Assets and liabilities that are included in the lists refer to all assets and liabilities. The Eliminations column refers to elimination of Group transactions between operating segments.

January–December 2010 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Income statement					
Income, external	0	29,291	0	0	29,291
Income, internal	0	0	638	–638	0
Raw materials and necessities	0	–17,639	0	0	–17,639
Other operating costs	–2,825	– 5,867	–15,039	638	–23,093
Operating profit	**–2,825**	**5,785**	**–14,401**	**0**	**–11,441**
Financial income	453	1,677	5,352	–5,570	1,912
Financial expenses	–4,209	–20	–5,564	8,323	–1,470
Result before tax	**–6,581**	**7,442**	**–14,613**	**2,753**	**–11,000**
Tax income	0	0	655	0	655
Tax costs	–843	–1,229	0	0	–2,072
Result for the period	**–7,424**	**6,213**	**–13,958**	**2,753**	**–12,417**

In 2009 the Group had only one segment, Russia, which is why no comparison figures for segments are reported.

31 December 2010 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Balance sheet					
Assets					
Tangible and intangible non-current assets	96,569	109,327	3	0	205,899
Financial fixed assets	0	156	368,116	–276,764	91,508
Current assets, external	6,792	15,449	7,164	0	29,405
Current assets, internal	0	0	11,490	–11,490	0
Liabilities					
Long-term liabilities	82,978	0	67,361	–121,363	28,976
Current liabilities	4,920	605	20,981	–18,455	8,051
Investments in tangible and intangible non-current assets	16,677	10,300	0	0	26,977

NOTE 4

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

	Basic salary/fees*	Variable benefits*	Other remuneration	Pension cost	Total
Per Höjgård, Chairman	175	0	0	0	175
Ulf Cederin, Director	75	0	0	0	75
Richard N. Edgar, Director	72	0	0	0	72
Peter Geijerman, Director	75	0	0	0	75
Bruce D. Hirsche, Director	72	0	0	0	72
Katre Saard, Director	75	0	0	0	75
Robert Karlsson, CEO	1,100	0	12	292	1,404
Zenon Potoczeny, vice CEO and Director	1,029**	0	0	0	1,029
Other senior executives, 2 in total***	752	0	0	127	879
Total for board and management	**3,329**	**0**	**0**	**419**	**3,853**

* The fees agreed at the 2010 AGM will be paid during 2011.
** Refers to salary only, does not receive a director's fee.
*** Sergey Titov only receives a consultancy fee, see also note 21.

Remuneration to personnel and senior executives during 2009 (SEK thousand)

	Basic salary/fees	Variable benefits	Other remuneration	Pension cost	Total
Jan Johansson, Chairman	75	0	0	0	75
Per Höjgård, Director	131	0	0	0	131
Peter Geijerman, Director	75	0	0	0	75
Cheddi Liljeström, Director	38	0	0	0	38
Katre Saard, Director	75	0	0	0	75
Johan Boheman	33	0	0	0	33
Erik Lindholm	33	0	0	0	33
Ulf Cederin	36	0	0	0	36
Robert Karlsson, CEO	910	0	0	214	1,124
Other senior executives, 3 in total	992	0	0	130	1,122
Total for board and management	**2,398**	**0**	**0**	**344**	**2,742**

2010 guidelines for remuneration of senior executives

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

Remuneration and benefits to the board
The total remuneration for financial year 2010 to the Board amounted to SEK 544 thousand, of which SEK 175 thousand related to remuneration for the Chairman. For the split among other board members, see the table above.

Remuneration and benefits to the CEO
Remuneration to the CEO in 2010 was SEK 1,392 thousand, consisting of a fixed salary of SEK 1,100 thousand and a pension cost of SEK 292 thousand. The CEO has a defined contribution pension plan, and receives a contribution to this amounting to 25 percent of salary per year. In accordance with this defined contributions system, the pension entitlement is earned by the Group's annual payments of premiums. The CEO also has a car benefit amounting to SEK 12 thousand in 2010.

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

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

Gender distribution
The board members and the CEO in the parent company total 8 people, of which 7 are men and 1 is a woman.

	2010			2009		
Average number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Sweden	2	2	0	2	2	0
Russia	20	14	6	18	14	4
Ukraine*	20	16	4	–	–	–
Canada	2	2	0	–	–	–
Total	**44**	**34**	**10**	**20**	**16**	**4**

* includes total number of employees in Kashtan, which is 45% owned.

Salaries and remuneration for all employees and board (SEK thousand)*	2010	2009
Senior executives and Board	3,341	2,476
Pension expenses	419	333
Other employees	5,041	1,739
Pension expenses	736	0
Social security costs	1,039	1,294
Total	**10,577**	**5,842**

* Remuneration to the board is included in other external costs.

Geographical distribution (SEK thousand)	2010	2009
Sweden	3,808	3,184
Russia	4,027	2,658
Ukraine	962	0
Canada	1,780	0
Total	**10,577**	**5,842**

NOTE 5

Payments to auditors (SEK thousand)

	2010	2009
Ernst & Young		
Audit assignments	848	355
Non-audit assignments	572	434
Other services	125	0
Total	**1,545**	**789**
Grant Thornton		
Audit assignments	0	200
Total	**0**	**200**
Alinga		
Audit assignments	34	0
Total	34	0
Total	**1,579**	**989**

By audit assignment is meant 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 to be non-audit assignments.

NOTE 6

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

	2010	2009
Machinery and inventories	16	294
Oil and gas assets	1,882	0
Total	**1,898**	**294**

NOTE 7

Financial income (SEK thousand)

	2010	2009
Exchange rate differences reported in the income statement	0	434
Interest income, other*	1,912	211
Total	**1,912**	**645**

* Of which retained interest 1 697 (211).

NOTE 8

Financial costs (SEK thousand)

	2010	2009
Exchange rate differences reported in the income statement	–732	0
Interest expense, convertible	0	–284
Interest expense, other*	–738	–197
Total	**1,470**	**–381**

* Of which paid interest costs –738 (–197).

The convertible bond was issued to finance part of the development in Russia. Interest costs for the convertibles have therefore been realized as tangible oil and gas assets in the group. Realized interest costs amount to 4,214 (0).

NOTE 9

Income tax (SEK thousand)

	2010	2009
Current tax	–822	0
Deferred tax	–595	881
Total	**–1,417**	**881**

Reconciliation of tax for the period	**2010**	**2009**
Reported pre-tax profit	–11,000	–16,400
Tax at current tax rate	2,893	4,313
Difference in tax rate in foreign operations	–308	–559
Non-deductible/non-taxable items	863	–3
Deductible items not included in reported result	2,057	1,974
Deferred tax attributable to convertible loans	655	–32
Effect of changes in current tax rate	0	914
Other	0	0
Valuation of tax loss carry forwards	–7,577	–5,725
Reported tax	**–1,417**	**881**

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 25 percent in Ukraine. As at 31 December 2010, the Group had tax loss carry forwards of SEK 104 million (74 million). Deferred tax assets attributable to tax loss carry forwards are only recognized to the extent that it is probable that they will be utilized. As the company's future opportunities to utilize these tax loss carry forwards are uncertain, no deferred tax loss has been recognized. The value of the tax loss carry forwards is approx. SEK 25 million. There is no limit to the use of tax loss carry forwards.

Deferred tax assets and liabilities are attributable to the following:

Deferred tax liabilities	**2010**	**2009**
Intangible fixed assets	8,580	10,258
Tangible assets	17,783	17,184
Convertible bond	1,462	1,354
Total	**27,827**	**28,796**

Change in net deferred tax assets and liabilities

Deferred taxes 2010	**Opening balance**	**Reported statement of comprehen-sive income**	**Charged to equity**	**Acquisition of subsid-iaries**	**Exchange differences**	**Closing balance**
Intangible fixed assets	10,258	–1,146	0	0	–532	8,580
Tangible assets	17,184	1,553	0	0	–952	17,783
Convertible bond	1,354	188	80	0	0	1,462
Other	–165	0	0	0	9	–156
Total	**28,631**	**595**	**80**	**0**	**–1,475**	**27,671**

Deferred taxes 2009	**Opening balance**	**Reported statement of comprehen-sive income**	**Charged to equity**	**Acquisition of subsid-iaries**	**Exchange differences**	**Closing balance**
Intangible fixed assets	6,002	–913	0	5,278	–559	10,258
Tangible assets	0	0	0	17,184	0	17,184
Convertible bond	0	32	1,322	0	0	1,354
Other	0	0	0	–165	0	–165
Total	**6,002**	**–881**	**1,322**	**22,747**	**–559**	**28,631**

NOTE 10

Intangible non-current assets (SEK thousand)

Goodwill	2010	2009
Accumulated acquisition values		
At start of year	6,807	0
Acquisition of subsidiaries	0	6,807
Carrying amount at year-end	6,807	6,807

Oil and gas properties and licenses	2010	2009
Accumulated acquisition values		
At start of year	98,411	67,599
Acquisition of subsidiaries	0	18,375
Capitalization for the year	16,677	18,948
Reclassification to tangible assets	–50,963	0
Exchange differences	–6,151	–6,511
Total accumulated acquisition values	57,974	98,411
Accumulated depreciations at start of year	–11	0
Acquisition of subsidiaries	0	–11
Depreciations for the year	–6	0
Total accumulated depreciations	–17	–11
Carrying amount at year-end	**57,957**	**98,400**

The intangible assets referring to oil and gas properties and licenses have been distributed among cash generating units and tested for impairment. The group assesses its intangible assets, its exploration and evaluation assets and its oil and gas assets for possible impairment on events and changed circumstances that give an indication that the reported value of an asset cannot be justified. Such indications comprise changes in the Group business plans, changes in raw material prices leading to lower revenues, and, for oil and gas holdings, a lowering of the estimated quantities of reserves. On making such impairment tests management has decided that the same risk exists in 2010 as in 2009. The main assumptions made have been as follows (same as preceding year).

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

The book value of the group's and the subsidiaries' intangible and tangible oil and gas assets amounts to 95,388 in Russia and 109,126 in Ukraine.

The book value of the group's and the subsidiaries' intangible and tangible oil and gas assets is affected by changes in exchange rates. Changes in other intangible assets in the Russian subsidiary ZAO Ingeo Holding relate mainly to a reclassification of the company's capitalized exploration and evaluation costs as tangible assets since the company's two exploration wells in the Rustamovskoye field have demonstrated commercial production and a production license has been obtained.

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

NOTE 11

Tangible assets (SEK thousand)

Oil and gas assets	2010	2009
Accumulated acquisition values		
At start of year	108,307	0
Acquisition of subsidiaries	0	108,307
New acquisitions	10,152	0
Reclassification from intangible assets	50,963	0
Sales	–418	0
Exchange differences	–5,712	0
Closing accumulated depreciation	163,292	108,307
Accumulated depreciation		
At start of year	–16,060	0
Acquisition of subsidiaries	0	–16,060
Sales	224	0
Depreciations for the year	–1,876	0
Exchange differences	975	0
Closing accumulated depreciation	–16,735	–16,060
Carrying amount at year-end	**146,557**	**92,247**

Inventory	2010	2009
Accumulated acquisition values		
At start of year	1,970	841
Acquisition of subsidiaries	0	226
Sales	–3	0
New acquisitions	148	991
Exchange differences	–131	–88
Closing accumulated depreciation	1,984	1,970
Accumulated depreciation		
At start of year	–624	–136
Acquisition of subsidiaries	0	–208
Depreciation for the year	–16	–298
Sales	30	0
Exchange differences	11	18
Closing accumulated depreciation	–599	–624
Carrying amount at year-end	**1,385**	**1,346**

Total non-current assets, besides financial non-current assets, which are localised in Sweden is 0 (6,807) and the total of such non-current assets which are in other countries is 212,706 (191,993).

NOTE 12

Financial assets available for sale (SEK thousand)

Change during the year	2010	2009
As at 1 January	–	–
Purchase	92,650	–
Losses transferred to other comprehensive income	–1,297	–
As at 31 December	91,352	–

Financial assets available for sale include the following	Location	% share	Book value 31.12.2010	Book value 31.12.2009
Listed securities, Shares				
Baltic Oil Terminals PLC	United Kingdom	19.5	42,133	0
Unlisted securities, Shares				
Tomsk Refining AB	Stockholm	15	49,220	0
Total			**91,352**	**0**

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 share capital and does not have determining influence. Valuation is at fair value directly to other comprehensive income.

Baltic Oil Terminals PLC is listed on AIM in London. The Group's holding is 14,957,368 shares, closing price on 31.12.2010 was 26.7 pence, and exchange rate GBP/SEK was 10.55. After a new issue of shares in Baltic Oil Terminals PLC, Shelton Petroleum's holding corresponds to about 16 percent of share capital.

Shares in Tomsk Refining AB were acquired on 2010. The market value is judged to be unchanged as at 31.12.2010 compared with the date of acquisition.

NOTE 13

Interests in affiliated companies (SEK thousand)

The table below gives a specification of the Group's subsidiaries as at 31.12.2010. 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 capital	The Group's share profit for the year	Business
Petrosibir Exploration AB	Stockholm	100	71,837	1,106	Holding company
Novats Investment Limited	Cyprus	100	24,717	–2	Holding company
Shelton Canada Exploration Limited	Cyprus	100	–3	–3	Holding company
Shelton Canada Energy Limited	Cyprus	100	–3	–3	Holding company
Shelton Canada Black Sea Corporation	British Virgin Islands	100	–3	–3	Holding company
ZAO Ingeo Holding	Russia	100	–14,513	–6,425	Exploration and production of oil and gas
Shelton Canada Corporation	Canada	100	37,243	–5,154	Holding company
Zhoda (2001) Corporation	Ukraine	100	0	–	Holding company
Kashtan Petroleum Limited	Ukraine	45	33,106	5,031	Exploration and production of oil and gas
JIA # 2847 Limited	Ukraine	50	1,876	–40	Exploration and production of oil and gas

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

Participating interests in Joint Ventures

The Group owns a 45 percent participating interest in Kashtan Petroleum Ltd (Kashtan) and a 50 percent participating interest in Joint Investment Activity # 2847 (JIA) in Ukraine. Kashtan operates the oil producing field Lelyaki in Chernigov and JIA possesses three offshore licenses in the Black Sea. The company is jointly controlled along with the other shareholders. The Group's proportion of assets and liabilities as of 31 December 2010, which was adopted in the Statement of financial position in accordance with the Proportional Method, is presented in the table below. As the Group acquired the proportions on 31 December 2009, the Group is not liable for any proportion of the revenues and costs for 2009.

	2010	2009
Current assets	15,449	22,826
Tangible assets	20,315	19,122
Current liabilities	–605	–9,831
Long-term liabilities	–178	–187
Equity capital	**34,981**	**31,930**

The Group's proportion of assets and liabilities, which were adopted in the income statement in accordance with the Proportional Method, is presented in the table below. As the Group acquired the proportions on 31 December 2009, the Group is not liable for any proportion of the revenues and costs for 2009.

	2010	2009
Income	29,291	–
Operating costs	–25,135	–
Financial items	1,657	–
Tax	–822	–
Profit for the year	**4,991**	**–**

Note 14

Other long-term receivables (SEK thousand)

	2010	2009
Value Added Tax receivable	0	2,533
Total	**0**	**2,533**

Note 15

Stock (SEK thousand)

	2010	2009
Crude oil	2,568	4,097
Other	80	95
Total	**2,648**	**4,192**

Note 16

Loan receivables and current financial assets (SEK thousand)

In December 2009, the company provided a loan of 21,637 (USD 3 million) to one of the major shareholders in Tomsk Refining AB. The loan carried for 240 days and had a rate of interest of 1 percent. The company has also concluded an option agreement with the debtor which gives Shelton the right, but not the liability, to instead of receiving repayment including interest, to acquire all of the debtor's share warrants in Tomsk Refining AB for a takeover price which is equal to the amount of the loan including interest and additionally either series B shares in Shelton or cash. The option is valued at 577 in the balance sheet dated 31.12.2009.

On 21 September 2010, Shelton Petroleum acquired the shares of Tomsk Refining AB for a purchase sum of USD 1,000,000 and set-off of a loan of USD 3,000,000 USD as well as a new issue of 31,140,845 class B shares in Shelton Petroleum. There have been no dividends or distribution regarding these shares during the year. Shelton Petroleum has made full payment for the shares in Tomsk Refining and has no obligation to Tomsk Refining. The shareholding corresponds to 15 percent of the outstanding shares of Tomsk Refining AB.

Note 17

Other receivables (SEK thousand)

	2010	2009
Value Added Tax claim	3,228	3,296
Receivable convertible cash and cash equivalents	0	540
Accounts receivable	350	0
Advance payments	468	2,980
Other receivables	219	149
Total	**4,265**	**6,965**

Note 18

Equity capital

The table below shows the changes in Shelton Petroleum's share capital. The company has 532,009,880 outstanding shares, of which 9,028,593 are A shares (10 votes per share) and 522,981,287 are B shares (1 vote per share). The total number of votes is 613,267,217.

	Number of shares
As at 31 December 2009	**208,243,812**
Registration of shares issued 2009	171,925,223
New issues 2010	150,140,845
Exchange convertibles 2010	1,700,000
As at 31 December 2010	**532,009,880**

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

During the fourth quarter of 2009, convertible bond equities were issued for approximately SEK 30,540 thousand. SEK 1,200 thousand of these have been converted into shares during 2010. If all the convertible bond equities were immediately converted to shares, the number of series B shares in the company would increase by approximately 49,200,000 shares.

A complete dilution of shares would result in the number of shares amounting to 593,886,692. The shares have a quota value of SEK 0.10.

Financing

The Group has thus far 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 owner of Shelton Canada Corp. in order to complete the merger.

Directed issue June 2010

With the authority of the annual general meeting of 17 May 2010, the Board decided on 22 June 2010 to issue 50 million class B shares corresponding to a dilution of about 12 percent. The shares were subscribed by qualified investors and certain other selected investors. The issue was performed at a price of SEK 0.60 per share and brought the company about SEK 30 million before issue costs.

Directed issue August 2010

On 27 August the Board decided, on the authority of the annual general meeting of 17 May 2010, on an issue directed at certain selected investors comprising 15 million shares, corresponding to a dilution of about 3 percent. The issue was performed at a price of SEK 0.71 per share and brought the company about SEK 10.6 million before issue costs.

Exchange rate differences in equity

As of 31 December 2010, the reported rate differences under other comprehensive income amounted to SEK 10,834 thousand (–5,850). The restatement differences arise upon restating the foreign subsidiaries' balance and income statements, as assets and liabilities are recalculated, or restated, at the exchange rate applicable on the balance sheet day, and income and expenses are restated with the help of average exchange rates.

Restatement differences also arise upon the restatement of monetary claims 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 debited from the Statement of comprehensive income, except for loans in foreign currencies that constitute a currency collateral of a net investment in an overseas business. These exchange rate differences are accounted for in the Statement of comprehensive income.

Management of liquid funds

Management manages capital that has not yet been distributed to investors or in operations by investing liquid funds in various credit institutions with a high credit rating and at the best possible return.

Note 19

Loan liabilities (SEK thousand)

	2010	2009
Convertible loan	26,670	25,799
Other loan liabilities	2,306	0
Total	**28,976**	**25,799**

During the fourth quarter of 2009, convertible bond equities were issued for approximately 30,540. 1,200 of these have been converted into shares during 2010. If all the convertible bond equities were immediately converted to shares, the number of series B shares in the company would increase by approximately 49,200,000 shares. The equity component of the loan constituted 2,078 (1,998) net after deferred tax as of the the balance sheet day. The loan carries a fixed interest rate of 8 percent and is due for payment on 31 December 2011, to the extent that conversion does not take place earlier. Other loan liabilities is a loan of RUB 10,338 thousand, to suppliers that does not carry interest.

Note 20

Other current liabilities (SEK thousand)

	2010	2009
Deduction at source	90	81
Compulsory employer contributions	208	0
Value Added tax	2	1,569
Royalties	0	1,039
Other taxes	44	193
Other	923	1,570
Total	**1,267**	**4,452**

Note 21

Accrued expenses and prepaid revenue (SEK thousand)

	2010	2009
Interest costs	60	0
Acquisition and new issue costs	700	1,840
Audit fees	200	870
Pension costs and social security	152	100
Remuneration to the board	205	202
Other items	517	744
Total	**1,834**	**3,756**

Note 22

Related party transactions (SEK thousand)

	2010	2009
Purchase of services		
Purchase of services from ACM	2,600	6,885
Purchase of services, from Sergey Titov	360	515
Purchase of services, from #Co 1144449 Alberta Ltd	840	0
Purchase of services, lawyers Parlee McLaws LLP	422	0
Balances carried forward at the year end		
Liabilities to related parties	1,639	3,611

Remuneration to senior executives

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

Other transactions with related parties

During 2008 Shelton Petroleum signed a contract for financial advising and equity funding with Alpcot Capital Management Ltd ("ACM"). The agreement is results-based and involves no ongoing monthly cost. The fiscal year is encumbered with SEK 2,600 (6,885) thousand as remuneration to ACM which has been made in conjunction with capital acquisition and the transaction with Baltic Oil Terminals PLC. ACM is controlled by a number of Shelton Petroleum's shareholders, one of whom is also a director of Shelton Petroleum.

There has been a consultancy agreement in force since 1 January 2010 between the Group and a company (#Co 1144449 Alberta Ltd) of which Richard N. Edgar (director) is one of several owners. The agreement relates to project management, business development and geological expertise. During the 2010 financial year, remuneration has averaged CAD 10,000 per month, corresponding to a total of approximately SEK 840,000 during 2010.

During the 2010 financial year, the law firm Parlee McLaws LLP, of which Bruce D. Hirsche (director) is one of several owners, has received remuneration of approximately CAD 65,000, corresponding to about SEK 422,000, for legal services, primarily in connection with the merger between the company and Shelton Canada Corp. (services that were mainly performed during 2009) but also for certain other legal services regarding Shelton Canada Corp.

During 2009 and 2010, certain directors have acquired share warrants in the company at prices which are adjusted to the market.

Note 23

Result per share, before and after dilution

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

Since the result is negative there is no dilution effect due to outstanding share options or convertible bond equities. This is because the result per share would be improved if account were taken of the dilution effects. No dividend has been paid for the current or previous financial years.

	2010	2009
Result attributable to equity holders of the parent company (SEK thousand)	–12,417	–15,519
Weighted average number of ordinary shares in issue	424,929,104	159,302,635
Result per share, before and after dilution (SEK/share)	–0.03	–0.10

Note 24

Financial instruments (SEK thousand)

Group 2010

Category	Loans and accounts receivable	Other financial liabilities	Financial assets available for sale	Investments valued at fair value via the Statement of comprehensive income	**Reported value carried forward**
Assets					
Long term financial assets			91,352		91,352
Other receivables	350				350
Cash and cash equivalents	22,171				22,171
Total assets	**22,521**	**0**	**91,352**	**0**	**113,873**
Liabilities					
Long-term liabilities		28,976			28,976
Accounts payable		3,236			3,236
Other liabilities		923			923
Total liabilities	**0**	**33,135**	**0**	**0**	**33,135**

Group 2009

Category	Loans and accounts receivable	Other financial liabilities	Financial assets available for sale	Investments valued at fair value via the Statement of comprehensive income	**Reported value carried forward**
Assets					
Short term loans	21,061				21,061
Current financial assets				577	577
Other receivables	689				689
Cash and cash equivalents	32,725				32,725
Total assets	**54,363**	**0**	**0**	**577**	**55,052**
Liabilities					
Long-term liabilities		25,799			25,799
Accounts payable		7,688			7,688
Other liabilities		2,910			2,910
Total liabilities	**0**	**36,397**	**0**	**0**	**36,397**

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

Fair value estimation

From 1 January 2009, the Group applies the amendment to IFRS 7 Financial Instruments, which measures at fair value on the Statement of financial position. Thus, data is required of the valuation at fair value at the level of the following fair value hierarchy:

- Quoted prices (unadjusted) quoted prices 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 are not based on observable market data (i.e., not observable data) (level 3)

As per 31 December 2009, the Group had current financial assets of 577 valued at fair value on the Statement of financial position. They are valued as per Level 3. As at 31 December 2010, the Group has financial assets that are available for sale in other comprehensive income of 42,133 valued as per level 1 and 49,220 as per level 3. The following table shows changes for instruments at level 3.

Opening balance	**2010**	**2009**
Transfers to and from level 3.	577	0
Purchase (see note 12)	49,220	577
Adjustment	–577	0
Closing balance	**49,220**	**577**

Maturity

The Group's financial liabilities fall due as follows:

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

As at 31 December 2009	**Within 1 year**	**Between 1 and 2 years**	**More than 2 years**
Convertible loan (including interest payments)	2,396	33,191	0
Accounts payable	7,688	0	0
Other liabilities	2,912	0	0

Note 25

Provisions (SEK thousand)

Reserve for restoration costs	**2010-12-31**	**2009-12-31**
Ukraine	178	187
Russia	148	0
Total	**326**	**187**

Restoration costs are reported as provisions based on the present value of the costs that are estimated to be needed to fulfil 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. During the year provisions have been made for restoration costs in Russia, since the company has started test production. No provisions have been reversed or utilized during the year.

Note 26

Commitments

Operational leasing

The group's business is dependent to a certain extent on rented premises and equipment. The rental (leasing charges) is written off in the period when they fall due. The group has no remaining lease contracts as at 31.12.2010. Future minimum lease payments as per closure of accounts total:

	2010	2009
Lease payments within 1 year	221	311
Lease payments between 1 and 5 years	0	286
Lease payments after 5 years	0	0
	221	597

In 2010 the rental and leasing charges amounted to SEK 300,000 (815,000).

Note 27

Contingent liabilities (SEK thousand)

	2010	2009
Collateral pledged	0	0
Contingent liabilities	0	0

(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 company's management believes that sufficient provisions for tax liabilities have been made, based on the management's interpretation of existing and previous tax legislation, the risk remains that the Ukrainian tax authorities may have different understandings of the interpretation. This uncertainty means there is a risk of additional taxation and fines that can be substantial amounts.

(iii) Contingent liabilities related to the oil business

Once the program is completed, Shelton Petroleum must restore the Group's drilling sites to their original state. The management considers that the costs of restoration do not have any material effect on the Group's financial situation.

(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 Ukraine economies depends on the effectiveness of the Government's economic policies, and the continued development of the legal and economic systems.

Note 28

Events after the balance sheet date

In January 2011, Shelton Petroleum started production of oil from well RS#1 in the Rustamovskoye field in Bashkiria. The company is therefore now producing oil from both the wells that were successfully drilled as part of the exploration program in the field. The company sells the oil on the local Russian market. The wells are now in a test phase aimed at optimizing production conditions and infrastructure, which involves irregular production with a lower average daily production than will be achieved when the company goes over to the ordinary production phase.

Shelton Petroleum owns fifteen percent of the Swedish company Tomsk Refining AB, which owns a newly built refinery in Russia through a subsidiary. At an extraordinary general meeting in February, the owners of Tomsk Refining decided to sell the company's subsidiary, and at the AGM on 4 May the company will decide to put Tomsk Refining into voluntary liquidation and to revert the company's assets to the shareholders.

Parent company statement of comprehensive income

Income statement (SEK thousand)	Note	2010	2009
Net sales	**1**	**453**	**245**
			245
Operating costs			
Other external expenses	1, 2	–5,571	–2,378
Personnel expenses	3	–3,369	–1,822
Total operating costs		**–8,940**	**–4,200**
Operating profit		**–8,487**	**–3,955**
Result from financial investments			
Other interest income and similar profit/loss items	4	1,568	1,982
Interest expense and similar profit/loss items	5	–4,926	–287
Total financial investments		**–3,358**	**1,695**
Result before tax		**–11,845**	**–2,260**
Tax	6	655	–33
Profit for the year		**–11,190**	**–2,293**

Other comprehensive

Profit for the year	**–11,190**	**–2,293**
Exchange rate differences	–215	0
Total other comprehensive income	**–215**	**0**
Total comprehensive income	**–11,405**	**–2,293**

Parent company statement of financial position

Balance sheet (SEK thousand)	Note	2010-12-31	2009-12-31
ASSETS			
Fixed assets			
Interests in affiliated companies	7	175,555	175,555
Receivables from affiliated companies	8	48,323	26,271
Other long term securities	9	92,650	0
Total fixed assets		**316,528**	**201,826**
Current assets			
Current receivables			
Receivables from affiliated companies		3,135	1,182
Current financial assets	10	0	577
Loan receivables	10	0	21,061
Other receivables		440	668
Prepaid expenses and accrued income		321	147
Total current receivables		3,896	23,635
Cash and bank balances		3,617	11,217
Total current assets		**7,513**	**34,852**
TOTAL ASSETS		**324,041**	**236,678**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity capital			
Restricted equity			
Share capital	14	53,201	20,824
Current issue		0	94,559
Total restricted equity		53,201	115,383
Non-restricted equity			
Share premium reserve		191,274	25,837
Fair value fund		–215	0
Profit/loss brought forward		61,491	63,784
Profit for the year		–11,190	–2,293
Total non-restricted equity		241,360	87,328
Total equity		**294,561**	**202,711**
Long-term liabilities			
Convertible loan	11	26,670	25,799
Deferred tax		619	1,353
Total non-current liabilities		**27,289**	**27,152**
Current liabilities			
Accounts payable		536	4,001
Other liabilities		253	27
Accrued expenses and deferred income	12	1,402	2,787
Total current liabilities		**2,191**	**6,815**
TOTAL EQUITY CAPITAL AND LIABILITIES		**324,041**	**236,678**
Memorandum items			
Collateral pledged		None	None
Contingent liabilities		None	None

Parent company changes in equity

Changes in equity (SEK thousand)	Share capital	Other restricted/ reserve	Current issue	Share premium reserve	Fund for fair value	Retained profit	The year's profit	Total equity
Opening balance 01.01.2009	**37,948**	**5,964**	**0**	**25,940**		**17,806**	**–53,696**	**33,962**
Comprehensive income								
Profit for the year							–2,393	–2,293
Other comprehensive income								
Total comprehensive income							**–2,393**	**–2,393**
Transactions with the company's owners								
Appropriation of profits		–5,964				–47,732	53,696	0
Current issue			94,559					94,559
New stock issue	76,586							76,586
Issue costs				–2,570				–2,570
Reduction in share capital	–93,710					93,710		0
Equity part convertible loan after tax				1,998				1,998
Share warrants				469				469
Profit for the year							–2,293	–2,293
Opening balance 01.01.2010	**20,824**	**0**	**94,559**	**25,837**	**0**	**63,784**	**–2,293**	**202,711**
Comprehensive income								
Profit for the year							–11,190	–11,190
Other comprehensive income								
Exchange rate differences					–215			–215
Total comprehensive income					**–215**		**–11,190**	**–11,405**
Transactions with the company's owners								
Registration of new issue 2009	17,193		–94,559	77,366				0
Appropriation of profits						–2,293	2,293	0
New stock issue	15,014			89,700				104,714
Issue costs				–3,036				–3,036
Equity part convertible loan after tax				80				80
Share warrants				560				560
Exchange convertibles	170			767				937
Equity 31.12.2010	**53,201**	**0**	**0**	**191,274**	**–215**	**61,491**	**–11,190**	**294,561**

Parent company cash flow statement

Cash flow statement (SEK thousand)	Note	2010	2009
Operating activities			
Profit after financial items		–11,844	–2,260
Adjustments for non-cash items	13	–135	–662
Income tax paid		0	0
Cash flow from operating activities before changes in working capital		–11,979	–2,922
Cash flow from changes in working capital			
Decrease (+)/ increase (-) in receivables		–1,321	–1,862
Decrease (-)/ increase (+) in short-term liabilities		–2,896	5,361
Total cash flow from operating activities		**–16,196**	**577**
Investment activities			
Acquisition of subsidiaries	7	0	–4,410
Extended loans		–22,000	0
Sale of financial non-current assets	8, 10, 13	0	–46,963
Acquisition of financial non-current assets		–7,578	
Sale of long-term securities		0	0
Total cash flow from investing activities		**–29,578**	**–51,373**
Financing activities			
New stock issue		38,174	468
Net change in overdrafts		0	–2,570
Loans raised		0	28,834
Total cash flow from financing activities		**38,174**	**26,732**
Changes in cash and cash equivalents		–7,600	–24,064
Opening cash and cash equivalents		11,217	35,821
Closing cash and cash equivalents		3,617	11,217
Supplementary information			
Interest rate earnings		221	265
Interest rate expenses		–2,363	–3

Supplementary information

General information

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. Holdings in subsidiaries are reported according to the acquisition method. Other holdings of long term securities are valued at the lower of fair value and acquisition cost. If a loss of value can be assumed, impairment is performed. Impairments are reported in the statement of comprehensive income.

Notes to individual items

Note 1: Purchases and sales between group companies

The parent company's income is entirely from within the Group. None of the parent company's purchases are from within the Group.

Note 2: Fees and expenses (SEK thousand)	2010	2009
Ernst & Young		
Audit assignments	509	206
Non-audit assignments	572	350
Tax consultancy	0	0
Other services	125	0
Total	**1,206**	**556**

By audit assignment is meant the audit of the annual accounts, the accounting records and the administration by the board of directors and the CEO, as well as additional work given to the company's auditors and consultancy or other assistance resulting from observations made during the audit or completion of such additional work. Everything else is considered to be non-audit assignments.

Note 3: Personnel	2010	2009
Average number of employees		
The average number of employees is expressed as the number of hours of attendance paid for by the company in relation to normal working hours.		
Average number of employees was	2	2
of which women	0	0
Salaries, remuneration etc. (SEK thousand)		
Board and CEO:		
Salaries and fees	2,360	879
Pension expenses	419	125
	2,779	1,004
Other employees	110	270
Social security costs	929	391
Total board and others	**3,818**	**1,665**

Note 4: Other interest income and similar profit/loss items (SEK thousand)	2010	2009
Interest income	221	265
Interest income, Group	1,347	772
Exchange rate differences	0	945
Total	**1,568**	**1,982**

Note 5: Interest expense and similar profit/loss items (SEK thousand)	2010	2009
Interest cost, convertible	4,214	284
Interest cost, other	0	3
Exchange rate differences	712	0
Total	**4,926**	**287**

Note 6: Tax (SEK thousand)	2010	2009
Current tax	0	0
Deferred tax	655	–33
Total	**655**	**–33**

Deferred tax liabilities, 619 (1,353), are attributable to the convertible loan

Note 7: Interests in affiliated companies (SEK thousands)					2010	2009
Company	**Corporate identity no.**	**Headquarters**	**Number of shares**	**Proportion (%)**		
Petrosibir Exploration AB	556584–9790	Stockholm	139,246,835	100	78,426	78,426
Shelton Canada Corp.		Canada	971,290	100	97,129	97,129
Total					**175,555**	**175,555**

For a full statement of the companies in the Group, please see Note 11 in the consolidated accounts.

Note 8: Receivables from Group companies (SEK thousand)	2010	2009
Claim Petrosibir Exploration	40,691	26,271
Claim Shelton Canada Corp.	7,632	0
Total	**48,323**	**26,271**

Note 9: Other long term securities (SEK thousand)	2010	2009
Opening acquisition value	0	0
Purchase	92,650	0
Reported value carried forward	**92,650**	**0**

Note 10: Loans receivable (SEK thousand)	2010	2009
Loan	0	21,638
Total	**0**	**21,638**

Note 11: Convertible loan

See Note 17 in the consolidated accounts.

Note 12: Accrued expenses and prepaid revenue (SEK thousand)	2010	2009
Interest costs	60	0
Acquisition and new issue costs	700	1,840
Social security costs	52	0
Audit fees	100	500
Remuneration to the board	205	202
Other accumulated expenses	285	245
Total	**1,402**	**2,787**

Note 13: Adjustments for non-cash items (SEK thousand)	2010–12–31	2009–12–31
Accrued interest, convertible	0	283
Exchange rate differences	–136	–945
Total	**–136**	**–662**

Note 14: Notes about the share capital (SEK thousand)	Number	Quotient value
Number/value at beginning of the year	208,243,812	0.10
Registration of shares issued 2009	171,925,223	0.10
New issues	150,140,845	0.10
Exchange convertibles	1,700,000	0.10
Number/value at year-end	532,009,880	0.10

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

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

The Group's Statement of comprehensive income and Statement of financial position and the parent company's Statement of comprehensive income and Statement of financial position are subject to adoption at the AGM on 17 May 2011.

Stockholm, 26 April 2011

Per Höjgård
Chairman

Ulf Cederin

Richard N. Edgar

Bruce D. Hirsche

Zenon Potoczny

Peter Geijerman

Katre Saard

Robert Karlsson
CEO

Our auditors' report was submitted on 26 April 2011
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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the CEO of Shelton Petroleum AB (publ.) for the year 2010. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 40-84. It is the board of directors and the CEO who bear the responsibility for the accounting records and management, for the application of the Annual Accounts Act in the preparation of the Annual Report, and that the IFRS international reporting standard, as adopted by the EU and the Swedish Annual Accounts Act, is applied in the preparation of the consolidated accounts. Our responsibility is to express an opinion on the financial statements, consolidated accounts and administration based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the CEO and significant estimates made by the board of directors and the CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the CEO. We have also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinions set out below. The Annual Accounts have been prepared in accordance with the Annual Accounts Act and thereby give a true and fair view of the company's result and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the IFRS international reporting standard, as adopted by the EU and the Annual Accounts Act, and thereby give a true and fair view of the group's results and financial position. The statutory administration 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 Statement of comprehensive income and Statement of financial position and the Group's Statement of comprehensive income and Statement of financial position, that the profit of the parent company be dealt with in accordance with the recommendation in the statutory administration report, and that the members of the board and the CEO be discharged from liability for the financial year.

Stockholm, 26 April 2011
Ernst & Young AB

Per Hedström
Authorized Public Accountant

Financial overview

Key figures	2010	2009	2008	2007
Number of shares at end of period	532,009,880	380,169,035	19,797,167	19,797,167
Average number of shares	424,929,104	159,302,635	19,797,167	6,594,363
Average number of shares after dilution	425,819,768	159,302,635	19,797,167	6,594,363
Income (SEK thousand)	29,110	0	0	0
Operating profit (SEK thousand)	–11,441	–16,664	–8,790	–2,871
Result attributable to equity holders of the parent company (SEK thousand)	–12,417	–15,519	–8,059	–2,526
Earnings per share, SEK	–0.03	–0.10	–0.41	–0.38
Earnings per share after dilution, SEK	–0.03	–0.10	–0.41	–0.38
Equity per share, SEK	0.50	0.91	3.98	4.38
Equity/assets ratio, %	80	71	91	89
Cash and cash equivalents (SEK thousand)	22,171	32,725	5,517	49,339
Investment in exploration assets (SEK thousand)	26,917	18,948	28,515	7,453

Information for the financial years 2010 and 2009 has been obtained from Shelton Petroleum's audited annual accounts for the years 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 at 31 December 2009, after which Shelton Petroleum assumed the name Shelton Petroleum AB. This means that the consolidated Statement of financial position as at 31 December 2010 and 31 December 2009 covers Shelton Petroleum including Shelton Canada Corp. but that the balance sheet for the full year 2009 exclusively refers to Shelton Petroleum before the merger with Shelton Canada Corp. With effect from 1 January 2010, the consolidated Statement of comprehensive income includes the activities of Shelton Canada Corp., including the sale of crude oil. Earnings per share for 2010 and 2009 was calculated 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 figures definitions:
Number of shares at end of period: The number of issued shares of class A and B at the end of the period.
Average number of shares: The average number of issued shares during the period.
Average number of shares after dilution: Average number of shares during the period after full dilution of the outstanding share warrants and convertible bond equities that lead to dilution.
Income: With effect from 1 January 2010, the company has had income from the sale of crude oil.
Operating profit: Operating income minus operating costs.
Result attributable to equity holders of the parent company: Result after tax attributable to equity holders of the parent company.
Result attributable to minority shareholders: Result after tax attributable to minority shareholders. At present the company has no minority shareholders.
Earnings per share: The period's result after tax in relation to the average number of shares for the period. Earnings per share for 2010 and 2009 have been calculated on the average number of shares in Shelton Petroleum AB and for 2008 and 2007 on the average number of shares in the then Petrosibir AB. Since the results are negative no account has been taken of the potential dilution effect of outstanding share warrants, because the result per share would be improved if account were taken of the dilution effects.
Earnings per share after dilution: The Company has not yet generated a net profit, therefore the calculation of earnings per share after dilution is the same as the earnings per share.
Equity per share: Equity in relation to the number of shares at the end of the period.
Equity/assets ratio: Equity as percent of balance sheet total at the end of the period.
Cash and cash equivalents: Cash and cash equivalents at the end of the period.
Investment in exploration assets: Investments in exploration assets during the relevant period.

Definitions and abbreviations

API
Refers to the American Petroleum Institute and its method of measuring the density of oil.

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 that is 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.

ESPO
East Siberia – Pacific Ocean, a pipeline currently being built by Transneft to transport crude oil from Russian producers to Japan, China and the Korean peninsula.

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 volume for petroleum products. Used when oil, gas and NGL are totalled together. Often abbreviated boe.

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

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

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

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

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

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

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

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

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

OECD
Abbreviation for the Organization for Economic Co-operation and Development.

Oil equivalent
Often abbreviated oe. The volume unit used when oil, gas and NGL are totalled together. The term is linked to the amount of energy released during combustion of different hydrocarbon varieties.

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

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

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