SHELTON PETROLEUM

Annual Report 2009

Contents

The year in brief

Highlights in 2009

- Petrosibir and Shelton Canada merge on 31 December and form Shelton Petroleum
- Successful exploration program conducted with commercial flows of oil in Russia
- Independent Western report confirms reserves of 14 million barrels and potential of 342 million barrels of oil equivalent
- Two new licenses increase the license area ten-fold in Russia
- Listing on the NGM and tripled market value during the year

Major events after the end of the year

- Ukraine: new production well drilled to increase oil production at Lelyaki
- Russia: successful second exploration well tested commercial flows of oil

Objectives 2010

- Increase oil production from the Lelyaki in Ukraine
- Start producing from Rustamovskoye in Bashkiria
- Further exploration work in order to convert resources to reserves
- Continue expanding by acquiring new licenses

14 million
barrels of reserves and the potential for a further 342 million oil equivalent

10x
larger license area in Russia during 2009

3x
larger market value in 2009


Rustamovskoye
- 3P reserves of 6 million barrels of oil
- Net resources of 43 million barrels of oil
Suyanovskoye
Aysky
Lelyaki
- Daily production of 300 barrels of 41 API oil net to Shelton Petroleum
- Net 2P reserves of 8 million barrels of oil
Biryucha
- Net resources of up to 166 million barrels of oil equivalent in the Sea of Azov
Arkhangelskoye
- Net resources of up to 130 million barrels of oil equivalent in the Black Sea
North Kerchenskoye
- Net resources of up to 4 million barrels of oil equivalent in the Sea of Azov
SWEDEN
FINLAND
Sankt Petersburg
ESTONIA
Nizhny Novgorod
Jekaterinburg
Tjeljabinsk
Bashkiria
POLAND
Kiev
UKRAINE
SLOVAKIA
HUNGARY
ROMANIA
KAZAKSTAN
UZBEKISTAN
TURKMENISTAN
TURKEY
SYRIA
IRAQ
JORDAN
IRAN
AFGHANISTAN
KUWAIT
PAKISTAN
QATAR
U.A.E

A word from the CEO

Dear Shareholder,

On New Year's Eve 2009, we all had a reason to drink an extra glass of champagne. We had just taken the last formal step in the merger between Petrosibir and Shelton Canada Corp. A month later the company adopted the new name Shelton Petroleum.

Earlier, in the month of September, the companies' executive management conducted a joint trip to Ukraine and Russia. We visited each other's oil fields to evaluate everything from the geological conditions to drilling techniques and licensing agreements. It was a fantastic trip. Not least as we found a mutual respect for each other's knowledge, professionalism and willingness to create a continued successful oil and gas company together. Considering the share price development, the stock market also seems to appreciate the new future prospects of the merged company.

Shelton Petroleum is a company with a very interesting license portfolio. We have existing oil production at the Lelyaki field outside Poltava. In Russia, we have taken the final step in a successful exploration program. We have found oil in two out of two wells and intend to commence production during summer 2010. In addition, we have a fine portfolio of offshore licenses outside Ukraine, where the risks are higher but so are the potential gas reserves. The 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.

Shelton's primary short-term objective is to increase the company's production of oil. This creates cash flow which in turn provides stability and financial flexibility. In Ukraine, we have launched an operation composed of new wells as well as restarted or improved production from old wells in order to realize the potential of the Lelyaki field. The investments will be financed by the field's own cash flows. In Russia, we can begin extracting oil from an exploration well with a minimum amount of investment already in the summer 2010. We are planning a large-scale expansion program in 2011 which will substantially increase the number of barrels produced.

In parallel, we will take steps to prepare for drilling in the Black Sea in Ukraine. Our partner Chornomornaftogaz already produces gas in the vicinity and we look forward to taking on these fields that have a potential of about 300 million barrels of oil equivalent.

Shelton Petroleum has been able to show a good expansion rate in 2009. We have completed the merger of two listed companies. In Russia, we were awarded two new licenses in direct proximity to the first field, which increased ten-fold the total Russian license area from 52 to 540 square kilometers. The partnership with Chornomornaftogaz gave Shelton a share of the highly promising Arkhangelskoye license in the Black Sea. We have a clear-cut growth strategy, and I look forward to expanding the license portfolio during the year. Both Russia and Ukraine currently offer excellent business opportunities.

» Shelton Petroleum has been able to show a good rate of expansion and good exploration results in 2009 «

Finally, I would like to thank all employees for the progress Shelton Petroleum has made during the year. We shareholders can look forward to an eventful and rewarding 2010.

Robert Karlsson

CEO Shelton Petroleum

Members of the Board, management and employees at the Rustamovskoye field during the joint trip to Russia and Ukraine in September 2009

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. The company is listed on the NGM Stock Exchange. 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 is 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.

» The portfolio includes the Lelyaki field in Ukraine with cost-effective oil production, Rustamovskoye in Russia which is ready for production start-up and the gas field Arkhangelskoye in the Black Sea with huge resource potential «

Strategic cooperation with Ukraine's largest oil company
Through a joint venture with Ukrnafta, Ukraine's largest oil and gas company, Shelton Petroleum's wholly-owned subsidiary Zhoda 2001 has a stake in the producing oil field Lelyaki in Chernigov near Poltava. In addition, Shelton Petroleum 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.

Second exploration well RS#2 during drilling

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.

> » Shelton Petroleum's business concept is to generate a good yield on capital invested by prospecting and extracting oil and gas «

Strategy

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

Shelton Petroleum has a diversified portfolio of licenses including both extraction and exploration. The portfolio includes the Lelyaki field in Ukraine with a cost-effective onshore production of oil, Rustamovskoye in Russia which is ready for production start-up and the gas field Arkhangelskoye in the Black Sea with an enormous resource potential.

Growth in Russia and Ukraine

In 2009 the company expanded the license portfolio with Aysky and Suyanovskoye in Bashkiria and Arkhangelskoye in the Black Sea. Shelton Petroleum will continue to actively seek new opportunities for growth.

Form strategic partnerships

The company has entered into a joint venture with Ukrnafta, the largest oil and gas company in Ukraine, which gives its wholly-owned subsidiary Zhoda 2001 a forty-five percent share in the Lelyaki oil field. In addition, the company 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 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 2010

Increase production from Lelyaki, Ukraine

Lelyaki was one of the former Soviet Union's largest oil fields and has a cumulative production of 385 million barrels of oil. Output for the entire field in 2009 amounted to an average of 600 barrels per day. The company has initiated a self-financed operation to increase production by drilling new wells and reusing and drilling side tracks in existing wells. To resume production from the old wells is more profitable as it requires significantly less investment than drilling new wells. The new wells will be drilled in close proximity to existing pipeline infrastructure enabling fast connection.

Begin production in Bashkiria, Russia

Shelton Petroleum will continue the exploration and begin the extraction of oil by realizing the potential of the existing license blocks Rustamovskoye, Aysky and Suyanovskoye. The objective in the short-term is to commence production from Rustamovskoye, where the company has completed a successful exploration program and found oil in two out of two exploration wells.

Converting 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.

Expansion

Shelton Petroleum has built effective relationships, strategic regional partnerships and a portfolio of both on and offshore projects. Through local knowledge and experience, the company can identify, acquire and develop attractively valued assets in Russia and Ukraine. Shelton Petroleum has an option to purchase a significant shareholding in Tomsk Refining AB, the owner of a newly built refinery in Western Siberia.

Reserves and resources

A good reserve and resource base to work from
Shelton Petroleum has a diversified portfolio of licenses, which includes 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 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 the autumn 2009 and are not included in the reserve studies.

License	Country	Primary product	Reserves[1]			Resources[1]		
			1P	2P	3P	Low	Moderate	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.

Shelton Petroleum's Russian management presents seismic results to Board Chairman Per Höjgård

An overview of oil exploration and production

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.

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 we reach an oil or gas layer in the earth's crust, we get what we call a "show" - an indication of an oil/gas layer. By raising and investigating a core sample, we can estimate the properties and depth of the reserves. 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.

Production and transport

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

» Oil and gas exploration is a very complex activity where the exploration company, step-by-step and as cost effectively as possible, will increase its knowledge of the deposit «

Estimating reserves

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

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.

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.

The Rustamovskoye license block in winter

Corporate social and 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 2009 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 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

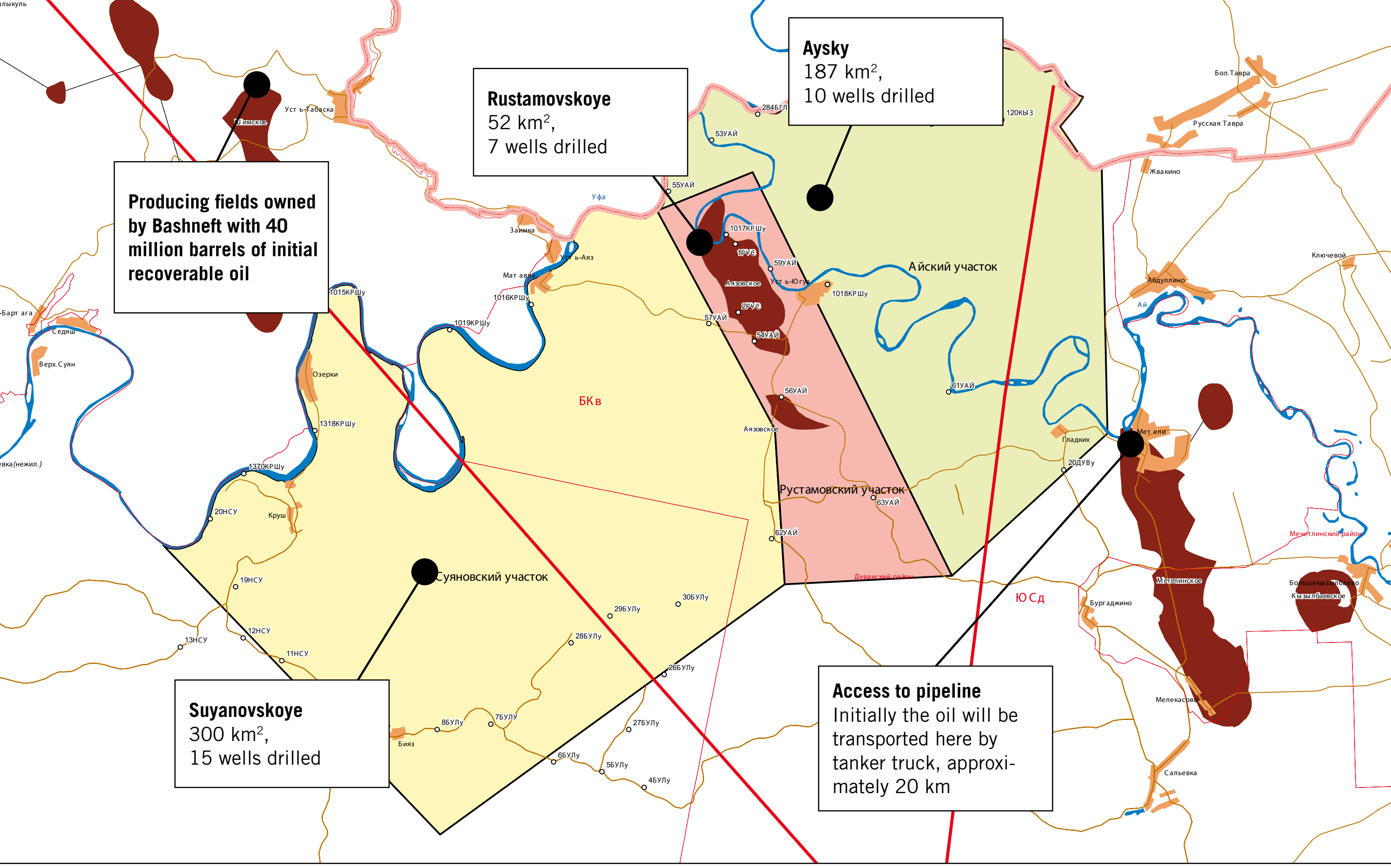
Shelton Petroleum owns 100 percent of the three licenses in Bashkiria. Rustamovskoye was acquired in 2007 and the company has implemented a successful exploration program on this block. Suyanovskoye and Aysky, licenses awarded in 2009, are adjacent. Together, these three licenses build a connecting block 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. 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.

Bashneft's pipeline that goes through the license nlock was renovated in 2007

Capital	Ufa
Inhabitants	Approx. 4.1 million
Area	143,600 km^2 (about one-third of Sweden's land area)
Form of government	Republic
Population representation	Kurultai, the unicameral parliament with 120 members and parliamentary elections every 5 years
Distance to Moscow	1,170 km

Progress in 2009

- **The drilling of the second Rustamovskoye well to 2,440 meters with commercial flows of oil**
- **Awarding of two new licenses, Aysky and Suyanovskoye, extends the license area to a 540 km^2 connecting block**



With the award of the Suyanovskoye license block during the fourth quarter of 2009, Shelton Petroleum's license area Bashkiria now totals 540 km² and forms a continuous block

Rustamovskoye: oil and gas found in subsequent wells

In 2009 Shelton Petroleum completed a successful exploration program at Rustamovskoye. 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 of about 200 barrels per day per well from the Kynovsko-Pashiysky horizon.

License: Exploration license which is being converted to a production license

Area: 52 km

Reserves: 6 million barrels of oil

Resources: 43 million barrels of oil equivalent

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

Objectives 2010: Start output from the exploration wells and prepare for large-scale production. Shelton Petroleum intends to truck oil to a pipeline access 20 kilometers from the drilling site.

Aysky: recent addition to the asset portfolio

During the third quarter of 2009, Shelton Petroleum was awarded its second exploration license in Bashkiria. The license at Aysky gives Shelton Petroleum the right to explore for oil and gas for five years. In accordance with the terms of the license, Shelton Petroleum will begin drilling one exploration well within four years.

License: Five-year exploration license

Area: 187 square kilometers

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

Previous drilling: A dozen 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 neighbouring field Metelinskoye with initial recoverable reserves of 15 million barrels of oil

» The total license area increased ten-fold in 2009 to a continuous license block of 540 km² and Rustamovskoye is now being prepared for production start-up «

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.

Objectives 2010: To develop an exploration plan and prepare for the seismic investigations to increase knowledge of the reach of the structure. Of particular interest are formations from the Devonian period, which proved to be productive from Shelton Petroleum's work at Rustamovskoye but which could not be identified with old Soviet seismic data.

Driller at Rustamovskoye

Core sample retrieved from the second exploration well at Rustamovskoye

Suyanovskoye: the largest license so far in Bashkiria

In keeping with the terms of the Suyanovskoye license, Shelton Petroleum will initiate drilling the first of three exploration wells within three years. 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.

License: 25 years of combined exploration and production license

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.

Objectives 2010: To develop an exploration plan and prepare for the seismic investigations to increase knowledge of the reach of the structure. Of particular interest are formations from the Devonian period, which proved to be productive from Shelton Petroleum's work at Rustamovskoye but which could not be identified with old Soviet seismic data.

The river Ay flows through the Rustamovskoye block

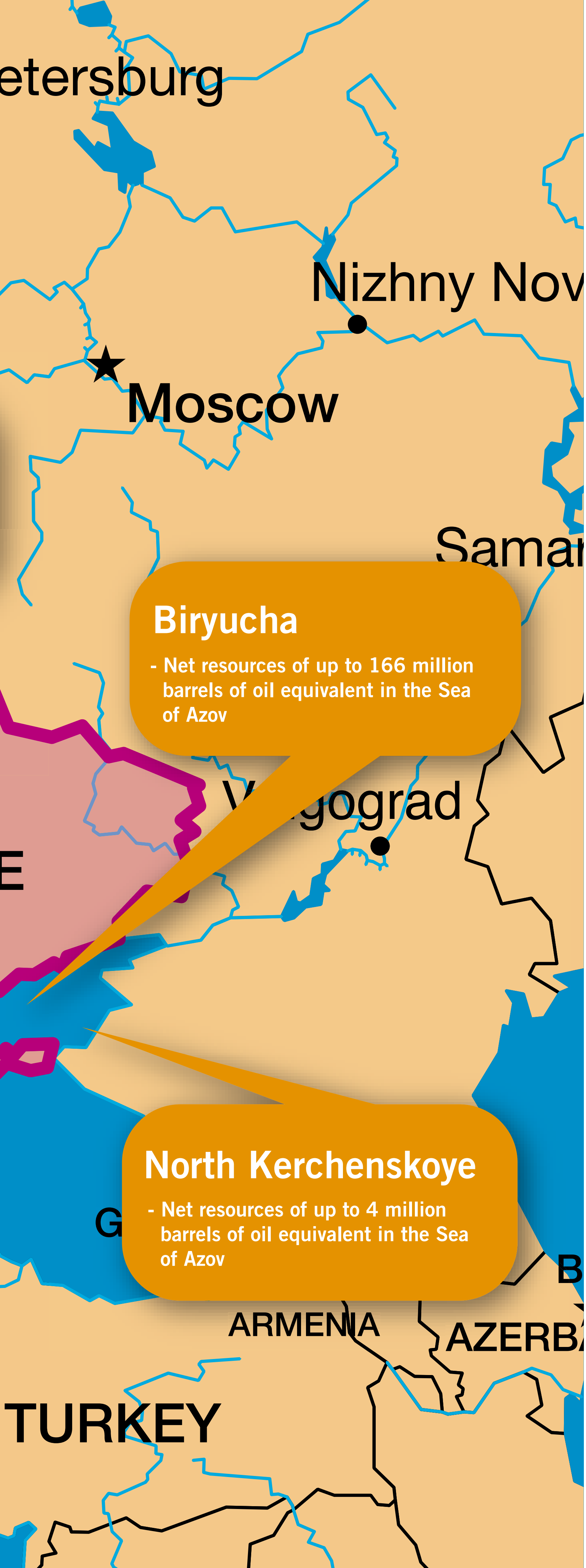
Licenses and operations in Ukraine

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 oil industry.

In Ukraine, Shelton Petroleum's wholly-owned subsidiary Zhoda 2001 has signed a strategic cooperation agreement with Ukrnafta, Ukraine's largest oil and gas company, and Chornomornaftogaz, the state company in the offshore business.

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**



Lelyaki: oil extraction at low-risk and low-cost outside Poltava

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

Production: The entire field's oil production in 2009 amounted to just over 600 barrels per day of 41° API oil. The potential is estimated at over 3,000 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.

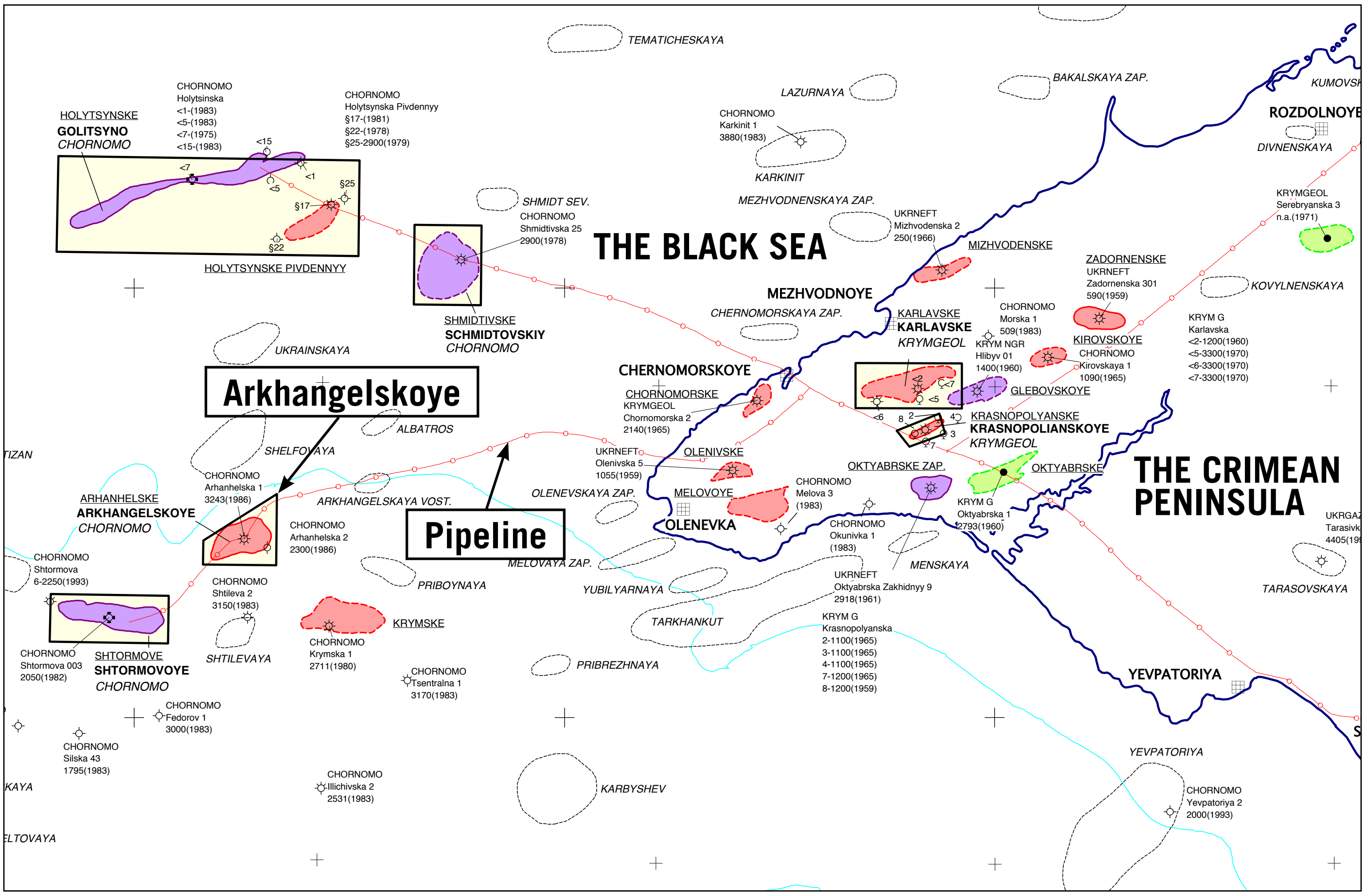
Objectives 2010:

- Increase production by drilling new wells to a depth of 2,000 meters.
- Recycle and drill side tracks in older wells, which requires significantly less investment than drilling new wells
- Perform extensive development and completion works

Partnership with Ukrnafta

Shelton Petroleum's wholly-owned subsidiary Zhoda 2001 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 28,000 employees. Daily production amounts to 100,000 million 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.

With a mobile service rig, Shelton Petroleum can resume production from old wells



The Crimean peninsula with the Black Sea to the west. There is already a pipeline carrying gas at Arkhangelskoye. The adjacent field Shtormovoye produces 6,000 barrels of oil equivalent per day.

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. Shelton Petroleum has, ahead of the multinational gas companies, created a good position to work from in this growing market.

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 20,000 barrels of oil equivalent per day. The company owns 10 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: 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
Objectives 2010:

- Collect 300 km of new 2D seismic data for the study of the Paleocene formation
- Develop a model of the reservoirs and geology
- Procure Western logging firm to study the historical drilling

Biryucha: Three fields in the 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: 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 were found
Objectives 2010: Evaluate the possible presence of gas in the Maikop formation

North Kerchenskoye: Gas found in two 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: 4 million barrels oil equivalent gas net to Shelton Petroleum according to independent Western assessment. CNG is estimates resources to 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 7 million barrels cumulative production
Objectives 2010: Implement Front End Engineering and Design (FEED) study to determine the best approach to the exploration and development and to develop concessions

One of CNG's production platforms in the Black Sea

The world around us

Oil

The 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 would 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.

According to the International Energy Agency IEA, the global production of crude oil in 2009 was almost 84.5 million barrels per day, down by about 2.2 percent on 2008 mainly due to energy companies drilling fewer wells and reducing investment in refineries and pipelines.

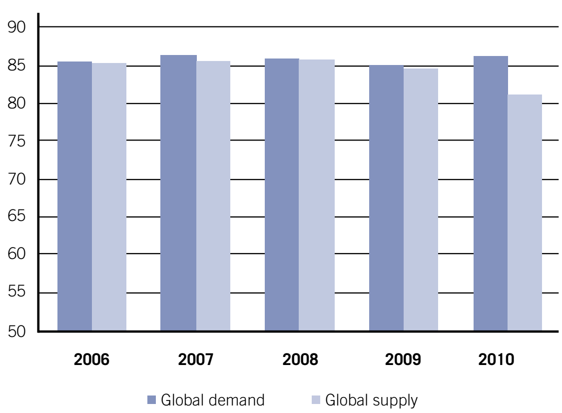
Historically, there has been a strong correlation between oil demand and economic growth. Global demand for oil fell by about 1.6 percent in 2009 due to the economic and financial crisis, but oil analysts believe that demand in 2010 will be higher than in previous years due to improved prospects for the world economy and oil producers' unwillingness to bring about large deficiencies in the global oil supply.

Demand for oil will continue to increase substantially in the foreseeable future, in line with the industrial development of countries like India and China and in regions such as Africa and the Middle East. According to the IEA, demand for energy will increase by about 2 percent annually until 2030, and increase in total by 45 percent from current levels by 2030. Oil's share of world energy supply will be maintained at the current level.

The increase in output is dependent on large investments in both existing field installations and in future exploration activities, and the IEA predicts that about 64 million barrels per day of new capacity (equivalent to almost six times Saudi Arabia's current production) must be realized before 2030, of which about 30 million barrels per day of new capacity are needed by 2015. The IEA believes that there is a real risk that the investments in the sector will lead to the supply of oil not being able to keep pace with the anticipated increase in demand.

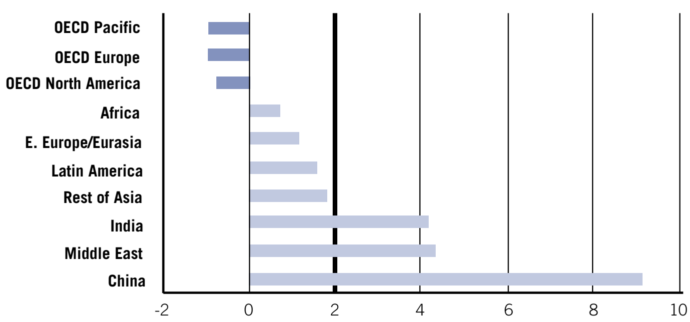
In 2008 oil prices reached record levels well above 100 dollars per barrel, before dropping to below 40 dollars per barrel. Oil prices recovered in 2009 and are at the time of writing about 80 dollars per barrel. From a historical perspective, this is a high level. It is difficult to comment on the short-term development of oil prices, but within a few years, the demand and supply is likely to stabilize at a price higher than today's.

Global oil supply and demand
(million barrels per day)



Source: IEA Oil Market Report (12 March 2010)

China, the Middle East and India will drive the increase in demand 2007–2030
(increase between 2007 and 2030 in million barrels per day)



Source: IEA World Energy Outlook, November 2008

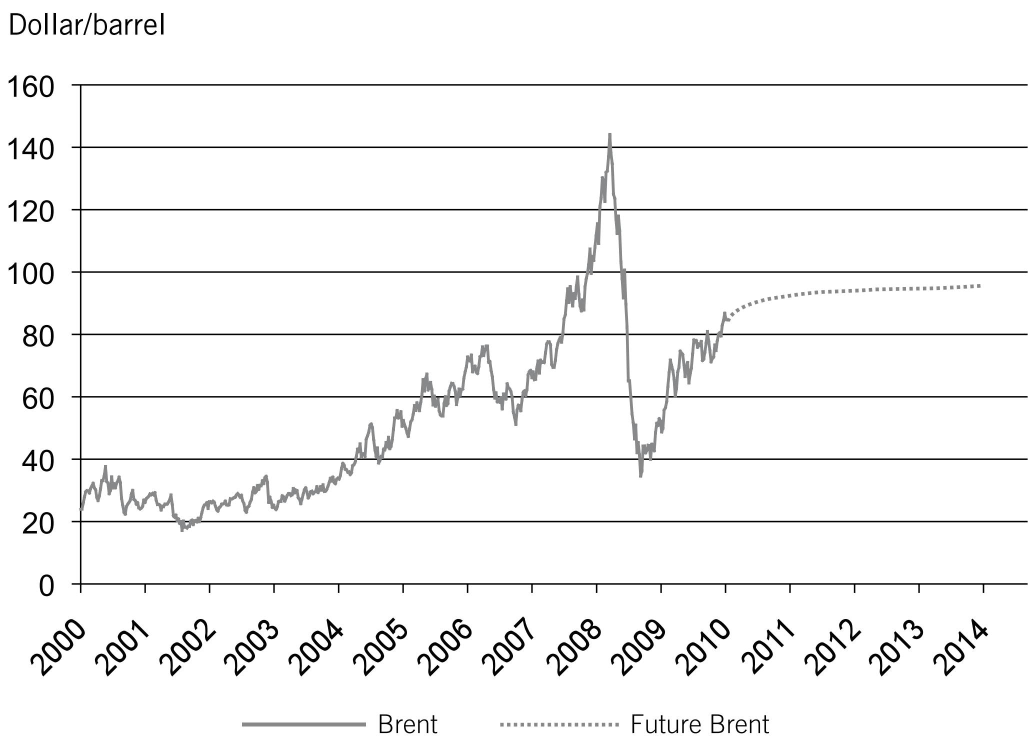
Natural gas

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 fibres, detergents and solvents.

Russia's natural gas production accounts for the largest share of world production. According to the International Energy Agency (IEA), demand for energy will increase by about 1.5 percent annually or in total by 41 percent from 2007 levels up to 2030. 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 2030, 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 2008 to be over 1, 100 billion barrels of oil equivalent. Russia has the largest proven natural gas reserves in the world, with an estimated 23.4 percent of world reserves. The price of natural gas is not set globally in the same way as for oil. In step with the increasing importance of natural gas as an energy source, rising prices for natural gas are expected.

Oil prices have recovered quickly



Source: Datastream, Bloomberg

The world's oil reserves

Russia has the world's seventh largest oil reserves.

Country	billion barrels	% of total
Saudi Arabia	264	21.0
Iran	138	10.9
Iraq	115	9.1
Kuwait	102	8.1
Venezuela	99	7.9
The United Arab Emirates	98	7.8
Russia	**79**	**6.3**
Libya	44	3.5
Kazakhstan	40	3.2
Nigeria	36	2.9
Other	244	19.4
Total	1 258	100

The world's gas reserves

Russia has the world's largest gas reserves.

Land	billion barrels oil equivalent	% of total
Russia	**264**	**23.4**
Iran	180	16.0
Qatar	155	13.8
Saudi Arabia	46	4.1
The United Arab Emirates	41	3.6
USA	39	3.5
Nigeria	32	2.8
Venezuela	29	2.6
Algeria	27	2.4
Iraq	19	1.7
Other	293	26.0
Total	1 127	100

World oil production

Russia is the world's second largest oil producer.

Country	million barrels per day	% of total
Saudi Arabia	10.8	13.3
Russia	**9.9**	**12.1**
USA	6.7	8.2
Iran	4.3	5.3
China	3.8	4.6
Canada	3.2	4.0
Mexico	3.2	3.9
The United Arab Emirates	3.0	3.6
Kuwait	2.8	3.4
Venezuela	2.6	3.1
Other	31.5	38.5
Total	81.8	100

The world's gas production

Russia is the world's largest gas producer.

Country	million barrels oil equivalent per day	% of total
Russia	**10.7**	**19.6**
USA	10.4	19.0
Canada	3.1	5.7
Iran	2.1	3.8
Norway	1.8	3.2
Algeria	1.5	2.8
Saudi Arabia	1.4	2.5
Qatar	1.4	2.5
China	1.4	2.5
Indonesia	1.2	2.3
Other	19.6	36.0
Total	54.5	100

Source: BP Statistical Review of World Energy (June 2009)

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 a total of 360 billion barrels of oil equivalent, of which oil reserves are thought to be 80 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.

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

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 2.8 million barrels of oil a day in 2008, representing an increase of more than 3 percent from 2007. The Russian energy authority predicts a consumption increase of 18-31 percent between 2007 and 2030.

Transporting and exporting

Russia exports more natural gas than any other country in the world and, according to the EIA, is the second largest within 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 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.

Taxes

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

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

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

As of 1 January 2009, the Russian government lowered the production tax by raising the untaxed threshold in the formula above from USD 9 (the amount in 2008) to USD 15.

• *The export tax* is levied on all oil and gas exported and is additionally the greatest 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

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).

• *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.

• *Corporate income tax* in 2009 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.

• *Value Added Tax* on oil sold domestically is 18 percent. Output VAT can be offset against input VAT under certain conditions.

Oil and gas market in Ukraine

Ukraine is one of the largest energy consumers in Europe. Nearly half of Ukraine's energy consumption comes from natural gas from Russia.

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, 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. Domestic oil is sold at auction.

Russia still leads the world in the production of natural gas

Gas – thousand barrels of oil equivalent per day	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Russia	9 808	9 803	9 696	9 650	9 881	10 294	10 514	10 639	10 890	10 806	10 704
Global	40 672	41 751	43 177	44 188	44 972	46 590	48 100	49 377	51 156	51 098	54 538
Share of global production (%)	24.1	23.5	22.5	21.8	22.0	22.1	21.9	21.5	21.3	21.1	19.6

Source: BP Statistical Review of World Energy (June 2009)

Russia has gradually increased daily production over the last ten years

Oil – thousand barrels per day	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Russia	6 169	6 178	6 536	7 056	7 698	8 544	9 287	9 552	9 769	9 978	9 886
Global	73 588	72 377	74 916	74 847	74 478	77 031	80 326	81 225	81 659	81 533	81 820
Share of global production (%)	8.4	8.4	8.7	9.4	10.3	11.1	11.6	11.8	12.0	12.2	12.4

Source: EIA, BP Statistical Review of Energy (June 2009)

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 is the 23rd largest in the world.

Production
Ukraine has a substantial domestic 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 1.5 percent from 2007 to around 121 million barrels of oil equivalent in 2008. Ukraine is estimated by EIA to be the 30th largest gas producer in the world.

Consumption
In 2008 it consumed 370,000 barrels of oil per day in Ukraine, according to EIA. The total gas consumption in 2008 amounted to approximately 491 million barrels of oil equivalent. Ukraine is in tenth place in the world in terms of natural gas consumption, and the country is the fifth largest gas importer in the world.

Great potential in Ukraine
In addition, only 5 percent of Ukraine's offshore reserves are considered to be developed. A growing interest from domestic and international actors shows that Shelton Petroleum holds a solid position in the growing Ukrainian petroleum industry.

National objectives are to increase production
In other words, Ukraine is a large net importer of gas and oil, despite their 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.

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 if the gas is sold to industrial consumers or to Naftogas. Royalty for oil produced from wells shallower than 5 km per barrel is calculated as follows:

$$\frac{\text{1 529.9 Ukrainian hryvnia}}{7.5} \times \frac{\text{Average Urals crude oil prices}}{\text{USD 100 per barrel}}$$

• *Corporate income tax* in 2009 amounted to 25 percent of a company's 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.

Sources: EIA, BP Statistical Review of World Energy (June 2009)

Ukraine's daily gas production is increasing gradually

Gas – thousand barrels of oil equivalent per day	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ukraine	289	292	288	295	301	311	329	335	339	341	333
Global	40 672	41 751	43 177	44 188	44 972	46 590	48 100	49 377	51 156	51 098	54 538

Source: BP Statistical Review of World Energy (June 2009)

Ukraine's daily production of oil has increased by about 30 percent since 1998

Oil – thousand barrels per day	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ukraine	84	101	91	90	86	90	94	101	109	108	107
Global	73 558	72 377	74 916	74 847	74 478	77 031	80 326	81 225	81 659	81 533	81 820

Source: BP Statistical Review of World Energy (June 2009)

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. In 2009 GDP fell by 7.9 percent. The Government finance deficit was almost 6 percent of GDP. The forecast is that Russia's economy will grow by around 3.5 percent in 2010 due to its stimulus package and lower interest rates. The Russian stock market reached a historical peak in spring 2008 and then fell sharply to a total decline of about 70 percent during the year. In 2009, the stock market was strongly positive, with an overall increase of about 130 percent.

Russia has, for the most part, similar objectives with its economic policies as other European countries, namely to maintain low inflation while maintain and strengthen the competitiveness of the industry.

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 2009, the exchange rate for the Russian rouble against the USD was 30.23, compared to 29.45 at the end of December 2008.

Politics

The government has introduced a number of incentives to reduce the impact of the economic crisis. The biggest of these for the oil producers is a reduction in both corporate income tax and production tax from 1 January 2009. Russia's Finance Ministry estimated that the reduction in production tax could earn the Russian oil sector RUB 104.1 billion in 2009 and RUB 112 billion in 2010.

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 is considered by many political analysts to follow a similar policy agenda as his predecessor. Some of his recent statements and political appointments have been interpreted as a possible departure from Putin's policy towards a more free market policy. Examples are the relationship with the United States and Iran, and possible membership in the WTO. Medvedev seems to want to push the country towards modernization of the social fabric and economy, and a rule-based democratic market economy.

» For the most part, Russia's goals for its economic policies are similar to those of other European nations: to contain inflation while simultaneously retaining and reinforcing competitiveness in trade and industry «

Russia's economy in figures

Area	2006	2007	2008	2009	2010p	2011p
Growth (%)	7.7	8.1	5.6	–7.9	3.5	4.3
Unemployment (%)	7.2	6.1	6.4	8.4	8.3	7.5
Inflation (%)	9.0	11.9	13.3	8.8	7.2	7.0
Surplus in the Government finances (% of GDP)	7.4	5.4	4.1	–5.9	–4.0	–2.5
Exchange rate RUB:USD (average)	27.2	25.6	24.9	31.7	30.0	29.8

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 economic and financial crisis. GDP in real terms fell by 15 percent in 2009 after nine years of continuous growth and the budget deficit is estimated to about 6 percent of GDP.

Ukraine is one of the world's largest importers of natural gas. The main supplier of gas to Ukraine is Russia. Russia and Ukraine have signed an agreement for a discount of USD 100 per thousand cubic meters at a price of USD 330.

The Ukrainian Hryvnia currency was one of the hardest hit by the global crisis. A careful strengthening of the currency is expected from the second half of 2010 due to improved economic factors such as reduced budget deficits and higher steel prices.

Politics

The risk of continued financial turmoil in Ukraine has decreased due to the rapid formation of the new government, which earlier than expected can take up management of the difficult economic situation. The new government is expected to soon reach an agreement with IMF on future loans.

Yanukovych's victory in the Presidential campaign and the formation of a new government is not expected to involve any radical changes in economic policy. On the other hand, relations with Russia are expected to improve as the new president is considered to adopt a more friendly position towards Russia than the former President Yushchenko.

It is unlikely that Ukraine will seek membership in NATO, which Russia strongly opposed. However, the energy situation will probably continue to be a sensitive issue between the countries. Although EU membership does not seem to be likely, Ukraine is working towards closer ties with the EU.

» The risk of continued financial turmoil in Ukraine has decreased due to the rapid formation of the new government, which may take up management of the difficult economic situation earlier than expected «

Ukraine's economy in figures

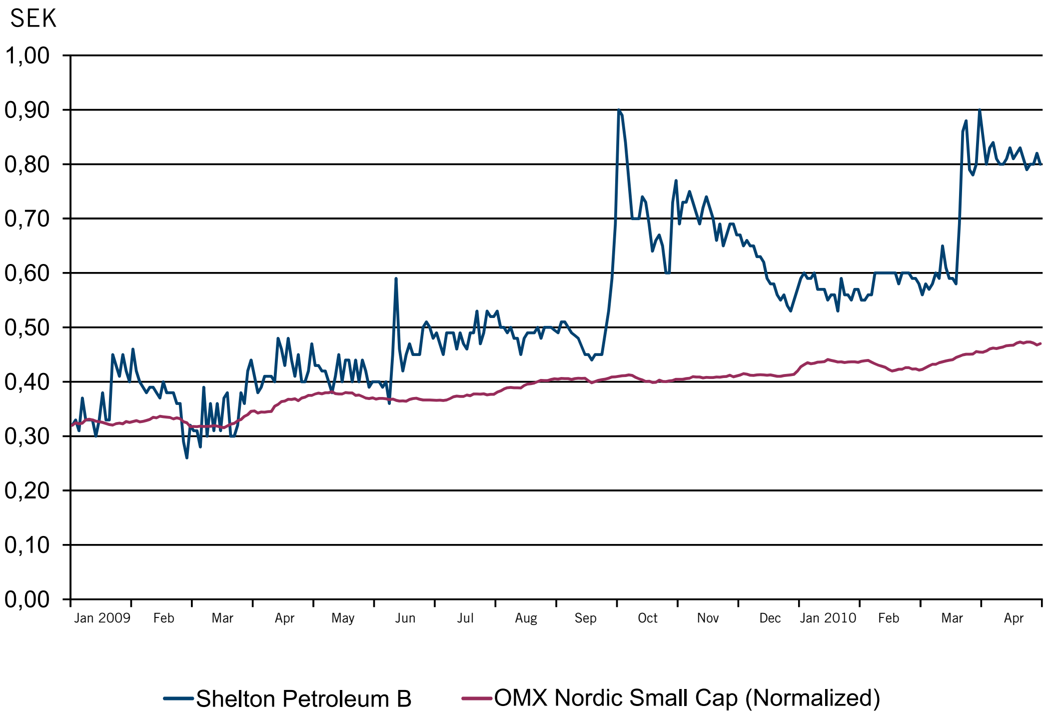
Area	2006	2007	2008	2009	2010p	2011p
Growth (%)	7.3	7.9	2.4	–15	3.0	4.0
Unemployment (%)	2.7	2.3	3.0	1.9	2.0	2.0
Inflation (%)	11.6	16.6	22.3	12.3	12.0	9.4
Surplus in the Government finances (% of GDP)	–0.6	–1.1	–1.5	–6	–5	–3
Exchange rate HRN:USD (31 Dec 2009)	5.1	5.1	7.7	8.0	7.9	7.6

Source: Economist Intelligence Unit

The share, share capital and owners

Shelton Petroleum shares

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



Sources: Millistream, NASDAQ OMX

Share capital

Shelton Petroleum's share capital as at 31 March 2010 amounts to SEK 38 016 903.50 broken down by 380 169 035 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 Series B 371 140 442 shares. Series A shares entitle the holder to ten votes per share, while series 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 trends in the share capital are shown in the table below.

Year	Transaction	Change in number of shares	Number of shares	Change in share-capital (SEK)	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

* Refers to the merger with TFS, July 2009.
** Refers to the merger with Shelton Canada Corp.

In July 2009, the then-named Petrosibir AB merged with Temporär Förvaltning i Stockholm AB ("TFS"), a Swedish company listed on the NGM.

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. Regulation will 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.

Owner

The table below shows the twenty largest shareholders as per 1 March 2010, broken down by holdings. The non-allocated shares relate to new Shelton Petroleum shares which are under delivery to the former owners of Shelton Canada Corp.

Owner	No. of Series A shares	No. of Series B shares	Proportion of votes (%)	Proportion of equity (%)
Two Eye Fund	901 956	37 690 522	10.1	10.2
Corso Holding	1 232 360	35 277 667	10.3	9.6
SIX SIS	0	36 386 155	7.9	9.6
Non-allocated new shares	0	28 311 932	6.1	7.4
National Bank Financial	0	21 906 950	4.7	5.8
SEB Private Bank SA	0	20 526 200	4.4	5.4
RBC Dexia Investor Services Trust	0	11 756 746	2.5	3.1
D. Carnegie AB	0	10 475 000	2.3	2.8
TD Waterhouse	0	9 916 478	2.1	2.6
Avanza Pension	0	9 270 925	2.0	2.4
BNY Mellon S.A.	0	8 325 003	1.8	2.2
Ildar Yulbarisov	84 909	7 171 998	1.7	1.9
CIBC	0	7 197 114	1.6	1.9
HSH Nordbank	0	7 000 000	1.5	1.8
Merrill Lynch, Pierce, Fenner & Smith	0	5 151 111	1.1	1.4
Canaccord Capital	0	5 080 162	1.1	1.3
Alpcot Capital Management	782 429	4 073 150	2.6	1.3
Nordnet Pensionsförsäkring	0	4 747 455	1.0	1.3
Roman Ovchinnikov	84 909	4 112 326	1.1	1.1
Magnus Nordin	872 692	3 300 588	2.6	1.1
Other	5 069 338	93 462 960	31.2	25.9
Total	**9 028 593**	**371 140 442**	**100.0**	**100.0**

Source: Euroclear AB

Share warrants

At the Extraordinary General Meeting held on 9 July 2009, it was decided to issue a total of 8,676,812 share warrants, including 5,423,007 to the Board Director and CEO Robert Karlsson and 3,253,805 to Chairman of the Board Per Höjgård. The issue relates only to Class B shares that must be purchased between 1 and 14 July 2012.

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 issue relates only to Class B shares that must be purchased between 15 and 31 January 2013.

Corporate Governance Report

Corporate identity number: 556468-1491

Shelton Petroleum AB was registered in 1993 and has its registered office in Stockholm, Sweden. According to the Articles of Association, the company engages in production and / or exploration of natural resources in their 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.

Introduction

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 assure 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. The Corporate Governance Report is not part of the formal financial statements and has not been reviewed by the auditors.

Good corporate governance is about ensuring that the companies is 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 venture 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.se The listing agreement is an agreement between the NGM and the Company relating to the requirements existing listing on the NGM Equity Stock Exchange.

Swedish Corporate Governance Code

The Swedish Code of Corporate Governance ("Code") is a set of guidelines for good corporate governance 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. A revised Corporate Governance Code Code came into force on 1 February 2010. The Code's rules for the Corporate Governance Report shall be applied in its previous version for the financial year that started before 1 March 2009. The company's 2009 financial year began 1 January 2009.

How the Company complies with the Code

The Company began to apply the Code in connection with the merger with the listed company Temporary Management in Stockholm AB ("TFS") in June 2009. Thereby, the Company was listed on the NGM Stock Exchange. The Company complies with the Code but due to changes in policy of the company operational direction resulting from the merger with TFS in 2009, the company has undertaken a review of how the Code should be applied in future operations. The Company reports any deviations in this Corporate Governance Report.

Deviations from the Code

The Company deviates from the Code on one point. The Board has not appointed a special remuneration committee (paragraph 9.1 of the Code). However, such work has been executed by the Board, which considers that the Company's limited size gives the board of directors good opportunity to provide a coherent overview of the various parts.

AGM

The AGM is the company's highest decision-making body in which all shareholders are entitled to participate. Series A shares entitle the holder to ten votes per share, while shares of series B shares have the entitlement of one vote per share. 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.

Other meetings

In 2009, there were three Extraordinary General Meetings meetings where decisions were reached on amendments to the Articles of Association, change in share capital, change of name, number of Board Directors, the election of Board Directors, change of auditors, the issue of share options regarding non-cash issuances in connection with the merger between TFS and Shelton Canada in 2009.

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 is 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. Bjorn Lindstrom was elected unanimously as Chairman of the Nomination Committee, as he was 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 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 at the AGM. Remuneration has not been paid to the Chairman or other members of the committee for their work.

Auditors

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

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. Board 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 the AGM in 2009, three individuals were elected to the board. The AGM also appointed the Chairman. At the Extraordinary General Meeting, 9 July 2009, two members left the board, while four people were elected in addition to the sitting Chairman, Per Höjgård. At an Extraordinary General Meeting held after the end of the financial year, a further three individuals were elected as Board Directors for Shelton Canada Corp. prior to the merger with Petroleum Shelton. One of these is also active in senior management as President. To meet the requirement that only one Board Director may be active in the company's management Robert Karlsson, who became CEO after the merger with Shelton Canada, withdrew from the Board. In 2010, the Board established an Audit Committee. Until then, the audit issues have been addressed within the framework of the regular board work.

The Chairman of the Audit Committee 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 of directors 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.

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 9 July 2009. 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.

According to the Code and the Swedish Companies Act, the Board is responsible for the Company's internal controls and risk management. When there is evident group's accountability and internal control, the need of a separate unit for internal audit is not deemed to exist. Instead, internal control, supervision and monitoring 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.

As stated in the rules of procedure, the Board's main tasks are the organization of the company and the management of its affairs. In addition, the Board ensure 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.

In 2009, there were 21 minuted board meetings, including one statutory meeting. Under the current rules of procedure the Board shall hold at least one regular 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. Key issues discussed in 2009 concerned capitalization and financing, the Group's future organization and structure, and acquisition and strategic issues.

Remuneration

Remuneration of 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 remuneration is referred to in the notes to the annual accounts under *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 Board adheres to the following guidelines when it comes to determining the remuneration of senior executives: to offer a remuneration package that is adjusted to the conditions in the market, provides motivation and which can attract and retain qualified employees on a the long-term basis, and to encourage and motivate good performance. The company's strategic growth objectives with increased shareholder value will be achieved through a higher share price, through increased reserves, production, cash flow and profit. The company has through a number of share options programs carried out such incentives. (Further information about these programs can be found at the company website).

Group management

In 2009, the company's Group Management has consisted of various individuals as a result of organizational and operational changes over the years. Up until 1 February 2009, Patrick Clase was the company CEO, of the then called Temporär Förvaltning i Stockholm (TFS). He was then succeeded by Erik Lindholm, whose main role was to manage TFS's cash and cash equivalents arising from the sale of TFS's stock exchange operations, which were completed during the first quarter of 2009. At the board meeting on 9 July 2009, Robert Karlsson was appointed as CEO as a result of the merger between TFS and Petrosibir Exploration AB. In connection with the merger, TFS changed its name to TFS Petrosibir AB and Petrosibir Exploration became a wholly-owned subsidiary of the Company. 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 2010, there were two such holdings, represented by Corso Holding (10.3 percent) and Two Eye Fund (10.1 percent).

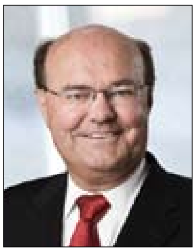
Board of Directors

Per Höjgård, Chairman
Per Höjgård is a Board Director and Chairman of the Board of Directors in the company. Per Höjgård 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. is an independent member of the board in relation to the company and its majority shareholders.
Holding: -
Options: 3,253,805

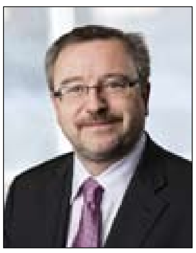
Richard N. Edgar, Board Director
Richard N. Edgar is trained as a geologist and has been active in the oil industry in both Canada and internationally for nearly 40 years. Mr. Edgar was formerly Chairman of the Board of Shelton Canada Corp. and currently serves on the boards of Avery Resources Inc., TriStar Oil and Gas Ltd., as well as Arrow Energy Ltd. Mr. Edgar 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, Board Director
Ulf Cederin has 20 years' experience within finance, company management and financial markets. Mr. 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, Mr. Cederin worked at Fischer Partners Mutual Fund and before that was head Sales Manager for the Nordic department at Bridge Financial Ltd. Mr. 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, Board Director
Peter Geijerman 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 He is an independent member of the board in relation to the company.
Holding: -
Options: -



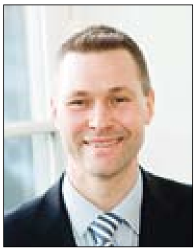
Bruce D. Hirsche, Board Director
Bruce D. Hirsche is a partner at the law firm Parlee McLaws LLP in Edmonton. Mr. Hirsche has vast experience from board of directors, corporate governance and stock exchange law in listed companies. He was a Board Director of Shelton Canada Corp. 1997–2009 and he has 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. Mr. Hirsche holds a law degree from the University of Alberta and is admitted to the Alberta bar. He 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, Board Director
Zenon Potoczny, born and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Mr. Potoczny served as President and Chief Executive Officer of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Mr. 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. Mr. Potoczny currently serves as president of Canada-Ukraine Chamber of Commerce. He holds an MSc in Engineering and an MBA from the University of Toronto. Mr. 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

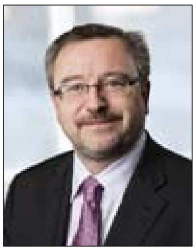
Katre Saard, Board Director
Katre Saard is a partner and investment manager at Alpcot Capital Management. She has more than 10 years' experience of investment management and of working in the East European share markets. Katre was one of the founders of East Capital, where she also worked as a fund manager 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 and auditor



Robert Karlsson, CEO of Shelton Petroleum
Robert Karlsson has vast experience business, finance and company management. For almost half of his career he has worked in Russia. He was previously CFO of the 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: 893,333 B Shares
Options: 5,423,007



Zenon Potoczny, President and Board Director
Zenon Potoczny, born and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Mr. Potoczny served as President and Chief Executive Officer of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Mr. 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. Mr. Potoczny currently serves as president of Canada-Ukraine Chamber of Commerce. He holds an MSc in Engineering and an MBA from the University of Toronto.
Holding: 11,185,124 B Shares
Options: 4,000,000

Joakim Hedlund, CFO Shelton Petroleum
Joakim Hedlund previously worked 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: 2,000,000

Sergey Titov, Manager Business Development Shelton Petroleum
Sergey Titov was one of the initiators of Petrosibir. He has broad experience of the Russian oil sector, including being CEO of Tyumenneftegaz. He was previously CEO for Texneftinvest, where two exploration licenses for 2 and 7 million tonnes respectively of oil through exploration were converted into more than 150 million tonnes of oil. 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 the company)
Options: -

Auditor
Ernst & Young
Box 7850
SE-118 99 Stockholm

Responsible auditor
Per Hedström
Authorized Public Accountant Member of FAR SRS (the Institute for the Accountancy Profession in Sweden and the Swedish Association of Auditors).

Director's 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

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 therefore will initiate the production of oil and gas.

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

In 2009, the company continued the exploration program in Bashkiria. The drilling of the second of two exploration wells at the Rustamovskoye field in the Russian Republic of Bashkiria shows oil and gas also in this well. The exploration license has been extended for some three years until December 2012. During the autumn, two new licenses were acquired in Bashkiria, which increased tenfold the company's total license area to a connecting block of over 540 square kilometers.

The former Temporär Förvaltning i Stockholm AB (TFS), listed on the NGM Equity, submitted a bid in the spring for shares in the then Petrosibir Exploration AB. All Petrosibir Exploration AB's shareholders and option holders accepted the shares bid, which expired on 2 June 2009. After the merger was decided an Extraordinary General Meeting was held to change the name of TFS to Petrosibir AB. More recently in January 2010 the name changed again to the current Shelton Petroleum AB.

In November an agreement was reached with one of the major shareholders in the Swedish registered refinery Tomsk Refining AB. The agreement gives Shelton Petroleum an option to acquire a significant stake in Tomsk Refining AB.

In December, Shelton Petroleum raised SEK 30 million by issuing convertible bonds.

As part of the merger between Shelton Petroleum and Shelton Canada Corp. new shares were issued as payment to Shelton Canada Corp.'s owners. Shelton Canada Corp. thereby became a wholly-owned subsidiary of Shelton Petroleum. The acquisition was completed on 31 December 2009 through a Plan of Arrangement in accordance with Canadian law.

Financial status

At year-end, the group had liquid funds of SEK 32,725,000 (5,517). The equity/assets ratio was 71 percent (91.4). The consolidated shareholders' equity amounted to SEK 89,811,000 (78,773,000) or SEK 0.91 (3.98) per share.

Result

The result for the Group for the period January–December 2009 before tax amounted to SEK -15,519,000 (-8,205,000). There have been no sales of oil or gas. Through the acquisition of Shelton Canada Corp., Shelton Petroleum reports its first revenues from 1 January 2010. Expenditure relating to the exploration program has been capitalized in the Statement of financial position in accordance with the company's accounting policies.

Investments

The Group has invested SEK 18,948,000 (23,842,000) in the exploration program and have capitalized this amount in the Statement of financial position. Investments in connection with acquisitions amounted to SEK 136,918,000 (0). Corporate acquisitions have been made by issuing new shares.

Employees

The average number of full-time employees during the financial year and was 20 (16).

Risks

In its line of business, the Group is exposed to business risks as well as credit, currency, liquidity and interest rate risks. The Group has implemented risk management structures and control procedures in order to manage these exposures and related risks. Shelton Petroleum is also exposed to geological risks. Estimates of recoverable oil reserves are based on geological and geophysical analyses. These, however, cannot give exact answers. The quantity and quality of crude oil that can be extracted during the production phase, together with the costs of exploration and production, may therefore differ from the original estimates – regardless of how exact these are. Currently, Shelton Petroleum is only operating in Russia and Ukraine. These countries have seen very rapid and extensive political and social changes over the last 15-20 years, and the risk of political instability remains. There may also be other changes in legislation, policies or the economy. Shelton Petroleum's revenues will come from sales of crude oil and gas. The world market price for crude oil is influenced by numerous factors which the company can neither control nor influence. These factors include the global economy, geopolitical events in the major oil-producing regions, the opportunities for OPEC and other oil producers to decide on and maintain specific production levels and prices, export restrictions and taxes, the prices and availability of alternative fuels, access to pipelines and other transport facilities for the oil, weather and climatic factors, risks of natural disasters, and so on. Shelton Petroleum may also at times be dependent on third-parties, such as drilling firms and transport companies, in order to fulfil its business plan. 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. At the AGM in 2009, three individuals were elected to the Board, one of whom was appointed chairman. At the Extraordinary General Meeting of 9 July 2009, two members left the board, while four people were elected in addition to the sitting Chairman, Per Höjgård, to reflect the new shareholding after the reverse takeover of TFS. During the 2009 financial year, the Board of Directors held 21 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 Note 1, section on *Corporate Governance Report*.

Major events after the financial year

Following the acquisition of Shelton Canada Corp., it was decided to hold an Extraordinary General Meeting on 19 January 2010 to change the name from Petrosibir AB to Shelton Petroleum AB. In addition, Richard N. Edgar, Zenon Potoczny, and Bruce D. Hirsche were elected to the new Board. To meet the requirement that only one Board Director may be active in the company's management Robert Karlsson, the CEO, resigned from the Board.

In February the company published a Western independent reserve report for its licenses in Russia and Ukraine. The reserves amount to 14 million barrels of oil and potential oil and gas fields amounted to 343 million barrels of oil equivalent.

In April Shelton Petroleum, with its partner Ukrnafta, completed the drilling of a new production well in the Lelyaki oil field. This is the first well since the new company Shelton Petroleum was formed at the end of the year. The executed logging program indicates good reservoir properties and the company plans to tie in the well for production in May.

In April Shelton Petroleum carried out a successful production test of the second exploration well (RS # 2) at the Rustamovskoye field in Bashkiria, Russia. The well is estimated to produce 200 barrels of oil per day. This was the final step in the exploration program and in accordance with its plan Shelton Petroleum will sell its first oil in Russia during the summer. The commercial flow rate provides the company with sufficient support to carry out a large-scale development program with the drilling of production wells.

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 successfully exploration program and found oil in the first two wells, will be commenced. 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.

Annual General Meeting

The Annual General Meeting will be held 17 May 2010 at 10:00 at the premises of Kilpatrick Stockton Advokatbyrå at Hovslagargatan 5 B in Stockholm.

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 2009 Annual General Meeting. The remuneration of senior executives should be 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. For the CEO, 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.

The parent company

The parent company's net sales was SEK 245,000 (0). The result before tax was SEK -2,260,000 (-53,696,000). Shareholders' equity was SEK 202,711,000 (33,963,000).

Financial overview

Group	2009	2008
Earnings per share, SEK	-0.10	-0.41
Equity per share, SEK	0.91	3.98
Equity/assets ratio, %	71.0	91.4

Proposal for the appropriation of result

The following profits are at the disposal of the AGM.

Share premium reserve	25 368 117
Retained profit	64 252 500
Profit for the year	-2 293 837
	87 326 780

The Board proposes that:
To be carried forward to the next year SEK 87 326 780

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. For Parent Company results and financial position and additional information, see pages 60-65.

Statement of comprehensive income

Income statement (SEK thousand)	**Note**	**31-12-2009**	**31-12-2008**
Net sales		0	0
Other operating income		0	9
Total revenue		0	9
Capitalized internal work		1 257	1 194
Operating costs			
Other external expenses	4	-11 919	-4 970
Personnel expenses	3	-5 708	-4 899
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	5, 10	-294	-126
Total operating costs		**-17 921**	**-9 995**
Operating profit		**-16 664**	**-8 791**
Result from financial items			
Financial income	6	645	820
Financial expenses	7	-381	-234
Total financial income and expense		**264**	**585**
Result before tax		**-16 400**	**-8 205**
Tax	8	881	147
Result for the year attributable to the parent company's owners		**-15 519**	**-8 059**
Other comprehensive income			
Exchange rate differences		-5,850	205
Total other comprehensive income		**-5 850**	**205**
Total comprehensive income		**-21 369**	**-7 854**
Earnings per share before dilution, SEK	21	-0,10	-0,41
Earnings per share after dilution, SEK	21	-0,10	-0,41
Average number of shares		**159 302 635**	**19 797 167**

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 will also cover operations in Ukraine, including the existing oil sales. Earnings per share for 2009 was calculated on the average number of shares in Shelton Petroleum AB and in 2008 on the average number of shares in Petrosibir Exploration AB (former parent company).

Statement of financial position

Balance sheet (SEK thousand)	**Note**	**31-12-2009**	**31-12-2008**
Assets			
Fixed assets			
Intangible non-current assets	9		
Goodwill		6 807	0
Oil and gas assets		98 400	67 598
Total intangible non-current assets		105 207	67 598
Tangible assets			
Oil and gas assets and property, plant and equipment	10	93 593	705
Total property plant and equipment		93 593	705
Financial assets			
Deferred tax assets	8	165	0
Other long-term receivables	12	2 533	8 712
Total financial non-current assets		2 698	8 712
Total non-current assets		**201 498**	**77 015**
Current assets			
Inventory			
Finished goods and commodities	13	4 192	0
Current receivables			
Current financial assets	14	577	0
Loan receivables	14	21 061	0
Other receivables	15	6 965	3 106
Prepaid expenses and accrued income		164	512
Total current receivables		28 767	3 618
Short-term investments			
Cash and cash equivalents		32 725	5 517
Total short-term investments		32 725	5 517
Total current assets		**65 684**	**9 135**
TOTAL ASSETS		**267,182**	**86,149**
Shareholders' equity and liabilities			
Equity capital	16		
Capital stock		20 824	19 797
Current issue		94 559	0
Other paid-up capital		10 621	69 976
Reserves		-4 328	-945
Result brought forward incl. result for the year		68 135	-10 055
Total equity attributable to the shareholders		**189 811**	**78 773**
Long-term liabilities			
Convertible loan	17	25 799	0
Deferred tax	8	28 796	6 002
Provisions		187	0
Total non-current liabilities		54 782	6 002
Current liabilities			
Accounts payable		7 688	16
Advance payments from customers		6 675	0
Tax liabilities		18	0
Other current liabilities	18	4 452	107
Accrued expenses and deferred income	19	3 756	1 251
Total current liabilities		**22 589**	**1 374**
TOTAL EQUITY CAPITAL AND LIABILITIES		**267,182**	**86,149**
Collateral pledged and contingent liabilities			
Pledged assets		0	0
Commitments/contingent liabilities	24	0	0

Statement of changes in equity

(SEK thousand) **Statement of changes in equity**	Share capital	Not registered issue capital	Other paid-up capital	Reserves	Result brought forward incl. result for the year	Total equity capital
Opening capital 01-01-2008	**19 797**		**69 976**	**-1 150**	**-1 197**	**86 626**
Overall result						
Profit for the year					-8 059	-8 059
Other comprehensive income						
Exchange rate differences				205		205
Opening capital 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						
Share warrants				469		469
New share issue	94 737		-56 785			37 952
Reduction in share capital	-93 710				93 710	0
Current new share issue		94 559				94 559
Share issue expense			-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**	**59 355**	**2 467**	**93 710**	**132 408**
Closing balance 31-12-2009	**20 824**	**94 559**	**10 621**	**-4 328**	**68 135**	**189 811**

Cash flow statement

Cash flow statement (SEK thousand)	Note	2009	2008
Cash flow from operating activities	**25**		
Profit after financial items		-16 400	-8 205
Adjustments for non-cash items			
Depreciation		294	126
Other items not affecting cash flow		-413	291
Tax paid		0	0
Cash flow from operating activities			
before changes in working capital		**-16 519**	**-7 699**
Cash flow from changes in working capital			
Increase (+) /Decrease (-) in current receivables		4 622	-823
Increase (+) /Decrease (-) in current liabilities		6 945	912
Cash flow from operating activities		**-4 952**	**-7 699**
Cash flow from investment activities			
Acquisition of subsidiaries	2	39 950	0
Acquisition of intangible assets	9	-18 948	-28 515
Acquisition of tangible fixed assets	10	-991	-681
Sale of financial non-current assets		0	796
Sale of non-current assets		6 179	
Acquisition of financial assets		-20 692	-7 760
Cash flow from investment activities		**5 498**	**-36 160**
Cash flow from financing activities			
Share warrants		468	0
Share issue costs		-2 570	0
Loans raised		28 834	0
Cash flow from financing activities		**26 732**	**0**
CASH FLOW FOR THE YEAR		**27 278**	**-43 858**
Cash and cash equivalents at start of year		5 517	49 339
Exchange difference in cash and cash equivalents		-70	36
Cash and cash equivalents at the year-end		32 725	5 517
Additional notes to the cash flow statement – group			
The following components are included in cash or cash equivalents:			
Cash and bank balances		32 725	5 517

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 30 April 2010 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 2010 for adoption.

NOTE 1

Accounting and valuation policies

Reasons 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 1.2 *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 disclosed in Note 1, section *Critical accounting estimates and judgements* on page 37.

Application of new or revised standards

New and amended standards that came into force in 2009

IFRS 7 (amendment) *Financial Instruments – Disclosures* (applies from 1 January 2009) The amendment demands enhanced disclosures about fair value and liquidity risk. In particular, the amendment calls for the disclosures of valuation to be measured at its fair value in accordance with the three levels of fair value hierarchy. Since this change only adds further information, it has no impact on the financial position and results.

IAS 1 (revised), *Presentation of Financial Statements* (applies from 1 January 2009) The revised standard prohibits the presentation of revenue and cost items (i.e., changes in equity other than those of transactions with the company's owners) in the statement of changes in equity and requires that changes in equity other than those relating to transactions with the company's owners are reported separately from changes in equity relating to transactions with the company's owners in the Statement of comprehensive income. The Group therefore presents all owner-related changes in equity in the *Statement of changes in equity* for the Group, while all changes in equity other than those relating to transactions with the company's owners are reported in the Group's Consolidated Statement of comprehensive income. Comparative information has been restated so that it complies with the revised standard. Since this change only adds further information, it has no impact on the financial position and results.

IFRS 2 (amendment) *Share-Based Payment* (applies from 1 January 2009) Those amended standard deals with vesting conditions and cancellations. The Group applies IFRS 2 (amendment) from 1 January 2009, but it has not had any effect on the consolidated accounts.

IFRS 8 (revised), *Operating segments* has replaced IAS 14 (applies from 1 January 2009) In accordance with IFRS 8, information about the operating segment is presented from the perspective of executive management, in the same way as in internal reporting. The application of IFRS 8 has not had any material effect on the Group's presentation of information about its operational segments. In 2010, the Group will have two geographical segments, Russia and Ukraine.

IAS 23 *Borrowing Costs.* The amended version requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of the asset where it takes a substantial period of time to prepare it for its intended use or its sale The company has not incurred any interest costs qualifying for capitalization this year or previous years.

Standards, changes and interpretations of existing standards that have not yet come into force and have not been applied in advance by the Group.

The following standards and interpretations to existing standards have been published and are mandatory for the consolidated accounts for financial periods starting 1 January 2010 or later, and have not applied in advance:

IFRIC 17, *Distribution of Non-Cash Assets to owner*s (effective for annual periods beginning 1 July 2009, or later).

IAS 27 (Amendment), *Presentation of Financial Statements*. The revised standard requires that the effects of all transactions with the owner without controlling interest are accounted in a separate statement if these transactions no longer give rise to goodwill or gains and losses. The standard also specifies that when a parent loses the controlling interest, the remaining share shall be revalued to fair value and any gain or loss is is accounted in the Statement of comprehensive income. The Group will apply IAS 27 (Amendment) prospectively to transactions with controlling interests from 1 January 2010.

IFRS 3 (Revised) *Business Combinations* The revised standard continues to stipulate that the acquisition method be applied to business combinations but with significant changes. For example, all payments to purchase a business are accounted at fair value on the acquisition date, while the subsequent contingent payments normally classified as liabilities are subsequently remeasured through the Statement of comprehensive income. Owners without controlling interest in the acquired business may for each acquisition choose to conduct the valuation at fair value or the proportional share of the acquired business' financial net assets, which are held by owners without controlling interest. All transaction costs relating to acquisitions are to be accounted for. The Group will apply IFRS 3 (revised) prospectively for all business acquisitions from 1 January 2010.

IFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations* The amendment clarifies that IFRS 5 specifies the disclosure requirements that exist for non-current assets (or disposal groups) classified as non-current assets held for sale or terminated activities. It also clarifies that the general requirement in IAS 1 is still valid, in particular item 15 (To give a fair presentation) and section 125 (Sources of estimation uncertainty). The Group will apply IFRS 5 (Amendment) from 1 January 2010. The amendment is not expected to have a material effect on the consolidated accounts.

IAS 1 (Amendment), *Presentation of Financial Statements* The amendment clarifies that the potential settlement of a debt through the issuance of shares is not relevant to its classification as current or non-current. Through an amendment to the definition of current liability, the amendment allows a debt to be classified as non-current (provided that the company has an unconditional right to defer settlement by transferring cash or other assets for at least 12 months after the closing) even though the other party can at any time demand settlement by shares. The Group will apply IAS 1 (Amendment) from 1 January 2010. It is not expected to have any material impact on the consolidated accounts.

IFRS 2 (amendment), *Group cash-settled and share based payment transactions*. The amendment means that IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* are incorporated in the standard. The previous guideline in IFRIC 11 also supplements the matter of classification of intra-group transactions, which are not addressed in the interpretation. The new guideline is not expected to have any material impact on the consolidated accounts.

IFRS 9 *Financial Instruments* (effective date 1 January 2013) is a new standard that will be presented in three phases. That which has been published in 2009 concerns the classification and valuation of financial assets. Under the new standard there are two categories of measurement of financial instruments - amortized cost and fair value. IFRS 9 is assessed only to have a marginal impact on the Group's position and results. This standard is not yet approved by the EU.

IAS 38 (Amendment), *Intangible Assets* The amendment provides clarification of the fair value of an intangible asset acquired in a business combination. Under the amendment, intangible assets may be grouped and treated as an asset if the assets have similar periods of useful life. The amendment is not expected to have a material effect on the consolidated accounts.

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. 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, the loss means that an asset is recorded at too high a value.

Segment reporting

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

The Group currently operates in one operating segment, exploration for and production of oil and gas. From 2010, the executive management has assessed that the Group will have 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	23.86	24.0632
1 Euro in SEK	10.353	10.6213
1 USD in SEK	7.6457	7.6457
1 CAD in SEK	6.8850	6.6971
1 UAH in SEK	0.8992	

As the Ukrainian operations were acquired on 31 December 2009, no average price has yet been determined.

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 prospecting and evaluation assets, and should apply these consistently. Under the standard, prospecting and evaluation assets should be valued at acquisition value.

The Group reports its prospecting 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 prospecting, drilling, and the evaluation of such interests, should be capitalized. Under IFRS 6, prospecting 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 prospecting 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 prospecting and evaluation assets is no longer carried out.

Reporting, valuing and writing off of prospecting and evaluation expenditure

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

- Acquisition of prospecting 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 2009, the Group had carried out prospecting work on two wells in the Rustamovskoye area, lying north of Ufa in Bashkiria in Russia.

Depreciation

The prospecting 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 following section *Impairment losses* below.

Impairment losses

The Group assesses its intangible non-current assets, its prospecting 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 cashgenerating 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 prospecting 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 prospecting 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. An 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 determine the classification of the instruments at the first accounts, and review this decision at each report. The Group only makes use of derivatives instruments to a limited extent. The Group classifies investments in the following categories:

1. Investments valued at fair value via the Statement of comprehensive income

This category includes investments held for trading, and investments destined from the start to belong to this category. Investments valued at fair value through the income statement are valued continuously at fair value. Any profit or loss arising from a change in fair value is reported in the statement of comprehensive income for the period in which it arises.

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.

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.

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.

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.

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 a 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 a 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.

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.

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 utilised.

Provisions

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

Remuneration to employees

Pension obligations

Group companies in Sweden and Russia and Ukriane 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 0.54 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.

Income

The Group has not yet received any revenue from its main business activity, which will consist of 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:

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
A group is normally exposed to a variety of financial risks because of its business, in addition to business risk: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow risk. The Group has implemented risk management structures, and established a number of control procedures in order to determine estimates, valuations and control over these exposures and risks.

Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Euro and the Rouble as well as the Ukraine Hryvnia. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group has chosen, for the time being, not to hedge any part of its currency exposure. The parent company's holdings in overseas subsidiaries are exposed to exchange rate differences.

Liquidity risk
Prudent liquidity risk management means maintaining sufficient cash and marketable securities in order to meet the liquidity needs generated by prospecting. The group attempts, in the current state of the business, to ensure sufficient liquidity through ownership financing (share issues) and loan financing (maintaining agreements for utilisable credits), as the company currently cannot be financed solely by internally generated cash flows. See section *Going concern*.

Credit risk
Credit risk is the risk that a counterparty will not be able to meet its contractual obligations, and that any securities do not cover the group's claims. As per 31 December 2009, the group rated loans to a shareholder of Tomsk Refining AB amounted to SEK 21 637 (0). As security for the loan the borrower has placed shares in Tomsk Refining AB. The Group also had credit risks relating to pre-payments for exploration work. At year-end, these amounted to SEK 0 (4,099,000). The management carefully evaluates the suppliers that the group commissions to carry out prospecting work, and to which prepayments are made.

Interest risk
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.

Capital 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. As the Group has hitherto 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.

Political risk
During the financial year, the Group has operated only in Russia. From 2010, the Group will operate in Russia and Ukraine. Russia and Ukraine has seen very rapid and extensive political and social changes over the last 15-20 years, and the risk of political instability remains. There may also be other changes in legislation, policies or the economy that would affect foreign companies.

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 intangible 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:

- Discount rate of 10 percent,
- Probable and proven reserves of 14 million barrels of oil,
- Oil price of USD 70 per barrel

The value of the intangible assets, and the capitalized prospecting and evaluation expenditure, amounts to SEK 98.4 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 lightindicating that impairment tests in line with IAS 36 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 convertibles and the assumption that the group can finance themselves 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 amounting to about SEK 74 million for which no deferred tax assets have been recorded on the basis of the fact that it is uncertain when these will be utilised.

NOTE 2
Acquisition of subsidiary

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 1,840,000. 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 -428,000.

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 981,000 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

	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**

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.

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 2,571,000. The total cost of acquisition of shares thus amounted to SEK 97,129,000. 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 24,373 higher and the Group's pro forma results would have been SEK 14,002,000 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.

	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

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

	Basic salary/ fees	Variable benefits	Other remuneration	Pension cost	Total
Jan Johansson, Chairman	75	0	0	0	75
Per Höjgård, Chairman	131	0	0	0	131
Peter Geijerman, Board Director	75	0	0	0	75
Cheddi Liljeström, Board Director	38	0	0	0	38
Katre Saard, Board 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**

The fees agreed at the 2009 AGM will be paid during 2010.

Jan Johansson resigned at the AGM of former Petrosibir AB in June 2009. The remuneration relates to the period January-June 2009. Per Höjgård remuneration relating to remunerationas Chairman of Shelton Petroleum AB (former Temporär Förvaltning i Stockholm AB) and relates to the period April-December 2009. Cheddi Liljeström resigned at the AGM of former Petrosibir AB in June 2009. The remuneration relates to the period January-June 2009. Johan Boheman, Erik Lindholm have received Board fees as Board Directors in the former Temporär Förvaltning i Stockholm AB for the period April-June 2009. Ulf Cederin was elected as a Board Director in Shelton Petroleum AB at the Extraordinary General Meeting on 9 July 2009 and the fee relates to the period July to December 2009. Peter Geijerman and Katre Saard were until the time of the AGM in June 2009 Board Directors in the former Petrosibir AB and were elected at the Extraordinary General Meeting on 9 July 2009 as new Board Directors for Shelton Petroleum AB.

Decisions on guidelines for remuneration of senior executives

The remuneration of senior executives should be the going rate and competitive for 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 individualised 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. For the CEO, the maximum annual variable remuneration may amount to 30 percent of the basic salary. Other benefits shall correspond 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 2009 to the Board amounted to SEK 496,000, of which SEK 206,000 related to remuneration for the Chairman of the old and new parent company. For the split among other board members, see the table above.

Remuneration and benefits to the CEO

Remuneration to the CEO in 2009 was SEK 1,124,000, consisting of a fixed salary of SEK 910,000 and a pension cost of SEK 214,000. 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.

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.

	2009			2008		
Average number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Sweden	2	2	0	1	1	0
Russia	18	14	4	15	12	3
Total	**20**	**13**	**4**	**16**	**13**	**3**

Salaries and remuneration for all employees (SEK thousand)	2009	2008
Senior executives and Board	2 476	1 978
Pension expenses	333	247
Other employees	1 739	1 850
Pension expenses	0	0
Social security costs	1 294	823
Total	**5 842**	**4 898**

Geographical distribution (SEK thousand)	2009	2008
Sweden	3 184	1 953
Russia	2 658	2 946
Total	**5 842**	**4 899**

NOTE 4
Payments to auditors

	2009	2008
Audit assignments E & Y	355	330
Audit assignments Grant Thornton	200	0
Non-audit assignments E & Y	434	106
Total	**989**	**436**

Fees for audit assignments and other assignments, are carried as an expense during the year, where the same audit company has the audit assignment in the individual company. By audit assignment is meant the review of the Annual Report and of the board's and the CEO's administration. Everything else is considered to be non-audit assignments.

NOTE 5
Depreciation and amortization of tangible and intangible assets (SEK thousand)

	2009	2008
Machinery and equipment, depreciation	294	126

NOTE 6
Financial income (SEK thousand)

	2009	2008
Exchange rate differences reported in the income statement	434	0
Interest income, other	211	820
Total	**645**	**820**

NOTE 7
Financial costs (SEK thousand)

	2009	2008
Result from sale of listed shares	0	-13
Exchange rate differences reported in the income statement	0	-221
Interest expense, convertible	-284	0
Interest expense, other	-197	0
Total	**-381**	**-234**

NOTE 8
Income tax

	31-12-2009	31-12-2008
Current tax	0	0
Deferred tax	881	147
Total	**881**	**147**

Reconciliation of tax for the period	2009	2008
Reported pre-tax profit	-16 400	-8 205
Tax at current tax rate	4 313	2 298
Difference in tax rate in foreign operations	-559	-315
Non-deductible/non-taxable items	-3	-5
Property transactions charged directly to equity	1 974	0
Deferred tax attributable to convertible loans	-32	0
Effect of changes in current tax rate	914	0
Other	0	147
Valuation of tax loss carry forwards	-5 725	-1 978
Reported tax	**881**	**147**

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 2009, the Group had tax loss carry forwards of SEK 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 utilised. As the company's future opportunities to utilise 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 1.4 million.

Deferred tax assets and liabilities are attributable to the following (SEK thousand):	31-12-2009	31-12-2008
Deferred tax liabilities		
Intangible fixed assets	10 258	6 002
Tangible assets	17 184	0
Convertible loan	1 354	0
Total	**28 796**	**6 002**

Change in net deferred tax assets and liabilities

	Opening capital	Reported statement of comprehensive income	Charged to equity	Acquisition of subsidiaries	Exchange differences	Closing balance
Balances carried forward						
Deferred taxes						
Intangible fixed assets	6 002	-913		5 728	-559	10 258
Tangible assets	0			17 184		17 184
Convertible loan	0	32	1 322			1 354
Other	0			-165		-165
Total	**6 002**	**-881**	**1 322**	**22 747**	**-559**	**28 631**

NOTE 9
Intangible non-current assets,

Goodwill	**31-12-2009**	**31-12-2008**
Accumulated acquisition values		
At start of year	0	0
Acquisition of subsidiaries	6 807	0
Carrying amount at year-end	**6 807**	**0**

Oil and gas properties and licenses	**31-12-2009**	**31-12-2008**
Accumulated acquisition values		
At start of year	67 599	43 849
Acquisition of subsidiaries	18 364	0
Capitalization for the year	18 948	23 842
Translation differences	-6 511	-92
Carrying amount at year-end	**98 400**	**67 599**

NOTE 10
Tangible assets

Oil and gas properties and licenses	**31-12-2009**	**31-12-2008**
Accumulated acquisition values		
At start of year	0	0
Acquisition of subsidiaries	108 307	0
Closing accumulated acquisition values	108 307	0
Accumulated depreciation		
At start of year	0	0
Acquisition of subsidiaries	-16 060	0
Closing accumulated depreciation	-16 060	0
Carrying amount at year-end	**92 247**	**0**

Inventories (SEK thousand)	31-12-2009	31-12-2008
Accumulated acquisition values		
At start of year	841	135
Acquisition of subsidiaries	226	
New acquisitions	991	681
Translation differences	-88	25
Closing accumulated acquisition values	1 917	841
Accumulated depreciation		
At start of year	-136	-10
Acquisition of subsidiaries	-208	0
Depreciation for the year	-298	-126
Translation differences	18	0
Closing accumulated depreciation	-624	-136
Carrying amount at year-end	**1 346**	**705**

Total non-current assets, besides financial non-current assets, which are localised in Sweden is SEK 6,807,000 (0) and the total of such non-current assets which are in other countries is SEK 191,993,000 (68,303,000).

NOTE 11
Interests in affiliated companies

Specification of the Group's subsidiaries as at 31-12-2009. Petrosibir Exploration AB and Shelton Canada Corp. are owned directly, while Novats Investment Limited, ZAO Ingeo Holding, Kashtan Petroleum Ltd and JIA # 2847 are owned indirectly.

Subsidiaries	Headquarters	Proportion (%)	Equity capital	Profit for the year	Business
Petrosibir Exploration AB	Stockholm	100	75 980	-6 442	Holding company
Novats Investment Limited	Cyprus	100	28 429	-133	Holding company
ZAO Ingeo Holding	Russia	100	-14 161	-8 446	Exploration and production of oil and gas
Shelton Canada Corporation	Canada	100	40 430	-	Holding company
Zhoda (2001) Corporation	Ukraine	100	0	-	Holding company
Kashtan Petroleum Limited	Ukraine	45	29 924	-	Exploration and production of oil and gas
JIA #2847 Limited	Ukraine	50	2 019	-	Exploration and production of oil and gas

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 2009, which were 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.

	31-12-2009
Current assets	22 826
Fixed assets	19 122
Current liabilities	-9 831
Long-term liabilities	-187
Equity capital	**31 930**

NOTE 12
Other long-term receivables (SEK thousand)

	31-12-2009	31-12-2008
Value Added Tax receivable	2 533	4 613
Advance payment for prospecting work	0	4 099
Total of other long-term receivables	**2 533**	**8 712**

NOTE 13
Stock (SEK thousand)

	31-12-2009	31-12-2008
Crude oil	4 097	0
Other	95	0
Total stock	**4 192**	**0**

NOTE 14
Loans receivables and Current financial assets

In December 2009, the company provided a loan of SEK 21,638,000 (USD 3 million) to one of the major shareholders in Tomsk Refining AB. The loan carries for 240 days and has 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.

NOTE 15
Other receivables (SEK thousand)

	31-12-2009	31-12-2008
Value Added Tax claim	3 296	2 741
Receivable convertible cash and cash equivalents	540	0
Advance payments	2 980	365
Other receivables	149	0
Total other receivables	**6 965**	**3 106**

NOTE 16
Equity capital

The table below shows the changes in Petrosibir's share capital. The company has only ordinary shares. Each share carries entitlement to one vote.

	Number of shares
As at 31.12.08	68 996 977
Share issues 2009	139 246 835
As at 31.12.09	208 243 812

8 676 812 share warrants were issued during the third quarter of 2009 to the Chairman of the Board and CEO. During the fourth quarter of 2009, convertible bond equities were issued for approximately SEK 30,540,000. If all the convertible bond equities were immediately converted to shares, the number of series B shares in the company would increase by approximately 50,900,000 shares. The B shares, namely 171,925,223 shares which have been issued to the previous owners of Shelton Canada Corp. and which have been reported as ongoing issues, have been registered during the first quarter of 2010. During the first quarter of 2010, an Extraordinary General Meeting decided to issue 8,000,000 share warrants to presiding Board members and company management. A complete dilution of shares would result in the number of shares amounting to 447,745,847 shares. 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. The company issued convertible bond equities which provided the company with approximately SEK 30 million. Shelton Petroleum has subsequently decided to issue shares to the owner of Shelton Canada Corp. in order to complete the merger.

Exchange rate differences in equity

As of 31 December 2009, the reported rate differences under other comprehensive income amounted to SEK -5,850,000 (-205,000). 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

Company management manages liquid funds that has yet to be used in investments or in operations by investing cash and cash equivalents in different credit institutions with high credit worthiness and that offer the best return possible.

NOTE 17
Convertible loan

During the fourth quarter of 2009, convertible bond equities were issued for approximately SEK 30,540,000 before issuing costs. If all the convertible bond equities were immediately converted to shares, the number of series B shares in the company would increase by approximately 50,900,000 shares. The equity component of the loan constituted SEK 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.

NOTE 18
Other current liabilities (SEK thousand)

	31-12-2009	31-12-2008
Deduction at source	81	35
Compulsory employer contributions	0	26
Value Added tax	1 569	0
Royalties	1 039	0
Other taxes	193	46
Other	1 570	0
Total other current liabilities	**4 452**	**107**

NOTE 19
Accrued expenses and prepaid revenue (SEK thousand)

	31-12-2009	31-12-2008
Acquisition Costs	1 840	0
Audit fees	870	321
Pension costs and social security	100	67
Remuneration to the board	202	504
Other items	744	359
Total accrued expenses	**3 756**	**1 251**

NOTE 20
Related party transactions

The following related party transactions have taken place	31-12-2009	31-12-2008
Sale of services and assets	0	0
Sale of diverse consulting services	0	0
Purchase of services		
Purchase of services, including legal consultation from the law firm Delphi & Co	0	338
Purchase of services from ACM	6 885	0
Purchase of services, including from Sergey Titov	515	360
Balances carried forward at the year end		
Receivables from related companies	0	0
Liabilities to related parties	3 611	0

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 30,000 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.

During 2008 Shelton Petroleum signed a contract for financial advising and equity funding with Alpcot Capital Management Ltd ("ACM"). The contract is results-based and entails no running monthly fee. The fiscal year is encumbered with SEK 6,885,000 as remuneration to ACM which has been made in conjunction with the merger between Shelton Petroleum AB and Petrosibir Exploration AB, equity funding for convertible issuing as well as in conjunction with the acquisition of Shelton Canada Corp. ACM is controlled by a number of Shelton Petroleum's shareholders, of which two are also Board Directors in Petroleum Shelton.

During 2009 certain Board Directors have acquired share warrants in the company at prices which are adjusted to the market.

NOTE 21

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. This is because the result per share would be improved if account were taken of the dilution effects.

	2009	2008
Result attributable to equity holders of the parent company	-15 519	-8 059
Weighted average number of ordinary shares in issue (thousand)	159 303	19 797
Result per share, before and after dilution (SEK/share)	-0.10	-0.41

NOTE 22
Financial instruments

Group 2009

Kategori	Loans and accounts receivables	Other financial liabilities	Investments valued at fair value via the Statement of comprehensive income	Reported value carried forward
Asset				
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	**54 575**	**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**	**36,397**

Group 2008

Category	Loans and accounts receivables	Other financial liabilities	Investments valued at fair value via the Statement of comprehensive income	Reported value carried forward
Tillgångar				
Cash and cash equivalents	5 517			5 517
Total assets	**5 517**	**0**	**0**	**5 517**
Liabilities				
Accounts payable		16		16
Total liabilities	**0**	**16**	**0**	**16**

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, only the Group's current financial assets, SEK 577,000 (0), are valued at fair value. They are valued as per Level 3.

Maturity

The Group's financial liabilities fall due as follows (undiscounted streams):

As at 31.12.09	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 23
Commitments
Operational leasing

The group's business is dependent to a certain extent on rented premises and equipment. The rental (leasing charges) are written off in the period when they fall due. Future minimum lease payments total to:

(SEK thousand)	2009	2008
Lease payments within 1 year	311	815
Lease payments between 1 to 5 years	286	416
Lease payments after 5 years	0	0
Total	**597**	**1,231**

In 2009 the rental and leasing charges amounted to SEK 815,000 (267,000).

NOTE 24
Contingent liabilities

1. Disputes

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

2. Contingent liabilities related to tax

Russia

The tax system 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 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 applied retrospectively 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 Russian 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.

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. 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 applied retrospectively 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 Russian and 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.

3. 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.

4. 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 characterised 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 25
Events after the balance sheet day

Following the acquisition of Shelton Canada Corp., it was decided to hold an Extraordinary General Meeting on 19 January 2010 to change the name from Petrosibir AB to Shelton Petroleum AB. In addition, Richard N. Edgar, Zenon Potoczny, and Bruce D. Hirsche elected to the new board. To meet the requirement that only one Board Director may be active in the company's management Robert Karlsson, who is the CEO withdrew from the Board.

In February the company published a Western independent reserve report for its licenses in Russia and Ukraine. The reserves amount to 14 million barrels of oil and potential oil and gas fields amounted to 343 million barrels of oil equivalent.

In April Shelton Petroleum, with its partner Ukrnafta, completed the drilling of new production wells in the Lelyaki oil field. This is the first well since the new company Shelton Petroleum was formed at the end of the year. The executed logging program indicates good qualities of the reservoir and the company plans to connect the drill to to oil exploration in May. In April, a successful production test of the second exploration well (RS # 2) at the Rustamovskoye field in Bashkiria, Russia was carried out. The well is estimated to produce 200 barrels of oil per day. This was the final step in the exploration program and in accordance with its plan Shelton Petroleum will sell its first oil in Russia during the summer. The commercial flow rate provides the company with sufficient support to carry out a large-scale development programs with the drilling of production wells.

Parent company statement of comprehensive income

Income statement (SEK thousand)	Note	2009	2008
Operating income etc.			
Net sales	1	**245**	**0**
		245	**0**
Operating costs			
Other external expenses	1, 2	-2 378	-4 899
Personnel expenses	3	-1 822	-1 158
Total operating costs		**-4 200**	**-6 057**
Operating profit		**-3 955**	**-6 057**
Income from financial investments			
Profit from interests in affiliated companies		0	-47 749
Other interest income and similar profit/loss items	4	1 982	110
Interest expense and similar profit/loss items	5	-287	0
Total financial investments		**1 695**	**-47 639**
Result before tax		**-2 260**	**-53 696**
Tax	6	-33	0
Profit for the year		**-2 293**	**-53 696**

Parent company statement of financial position

Balance sheet (SEK thousand)	Note	31-12-2009	31-12-2008
Assets			
Fixed assets			
Financial assets			
Interests in affiliated companies	7	175 555	0
Receivables from affiliated companies	8	26 271	0
Total fixed assets		**201 826**	**0**
Current assets			
Current receivables			
Receivables from affiliated companies		1 182	0
Current financial assets	9	577	0
Loan receivables	9	21 061	0
Other receivables		668	0
Prepaid expenses and accrued income		147	135
Total current receivables		23 635	135
Cash and bank balances		11 217	35 281
Total current assets		**34 852**	**35 416**
TOTAL ASSETS		**236,678**	**35,416**
Equity capital and liabilities (SEK thousand)			
Equity capital			
Restricted equity			
Capital stock	13	20 824	37 948
Current issue		94 559	0
Statutory reserve		0	5 964
Total restricted equity		115 383	43 912
Non-restricted equity			
Share premium reserve		25 368	25 940
Profit/loss brought forward		64 253	17 807
Profit for the year		-2 293	-53 696
Total non-restricted equity		87 328	- 9 949
Total equity		**202 711**	**33 963**
Long-term liabilities			
Convertible loan	10	25 799	0
Deferred tax		1 353	0
Total non-current liabilities		**27 152**	**0**
Current liabilities			
Accounts payable		4 001	406
Other liabilities		27	373
Accrued expenses and deferred income	11	2 787	674
Total current liabilities		**6 815**	**1 453**
TOTAL EQUITY CAPITAL AND LIABILITIES		**236,678**	**35,416**
Memorandum items			
Pledged assets		None	None
Contingent liabilities		None	None

Parent company changes in equity

Statement of changes in equity (SEK thousand)	Capital stock	Other restricted/ reserve	Current issue	Share premium reserve	Equity part convertible loan after tax	Retained profit	Profit for the year	Total equity
Equity capital 01-01-2008	**37 948**	**5 964**		**25 940**	**0**	**21 278**	**-3 472**	**87 659**
Appropriation of profits.						- 3 472	3 472	
Profit for the year							-53 696	**-53 696**
Equity capital 31-12-2008	**37 948**	**5 964**	**0**	**25 940**	**0**	**17 806**	**-53 696**	**33 962**
Appropriation of profits.		-5 964				-47 732	53 696	**0**
Current issue			94 559					**94 559**
New stock issue	76 586							**76 586**
Share 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**
Equity capital 31-12-2009	**20 824**	**0**	**94 559**	**25 368**	**469**	**63 784**	**-2 293**	**202 711**

Parent company cash flow statement

Cash flow statement (SEK thousand)	Note	2009	2008
Operating activities			
Profit after financial items		-2 260	-53 696
Adjustments for non-cash items	12	-662	47 749
Income tax paid		0	0
Cash flow from operating activities before changes in working capital		-2 922	-5 947
Cash flow from changes in working capital			
Decrease (+)/ increase (-) in receivables		-1 862	65
Decrease (-)/ increase (+) in short-term liabilities		5 361	826
Total cash flow from operating activities		**577**	**-5 056**
Investment activities			
Disposal of subsidiary		0	40 000
Acquisition of subsidiary	7	-4 410	0
Sale of financial non-current assets	8, 9, 12	-46 963	0
Sale of long-term securities		0	0
Cash flow from investing activities		**-51 373**	**40 000**
Financing activities			
New stock issue		468	0
Net change in overdrafts		-2 570	
Loans raised		28 834	0
Cash flow from financing activities		**-51 373**	**40 000**
Changes in cash and cash equivalents		-24 064	34 944
Opening cash and cash equivalents		35 821	337
Closing cash and cash equivalents		11 217	35 281

Supplementary information

General notes

The parent company applies the same accounting policies as the Group, apart from cases arising because of limitations in the possibilities to apply IFRS in the parent company because of the Annual Accounts Act , and in certain cases as a consequence of tax legislation. In addition, the Swedish Financial Reporting Boards recommendation RFR 2:2 *(Reporting of Legal Entities),* has been applied.

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)	2009	2008 reimbursement
Audit assignments E&Y	206	0
Audit assignments SET	0	662
Non-audit assignments E&Y	350	0
Total	**556**	**662**

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	2009	2008
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	0
of which women	0	0
Salaries, remuneration etc. (SEK thousand)		
Board and CEO:		
Salaries and fees	879	956
Pension expenses	125	
	1 004	956
Other employees	270	0
Social security costs	391	224
Total board and others	**1 665**	**1 180**

As the parent company has only one employee, absence due to sickness is not reported.

Note 4: Other interest income and similar profit/loss items (SEK thousand)	2009	2008
Interest income	265	110
Interest income, Group	772	0
Exchange rate differences	945	0
Total	**1 982**	**110**

Note 5: Interest expense and similar profit/loss items (SEK thousand)	2009	2008
Interest cost, convertible	284	
Interest expense, other	3	0
Total	**287**	**0**

Note 6: Tax (SEK thousand)	2009	2008
Current tax	0	0
Deferred tax	-33	0
Total	**-33**	**0**

Deferred tax liabilities, SEK 1,353,000, is attributable to the convertible loan.

Not 7: Interests in affiliated companies					31-12-2009	31-12-2008
Company	*Corporate identity no.*	*Registered office*	*No. of shares*	*Proportion (%)*		
Petrosibir Exploration AB	556584-9790	Stockholm	139 246 835	100	78 426	0
Shelton Canada Corp.		Canada			97 129	0

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)	31-12-2009	31-12-2008
Opening acquisition value	0	0
Claim Petrosibir Exploration AB	26 271	0
Reported value carried forward	**26 271**	**0**

Note 9: Loans receivable (SEK thousand)	31-12-2009	31-12-2008
Loan	21 638	0
Total	**21 638**	**0**

The loan amount is USD 3 million. The annual interest rate is 1 percent. The loan is due for payment in October 2010. In connection with the loan signed an option agreement was taken out. See also Note 14 in the consolidated accounts.

Note 10: Convertible loan

See also Note 17 in the consolidated accounts.

Note 11: Accrued expenses and prepaid revenue (SEK thousand)	31-12-2009	31-12-2008
Acquisition costs	1 840	0
Social security costs	0	224
Audit fees	500	0
Remuneration to the board	202	0
Other accumulated expenses	245	450
Total	**2 787**	**674**

Note 12: Adjustments for non-cash items (SEK thousand)	31-12-2009	31-12-2008
Capital loss from sale of listed shares	0	-12 749
Impairment	0	-35 000
Accrued interest, convertible	283	0
Exchange rate differences	-945	0
Total	**-662**	**-47 749**

Note 13: Notes about the share capital	Number	Quotient value
Number/value at beginning of the year	68 996 977	0,55
Share issues	139 246 835	0,55
Number/value at year-end	208 243 812	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 2010.

Stockholm, 30 April 2010

Per Höjgård
Chairman

Ulf Cederin

Richard N. Edgar

Peter Geijerman

Bruce D. Hirsche
Board Director

Zenon Potoczny

Katre Saard

Robert Karlsson
Chief Executive Director

Our auditors' report was submitted on 30 April 2010
Ernst & Young AB

Per Hedström
Authorized public accountant

Auditor's report

To the AGM 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 2009. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 34-66. 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 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, 30 April 2010
Ernst & Young AB

Per Hedström
Authorized public accountant

Definitions and abbreviations

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

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

Barrels of oil equivalent (boe)
Unit of volume for petroleum products. Used when oil, gas and NGL are totalled together. Often abbreviated boe.

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.

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

Crude oil
The oil produced from a reservoir after associated gas has been separated out.

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.

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.

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.

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 mostoften in gas form. If it contains mainly heavier hydrocarbons, they will be in liquid form.

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.

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

Oil equivalent
Often abbreviated *oe.* The volume unit is 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
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 coordinates, 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.

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.

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

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

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

Seismics
Seismic, or geophysical, surveys are conducted in order to describe geological structures in the underlying bedrock. Soundwaves 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.

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

SHELTON
PETROLEUM

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