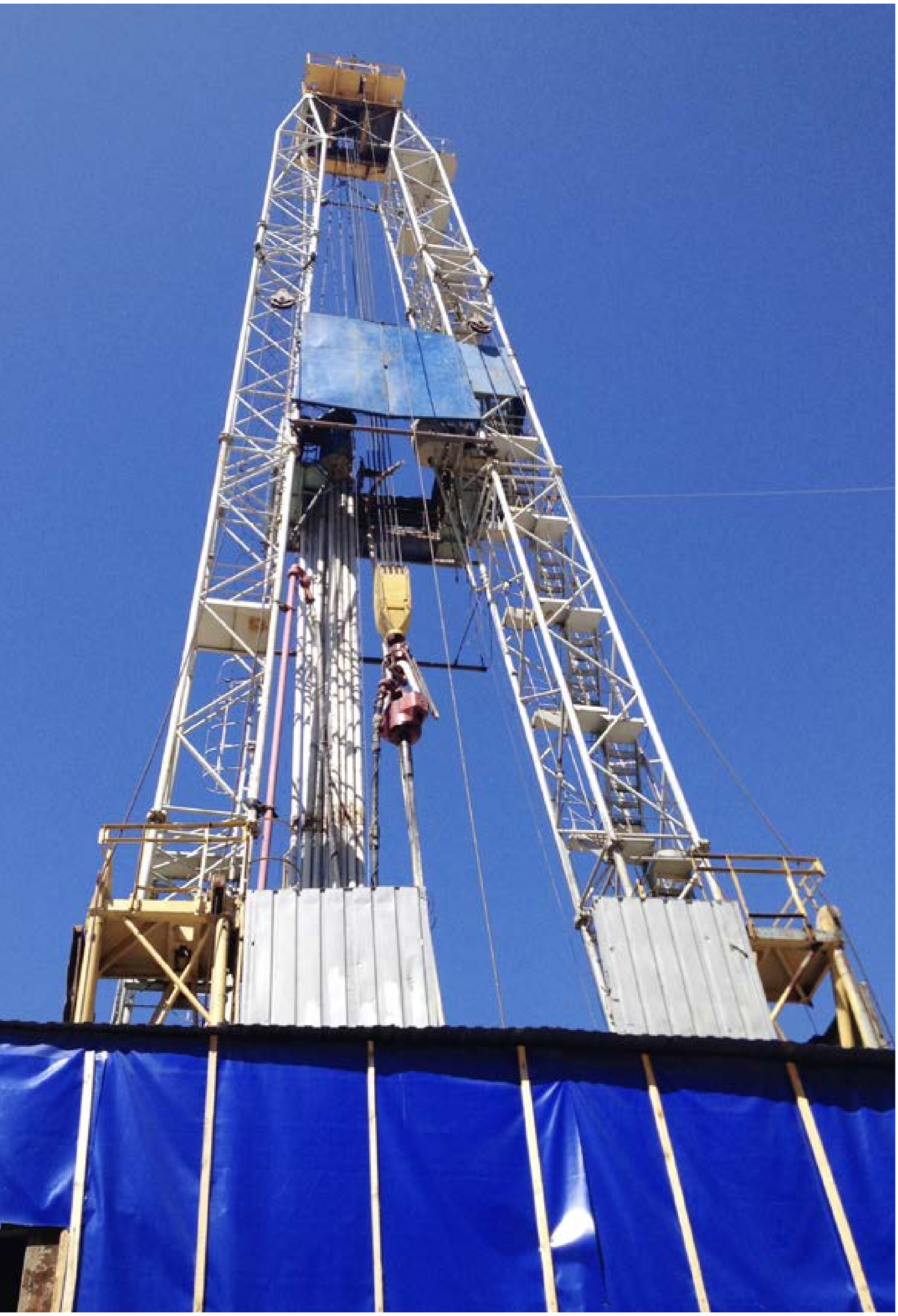
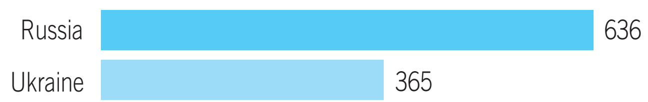
SHELTON
PETROLEUM

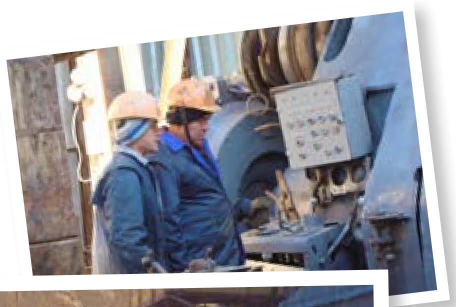
Annual Report 2013

Contents

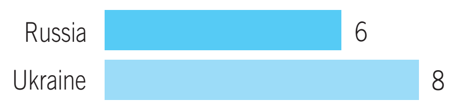


Production in the fourth quarter 2013, barrels per day

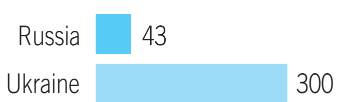




Reserves, million barrels of oil 3P



Resource potential, million barrels of oil equivalent



License portfolio

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

Some columns do not total due to rounding of figures.

* Aysky and Suyanovskoye have not yet been evaluated by independent Western institutions. The independent company Udmurtgeofizika estimated that Russian C1+C2 reserves and C3 resources at Aysky can amount to 12 and 10 million barrels of oil, respectively.

The reserves and resources shown in the tables above are given in millions of barrels of oil equivalent net to Shelton Petroleum. The data is based on independent audits conducted by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd. in 2009

The year in brief 2013

- Increased turnover and profit
- Revenue SEK 109 million
- Operating income SEK 30 million
- The Company achieves production exceeding 1,000 barrels per day in Q4
- Divestment of shareholding in PAN European Terminals provided cash funds in the amount of SEK 27 million

• Ukraine

– Production increases by 15 % to 365 barrels per day in Q4 2013, as a result of the work program

• Russia

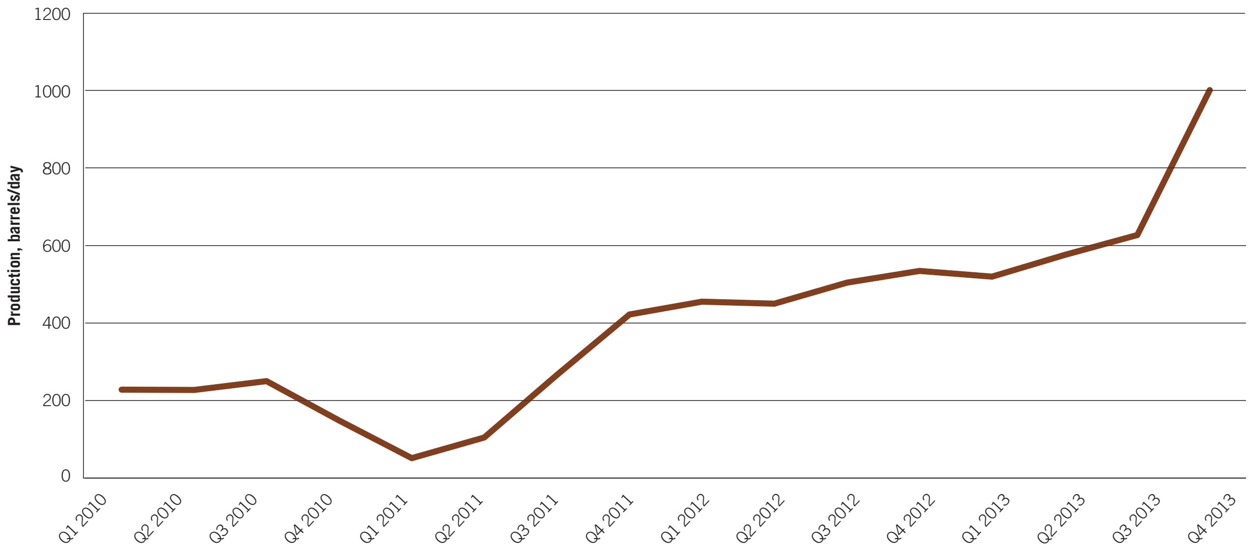
– Production increased by 195 % to 636 barrels per day in Q4 2013

– The Company finds oil in two out of two new wells at Rustamovskoye. Well #12 has a significantly higher net pay and produces considerably higher flow rates compared to previous wells

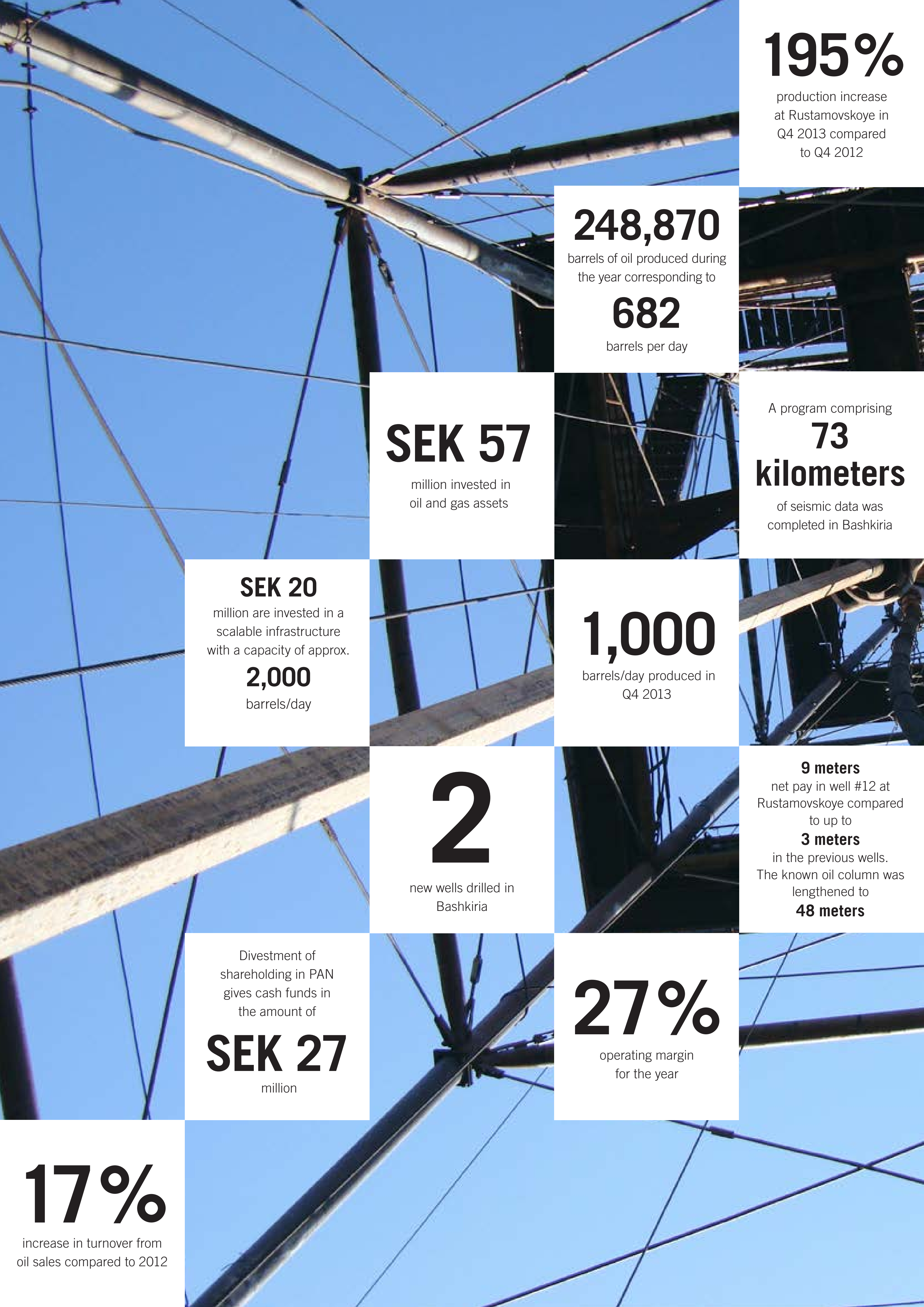
– Fracking increases flow rates at Rustamovskoye

– Collection of 73 km of seismic data at Aysky has been completed in order to create an integrated geological model for the three license areas.

Oil production 2010–2013



Key figures	2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013	2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012	2011	2010	2009	2008	2007
Production, barrels	248,870	92,060	57,700	52,360	46,750	177,850	49,150	46,400	40,900	41,400	77,300	77,900	0	0	0
Total revenue, (SEK thousand)	109,064	37,306	25,933	22,967	22,858	99,914	23,848	23,890	22,380	29,796	47,183	29,291	0	9	0
Operating result (SEK thousand)	29,510	10,687	8,278	4,724	5,820	29,613	6,696	5,272	5,763	11,882	2,392	–11,440	–16,664	–8,791	–2,871



195%
production increase at Rustamovskoye in Q4 2013 compared to Q4 2012

248,870
barrels of oil produced during the year corresponding to
682
barrels per day

SEK 57
million invested in oil and gas assets

A program comprising
73 kilometers
of seismic data was completed in Bashkiria

SEK 20
million are invested in a scalable infrastructure with a capacity of approx.
2,000
barrels/day

1,000
barrels/day produced in Q4 2013

2
new wells drilled in Bashkiria

9 meters
net pay in well #12 at Rustamovskoye compared to up to
3 meters
in the previous wells. The known oil column was lengthened to
48 meters

Divestment of shareholding in PAN gives cash funds in the amount of
SEK 27
million

27%
operating margin for the year

17%
increase in turnover from oil sales compared to 2012

Business concept

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

Strategy

- Increase the cash flow generating production and carry out carefully chosen exploration with high potential
- Add new oil and gas licenses to the portfolio
- Combine local presence and broad network with Western expertise
- Form strategic partnerships where it promotes the business
- Provide transparency, structure and good corporate governance to investors

Dear Shareholder,

During 2013, Shelton Petroleum has taken several significant steps in its development. In the fall we reached an important milestone – Shelton Petroleum produced over 1,000 barrels of oil per day. Production is conducted with good profitability, and in 2013 we reported an operating margin of 27%. It took us approximately six years to go from pure exploration to 500 barrels per day. From 500 to 1,000 took one year. As the Company gets bigger, the conditions for continued growth improve.

The single biggest factor behind the increase in production is the drillings in Bashkiria that the Company carried out during the year. The new well #12 at the Rustamovskoye field showed good reservoir properties and oil flow. The net pay amounted to nine meters, compared to three meters in previous wells. This has resulted in a production increase and improved cash flow. Moreover, it has contributed new and important geological information. The Company believes that there is scope for a substantial increase in the Company's reserves and resources in the coming reserve audits.

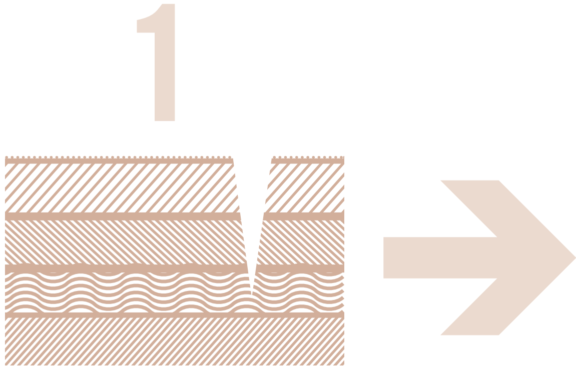
Shelton Petroleum also operates in Ukraine, a country in which geopolitical events are taking place. Shelton Petroleum's producing joint venture company Lelyaki is strategically located outside the troubled areas and the events have thus not affected its operations. Shelton Petroleum also has a joint-investment agreement on exploration licenses in the Black Sea and the Sea of Azov. As we have previously communicated, it is currently unclear how these will be affected.

The situation in Ukraine has not yet returned to normal, but the country's efforts to build a well-functioning oil and gas sector have been strengthened, and the financial resources that the West is now injecting may lead to an improved climate for an oil company like Shelton Petroleum.

Following the latest drilling results and the Company's position in the market I look forward to taking advantage of the many opportunities that lie ahead of us in 2014.

Robert Karlsson, CEO Shelton Petroleum

The E&P business step by step



Exploration

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

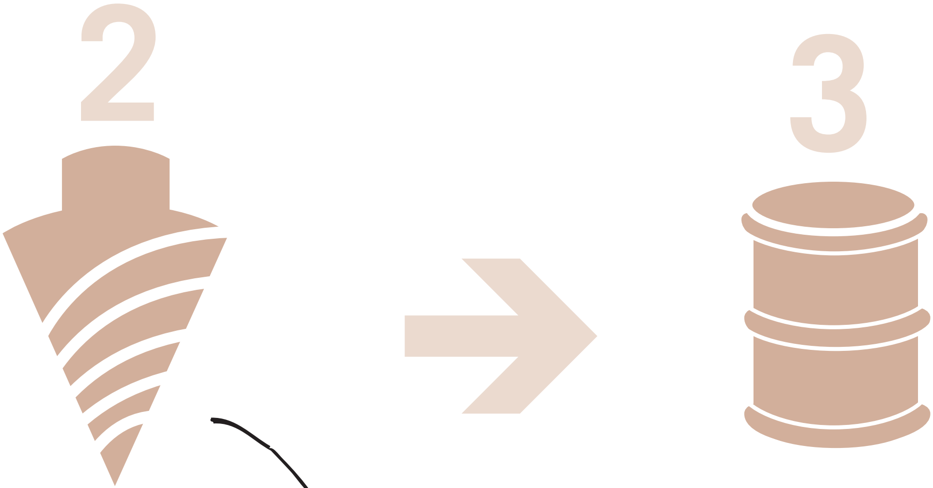
Geological and geophysical studies
The purpose of studies is to increase knowledge about the deposits as cost effectively as possible. This enables the company to identify possible oil reserves and determine the optimal drilling sites. Examples of studies include seismic surveys, which involves creating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

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

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

Exploration steps taken during the year

- A program of additional 73 kilometer of seismic data was completed at Aysky. The Company has created new structure maps and identified sites for exploration drillings.
- A program with 85 km of seismic data on Suyanovskoye has been commenced in order to identify structures for future drillings. The seismic data will be processed and interpreted together with other information from previous seismic data and drillings, in order to create an integrated geological model for the three Russian license areas
- Well #12 at Rustamovskoye may have a significantly positive effect on the Company's reserves and resources



Development

Development plan

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

Implementation

After approval, the company can start installing infrastructure and drilling production wells. The work requires specialist expertise within several disciplines. Traditionally, wells are drilled vertically through the reservoir, but lately horizontal wells combined with fracking - a method which breaks up the reservoir rock to increase oil flow - has become increasingly common since these can yield higher flows, albeit at a higher cost. When the drilling is completed, measures are taken to optimize the production level from existing holes and to improve results when drilling new wells.

Development steps taken during the year

- Two new wells have been drilled and put into production at the Rustamovskoye field in Bashkiria. The most recent well has excellent flow rates due to the larger net pay. As a result, the Company has more opportunities to drill horizontal wells with superior well economics
- Well #310 has been put into production at the Lelyaki field in Ukraine
- The Company has begun construction of a scalable infrastructure at the Rustamovskoye field in order to streamline handling of current and future produced oil. The investment includes gathering, measurement, separation and storage of crude oil. The capacity will initially be almost 2,000 barrels per day and may with small investments be scaled up and connected to future wells on the Company's neighboring fields

Production, sales and improved recovery

Production and sales

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

Work programs for improved recovery

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

Production and sales steps taken during the year

- 248,870 barrels of oil were produced and 229,280 barrels were sold. In Q4 2013 the Company reached an oil production exceeding 1,000 barrels/day
- Production volumes have increased from 216 in Q4 2012 to 636 barrels/day in Q4 2013 in Bashkiria, thanks to the successful drilling and fracking of two wells at the Rustamovskoye field
- A work program has been conducted at the Lelyaki field, which has increased production from 318 in Q4 2012 to 365 barrels/day in Q4 2013

Key drivers in Russia

- Since 1950, Bashkiria has been one of Russia's most important regions for oil and gas, with good access to equipment, knowledge and specialists
- Bashkiria has Russia's largest refinery capacity and there is good demand for crude oil
- Bashkiria has a mild climate compared to many other Russian oil-producing regions. This makes exploration and extraction of oil possible year-round.
- The republic has a well-developed infrastructure for processing and transporting crude oil
- Bashkiria is a politically and economically stable part of the Russian Federation and is one of the regions with the best investment climate in Russia, according to a report from Deutsche Bank (2012)
- Russia is the world's largest producer of oil and gas
- Russian oil consumption is expected to increase by 3.5 % per annum, according to Business Monitor International
- Reduced production tax from 2012 benefits the Shelton Petroleum's Rustamovskoye field, with cash flow potential increasing by about USD 10 per barrel
- In conjunction with the geopolitical developments in Ukraine, sentiments in the West towards Russia have become worse.

Key drivers in Ukraine

- Ukraine is one of Europe's biggest energy consumers
- The country has been producing oil and gas since the beginning of the 20th century and plays a central part in Europe's energy supply due to its geographical location
- Ukraine has an untenable energy balance with almost two-thirds of the country's consumption of oil and gas being imported, while only about 5 % of the offshore resources have been exploited
- Tax on oil production was reduced by approximately 15 dollars per barrel as of January 1, 2012
- Recent developments have created uncertainty about the political situation in Ukraine. After a referendum, Crimea has declared itself independent and has, upon request, been incorporated in the Russian Federation. Certain assets have been nationalized, something which is not recognized by the government in Kiev or internationally
- A PSA legislation (Production Sharing Agreement) has been introduced to facilitate foreign investments in oil and gas
- Major players such as OMV, Exxon Mobil, Chevron, Eni and EDF have a presence both onshore and offshore in the Black Sea.

The world around us

What affects the oil price

State of the world market
When the economy booms, the demand for oil increases which can lead to increased prices. In a recession, the opposite usually applies.

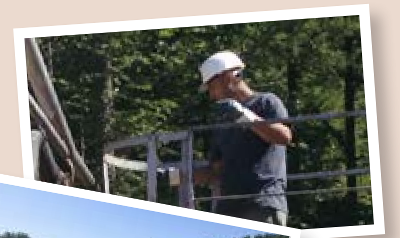
Weather and the unforeseen
Low temperatures and storms can either reduce supply, increase demand or both. This leads to higher prices.

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

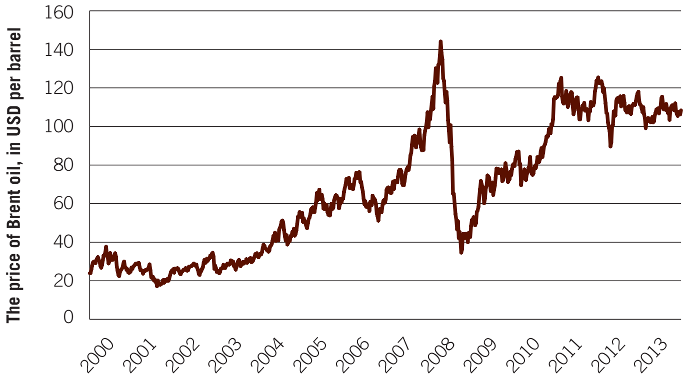
Oil inventories
The world's oil inventories levels can affect what is available on the market.

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

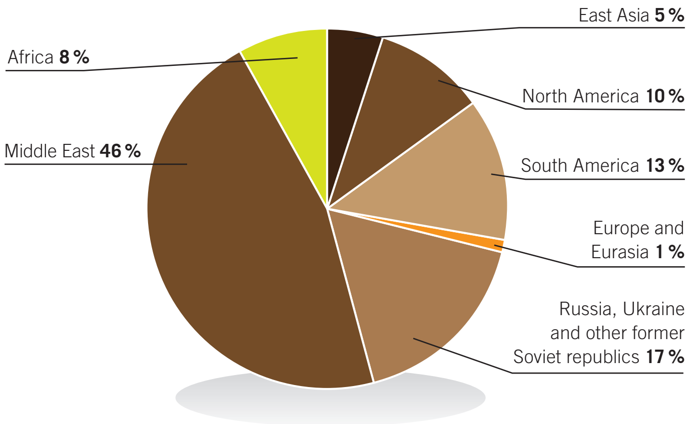
Other factors
Other factors include among others technology, energy saving, competition, speculations, taxes and other sources of energy including unconventional oil (shale oil, tar sands etc.).



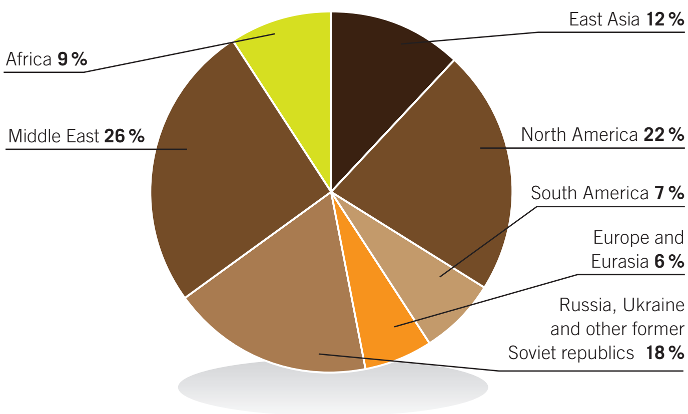
Oil price development



Global oil and gas reserves



Global oil and gas production



Source: BP Statistical Review of World Energy (June 2013)








Operations in Russia

Licenses and operations in Russia

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

Good infrastructure

The area is accessible by road year-round. A pipeline crosses the license area, with a connection point 10 kilometers from the boundary of the block. When the volume of Shelton Petroleum's production grows, the Company may apply for access to this pipeline. Currently, the oil produced is transported by truck. The village Ust-Yuguz which is located in the block, not far from the drilling site at Rustamovskoye, has access to electricity supply via the local grid, to which the Company is connected.

Development program to increase production

In 2013, Shelton Petroleum proceeded with the development program at Rustamovskoye. The Company drilled two new wells and both produce oil from the same sandstone formation. The latest well has found significantly better reservoir characteristics and may be a possible game-changer at Rustamovskoye. The net pay amounts to almost nine meters, compared to around three meters in previous wells. Production from this well is a bit over 300 barrels per day, providing good well economics.

The field will be developed in stages in order to manage geological risks and to balance investments against the Company's available financial resources.

The new drilling has increased the knowledge of the reservoir characteristics and dimensions, and provides opportunities to increase the Company's reserves in future updates.

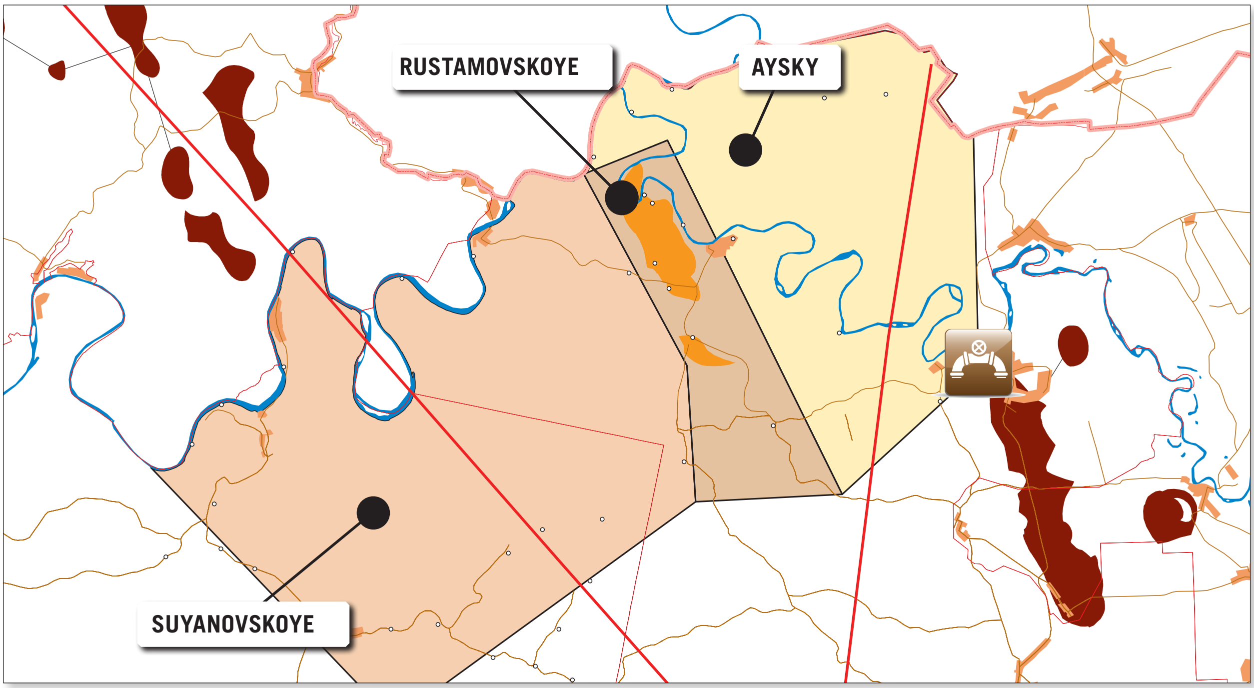
The Company also analyzes the collected drilling data and geological information in order to develop an improved design for drilling projects. The purpose is to produce a new development plan in order to best explore and extract the reserves of the deposit. The design may include horizontal drilling, which under the right geological conditions provides increased flows and significantly improved well economics. Due to the larger reservoir in RS#12, the Company now has better opportunities to drill such horizontal wells. Currently, oil is being produced from a horizon of the Devonian period, but the field has potential for production from several horizons.

Production from four wells

Shelton Petroleum currently produces oil from four wells at Rustamovskoye. During the summer and early fall, the Company carried out fracking of two wells (RS#1 and RS#11) in order to counteract the natural production decline to which all wells are exposed. As a direct result of the fracking, production from these wells increased. Oil production for the year totaled 122,305 barrels of oil and daily production in Q4 was 636 barrels per day, compared to 216 barrels per day during the corresponding period in 2012. The oil is sold to small, local refineries.

Strong local network

Shelton Petroleum has a strong local network within the oil industry and authorities in Bashkiria. The Company is constantly seeking to strengthen its position and identify future opportunities. Shelton Petroleum's licenses are now included on the President's list of specially prioritized projects in the Republic.



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

Bashneft's pipeline connection

License	Type of license	Area	Wells drilled by Shelton Petroleum (Soviet drillings)	Production in Q4 2013, barrels/day	Reserves 3P, mln. of barrels oil equivalent	Resource potential, mln. barrels oil equivalent
Rustamovskoye	Exploration license, which has been converted to a production license for parts of the area	52 km², of which 36 km² is a production license	4 (5)	636	6	43
Suyanovskoye*	Combined exploration and production license	300 km²	0 (15)	–	–	–
Aysky*	Exploration license	187 km²	0 (10)	–	–	–

The reserves and resources at Rustamovskoye are based on an independent Western audit by AGR TRACS International Consultancy Ltd.

* Aysky and Suyanovskoye have not yet been evaluated by independent Western institutions. The independent company Udmurtgeofizika estimated that Russian C1+C2 reserves and C3 resources at Aysky can amount to 12 and 10 million barrels of oil, respectively.

Facts about Bashkiria

Capital Ufa with 1 million inhabitants

Form of government Federal subject with its own constitution that specifies that the republic is an independent region of the Russian Federation.

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

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

Population approximately 4 million, of which 36 % are Russians, 30 % Bashkirs, 24 % Tartars and 10% other ethnic groups

Geographic location West of Ural Mountains, approximately 1,200 kilometers from Moscow

Interesting facts

- In Russia, Bashkiria is called "the second Switzerland" because of its rolling landscape, rivers and clean air
- Bashkiria's prides: honey, Bashkir horses, the hockey team Salavat Yulaev in KHL

Keys to value creation in Bashkiria

- Drilling of new wells at Rustamovskoye
- Repeating the result from well #12
- Increased reserves and resources in future updates
- New oil facilities will improve efficiency in oil handling
- High exploration potential in the neighboring license areas

Well #12 is a possible game-changer

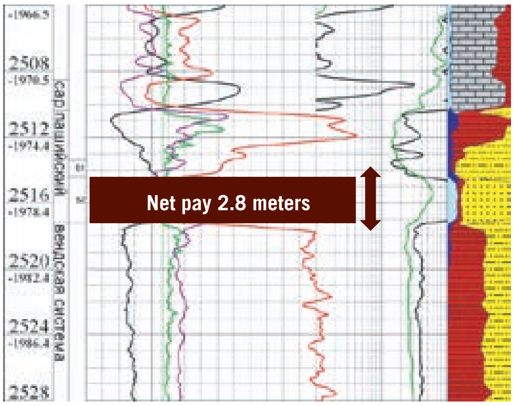
The new well #12 is a possible game changer at the Rustamovskoye field. The well encountered a significantly higher net pay that provides substantially higher flow rates than previous wells. The oil-bearing formation has come deeper than in previous wells, which means an increase of the known oil column and hence the size of the reservoir. Data from well #12 shows that the structure extends to the south-east and into the neighboring Aysky license.

The latest independent Western reserve audit of Shelton Petroleum's Russian licenses was conducted in September 2009 and does not take the new successful drillings into account. The findings from well #12 have resulted in a new interpretation of the area as well as the size of the reservoir. This may lead to a significant increase of reserves and resources in future audits.

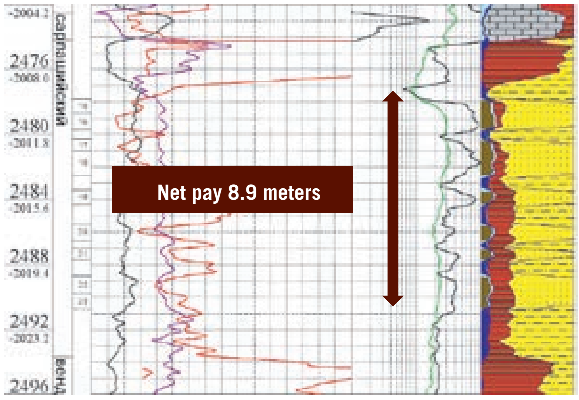
Well #12 implications

Financial	• Cash flow from oil sales covers operating expenses as well as a part of capital expenditures • Economies of scale increase profitability per barrel • Increased stability and flexibility in future financing. Opens up debt financing opportunities
Operational	• Currently, oil is sold at well head and transported by truck. Increased oil volumes open up opportunity for pipeline sales with increased profitability per barrel • Larger net pay facilitates horizontal drillings with superior economics (fewer wells, lower operating costs, greater and faster recovery)
Reserves	• Larger net pay and extended oil column increases volumes of oil

Well #11



Well #12



New design for horizontal wells

The Company analyzes collected drilling data and geological information in order to develop an improved design for drilling projects. The purpose is to work out a new development plan in order to best explore and extract the reserves of the deposit. The design will include horizontal drilling, which under the right geological conditions provides increased flows and superior well economics. Shelton Petroleum plans to drill in a southeasterly direction to reach thicker sandstone.

Facts about horizontal wells

Horizontal wells provide an 85 % higher cumulative production than vertical wells, yielding higher returns

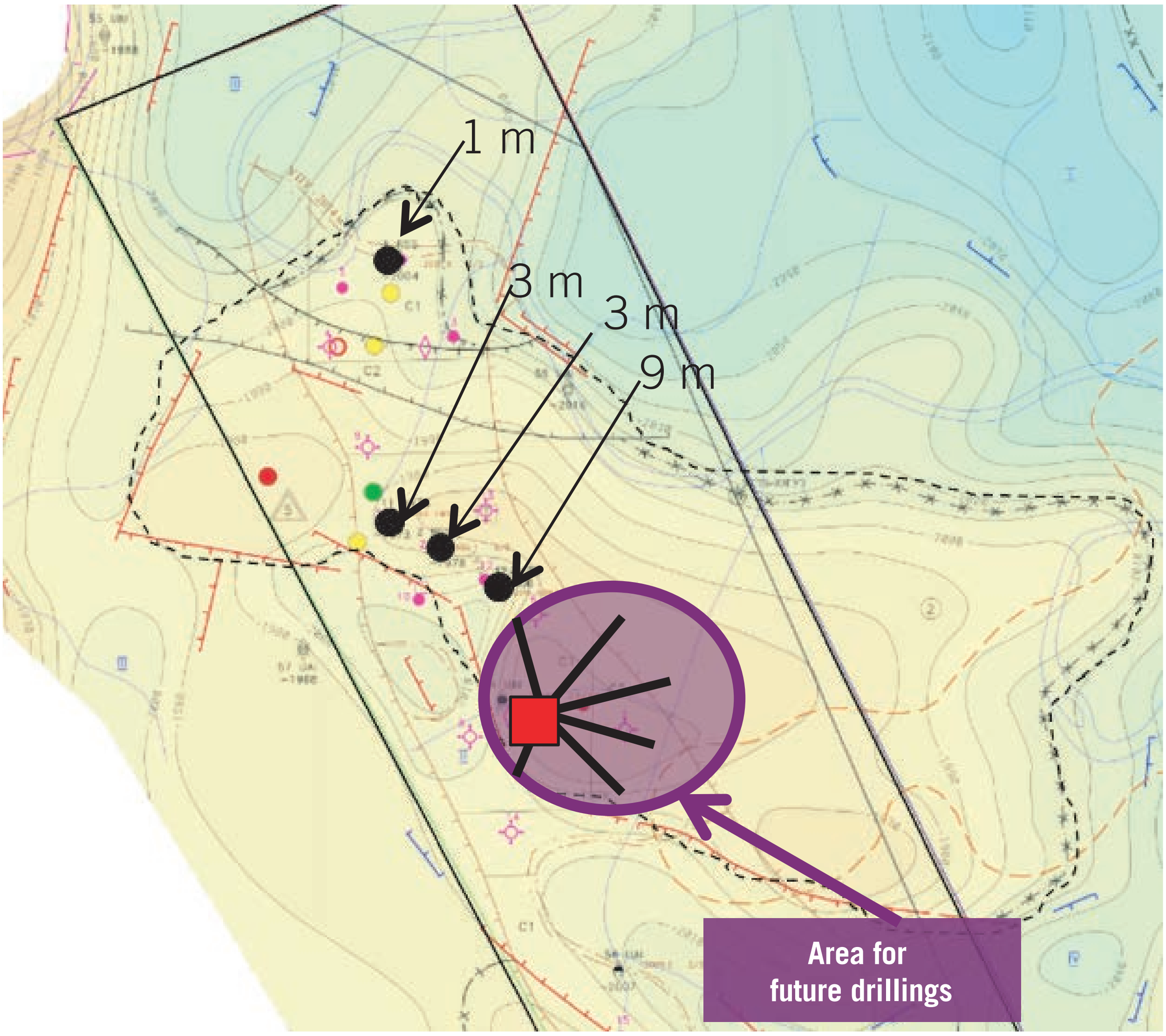
Despite being more expensive to drill, horizontal wells have quicker payback than vertical wells on average

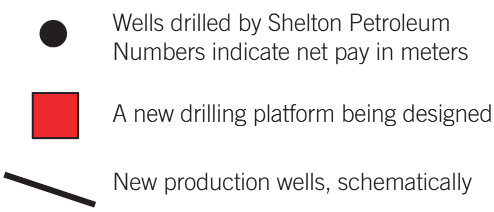
Horizontal wells are 20 % longer than vertical wells, cost 2.2x more, and yield approximately 3.5x higher initial production

Source: Oil services company C.A.T Oil.

The figures are based on industry averages and are not necessarily fully representative for Shelton Petroleum

Area for future drillings





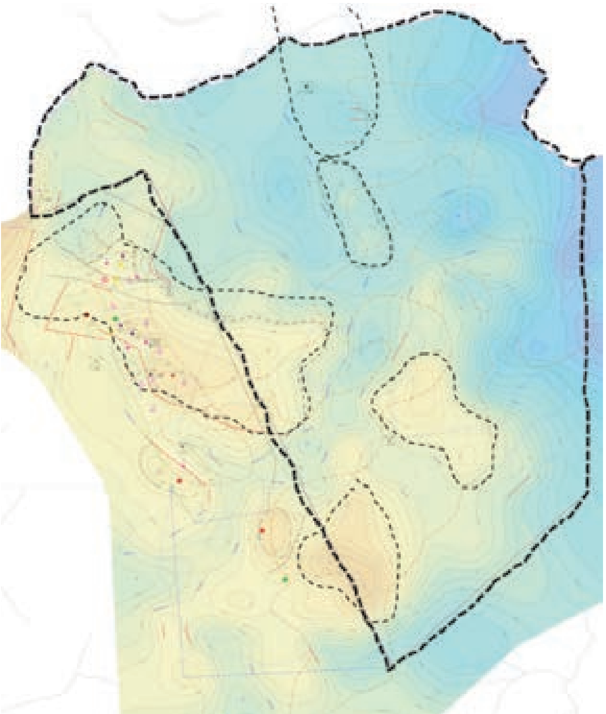
Exploration to increase reserves

In order to increase knowledge of the local geology and increase the oil reserves, Shelton Petroleum is conducting an exploration program at Aysky and Suyanovskoye.

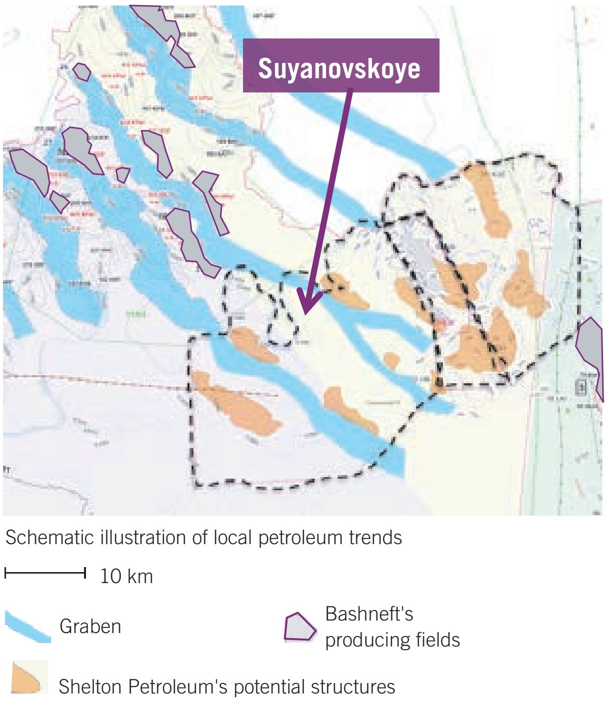
138 km of seismic data has been collected during 2011-2013 at Aysky, and three structures have been identified, one of which may be an extension of the structure the Company already produces from at Rustamovskoye. Shelton Petroleum has created new structure maps and identified locations for drilling exploration wells. An independent report shows that the reserves and resources may amount to approximately 20 million barrels at Aysky according to Russian standards.

Shelton Petroleum has also begun the collection of 85 km of seismic data at the Suyanovskoye field. Previously conducted helium studies in the field indicate the presence of hydrocarbons and an active petroleum system. The seismic data will cover the eastern part of Suyanovskoye, i.e. the part that is directly connected to Rustamovskoye. The purpose of the seismic program is to identify structures for future drillings. The geological information that the Company already has, suggests that there are structures that extend from Rustamovskoye to Suyanovskoye, and this is one of the things that the seismic data will provide answers to. After the seismic data has been collected, it will be processed and interpreted together with other information from the seismic data and drillings.

Aysky



Suyanovskoye

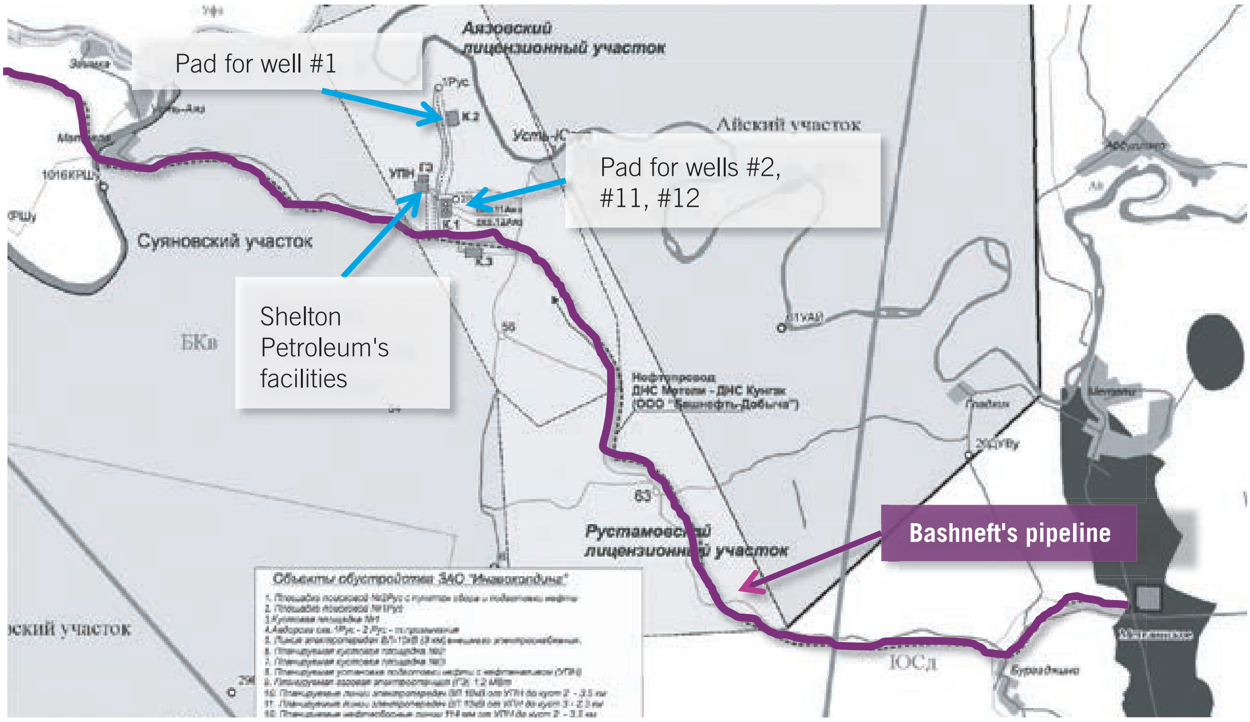


Schematic illustration of local petroleum trends

Investment in a scalable infrastructure

Shelton Petroleum is investing SEK 20 million in a scalable infrastructure at the Rustamovskoye field in Russia in order to improve efficiency in the handling of current and expected future oil production. The infrastructure investments will enable more efficient handling of oil from wellhead to the point of sales and includes gathering, measurement, separation and storage of oil. Initial capacity is almost 2,000 barrels per day, compared to the current production of around 600 barrels per day. With minor investments the infrastructure may be scaled up further to manage production of several thousand barrels per day. The facility will also serve as a hub for future oil production from oil fields at Aysky and Suyanovskoye.

An area of six hectares has been prepared for the installation. It is located 500 meters from the producing wells and a few hundred meters from the Bashneft pipeline.




Shelton Petroleum's infield pipeline from the well to facilities


Measuring station

License	Type of license	Ownership share and partners	Area	Drilled wells	Net production in 2013 to Shelton Petroleum, barrels/day	Reserves 3P, mln. barrels oil equivalent	Resource potential, mln. barrels oil equivalent
Lelyaki	Production license	45 % / Ukrnafta	67 km²	ca 150	347	8	–
Arkhangelskoye	Exploration license	50 % / CNG	87 km²	3	–	–	130
North Kerchenskoye	Exploration license	50 % / CNG	96 km²	3	–	–	4
Biryucha	Exploration license	50 % / CNG	130 km²	1	–	–	166

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

Keys to value creation in Ukraine

Lelyaki	▶ Net current production ~360 barrels/day (net to Shelton Petroleum) ▶ Increase production through workovers, drilling of new wells and sidetracks ▶ Significant potential in the application of Western reservoir technologies
Offshore Black Sea/ Azov Sea	▶ Analyze historic exploration data, collect new seismic data to prepare for carefully targeted drillings
Take advantage of expansion opportunities	▶ Strong network and local presence in a dynamic market

Facts about Ukraine

Capital Kiev

Form of government Republic

The administration Led by a president, who is elected for five years. Viktor Yanukovych, the former president, was removed from his post by the Ukrainian Parliament, Verchovna Rada on February 22, 2014, as a result of the so-called Euromaidan protests. The new presidential elections take place on 25 May 2014. Elections to Verchovna Rada are held every five years.

Area 603,628 km²

Population 46 million

Partners in Ukraine

UKRNAFTA

Ukrnafta was founded in 1945 and is Ukraine's largest oil company with approximately 27,000 employees. In 2011 the company produced over 17 million barrels of oil and condensate and 2.1 billion cubic meters of gas, which represents 68 per cent and 11 per cent, respectively, of the country's production. The company's proven and probable reserves amount to 800 million barrels of oil equivalent. The company also has a network of approximately 560 service stations. The company is 50 percent owned by the Ukrainian state and its share is quoted in Ukraine, with trading also in Berlin and Frankfurt.

CHORNOMORNAFTOGAZ

Chornomornaftogaz (CNG) is a government-run company that was established in 1978 to explore for reserves in the Black Sea and Sea of Azov. The company has around 4,000 employees and produces approximately 32,000 barrels of oil equivalent per day. The company owns 13 offshore production platforms and four jackup rigs. CNG operates 1,300 km pipeline, of which 370 km is in the sea.

Operations in Ukraine

Licenses and operations in Ukraine

Shelton Petroleum has been active in the Ukrainian oil and gas market for several years. The Company has created a good position from which to operate and grow. Despite Ukraine's long history of petroleum extraction, the country is facing an intense period of resource development in the upcoming decade.

Lelyaki - oil production in Poltava

The Shelton Petroleum subsidiary Zhoda 2001 Corporation has entered into a joint venture with Ukrnafta, Ukraine's largest oil and gas company, regarding the oil producing field Lelyaki. Production for the year amounted to 126,565 barrels of oil net to Shelton Petroleum, which corresponds to 347 barrels per day compared to 328 barrels per day in 2012. Lelyaki is located in the Dnepr-Donetsk basin near Poltava. It produces light, high-quality oil.

Development with low geological risk

Lelyaki was once one of the Soviet Union's largest producing fields. The original amount of oil in place has been estimated at around one billion barrels. The field has an accumulated production of about 385 million barrels of oil, which entails an extraction rate of 38 %. With the technologies of so-called enhanced recovery, Western oil companies in some fields have reached an extraction rate exceeding 50%. This shows that the potential of the remaining amount of oil for extraction may significantly exceed current registered reserves. At the field, there are good connections to Ukraine's oil and gas infrastructure. In 2013, the previously drilled well #310 was put into production.

The field operator has continued with the work program initiated in 2011 to increase the production levels. Since the characteristics of the field are well known, this can be achieved through cost-effective investments at low geological risk. The Company is carrying out a program with new wells, sidetracks and workovers. In parallel, the Company is planning to develop a simulation model to examine how Western reservoir techniques can be used to increase the amount of oil extracted beyond the currently registered reserves. Shelton Petroleum has a forty-five percent ownership in Kashtan Petroleum (which holds the Lelyaki license) via its wholly-owned subsidiary Zhoda 2001 Corporation. Ukrnafta owns the remaining fifty-five percent.

Offshore fields with significant potential

Shelton Petroleum has, as one of the few Western companies, acquired interests offshore in the Black Sea and Azov Sea through a strategic partnership with the state-owned license holder Chornomornaftogaz (CNG). Shelton Petroleum has a 50% interest of Arkhangelskoye, Biryucha and North Kerchenskoye through a Joint Activity Agreement between its subsidiary Shelton Canada and CNG. The exploration potential net to Shelton Petroleum has been estimated at 300 million barrels of oil equivalent.

These licenses are situated in shallow waters and could potentially be drilled with a so-called jackup rig at a cost relatively low for offshore drilling.

The existence of gas in the area is proven. Chornomornaftogaz already produces from Arkhangelskoye from a horizon that is above the horizon at which Shelton Petroleum has its interests. A similar field a few kilometers from Arkhangelskoye is currently producing about 6,000 barrels of oil equivalent per day from the horizon in which Shelton Petroleum has its share. Due to the recent geopolitical developments in Ukraine, Shelton Petroleum's board sees an increased risk regarding the potential future financial benefits from the agreement with CNG; see the risk section in the annual report.

High prices of natural gas

Prices of natural gas to the industry amounted to USD 389 per thousand cubic meters in early 2014. This is approximately two times higher than in North America.

The major players increase their presence in the Black Sea

The Ukrainian and Crimean part of the Black Sea and Sea of Azov has estimated recoverable resources of 11 billion barrels of oil equivalent. Less than five percent of these are exploited. In light of Ukraine's large imports of energy, there is a strong political interest to increase the offshore production. The Ukrainian government recently took steps to make it easier for foreign oil companies to establish themselves, e.g. by introducing the Production Sharing Agreement (PSA) legislation. As a consequence of this, activity on the Ukrainian oil and gas market has increased significantly during 2012-2013. Among the companies that have acquired licenses or signed PSA:s are Shell, ExxonMobil, Chevron, Eni and EDF. Due to the geopolitical development, the companies have taken a more cautious approach until events are normalized. Shelton Petroleum is currently evaluating several alternatives in order to push the Company's existing offshore interests forward, and to add new licenses to the portfolio.

Strong local network

Zenon Potoczny, Shelton Petroleum's board director and president of Shelton Canada Corp., is also the president of the Canadian-Ukrainian Chamber of Commerce and has a large network in Ukraine. The Company regularly takes part in trade fairs and other events, such as the Ukrainian Energy Forum and the Ukraine-Canada Business Forum, and maintains contacts with senior policy-makers in Ukraine.

Corporate social and environmental responsibility

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

Shelton Petroleum considers it vital to contribute with this important resource in a responsible manner. The Company complies with the Russian and Ukrainian environmental legislation which covers water usage, air pollution, emissions into water, handling of hazardous substances, recovery of soil and health as well as safety aspects for employees. It is Shelton Petroleum's policy to live up to the environmental and safety requirements in the market where the Company operates. The Company's objective is to set an example in minimizing the environmental risks in the Company's operations.

Shelton Petroleum employees undergo regular education and training courses in crisis management, preventing blowouts, avoiding oil spills and other hazardous substances, first aid and fire-fighting. Additionally, regular controls and incident preparation exercises, both internal and external (by state authorities), are carried out. In 2013, there were no accidents or job-related injuries at the Group's production assets. Shelton Petroleum takes measures to ensure that a safe work environment is created and maintained even in the future.

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

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

Shelton Petroleum has made the following contributions in Bashkiria:

- Donated money to a pre-school in Duvansky rayon (municipality) for the purchase of toys and computer equipment
- Supported a conference for young geologists
- Collaborated with local authorities in Duvansky rayon for arrangement of local cultural festivities
- Donated money to an orphanage
- Co-funded equipment for the local forest management office in Duvansky rayon

Shelton Petroleum has made the following contributions in Ukraine:

- Partnered with the Ukrainian youth association "Plast"
- Provided financial support to a local association of work veterans in the Poltava region
- Collaborated with local authorities in Pryluky rayon (municipality) for the arrangement of local cultural festivities
- Sponsored the local fire-fighting department

Shelton Petroleum's CSR principles

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

Shareholders and the share

Shareholders

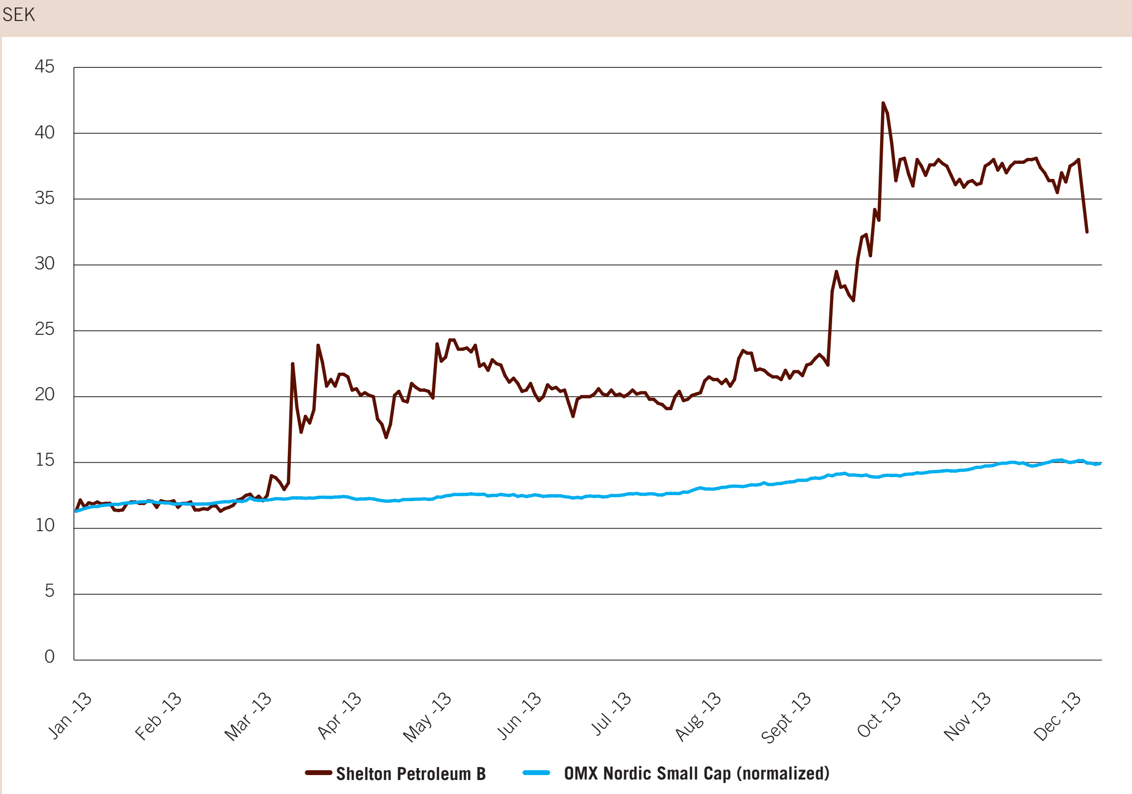
The table below shows the ten largest shareholders as of December 31, 2013 broken down by holdings.

Shareholder	No. of Series A shares	No. of Series B shares	Percentage of capital	Percentage of votes
Skandinaviska Enskilda Banken S.A.	24,648	1,543,269	12.9 %	13.1 %
Petrogrand AB	0	1,500,000	12.3 %	11.0 %
Two Eye Fund	18,040	1,053,811	8.8 %	9.0 %
Avanza Pension	0	723,611	6.0 %	5.3 %
SIX SIS	0	660,546	5.4 %	4.8 %
Giamore Resources Inc.	0	351,592	2.9 %	2.6 %
BNY MELLON SA/NV	0	241,269	2.0 %	1.8 %
Nordnet Pensionsförsäkring AB	0	206,372	1.7 %	1.5 %
TD Waterhouse	0	192,154	1.6 %	1.4 %
Ulf Cederin	27,123	111,174	1.1 %	2.8 %
Other shareholders	100,769	5,408,710	45.3 %	46.8 %
Total	**170,580**	**11,992,508**	**100 %**	**100 %**

Source: Euroclear AB

Shelton Petroleum's share price trend

Shelton Petroleum Class B shares are listed on the NASDAQ OMX Main Market under the name SHEL B.



Source: NASDAQ OMX

Share capital

Share capital

Shelton Petroleum's share capital per December 31, 2013 amounted to SEK 60,815,440 divided into 12,163,088 shares. The shares have a quotient value of SEK 5.00 each. The shares are of two classes, A and B. The number of Class A shares is 170,580 and the number of Class B shares is 11,992,508. A shares entitle the holder to ten votes per share, while B shares entitle the holder to one vote per share. Each shareholder is entitled to vote the full number of shares held and represented at the Annual General Meeting. All shares have an equal right to a proportion of the Company's assets in the distribution of profits.

In December 2009, the Company issued a convertible bond which has since been subject to extensions. Convertible bonds in the amount of SEK 360 thousand were converted into shares in November 2013. The remaining holders of convertible bonds in this program chose to exchange their bonds in the amount of SEK 22,410 thousand for a new bond with a maturity date of June 30, 2014. The bonds carry an interest rate of 10 % and are convertible into shares during the period June 1–15, 2014. The conversion price is SEK 16. The convertible bond is secured by a pledge of the shares in the wholly owned subsidiary Zhoda 2001 Corporation, which holds the Group's 45 % in the Lelyaki field in Ukraine. Upon full conversion of the new convertible bond, share capital increases by SEK 7,003,125 and the number of shares increases by 1,400,625, which corresponds to a 10.33 % dilution, based on the number of shares as at December 31, 2013.

In 2013, Shelton Petroleum issued two convertible bonds to Petrogrand AB. Convertible 1 totaled SEK 30 million and was converted to 1,500,000 B shares in October 2013. The second convertible amounted to approximately SEK 185 million. The right to convert matured on December 31, 2013. The convertible was repaid and canceled in January 2014 when Shelton Petroleum transferred SEK 185 million to Petrogrand in exchange for the convertible.

Share options

In 2012, a total of 320,000 share options were issued, entitling the holders to subscribe to 320,000 class B shares. The subscription price is SEK 18.67 per share and the subscription period is June 1-15, 2015. The option program 2010 matured in January 2013. Since the subscription price exceeded the stock exchange price, the holders opted not to exercise their options.

Year	Transaction	Increase / decrease of number of shares	Change in share capital	Total number of A shares	Total number of B shares	Total number of shares	Share capital (SEK)	Quotient value
2001	New issue	6,089,361	5,480,425	9,028,593	31,786,568	40,815,161	36,733,645	0.90
2002	Share capital decrease	–	14,285,306	9,028,593	31,786,568	40,815,161	22,448,339	0.55
2004	Exchange of convertibles	7,272,727	4,000,000	9,028,593	39,059,295	48,087,888	26,448,338	0.55
2004	Exchange of convertibles	10,909,089	5,999,999	9,028,593	49,968,384	58,996,977	32,448,337	0.55
2007	Exchange of convertibles	10,000,000	5,500,000	9,028,593	59,968,384	68,996,977	37,948,337	0.55
2009	Non-cash issue [1)]	139,246,835	76,585,759	9,028,593	199,215,219	208,243,812	114,534,097	0.55
2009	Share capital decrease	–	–93,709,715.4	9,028,593	199,215,219	208,243,812	20,824,381	0.10
2010	Non-cash issue [2)]	155,577,010	15,557,701	9,028,593	354,792,229	363,820,822	36,382,082.2	0.10
2010	Non-cash issue [2)]	16,348,213	1,634,821.3	9,028,593	371,140,442	380,169,035	38,016,903.5	0.10
2010	Exchange of convertibles	700,000	70,000	9,028,593	371,840,442	380,869,035	38,086,903.5	0.10
2010	Directed new issue	50,000,000	5,000,000	9,028,593	421,840,442	430,869,035	43,086,903.5	0.10
2010	Directed new issue	15,000,000	1,500,000	9,028,593	436,840,442	445,869,035	44,586,903.5	0.10
2010	Non-cash issue [3)]	31,140,845	3,114,084.5	9,028,593	467,981,287	477,009,880	47,700,988	0.10
2010	Non-cash issue [4)]	54,000,000	5,400,000	9,028,593	521,981,287	531,009,880	53,100,988	0.10
2010	Exchange of convertibles	1,000,000	100,000	9,028,593	522,981,287	532,009,880	53,200,988	0.10
2011	New issue for reverse split 1:50	19,520	1,952	9,029,000	523,000,400	532,029,400	53,202,940	0.10
2011	Reverse split 1:50	–521,388,812	–	180,580	10,460,008	10,640,588	53,202,940	5.00
2012	Conversion of A shares to B shares [5)]	–	–	170,580	10,470,008	10,640,588	53,202,940	5.00
2013	Exchange of convertibles	1,500,000	7,500,000	170,580	11,970,008	12,140,588	60,702,940	5.00
2013	Exchange of convertibles	22,500	112,500	170,580	11,992,508	12,163,088	60,815,440	5.00

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

BOARD OF DIRECTORS

Björn Lindström
Chairman

Björn Lindström, born in 1971, is the Chairman of the Board. He has 17 years of experience of investments and business in Eastern Europe.

Björn Lindström is one of the founders of Alpcot Capital Management Ltd and Agrokultura AB. Alpcot Capital Management Ltd is authorized by the Financial Services Authority in the UK.

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

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

Björn Lindström is currently co-owner and board director of Alpcot Capital Management Ltd and companies in the same group as Alpcot Capital Management Ltd and St Petersburg Property Company AB.

Björn Lindström is, as according to the definition of the Swedish Code of Corporate Governance, independent in relation to Shelton Petroleum, its management, but not independent of its large shareholders.

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

Hans Berggren
Board Director

Hans Berggren, born in 1949, has extensive experience of Swedish and international capital markets. Mr. Berggren worked at NASDAQ OMX as General Counsel in 1987–2005 and as Senior Advisor in 2006–2009. He has also served as a board director in several companies in Sweden and abroad, including Russia.

He has a law degree from Stockholm University and has also studied at the University of Grenoble in France.

Hans Berggren is currently a board director of the Cyprus-based company F G Volga Farming Ltd, which runs an agricultural business in Russia.

Hans Berggren is, according to the definition of the Swedish Code of Corporate Governance, independent in relation to Shelton Petroleum AB, its management and its large shareholders.

Holding: 5,000 B shares
Options: 0
Convertibles: 0

Richard N. Edgar
Board Director

Richard N. Edgar, born in 1946, is a geologist and has been active in the oil industry in both Canada and internationally for nearly 40 years. Edgar was formerly Chairman of the Board of Shelton Canada Corp. and is a board director and President of Poplar Creek Resources Inc. and board director of Passport Energy Ltd., Bengal Energy and 1144449 Alberta Ltd. Mr. Edgar is a member of the Petroleum Exploration Society of Great Britain, the Petroleum Exploration Society of Australia and the Canadian Society of Professional Geologists. He has been awarded the designation of Professional Geologist by the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Richard Edgar has an engineering degree (BSc) from the University of Alberta.

Richard Edgar is, according to the definition of the Swedish Code of Corporate Governance, independent in relation to the Company, its management and its large shareholders.

Holding: 72,756 B shares
Options: 0
Convertibles: 0

Peter Geijerman
Board Director

Peter Geijerman, born in 1972, has several years' experience of project coordination and company management in Russia.

He is the founder of a company that owns and runs an industrial group in Western Siberia.

Mr. Geijerman has an MBA from INSEAD and a Master's degree in clinical medicine from Karolinska Institute.

Peter Geijerman is, according to the definition of the Swedish Code of Corporate Governance, independent in relation to Shelton Petroleum, its management and its majority shareholders.

Holding: 0
Options: 0
Convertibles: 0

Company management

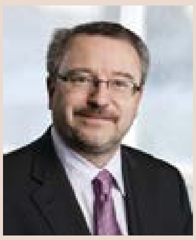
Holding:
22,867 B-shares
Options: 144,000, which entitles to a subscription of 144,000 B-shares
Convertibles: 0

Robert Karlsson
CEO Shelton Petroleum

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

He was previously CFO of a NASDAQ OMX listed IT consultancy firm, where he was also in charge of the 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.

Mr. Karlsson has a Master's degree in Business Administration from the Stockholm School of Economics.



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

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

Zenon Potoczny, born 1957 and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally.

Zenon Potoczny served as President and CEO of Shelton Canada Corp. since the company's listing on the TSX Venture Exchange in 1996. Mr. Potoczny serves as president of Canada-Ukraine Chamber of Commerce.

He holds an MSc in Engineering and an MBA from the University of Toronto.

Freddie Linder
Board Director

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

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

He has held several management positions at Preem AB, including Marketing Director and Senior Advisor between the years 1996 and 2012. Prior to that, he was the CEO of Svenska Petroleum Exploration A/S, with a production of 20,000 barrels per day. He has held the positions of Technical Director and Exploration Manager, gaining vast experience from a variety of exploration and production projects.

Freddie Linder is, according to the definition of the Swedish Code of Corporate Governance, independent in relation to the Company, its management and its majority shareholders.

Holding: 5,000 B shares
Options: 0
Convertibles: 0

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

Zenon Potoczny, born 1957 and raised in Ukraine, has extensive experience both in the oil and gas industry and working internationally. Mr. Potoczny served as President and CEO of Shelton Canada Corp. since the Company's listing on the TSX Venture Exchange in 1996.

Zenon Potoczny serves as president of the Canada-Ukraine Chamber of Commerce. He holds an MSc in Engineering and an MBA from the University of Toronto.

Zenon Potoczny, due to his management position at the Company, is not an independent board director in relation to the Company and its management, but he is independent in relation to its large shareholders.

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

Katre Saard
Board Director

Katre Saard, born 1972, is co-owner, board director and investment manager of Alpcot Capital Management Ltd and companies in the same group as Alpcot Capital Management Ltd. She has over 10 years' experience of investment management and of working in the East European financial markets. Katre Saard was one of the founders of East Capital, where she also worked as a fund manager and board director. 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. Katre Saard has a Master's degree in Business Administration and Economics from the Stockholm School of Economics.

Katre Saard is, as according to the definition of the Swedish Code of Corporate Governance, independent in relation to Shelton Petroleum, its management, but not independent of its large shareholders.

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

At the EGM held on August 22, 2013, Maks Grinfeld and Mats Jansson were elected to the board. On February 27, 2014 they resigned from the board.

Gunnar Danielsson
CFO Shelton Petroleum

Gunnar Danielsson, born 1960, has a solid expertise in accounting and financial management, and extensive experience from working with listed companies.

He previously served as CFO at Kopy Goldfields AB, a gold exploration and production company that operates in Russia and is listed on NASDAQ OMX First North. Gunnar Danielsson also worked over twenty years as an auditor at Ernst & Young, of which seven years in Moscow, where he, as a partner, was in charge of auditing Nordic companies operating in Russia and Russian companies listed on foreign stock exchanges. Gunnar Danielsson holds a degree in Business Administration from Stockholm University.

Holding:
2,000 B-shares
Options: 80,000, which entitles the holder to buy 80,000 B shares
Convertibles: nominally SEK 60,000

Auditor
Ernst & Young AB
Box 7850
SE-103 99 Stockholm, Sweden
Responsible auditor
Per Hedström
Authorized Public Accountant
Member of FAR

Directors' report

The Business

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

In Russia, operations are conducted through the wholly owned subsidiary ZAO Ingeo Holding. Ingeo Holding is the holder of the licenses in the Rustamovskoye, Aysky and Suyanovskoye areas of Bashkiria, a constituent republic in the Russian Federation. The Company has extracted oil in Russia since 2011.

In Ukraine, operations are conducted through the Ukrainian joint venture company Kashtan Petroleum Ltd, which operates the producing oil field Lelyaki in Chernigov near Poltava. Shelton Petroleum owns 45 percent of Kashtan Petroleum. The remaining 55 percent is owned by Ukrnafta, the largest oil and gas company in Ukraine. In addition, the Group has a joint investment agreement with Chornomornaftogaz that gives the Group 50% interest in three offshore licenses in Ukraine.

Major events during the financial year

During the year, the Company drilled two new production wells in Russia, #11 and #12, at the Rustamovskoye field and found oil in both. The wells were taken into production in the second half of the year. The good results mainly from well #12 have strengthened the Company's view of the potential for the Rustamovskoye field.

In Russia, the Company conducted exploration works during the year consisting of collection of additional 73 kilometers of seismic data.

In Ukraine, a work program with workovers has been conducted which led to increased production volumes.

In April 2013, Shelton Petroleum sold its holding in PAN European Terminals plc ("PAN"), a company listed on AIM in London, for approximately SEK 27 million.

In July 2013, Shelton Petroleum entered into an agreement with Petrogrand AB ("Petrogrand"), a company listed on First North, that Petrogrand would invest a total of approximately SEK 215 million in Shelton by purchasing two convertible bonds. The conversion price for both bonds was SEK 20. The purpose of the issue of the convertible bonds was to finance expansion, increase the production at the Company's producing fields, and accelerate the development of the Company's other licenses. Convertible 1 totaled SEK 30 million and was converted to 1,500,000 B shares in Shelton Petroleum. The funds from convertible 1 were used for the drilling of a new production well in Russia. Convertible 2 amounted to approximately SEK 185 million and the cut-off date for conversion was December 31, 2013. Convertible 2 was intended for a specific company acquisition. Convertible 2 was subject to a dispute in December 2013, when the holder, in violation of an agreement, attempted to execute the conversion. The dispute was resolved on December 30, 2013, when the holder withdrew the conversion request and Shelton Petroleum repaid a total of SEK 185 million plus interest in exchange for the convertible at the beginning of January 2014.

In the fall of 2013, the holders of convertible bond KV 2012/2013 were offered to exchange it for a new convertible bond, KV 2013/2014. At the time of the offer, the nominal amount of the outstanding loan amounted to SEK 22.8 million. The holders of SEK 22.4 million chose to exchange it for the new bond and the remaining SEK 0.4 million was converted to B shares in Shelton Petroleum. KV 2013/2014 is due for repayment on June 30, 2014, to the extent it has not been converted during the conversion period June 1–15, 2014.

Financial position

As at the balance sheet date, the Group had liquid funds of SEK 34 million (31). The equity/assets ratio was 55 percent (80). The lower ratio is explained by the outstanding convertible bond from Petrogrand of SEK 185 million at the end of the year. The convertible loan was repaid at the beginning of January 2014. The Group's equity amounted to SEK 319 million (271) or SEK 26.20 (25.43) per share.

Result

The total revenue for the period January-December 2013 amounted to SEK 109 million (100), of which SEK 109 million (93) is revenue from oil sales in Russia and Ukraine. Oil sales for 2013 totaled approximately 229,280 barrels (178,300), an increase of 29%.

In 2013, production in Russia amounted to approximately 122,300 barrels (57,900) and in Ukraine to approximately 126,600 barrels (120,000). Two new wells contributed to the production increase in Russia. The new wells were taken into production during the second half of the year.
In Ukraine, the Company's continued work program at the Lelyaki field has contributed to the increased production. Production per day in Russia amounted to 335 barrels (158) and in Ukraine to 347 barrels (328). Operating expenses for 2013 amounted to SEK 84 million (74) and mainly consisted of costs of raw materials, necessities and personnel costs, as well as depreciation. The increase in operating expenses is primarily attributable to raw materials and necessities, and is

due to the increased production during the year.

The operating profit for the year amounted to SEK 30 million (30), corresponding to an operating margin of 27%. In 2012, the operating margin amounted to 25%, excluding the one-off item of SEK 7 million which was included in the 2012 operating result. The improvement in the operating margin is primarily attributable to the economies of scale that the increased production provides. The improvement in the margin occurred mainly in the second half of 2013, as the new wells in Russia were taken into production.

The profit before tax amounted to SEK 17 million (31). The result after tax was SEK 12 million (25). The Group pays corporate tax in Ukraine. In April, Shelton sold its holding in PAN European Terminals plc. The transaction strengthened the Company's cash position by SEK 27 million and resulted in a profit of SEK 4 million compared to the book value as of December 31, 2012. The profit is reported with SEK -12 million in net financial items (currency exchange rates and decline in the stock price compared to the original acquisition cost), and with SEK 16 million in other comprehensive income (reversal of previous fair value adjustments).

Investments/Divestments

In accordance with the Company's accounting policies, expenditures relating to the exploration program have been capitalized in the balance sheet. The Group invested SEK 57 million, of which SEK 53 million was for the exploration and development program in Russia and SEK 4 million was for the Lelyaki field in Ukraine. The investments were capitalized in the balance sheet. Two new production wells have been drilled and fracking was carried out in Russia. Furthermore, there have been investments in seismic surveys in the exploration program. In Ukraine, the Company has continued its program with workovers on the wells, which has contributed to increased production.

During the year the Company sold its holding in PAN, which generated SEK 27 million. Following this divestment, the Group no longer has any financial assets.

Accounts receivable

The Group's accounts receivable amounted to approximately SEK 49 (28) million at the end of the year. Approximately 48 (28) of these are attributable to one customer in Ukraine. Unsettled receivables have increased during the year due to the customer in Ukraine paying with delays. Management regularly assesses the accounts receivable and whether any provision is required. Given that the buyer of oil in Ukraine has made partial payments every month, without exception, since the late payments began, management believes that full payment of the outstanding receivables as at December 31, 2013 will be obtained, albeit delayed. As at the date of this annual report, SEK 17 million of the outstanding receivables have been settled, which strengthened Management's assessment that full settlement will be made. Provisions for bad debts has not therefore been made. Management will continue to carefully assess the need for provisions, and if such exists it will make the necessary provisions even though such a need does not currently exist. See also Note 3 Segment information and Note 17 Other receivables.

Employees

The average number of full-time employees during the financial year was 36 (33).

Risks

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

Environmental Issues

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

The work of the Board

Shelton Petroleum's Board of Directors consists of seven members including the Chairman. During the period from August 22, 2013 to February 27, 2014, the Board consisted of nine members. Maks Grinfeld and Mats Jansson were elected to the board at an Extraordinary General Meeting on August 22 in conjunction with the decision to issue two convertible bonds to Petrogrand AB. On February 27, 2014, Maks Grinfeld and Mats Jansson stepped down from the Shelton Petroleum board at their own request. During the 2013 financial year, the board had 24 board meetings. In addition, the Board has been in regular contact regarding the Company's operations and its development. For a more detailed description of the Board's work, please see the corporate governance report.

Major events after the financial year.

Convertible 2 was repaid and canceled in January 2014 by Shelton Petroleum transferring SEK 185 million to Petrogrand AB in exchange for the convertible.

On January 9, 2014, an extraordinary general meeting of Shelton Petroleum was held. The meeting resolved to authorize the board on one or more occasions during the period until the next AGM, to issue new shares, warrants and/or convertible bonds against cash and/or consideration in kind or set-off or otherwise with conditions and to thereby be able to deviate from the shareholders' preferential rights, however, that such issue should not cause the Company's share capital or number of shares to exceed the maximum share capital or number of shares according to the at each time applicable Articles of Association. The purpose of the authorization and the reason for the deviation from the shareholders' preferential rights is to facilitate raising capital for expansion through corporate acquisitions or acquisition of operating assets and for the Company's business and the adjustment of the Company's capital and/or ownership structure. In the event an issue takes place with deviation from the shareholders' preferential rights, the issue shall be on market terms. Issue pursuant to the authorization may relate to shares of Class A and Class B, or any of them.

On January 20, 2014, Shelton Petroleum announced an investment program of SEK 20 million in scalable oil facilities at the Rustamovskoye field in Russia in order to increase efficiency in the handling of current and expected future oil production.

On January 22, 2014, Shelton Petroleum announced a public offer to acquire all outstanding shares in Petrogrand AB. The offer means that for each share in Petrogrand, 0.30 B shares in Shelton Petroleum are offered.

On February 26, Shelton Petroleum raised the bid to 0.34 Shelton Petroleum B shares for each Petrogrand share and simultaneously extended the acceptance period. On March 14, 2014, Shelton Petroleum raised the bid yet again to 0.44 Shelton Petroleum B shares for each Petrogrand share and simultaneously extended the acceptance period yet again. On April 14, Shelton Petroleum concluded the offer. At the conclusion of the offer the Company had acquired a total of 11,585,308 Petrogrand shares, representing approximately 28.8% of the total number of shares and votes in Petrogrand.

On January 29, 2014, Shelton Petroleum announced that the Company had commenced field work for the collection of 85 km of seismic data on the Suyanovskoye field in Bashkiria.

As a result of the positive drilling results from well #12, Shelton Petroleum announced on February 13, 2014 a geological update and presented the Company's new and strengthened view of the Russian oil fields.

On March 21, 2014, Petrogrand AB announced a cash offer to acquire all Class A shares at a price of SEK 18.60 per share, Class B shares at a price of SEK 18.60 per share, convertible bonds of class 2013/2014 at a price of SEK 17.50, plus accrued interest per convertible, and warrants at a price of SEK 3.00 per subscription option in Shelton Petroleum AB. The acceptance period was expected to run from April 7, 2014 to April 25, 2014. On April 4, 2014, Petrogrand announced that the timing of the offer was postponed, whereby the acceptance period is expected to run from April 22, 2014 up to and including May, 13 2014. Furthermore, following criticism from the Swedish Securities Council, certain terms of the originally announced offer were withdrawn.

On April 9, Shelton Petroleum called for an Extraordinary General Meeting on May 2, 2014. On March 28, 2014, Petrogrand made a written request to Shelton Petroleum to convene an extraordinary general meeting to decide on the appointment of a minority auditor and election of Board of Directors. Since the Securities Council stated that Petrogrand has no right to request the convening of an extraordinary general meeting to decide on a new board, in light of the public offer to Shelton Petroleum's shareholders, announced by Petrogrand, Petrogrand withdrew the request for a new board to be elected at the EGM. The extraordinary general meeting on May 2, 2014 will therefore only address the issue of appointment of the minority auditor.

On March 18, 2014, Petrogrand made a written request to Shelton Petroleum to convene an extraordinary general meeting to decide on the appointment of a minority auditor. On March 19, 2014, Petrogrand added to its request that the requested extraordinary general meeting also shall resolve to appoint a new Board of Directors with the discharge of the current Shelton Petroleum board. The Shelton Petroleum board was, and is, of the understanding that Petrogrand lacked the legal right to make this request and therefore did not call for an extraordinary general meeting. Petrogrand applied for the Swedish Companies Registration Office (SCRO) to call an extraordinary general meeting. The SCRO rejected Petrogrand's application. Petrogrand appealed to the Administrative Court in Härnösand which approved Petrogrand's application and ruled that the SCRO should call an extraordinary general meeting. On April 22, 2014, the SCRO called an extraordinary general meeting of Shelton Petroleum to be held on May 13, 2014. Shelton Petroleum appealed the Administrative Court's decision to the Administrative Court of Appeal in Sundsvall which granted leave to appeal. As of the date of this annual report, the Administrative Court of Appeal has not ruled on the issue.

Shelton Petroleum's operations in Ukraine consist of two joint ventures. The Shelton Petroleum subsidiary Zhoda 2001 Corporation has entered into a joint venture with Ukrnafta, Ukraine's largest oil and gas company, regarding the oil producing field Lelyaki. Operations at the Lelyaki field have not been affected by the recent political developments in Ukraine.

Shelton Petroleum's wholly owned subsidiary Shelton Canada Corp. has entered into a Joint Investment Agreement (JIA) with Chornomornaftogaz (CNG) in respect of three licenses in the Sea of Azov and the Black Sea, where CNG is the license holder. Following a referendum on March 16, 2014, Crimea has declared itself independent from Ukraine and requested to be part of the Russian Federation. The request was granted by the Russian president and the Russian parliament. The new Prime Minister of Crimea has declared that CNG's interests in Crimea will be nationalized by the

Republic of Crimea. It has been reported that private interests and agreements will be respected. Neither the referendum nor the nationalization of CNG, which is a violation of the Ukrainian constitution, has been recognized by the Ukrainian government in Kiev or internationally.

Due to the events described above, Shelton Petroleum's board perceives an increased risk regarding the potential future financial benefits from the JIA with CNG. The JIA accounted for 0% of Shelton Petroleum's revenue and profit for 2013 and approximately 2%, or approximately SEK 13 million, of the Group's total assets in the balance sheet as of December 31, 2013.

In the first quarter of 2014, the Russian and Ukrainian currencies devalued against the Swedish krona. By the middle of April 2014, the value of the Russian Ruble had fallen by approximately 8 per cent and the Ukrainian Hryvnia had fallen by approximately 35 per cent against the Swedish krona compared to December 31, 2013.

See also Note 28 Events after the balance sheet date

Future Development

The Company plans to increase production in Lelyaki in Ukraine through a work program. In Russia, production from Rustamovskoye is planned to be increased with new production wells. The development program in Russia will be implemented as the financial situation allows. Steps will be taken to realize the high potential in the exploration licenses. The work includes analysis of historic drilling data and collection of new seismic data to prepare for carefully selected drilling. In parallel with this, the Company will seek new opportunities to obtain new license areas by itself, or together with partners, as well as new assets in the oil and gas industry in Russia and Ukraine.

Annual General Meeting

An AGM will be held May 20 at 10:00 a.m. at Summit Grev Ture, Grev Turegatan 30, Stockholm, Sweden

Financial overview

Group	2013	2012	2011	2010	2009
Turnover, (SEK thousand)	109,064	99,914	47,183	29,291	0
Operating profit/loss, SEK thousand	29,510	29,613	2,392	–11,441	–16,664
Earnings per share, SEK	1.14	2.33	0.06	–1.46	–4.87
Equity per share, SEK	26.20	25.43	23.82	25.23	24.96
Equity/assets ratio (%)	55	80	78	80	71

Proposed guidelines for remuneration of senior executives

The board proposes that the AGM determines the guidelines for remuneration of senior executives with mainly the same content as the guidelines set at the 2013 Annual General Meeting. The remuneration of senior executives should be the going rate and enable the Company to retain qualified employees. For the individual senior executives the remuneration should be based on factors such as position, competence, experience and performance. In addition to the basic salary, senior executives shall receive variable remuneration, pension, additional benefits and incentive programs. The fixed salary, which should be individualized and differentiated based on individual responsibility, experience and achievements, is set in accordance with principles adjusted to market conditions. Variable remuneration is based on the Company's earnings growth and is designed to promote long term value creation for the Company. The maximum annual variable remuneration may amount to 30 percent of the basic salary. For share and share price related incentive programs, the earning period, or the period from entering into an agreement to when a share may be acquired, may not be less than three years.

Other benefits should 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 employees performance and responsibilities and the Company's financial performance. The Board may waive the guidelines for individual cases if there is special justification. The guidelines of previous years are consistent with this year's proposal. For more information on remuneration, see the corporate governance report.

Parent company

The Swedish parent company Shelton Petroleum AB is a public parent company and holding company for the Company's operational subsidiaries. The parent company is responsible for joint Group functions, such as finance, and has two employees. The parent company's net turnover was SEK 480 thousand (491). The result after tax was SEK -6,022 thousand (-1,879). Equity amounted to SEK 299,281 thousand (276,247).

Proposal for the appropriation of profits

The following amounts are at the disposal of the AGM:

Share premium reserve	214,026,568
Retained earnings	30,460,317
Loss for the year	–6,021,642
Total	**238,465,243**
The Board proposes: To carry forward to the next year	SEK 238,465,243

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

Corporate Governance Report

Introduction

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

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

Good corporate governance creates value by ensuring that companies are operated as efficiently, for the shareholders, as possible. This in turn aims to improve the confidence in the companies on capital markets and among the Swedish public, thereby creating favorable conditions for the companies' supply of venture capital.

Exchange rules

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

In 2013, there were no infringements of NASDAQ OMX's rules.

Swedish Corporate Governance Code

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

The Corporate Governance Board's operations are a part of the Swedish trade and industry's self-regulation of the Swedish securities market. The Code is built on the principle of comply or explain, which means that every rule in the Code must not always be complied with and that departure from one or more individual rules does not constitute a breach of the Code if there is justification and an explanation is provided.

In 2013, there were no deviations from the Code.

Corporate Governance Report

Swedish companies whose shares are offered for trading on a Swedish-regulated market shall, pursuant to the provisions of the Annual Accounts Act (1995:1554) and the Code from the Swedish Corporate Governance Board, prepare a corporate governance report. This corporate governance report is submitted in accordance with the Annual Accounts Act and the Code, and describes Shelton Petroleum's corporate governance during the financial year 2013. The auditor's statement on the corporate governance report is found on page 85 of the annual accounts.

Corporate governance in Shelton Petroleum

Good corporate governance

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

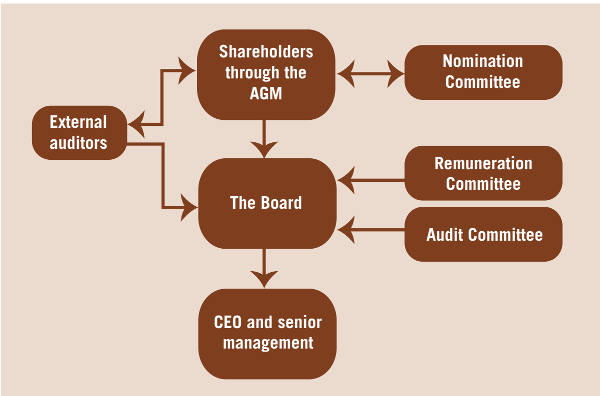
In order to make their work on certain issues more efficient and detailed, the Board has set up two committees: the Audit Committee and the Remuneration Committee.

The role of the Audit Committee includes ensuring the quality of financial reporting and the efficiency of the internal control within the Company. The Audit Committee is the main path of communication between the Board and the Company's auditor, but the auditor also participates in meetings of the entire Board.

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

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

Information about the Company's principles for corporate governance can be found on the Company's website under Corporate Governance.



AGM

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

Shelton Petroleum's AGM 2013 was held on May 21 in Stockholm. 13 per cent of votes and 12 per cent of share capital were represented at the meeting. At the AGM, in addition to the matters stated above, a resolution was passed to grant the Board authority to issue shares and other financial instruments representing a maximum of 2 million new shares until the next AGM. At the AGM, a resolution was passed that the remuneration of the Board Directors should amount to SEK 160,000 for the Chairman and SEK 80,000 for the other board directors, except Zenon Potoczny, who is an employee of the Company. The total remuneration payable to the Board amounts to SEK 560,000. All documents relevant to the AGM, including the minutes, can be found on the website.

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

The AGM 2014 will take place on May 20 in Stockholm. Shareholders who wish to raise an item for discussion at the AGM may submit these until April 1, 2014.

Other meetings

In 2013, one extraordinary general meeting was held, at which it was resolved to issue two convertible bonds of SEK 30,000,000 and SEK 185,249,280 to Petrogrand AB. It was also resolved to offer the holders of the outstanding convertible bond 2011/13 ("Convertible 2013") subscription for a new convertible bond ("Convertible 2014"), which may be converted into shares during the period June 1–15, 2014. The shareholders also resolved to adopt new articles of association according to which the number of board directors are increased to a minimum of three and a maximum of nine. Maks Grinfeld (CEO and board director of Petrogrand) and Mats Jansson (board director of Petrogrand) were elected to the Shelton Petroleum board.

Nomination and election process

The Nomination Committee's main task is to propose board candidates in the Company. At the Annual General Meeting the criteria are set for appointing the members of the Nomination Committee. In accordance with the principles adopted by the AGM, the Nomination Committee consists of the Chairman of the Board and one representative of each of the three largest shareholders, based on Euroclear Sweden AB's list of registered shareholders (per group of shareholders) as at September 30, 2013. The Nomination Committee's members for the AGM 2014 are Björn Lindström (Chairman of the Board Shelton Petroleum AB), Anders Velander and Oscar Berglund. At the first meeting of the Nomination Committee, Oscar Berglund was appointed Chairman of the Nomination Committee. It was resolved that the Nomination Committee shall elect a new Chairman if the Chairman's mandate ends prematurely.

In addition to the task of recommending candidates for the AGM, the Nomination Committee shall submit proposals to the Annual General Meeting 2014 with regard to remuneration for the Chairman and other Board Directors, remuneration for Board Committee work, election of auditors and setting the remuneration thereof and the election of Chairman of the AGM. In its nomination work, the committee has also taken note of the evaluation of the Board and its work, as well as of the Chairman of the Board's report on the Company's activities, goals and strategies. The Nomination Committee has also taken note of the evaluation of audit and the Audit Committee's proposals for auditor and remuneration for the audit.

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

Remuneration has not been paid to the Chairman or other members of the Nomination Committee for their work. The Nomination Committee's proposals, together with the reasons for their selection and supplementary information about the proposed Board Directors and auditor are published together with the AGM notification and presented together with a report on the Committee's work at the AGM 2014.

The composition of the Board, information and work procedures

In accordance with the Articles of Association, the Board of directors shall consist of no fewer than three and no more than nine directors. 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 at the AGM. The composition of the Board of Directors is decided by a vote of shareholders at the AGM following recommendation from the Nomination Committee.

Since the AGM 2013, the Board has consisted of the Chairman, six Board directors and no deputies. At an Extraordinary General Meeting in August 2013, two additional Board Directors were elected to the Board. These two Board Directors resigned from their positions on Shelton Petroleum's Board in early 2014.

The Chairman of the Board is appointed by the AGM. The Chairman is responsible for ensuring that other Board Directors receive the information necessary to be able to monitor the Company's earnings, financial position, financial planning and development and liquidity and to ensure that Board resolutions are implemented effectively and that the work of the Board is evaluated each year. The Chairman maintains reporting instructions for Company management, prepared by the CEO and approved by the Board. The Chairman does not participate in any decision-making regarding ongoing activities. The Chairman is not an employee of the Company, receives no salary from the Company and is not eligible to participate in Company incentive programs targeted at employees. In addition to laws and recommendations, the work of the Board is governed by the Board's rules of procedure. The Board reviews the rules of procedure annually and determines them by a vote.

In accordance with the rules of procedure, the Chairman initiates an evaluation of the work of the Board annually. The evaluation from 2013 has been performed by each Member of the Board completing a detailed questionnaire on a number of different items covering the Board's composition and expertise, the quality of background material and meetings and how the work of the Board has been performed. The purpose of the evaluation is to gain an understanding of the Board Directors' opinions about how the work of the Board is performed and what action could be taken to make this more efficient. The purpose is also to find out what type of issues the Board thinks should be given more scope and in what areas further competence might be required of the Board. The results of the evaluation have been discussed by the Board and have been passed to the Nomination Committee by the Chairman.

The Board continuously assesses the CEO's work by evaluating the Company's development against the established targets. A formal evaluation is made once a year and discussed with the CEO.

The proportion of women and foreign directors on the Board are 13 and 26 per cent, respectively. For a more detailed presentation of the Board, see pages 30-31 of the Annual Report and the website.

The composition of the Board of Shelton Petroleum fulfills the requirements regarding independent members. One of the Board Directors is a shareholder of a company that receives consultancy fees for work performed. The Nomination Committee and the Company do not consider that such fees mean that this Board Director is dependent on Shelton Petroleum or its management.

Alpcot Capital Management Ltd is controlled by a number of the Company's shareholders, who together as of December 31, 2013 owned more than 10% of the shares and votes, including Björn Lindström and Katre Saard. As of March 31, 2014, this ownership amounts to less than 10% of the shares and votes. Björn Lindström and Katre Saard are therefore not considered to have been independent of major shareholders in 2013. Zenon Potoczny is employed by the Company and is therefore not considered to be independent of the Company. A summary of the respective Board directors' independence is presented in the table on the following page.

During the period August 2013 to February 2014, Maks Grinfeld and Mats Jansson were also on the Board of Directors. Maks Grinfeld is CEO and a board director of Petrogrand AB and Mats Jansson was a board director of Petrogrand AB. As of December 31, 2013, Petrogrand AB owned more than 10% of the shares and votes, and Maks Grinfeld and Mats Jansson are therefore not considered to be independent of major shareholders.

The work of the Board in 2013

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

Since the AGM 2013, there have been thirty five Board meetings, of which three were ordinary, one statutory and thirty one extraordinary Board meetings. The attendance of the respective Board directors is presented in the table below. In addition, the Board meets annually in the autumn to review strategy, targets and the business plan.

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

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

Composition of the Board	Nationality	Elected	Attendance 2013	Independent of the Company	Independent of the owners	Audit Committee	Remuneration Committee	Total fee (SEK thousand)
Björn Lindström, Chairman	Sweden	2012	35/35	Yes	No	X	X	160
Hans Berggren, Director	Sweden	2012	32/35	Yes	Yes	X		80
Richard N. Edgar, Director	Canada	2010	35/35	Yes	Yes		X	80
Peter Geijerman, Director	Sweden	2009	35/35	Yes	Yes		X	80
Maks Grinfeld *	Sweden	2013	7/21	Yes	No			27
Mats Jansson *	Sweden	2013	8/21	Yes	No			27
Freddie Linder, Director	Sweden	2011	34/35	Yes	Yes			80
Zenon Potoczny, Director, president Shelton Canada Corp. **	Canada	2010	34/35	No	Yes			0
Katre Saard, Director	Sweden	2009	35/35	Yes	No	X		80
Total								**614**

* In the period when Maks Grinfeld and Mats Jansson were Board Members twenty one meetings were held. Due to conflict of interest, Maks Grinfeld and Mats Jansson have not participated in several of the meetings held during the time they were Board Directors of Shelton Petroleum AB.

** Zenon Potoczny is an employee of the Company and receives no director's fee. The amount refers to salary and pension benefits.

Committees

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

The Board also receives monthly reports regarding the Company's financial position. At the ordinary Board meetings, reports are also submitted regarding ongoing work in the various countries and detailed analyses and proposals for investments and financing alternatives. Committee work also represents a significant part of the work of the Board. During the year, Company management presented value creation plans for expansion, including analyses of activities and investment opportunities. These analyses and their consequences have been discussed and judged by the Board both for the purpose of individual expansion plans and in connection with overall strategy discussions.

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

In addition to attending meetings of the Audit Committee and ongoing contact with the Chairman and other Board Directors, the Company's auditor has also attended Board meetings, when Board Directors have had the opportunity to ask questions to the auditor without the presence of representatives of Company management.

The members of the Audit Committee are Hans Berggren (Chairman), Björn Lindström and Katre Saard. The chairman of the Audit Committee is independent of the Company and major owners. The Audit Committee held five meetings during the year, normally in conjunction with the quarterly and annual reports. The tasks of the Audit Committee included the following in 2013:

- Reviewed quarterly reports and the year-end report
- Monitored the efficiency of the Company's internal control and risk management with regard to financial reporting

• Reviewed accounting principles, new and future
• Maintained contact with external auditors and monitored any comments reported
• Investigated and monitored the auditor's independence (including in services other than auditing services)
• Assisted in the proposal to the AGM regarding election of auditor

The members of the Remuneration Committee are Björn Lindström (Chairman), Peter Geijerman and Richard N. Edgar. The Remuneration Committee has had two meetings during the year. The tasks of the Remuneration Committee included the following in 2013:

• Prepared matters regarding remuneration for the Board in the form of fixed and variable salary, pensions, severance pay and any other forms of remuneration to Company management
• Monitored and evaluated programs in progress and completed during the year as regards variable remuneration to Company management
• Monitored and evaluated the application of guidelines for remuneration to senior executives as well as prevailing remuneration structures and remuneration levels, and concluded that the Company complies with the guidelines.

Auditors

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

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

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

These have included mainly auditor-related services such as in-depth reviews in connection with the audit. The auditor's independence of the Company is ensured by only using the elected auditor to a limited extent to perform services other than auditing. For a break-down of the remuneration to auditors, see note 5 in the Annual Report.

Remuneration

The Chairman and other Board Directors are remunerated in accordance with the resolution of the AGM or, if necessary, in accordance with resolutions passed at meetings held at a later date. The Chairman receives a higher fee than other Board Directors because of the extra workload this position entails. The remuneration of the Board is specified in the table in note 4 in the Annual Report under Remuneration of Employees and Senior Executives.

Remuneration issues are addressed by the Board within the framework of the Board's regular work and including the notification of, and the reaching of decisions of all issues concerning remuneration to senior management. The overall goal of the Remuneration Committee is to provide the Board with formal and notified processes for decisions on remuneration to senior executives. Remuneration and other conditions of employment for senior executives shall be designed so as to secure the Company's access to executives with the expertise the Company needs at a cost suitable for the Company and so as to achieve the desired effects for the business. Remuneration and other conditions of employment shall be based on the guidelines for remuneration to senior executives that are established by the AGM.

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

Internal control and guidelines

The Board's work follows certain rules and policies contained in the Board's rules of procedure, adopted at the Board meeting on May 21, 2013. The rules of procedure are approved annually, usually at the first Board meeting held after the AGM, and are revised as needed. The rules of procedure describe how the Board will conduct its internal activities, including the number of Board meetings, responsibilities within the Board and the Board's composition and working methods. In addition, the Board shall ensure that the organization in relation to accounting and resource management includes adequate monitoring, to continuously assess the Company's business conditions, forecasts and economic and financial status, including liquidity, to establish in writing the CEO Instruction, and to execute supervision of the fulfillment of the CEO's commitments. The Board has established a specific CEO Instruction for the Company.

According to the Code and the Swedish Companies Act, the Board is responsible for the Company's internal control and risk management. It is the ambition of the Board to continue the systematic work of further strengthening internal control in line with the Company's growth and development. The Board previously adopted a dividend policy, finance policy and information policy. The Company has also developed a policy on bribery in accordance with guidelines from the Anti-Corruption Institute, IMM. The basis for control also includes common instructions for the Group regarding accounts and reporting, as well as instructions for authorizations and attestation. There is a clear division of responsibility and inbuilt controls within the Group. Internal control, supervision, monitoring and risk assessment and management are conducted at several levels within the Group, both at subsidiary level and at Group level, and the work is a part of the senior management and managers' ordinary tasks. Given the Company's size and complexity, this is deemed to be a satisfactory level of control. Accordingly, the Group does not have an internal auditor.

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

The CEO is responsible for the compilation of the annual report, the publication of unaudited annual earnings figures, interim reports and monthly reports, as well as ensuring that the content of these reports complies with the current requirements. The Board approves the content of the publication of unaudited annual earnings figures and interim reports, after which they are published immediately. The reports shall be presented in accordance with applicable legislation and regulations and in accordance with NASDAQ OMX Rules for issuers.

Group Management

The CEO is responsible for ongoing operational activities. The Group Management is presented in more detail under Management and auditors in the Annual Report.

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

Major Shareholders

In accordance with Chapter 6, Section 6, paragraph 2 point 3 of the Annual Accounts Act (ÅRL), the Corporate Governance Report shall state direct or indirect shareholding in the Company representing not less than one tenth of the votes for all shares in the Company. As of the end of March 2014 there was one such holding, represented by Petrogrand AB (23 per cent).

Sources: Euroclear and www.fi.se.

Consolidated statement of comprehensive income

SEK thousand	Note	2013	2012
Net sales	2	108,802	93,223
Other revenue	2	262	6,691
Total revenue		**109,064**	**99,914**
Capitalized work for own use		3,993	3,998
Operating costs			
Raw materials and necessities		–55,183	–48,142
Other external expenses	5	–13,875	–13,553
Personnel expenses	4	–11,611	–10,342
Depreciation of tangible and intangible assets	6, 10, 11, 12	–2,878	–2,262
Total operating costs		**–83,547**	**–74,299**
Operating profit		**29,510**	**29,613**
Result from financial items			
Financial income	7	925	1,833
Financial expenses	8	–13,065	–667
Total financial items		**–12,140**	**1,166**
Profit before tax		**17,370**	**30,779**
Tax	9	–4,968	–5,964
Profit for the year attributable to the parent company's owners		**12,402**	**24,815**
Other comprehensive income			
Financial assets available for sale	13	16,400	–64
Deferred tax equity part of convertible loans		0	30
Exchange rate differences		–9,779	–8,145
Total items that may be transferred or have been transferred to the period's result		6,621	–8,179
Total other comprehensive income		**6,621**	**–8,179**
Total comprehensive income		**19,023**	**16,636**
Earnings per share, SEK	23	1.14	2.33
Diluted earnings per share, SEK	23	1.13	2.23
Average number of shares		10,911,656	10,640,588
Diluted average number of shares		10,972,019	12,063,713

Consolidated statement of financial position

SEK thousand	Note	December 31, 2013	December 31, 2012
ASSETS			
Non-current assets			
Goodwill	10	6,807	6,807
Intangible assets	12	643	843
Exploration and evaluation assets	11	79,574	73,308
Oil and gas assets	11	211,219	170,664
Machinery and equipment	12	573	700
Financial assets available for sale	13	0	23,503
Total non-current assets		**298,815**	**275,824**
Current assets			
Finished goods and commodities	15	128	139
Accounts receivable and other receivables	17	63,282	29,423
Prepaid expenses and accrued income		266	169
Cash on blocked account	19	185,818	–
Cash and cash equivalents		33,729	30,764
Total current assets		**283,223**	**60,495**
TOTAL ASSETS		**582,038**	**336,319**
EQUITY AND LIABILITIES			
Equity	18		
Share capital		60,816	53,203
Other paid-in capital		201,196	179,753
Reserves	16	–36,938	–43,558
Retained earnings including profit for the year		93,569	81,167
Total equity attributable to the shareholders		**318,643**	**270,565**
Non-current liabilities			
Deferred tax	9	25,685	27,337
Provisions	25	369	349
Total non-current liabilities		**26,054**	**27,686**
Current liabilities			
Convertible loan	19	207,390	22,102
Accounts payable		15,305	6,108
Tax liabilities		794	1,395
Other current liabilities	20	9,724	4,032
Accrued expenses and deferred income	21	4,128	4,431
Total current liabilities		**237,341**	**38,068**
TOTAL EQUITY AND LIABILITIES		**582,038**	**336,319**
Contingent liabilities	27	See note	See note

Consolidated statement of changes in equity

SEK thousand	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit for the year	Total equity
Opening balance January 1, 2012	**53,203**	**179,248**	**–35,350**	**56,352**	**253,453**
Comprehensive income					
Profit for the year				24,815	24,815
Other comprehensive income					
Financial assets available for sale			–64		–64
Changes in deferred tax on equity portion of convertible loan		30			30
Exchange rate differences			–8,145		–8,145
Total comprehensive income	**0**	**30**	**–8,209**	**24,815**	**16,636**
Transactions with shareholders					
Option premiums		476			476
Total transactions with shareholders	**0**	**476**	**0**	**0**	**476**
Closing balance December 31, 2012	**53,203**	**179,754**	**–43,559**	**81,167**	**270,565**
Opening balance January 1, 2013	**53,203**	**179,754**	**–43,559**	**81,167**	**270,565**
Comprehensive income					
Profit for the year				12,402	12,402
Other comprehensive income					
Financial assets available for sale			16,400		16,400
Convertible loan, equity portion net of tax		159			159
Exchange rate differences			–9,779		–9,779
Total comprehensive income	**0**	**159**	**6,621**	**12,402**	**19,182**
Transactions with shareholders					
Issue/Exchange of convertibles	7,613	22,747			30,360
Issue expenditures		–1,464			–1,464
Total transactions with shareholders	**7,613**	**21,283**	**0**	**0**	**28,896**
Closing balance December 31, 2013	**60,816**	**201,196**	**–36,938**	**93,569**	**318,643**

Consolidated statement of cash flow

SEK thousand	Note	2013	2012
Cash flow from operating activities			
Profit after financial items		17,370	30,779
Adjustments for non-cash items			
Depreciation		2,878	2,262
Capital gain/loss from financial assets		12,045	–6,573
Other items not affecting cash flow		–2,197	–3,117
Taxes paid		–6,983	–461
Cash flow from operating activities before changes in working capital		**23,113**	**22,890**
Cash flow from changes in working capital			
Increase (-) / Decrease (+) in inventory		–509	–1,513
Increase (-) / Decrease (+) in current receivables		–37,922	–22,983
Increase (+) /Decrease (-) in current liabilities		19,155	5,053
Cash flow from operating activities		**3,837**	**3,447**
Cash flow from investment activities			
Acquisition of machinery and equipment	12	–78	–1
Acquisition of exploration and evaluation assets	11	–10,833	–5,520
Acquisition of oil and gas assets	11	–46,281	–23,684
Acquisition of intangible assets	12	–18	–152
Sale of non-current assets		103	0
Sale of financial assets	13	27,857	18,447
Cash flow from investment activities		**–29,250**	**–10,910**
Cash flow from financing activities			
Option premiums		0	476
Issue of convertible loans		30,000	0
Issue expenditures		–1,464	0
Repayment of loans		0	–7,800
Cash flow from financing activities		**28,536**	**–7,324**
CASH FLOW FOR THE YEAR		**3,123**	**–14,787**
Cash and cash equivalents at the beginning of the year		30,764	45,986
Exchange difference in cash and cash equivalents		–158	–435
Cash and cash equivalents at the end of the year		33,729	30,764
Supplementary information for cash flow			
The following components are included in cash or cash equivalents: Cash and bank		33,729	30,764
Received interest income		925	1,833
Paid interest expenses		–40	–56

Parent company income statement

SEK thousand	Note	2013	2012
Net sales		**480**	**491**
Other revenue	2	0	6,573
Total revenue		**480**	**7 064**
Operating costs			
Other external expenses	5	–6,188	–3,700
Personnel expenses	4	–4,901	–4,051
Total operating costs		**–11,089**	**–7,751**
Operating profit/loss		**–10,609**	**–687**
Profit/loss from financial investments			
Interest income and similar items	7	8,126	2,178
Interest expenses and similar items	8	–3,671	–3,450
Impairment of financial assets		0	–64
Total profit/loss from financial investments		**4 455**	**–1,336**
Profit/loss before tax		**–6,154**	**–2,023**
Tax	9	132	154
Profit/loss for the year		**–6,022**	**–1,869**

Other comprehensive income

Profit/loss for the year	**–6,022**	**–1,869**
Deferred tax equity portion of convertible loans	0	29
Total other comprehensive income	**0**	**29**
Total comprehensive income	**–6,022**	**–1,840**

Parent company balance sheet

SEK thousand	Note	2013	2012
ASSETS			
Non-current assets			
Interests in affiliated companies	14	175,555	175,555
Receivables from affiliated companies		112,260	71,008
Other long-term securities	13	0	23,503
Total non-current assets		**287,815**	**270,066**
Current assets			
Receivables from affiliated companies		11,252	7,641
Other receivables	17	1,288	383
Prepaid expenses and accrued income		263	169
Total current receivables		**12,803**	**8,193**
Cash on blocked account	19	185,818	–
Cash and cash equivalents		25,958	24,780
Total current assets		**211,776**	**32,973**
TOTAL ASSETS		**512,394**	**303,039**
EQUITY AND LIABILITIES			
Equity	18		
Restricted equity			
Share capital		60,816	53,203
Total restricted equity		**60,816**	**53,203**
Non-restricted equity			
Share premium reserve		214,026	192,583
Retained earnings		30,461	32,330
Profit/loss for the year		–6,022	–1,869
Total non-restricted equity		238,465	223,044
Total equity		**299,281**	**276,247**
Non-current liabilities			
Deferred tax	9	59	147
Total non-current liabilities		**59**	**147**
Current liabilities			
Convertible loan	19	207,390	22,102
Accounts payable		1,668	164
Other liabilities	20	270	281
Accrued expenses and deferred income	21	3,726	4,098
Total current liabilities		**213,054**	**26,645**
TOTAL EQUITY AND LIABILITIES		**512,394**	**303,039**
Memorandum items			
Pledged collateral	27	See note	See note
Contingent liabilities	27	See note	See note

Parent company statement of changes in equity

SEK thousand	Share capital	Share premium reserve	Fair value fund	Profit/loss carried forward	Profit/ loss for the year	Total equity
Opening balance January 1, 2012	**53,203**	**192,078**	**–393**	**50,301**	**–17,971**	**277,218**
Comprehensive income						
Profit/loss for the year					–1,869	–1,869
Changes in deferred tax on equity portion of convertible loan		29				29
Exchange rate differences			393			393
Total comprehensive income	**0**	**29**	**393**	**0**	**–1,869**	**–1,447**
Transactions with shareholders						
Option premiums		476				476
Allocation of profit/loss				–17,971	17,971	0
Total transactions with shareholders	**0**	**476**	**0**	**–17,971**	**17,971**	**476**
Closing balance December 31, 2012	**53,203**	**192,583**	**0**	**32,330**	**–1,869**	**276,247**
Opening balance January 1, 2013	**53,203**	**192,583**	**0**	**32,330**	**–1,869**	**276,247**
Comprehensive income						
Profit/loss for the year					–6,022	–6,022
Changes in deferred tax on equity portion of convertible loan		159				159
Total	**0**	**159**	**0**	**0**	**–6,022**	**–5,863**
Transactions with shareholders						
Issue/Exchange of convertibles	7,613	22,747				30,360
Issue expenditures		–1,463		–1,869	1,869	–1,463
Total transactions with shareholders	**7,613**	**21,284**	**0**	**–1,869**	**1,869**	**28,897**
Closing balance December 31, 2013	**60,816**	**214,026**	**0**	**30,461**	**–6,022**	**299,281**

Parent company statement of cash flow

SEK thousand	Note	2013	2011
Cash flow from operating activities			
Profit/loss after financial items		–6,154	–2,023
Adjustments for non-cash items			
Capital loss from financial assets		–4,355	–6,573
Write-down of financial assets		0	64
Taxes paid		0	0
Cash flow from operating activities before changes in working capital		**–10,509**	**–8,532**
Cash flow from changes in working capital			
Increase (-) / Decrease (+) in current receivables		–5,179	–2,473
Increase (+) /Decrease (-) in current liabilities		1,724	737
Cash flow from operating activities		**–13,964**	**–10,268**
Cash flow from investment activities			
Extended loans		–41,251	–9,428
Divestment of financial assets	13	27,857	18,447
Cash flow from investment activities		**–13,394**	**9,019**
Cash flow from financing activities			
Repayment of loans		0	–7,800
Option premiums		0	476
Issue of convertible loans		30,000	0
Issue expenditures		–1,464	0
Cash flow from financing activities		**28,536**	**–7,324**
CASH FLOW FOR THE YEAR		**1,178**	**–8,573**
Cash and cash equivalents at the beginning of the year		24,780	33,353
Cash and cash equivalents at the end of the year		**25,958**	**24,780**
Supplementary information for cash flow			
Received interest income		796	383
Paid interest expense		0	–53

Notes

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

The parent company is a public limited liability company. Its registered office is in Stockholm, Sweden. The address of the head office is Hovslagargatan 5B, 111 48 Stockholm.

The Board has on April 29, 2014 authorized the consolidated accounts for approval. The consolidated statement of comprehensive income and financial position will be presented to the Annual General Meeting for adoption on May 20, 2014.

NOTE 1

Accounting and valuation policies, basis for preparing the Annual Report
The consolidated accounts are based on the historical acquisition cost, apart from certain financial instruments which are reported at fair value in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The principles have been applied consistently for all the years presented, unless otherwise stated. All amounts are reported, unless otherwise stated, in thousands of Swedish krona (SEK).

Statement of conformity with applied regulations
The consolidated accounts have been prepared in accordance with IFRS, International Financial Reporting Standards, and the interpretations issued by IFRIC, the International Financial Reporting Interpretations Committee, as endorsed by the EU, and in accordance with the Swedish Annual Accounts Act (ÅRL) and the Swedish Financial Reporting Boards recommendation RFR 1 Supplementary Accounting Rules for Groups.

The parent company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554), and with the application of the Swedish Financial Accounting Standards Council Recommendation RFR 2 Reporting of Legal Entities. RFR 2 requires the parent company, in the annual report for the legal entity, to apply all the IFRS endorsed by the EU, provided it is possible within the framework of the Annual Accounts Act, and with due regard to the relation between accounting and taxation. The recommendation defines what exceptions and additions are to be made in relation to IFRS.

Shares in subsidiaries are reported at acquisition cost unless otherwise stated. The consolidated accounts have been prepared in accordance with the purchase method, and cover the parent company and its subsidiaries.

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

Amendments in accounting principles and disclosures

a) New and amended standards applied by the Group
Below are the standards that the Group applies for the first time for the financial year starting on January 1, 2013 and which have a significant impact on the consolidated financial statements.

IAS 1 "Presentation of Financial Statements" has introduced changes regarding other comprehensive income. The most significant change in the revised IAS 1 is the requirement that the items recognized in "other comprehensive income" must be presented in two Groups. The distribution is based on whether or not the items may be reclassified to the income statement (reclassification adjustments).

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

Amendment to IFRS 7 "Financial Instruments: Information" concerning information related to net accounting of assets and liabilities. The amendment requires new disclosures to facilitate comparisons between companies that prepare their financial statements in accordance with IFRS to companies that prepare their financial statements in accordance with US GAAP.

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

An amendment has been made to IAS 36, ”Impairment”, for disclosures about the recovery value of non-financial assets. The amendment removes the requirement for disclosure on the recovery value of cash generating units that had been introduced in IAS 36 on the issuance of IFRS 13. The change is not mandatory for the Group until January 1, 2014, but the Group has elected to apply the amendment as of January 1, 2013.

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

IFRS 10 ”Consolidated Financial Statements” is based on already existing principles as it identifies control as the determining factor for confirming whether an entity should be included in the consolidated financial statements. The standard provides additional guidance to assist in the establishment of control when this is difficult to assess. IFRS 10 is applied for the financial year starting on January 1, 2014, and it is not expected to have any significant effect on the financial reports.

IFRS 11 ”Joint Arrangements” governs the reporting of so-called joint arrangements in which two or more parties have joint control of the arrangement.

It focuses on the rights and obligations that the parties have in a joint activity rather than the legal form of the arrangement. There are two types of joint arrangements, joint operations and joint ventures. A joint operation is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities of the arrangement and where the parties recognize their share of assets, liabilities, income and expenses. A joint venture on the other hand is an arrangement where parties with joint control have rights to the net assets of the arrangement and recognize their interests under the equity method.

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

IFRS 12 ”Disclosure of Interests in Other Entities” includes disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group intends to apply IFRS 12 for the financial year starting on January 1, 2014. The new standard is expected to result in certain additional disclosures in the financial statements.

IFRS 9 “Financial instruments” handles classification, measurement and recognition of financial assets and liabilities. IFRS 9 was issued in November 2010 for financial assets and in October 2011 for financial liabilities and replaces those parts of IAS 39 related to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two categories: measurement at fair value or at amortized cost.

Classification is determined at initial recognition based on the Company’s business model and characteristics of the contractual cash flows. For financial liabilities, there are no major changes compared to IAS 39. The main change relates to liabilities identified at fair value. For these, the portion of changes in fair value that is attributable to own credit risk shall be recognized in other comprehensive income instead of the result unless this causes inconsistency in reporting (accounting mismatch). The Group has yet to evaluate the effects. The Group will evaluate the effects of the remaining phases relating to IFRS 9 when they have been completed by IASB.

IFRIC 21 ”Levies” clarifies the reporting of an obligation to pay a tax or fee that is not income tax. The interpretation clarifies what the obligating event is what triggers the obligation to pay the tax or fee, and when a debt therefore should be reported. The Group does not believe this interpretation will have any significant effect on the Group.

None of the other IFRS or IFRIC-interpretations which have not yet come into force is expected to have any significant effect on the Group.

Basis of consolidation

The consolidated accounts have been prepared in accordance with the 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The acquisition cost also includes the fair value of all assets or liabilities that are a result of an agreement on conditional purchase price. Acquisition-related costs are recognized when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is reported directly in the Statement of comprehensive income. Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint ventures

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

Segment reporting

Information about the operating segments is presented in a way that corresponds to the internal reporting given to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the performance of the operating segments. In the Group, this function is identified as the Chief Executive Officer. The Group has two operating segments, Russia and Ukraine.

Translation of subsidiaries in foreign currencies

1. Translation of foreign operations

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

2. Translation of foreign currency

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

Exchange rates

	Rate on balance sheet date	Average rate
100 Rubles in SEK	19.85 (21.47)	20.4583 (21.1813)
1 Euro in SEK	8.943 (8.6166)	8.6494 (8.7053)
1 USD in SEK	6.5084 (6.5156)	6.514 (6.7754)
1 CAD in SEK	6.072 (6.5501)	6.3259 (6.7792)
100 UAH in SEK	81.32 (81.25)	81.49 (84.69)

Tangible fixed assets

Oil and gas assets

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

Machinery and equipment

Tangible fixed assets are reported at their acquisition cost less a deduction for accumulated depreciation. The depreciation is based on the estimated useful life of the asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An assets' carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an assets 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. The estimated useful lives for the various Groups of assets are:

Depreciation periods

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

Exploration and evaluation assets

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

The Group reports its capitalized exploration and evaluation assets as described below. Once the technical and commercial feasibility of extracting oil or gas can be demonstrated, the classification as exploration and evaluation assets ceases, and the assets are, instead, reclassified to Oil and gas assets.

Reporting, evaluation and depreciation of exploration and evaluation assets

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

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

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

At the end of 2013, the Group had carried out exploration work on the Rustamovskoye, Aysky and Suyanovskoye blocks, located north of Ufa in Bashkiria, Russia.

Depreciation

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

Impairment losses

The Group assesses its intangible assets, its exploration and evaluation assets, and its oil and gas assets for any impairment loss in the light of events or changed circumstances indicating that the reported values of the assets cannot be justified. Such indications comprise changes in the Group business plans, changes in raw material prices leading to lower revenues, and, for oil and gas holdings, a reduction of the estimated quantities of reserves. The test for impairment loss is done in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, and IAS 36, Impairment of Assets. The assessment of an impairment loss is done for each cash-generating unit which corresponds to each license and concession right, as well as the oil and gas assets owned by the Group. A cash-generating entity therefore corresponds to each separately acquired license and concession right, plus a proportion of the oil deposits in each country where the Group operates its exploration and extraction business. The assessment of an impairment loss means that the cash-generating entity's carrying value is compared with the recoverable amount 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 as to whether there are any indications that previously recognized impairment losses are no longer justified, or have reduced in scale. If there are such indications, a new estimate is made of the recoverable amount.

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 the asset would have had if no impairment loss had been recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount.

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

Impairment of non-financial assets

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

Financial instruments

Financial instruments are initially recognized at fair value on the settlement date basis, including any direct transaction costs. Company management determines the classification of the instruments at the first reporting date, and reviews this decision at each reporting date. The Group does not use derivative instruments.

The Group has financial instruments in the following categories:

1. Financial assets available for sale

Financial assets available for sale are assets that are not derivatives and that have been identified as being available for sale. Shelton Petroleum sees this as a residual category with the investment of non-current assets that do not fit into any other category. In 2012 there were shares and other interests in companies where the Group owned less than 20% of the votes and capital and did not have any control. In 2013, the 2012 holdings were divested. Valuation is at fair value directly to other comprehensive income.

2. Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or ascertainable payments not listed on an active market. A distinguishing feature is that they arise when the Group provides money, goods or services directly to the customer without the intention of trading with the receivable thus arising.

Loans and accounts receivable are recognized initially at fair value and subsequently measured at amortized cost 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 interest rate. The amount of the provision is reported in the statement of comprehensive income.

3. Other financial liabilities

Loans and other financial liabilities, such as trade and other payables, are included in this category. The debts are valued at the amortized cost. Debts less than three months are reported at the acquisition cost.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legal right to offset the reported amounts and an intention to settle them on a net basis or to divest the asset and settle the liability at the same time.

The category to which the Group's financial assets and liabilities are attributed is presented in Note 23, Financial Instruments.

Cash and cash equivalents

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

Borrowings

Borrowings are initially reported at fair value, which represents the amount received with a deduction for any transaction costs, and thereafter at amortized cost. Any premium or discount from the issue is charged over the duration of the loan, using the effective interest rate method and reported as a financial item.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are reported as part of the acquisition value of such assets. Capitalization ceases when all the activities necessary for preparation of the asset for its intended use or sale are substantially completed. Financial income accrued while particular borrowed capital is temporarily invested pending use for financing the asset reduces the capitalization of borrowing costs.

All other borrowing costs are expensed as they occur.

Convertible loans

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

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

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

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

Inventory

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

Accounts payable

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

Equity

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

Current tax

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

Deferred tax

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

Provisions

Provision for environmental measures, restructuring costs and legal obligations are reported when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and that the amount has been calculated in a reliable manner. Provisions for restructuring include costs for terminating leases and for severance payments. Provisions are not made for future operating losses.

Remuneration to employees

Pension obligations

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

Option program

In 2010, a total of 8,000,000 share options were issued, which, after the reverse share split 1:50, entitled the bearers to subscribe to 160,000 class B shares. The subscription price was SEK 43.50 per share and the subscription period was January 15–31, 2013. The options were not exercised as the subscription price exceeded the stock market price.

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

Revenue

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

Sale of oil

The oil produced in Russia is sold to a network of local buyers. In Ukraine, oil is sold via monthly auctions. The auction system reduces transaction risks and counterparty risks in supplying oil. Revenue is assessed at fair value when the significant risks and benefits associated with ownership of the goods are transferred to the buyer, when rights of sale transfer to the customer and to the extent to which it is probable that the financial benefits will come to the Group and when revenue can be calculated in a reliable manner. Revenue is reported during the period it refers to.

Production taxes

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

Sales of services

Sales of services are reported in the accounting periods in which the services are rendered. Sales of services only take place in the parent company which invoices subsidiaries for certain intra-group services.

Interest income

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

Leasing

In accordance with IAS 17 Leases item 2a, IAS 17 is not applied to leasing contracts related to exploration for mineral assets, or oil and gas deposits. Costs relating to leases that, according to IFRS can be capitalized, are capitalized in accordance with IFRS 6.

Risk management

In its line of business, the Group is exposed to several different risks, such as those connected with the business and market, political and country-related risks and financial risks. The Group has implemented risk management structures and control procedures in order to establish calculations, assessments and management of these exposures and related risks. Shelton Petroleum's risk management is described in the Group's corporate governance report in this Annual Report.

Risks connected with the business and market

Risks relating to production and exploration licenses and permits

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

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

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

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

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

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

Risks in exploring for and producing oil and natural gas

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

Geological risk

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

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

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

Mergers, acquisitions and partners

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

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

Risks relating to infrastructure

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

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

Sales of oil and natural gas

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

Price risks for oil and natural gas

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

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

These factors could lead to a reduction in the Group's net income from production and cause a lessening of the Group's operations in oil and natural gas exploration and development.

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

Access to equipment and personnel

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

Significance of key personnel

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

Limited insurance coverage

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

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

Political and country-related risks

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

Recent developments in Ukraine at the beginning of 2014 have created uncertainty surrounding the political situation in Ukraine. Currently, there is no clear picture of how the situation is expected to evolve. Shelton Petroleum's oil production in Ukraine takes place through a 45% ownership in the Ukrainian joint venture company Kashtan Petroleum Ltd, which operates the oil field Lelyaki in Chernigov near Poltava. Kashtan Petroleum's daily operations have been unaffected by the political turmoil and oil production is conducted as planned. Likewise, transportation and sale of the oil extracted continues without interference. Shelton Petroleum also has interests in three exploration licenses in the Sea of Azov and Black Sea through a Joint Investment Agreement with the state-owned Ukrainian company Chornomornaftogaz. Following a referendum on March 16, 2014, Crimea declared itself independent from Ukraine and requested to be part of the Russian Federation. The request was approved by the Russian president and the Russian parliament. The new Prime Minister of Crimea has declared that Chornomornaftogaz's interests in Crimea will be nationalized by the Republic of Crimea. It has been reported that private interests and agreements will be respected. Neither the referendum nor the nationalization of Chornomornaftogaz, which is a violation of the Ukrainian constitution, has been recognized by the Ukrainian government in Kiev or internationally.

Domestic conflicts in both Russia and Ukraine, as well as the above-described political unrest, may adversely affect the Group's ability to plan and implement long-term strategies. The risk regarding possible future benefits from the Company's interests in exploration licenses in the Sea of Azov and the Black Sea is estimated to have increased.

Legal system and legal proceedings

The Group's operations are subject to regulations regarding the environment, safety, health, currency exchange, exports and customs, as well as trade restrictions. Amendments of such regulations may affect the Group's operations and development adversely. In addition, the Group's assets, oil production and exploration activities are located in countries with legal systems that are different from that of Sweden. Exploration rights and related agreements are subject to the laws of Russia and Ukraine where the activities are carried out. Rules, regulations and legal principles can differ both in terms of material law and as regards issues such as court procedures and execution.

For example, protection of ownership rights is not as well developed in Russia and Ukraine as it is in Sweden. Also, rules at local and regional level may conflict with each other. Courts may lack knowledge of business conditions, corruption exists and respect for court decisions may be low. This means that the ability of the Group and its partners to exercise or pursue their rights and obligations and to protect and maintain their ownership rights over assets may be different from in Sweden and from what the outcome might have been if these rights and obligations were subject to Swedish law and jurisdiction. There is thus a considerable investment risk in Russia and Ukraine.

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

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

Environmental rules

Drilling, production, handling, transport and sale of oil, natural gas and by-products of petroleum are subject to comprehensive regulation in accordance with national and local environmental legislation where the Group currently has its operations. Environmental rules can include restrictions, undertakings and obligations in connection with water and atmospheric pollution, waste handling and requirements for permits and restrictions on operations, as well as costly administrative or legal proceedings and ultimately the closing down of operations in environmentally sensitive areas. Environmental rules can be tightened, leading to increased costs. Also, any charges or other orders against the Group in the event of actual or claimed failures to comply with environmental rules or in the event of accidents could have a negative effect on the Group's operations, future prospects and operating revenues.

Neither is there any guarantee that the Group's present or future partners will fulfill their environmental obligations.

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

Financial risks

Capital and liquidity risk

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

At the end of 2013, the Group had two outstanding convertible bonds, convertible 2 of approximately SEK 185 million and convertible 2013/2014 of approximately SEK 22 million. As security for convertible 2, the Group had deposited approximately SEK 185 million in a bank account blocked in favor of the holder of convertible 2. Convertible 2 was repaid in January 2014. For convertible 2013/2014, the Group has pledged the wholly-owned Canadian subsidiary Zhoda (2001) Corporation as collateral. Zhoda holds the Group's 45% ownership of Kashtan Petroleum Ltd, the Ukrainian company with oil production operations at the Lelyaki field in Ukraine. The Group has no external funding in addition to the above, and there are currently no capital requirements for financing.

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

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

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

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

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

Impairment risk/Valuation

A large part of the Group's assets are represented by capitalized exploration and evaluation expenditures. The value of these depends on the Group's ability to successfully determine the existence of commercially exploitable oil and gas. The Group also has shareholdings of considerable value that are assessed at fair value. The value of such assets is always subject to uncertainty. The Group is exposed to price risk with regard to shares because of investments made by the Group that are classified in the consolidated statement of financial position as financial instruments that are available for sale and that had a value at year end of SEK 0 (24) million.

Tax risk and capital repatriation possibilities

The net value of the Group's assets is greatly affected by the tax status of the Russian and Ukrainian subsidiaries. The tax system in Russia and Ukraine is at a relatively early stage of development and is characterized by many taxes that are subject to frequent change and inconsistent application at federal, regional and local level. In addition the tax authorities have up to three years to perform tax audits on previously submitted income tax returns. Changes in the tax system that are applied retroactively by the authorities can affect previously submitted tax returns.

Even if the Group judges that adequate provisions have been made based on the Group's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Russia or Ukraine may have a different interpretation. This entails a risk that the Group may be subject to further taxes or fines that may add up to considerable amounts and have a negative effect on the value of the Group's assets.

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

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

Currency risk

Exchange rate fluctuations and any Russian or Ukrainian currency regulations can affect the Group's assets and revenues. The Group's subsidiary in Russia uses the Ruble as its base currency and prepares its reports in Rubles. The costs are to a large extent Ruble based. The corresponding currency in Ukraine is the Hryvnia (UAH). For the time being, the Group has chosen not to hedge any part of its currency exposure. The official exchange rates therefore both directly and indirectly affect the value of the subsidiaries' assets and thereby also the Group's financial position. The Russian central bank has attempted to stabilize the Ruble, but there is no guarantee that such action will be taken in future or lead to a favorable result. A negative development of exchange rates for the Group can thereby have a negative effect on the Group's results and financial position.

During the first quarter of 2014, the values of the Russian and Ukrainian currencies weakened against the Swedish krona. By the middle of April 2014, the value of the Russian ruble had fallen by about 8 percent and the Ukrainian Hryvnia had fallen by about 35 percent against the Swedish krona compared to December 31, 2013.

The Russian and Ukrainian economies may also be subject to inflation pressure. Even though loan costs currently represent a small part of the Group's costs, inflation may bring higher production costs in general for the Group and affect its profits. The Group has no significant exposure in foreign currencies other than the above. In the event of a change of the ruble rate of exchange by 10 per cent, the Group's assets and net result would change by SEK 16 million and SEK 0.7 million, respectively. In the event of a change of the Hryvnia rate of exchange by 10 per cent, the Group's assets and net result would change by SEK 18 million and SEK 2.9 million, respectively.

Interest rate risk

The Group is currently financed largely by equity and internally generated funds from the oil sales. As the Group does not have any significant interest-bearing loan financing with variable rates of interest, Management considers that the interest risk does not constitute a material risk. If and when the Group utilizes external loan financing at variable rates, the Group will be exposed to rising market interest rates. Rising market interest rates could then have a negative effect on the Group's financial results.

Counterparties, partners and credit

The Group is exposed to various credit risks, for example in the form of prepaid costs or credit being given where collaterals do not cover the Group's claims. The Group is also exposed to sold and delivered oil. The Group's credit risk in this respect is to a large extent attributable to the Ukrainian operations where payments have been made and are made late. See also Note 17. Full or partial nonpayment from buyers may have a negative impact on the Company's operations, result and financial position.

The Group is also exposed to counterparty risks in the form of partnership agreements and joint ventures that the Group has entered into or may enter into in the future.

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

Reporting practice and other information

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

Critical accounting estimates and judgments for accounting purposes

Estimates and judgments are continuously evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the 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.

Need for provisions regarding accounts receivable

The Group assesses the accounts receivable on a continuous basis and whether any provision is required. The Group's accounts receivable amounted to approximately SEK 49 (28) million at the end of 2013. Of these, approximately SEK 48 (28) million were attributable to the Ukrainian operations. Accounts receivable have increased during the year due to the buyer of oil in Ukraine having made late payments. At year-end 2013 it was assessed that there was no need for provisions. The Group will continue to carefully assess the need for provisions, and if such exists it will make the necessary provisions.

See also Note 3 and Note 17.

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

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

The following material assumptions have been used:

- Discount rate of 15 (14) percent
- Reserves of 14 (14) million barrels of oil
- Future oil prices in the market oil prices reflected in:
  Russia USD 40 (40) per barrel of oil
  Ukraine USD 95 (100) per barrel of oil

The value of exploration and evaluation assets amounts to approximately SEK 80 million. Should the conditions for the assumptions on which the value of intangible assets is based change and facts and circumstances arise, the value may need to be written down. No circumstances or facts indicating that a write-down would be justified have been identified. The value of assets is contingent on among others:

- Obtaining permission to drill for oil
- That production can start
- That the total of expenditure incurred, plus the discounted value of future expenditure in order to extract the minerals, is less than the present value

of the income that the extraction of the minerals is expected to generate.

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

Going concern

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

Convertible loans

To determine the equity component of the convertible loan 2013/2014, a 15 percent discount rate of interest was set, 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 mainly attributable to value adjustments on intangible and tangible assets of acquired subsidiaries. The Group also has tax losses for which no deferred tax assets have been recorded on the basis that it is uncertain when these will be utilized.

NOTE 2

Revenue (SEK thousand)

The Group's revenue comes primarily from the sale of crude oil. The Group also reported a gain in 2012 from the voluntary liquidation of Tomsk Refining AB of approximately SEK 7 million.

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Sale of crude oil	108,802	93,223	0	0
Profit Tomsk Refining AB	0	6,573	0	6,573
Sales within the Group	0	0	480	491
Other revenue	262	118	0	0
Total revenue	**109,064**	**99,914**	**480**	**7,064**

NOTE 3

Segment information

The Group reports on the basis of two reportable operating segments: Russia and Ukraine. The operating segments are reported on using the same accounting principles as the Group and the Group management, the chief operating decision-maker, reviews the income measurement on operating income. The activities of the Russian and Ukrainian segments consist of developing and extracting oil and gas reserves and of exploration to discover new reserves. Other consists of handling overall financing for the Group, including borrowing capital from external banks and other raisings of capital. Other is also responsible for preparing consolidated accounts and financial reporting to the market. The reportable operating segments' revenue, costs and assets include directly referable items as well as items that may be allocated to operating segments in a reasonable and reliable way. Internal reported revenue refers, for Russia, to capitalized work performed for own use and, for Other, to re-invoicing of expenses related to management services. Market terms in accordance with the arm's length principle are applied to transactions between operating segments.

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

January–December 2013 (SEK thousand)	Russia	Ukraine	Other	Eliminations	Total
Income statement					
Revenue, external	29,786	79,278	0	0	109,064
Revenue, internal	0	0	620	–620	0
Capitalized internal work	3,993	0	0	0	3,993
Raw materials and necessities	–11,698	–43,485	0	0	–55,183
Other operating costs	–10,112	–2,819	–16,053	620	–28,364
Operating profit/loss	**11,969**	**32,974**	**–15,433**	**0**	**29,510**
January-December 2012 (SEK thousand)	**Russia**	**Ukraine**	**Other**	**Eliminations**	**Total**
Income statement					
Revenue, external	14,295	79,046	6,573	0	99,914
Revenue, internal	0	0	707	–707	0
Capitalized internal work	3,998	0	0	0	3,998
Raw materials and necessities	–6,290	–41,852	0	0	–48,142
Other operating costs	–8,455	–4,593	–13,724	615	–26,157
Operating profit/loss	**3,548**	**32,601**	**–6,444**	**–92**	**29,613**
December 31, 2013 (SEK thousand)	**Russia**	**Ukraine**	**Other**	**Eliminations**	**Total**
Balance sheet					
Assets					
Intangible and tangible non-current assets	177,313	114,550	6,952	0	298,815
Current assets, external	7,103	61,214	214,906	0	283,223
Current assets, internal	0	0	14,123	–14,123	0
Investments in tangible and intangible non-current assets	53,539	3,657	0	0	57,196
December 31, 2012 (SEK thousand)	**Russia**	**Ukraine**	**Other**	**Eliminations**	**Total**
Balance sheet					
Assets					
Intangible and tangible non-current assets	132,765	112,609	6,947	0	252,321
Current assets, external	1,167	32,490	26,838	0	60,495
Current assets, internal	0	0	24,872	–24,872	0
Investments in tangible and intangible non-current assets	19,125	10,232	0	0	29,357

Revenue, external in the column Other for January–December 2012 contains an item amounting to SEK 6,573 thousand relating to the profit on the liquidation of the holding in Tomsk Refining AB. The item relates to the second and final part of the voluntary liquidation of Tomsk Refining AB. The first part was received in 2011.

In Russia, the oil produced is sold to a number of smaller, local refineries where none of the buyers represent more than 10% or more of the consolidated revenues. In Ukraine, the oil is sold at auctions where the buyer has been the same company, one of Ukraine's largest oil refineries. In 2013 the Ukrainian customer accounted for 72% of the Group's oil and gas sales while the corresponding number in 2012 was 85%. Of the Group's total accounts receivable relating to oil and gas, as at December 31, 2013 and 2012, the Ukrainian customer accounted for 98% and 100% respectively.

NOTE 4

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

	Basic salary/fees	Variable compensation	Other compensation	Other benefits	Pension cost	Total
Björn Lindström, Chairman	160	0	0	0	0	160
Hans Berggren, Director	80	0	0	0	0	80
Richard N. Edgar, Director **	80	0	268	0	0	348
Peter Geijerman, Director	80	0	0	0	0	80
Maks Grinfeld, Director (Sep–Dec)	27	0	0	0	0	27
Mats Jansson, Director (Sep–Dec)	27	0	0	0	0	27
Freddie Linder, Director *	80	0	22	0	0	102
Katre Saard, Director	80	0	0	0	0	80
Zenon Potoczny, Director ***	987	54	0	0	0	1,041
Robert Karlsson, CEO	1,403	132	0	49	345	1,929
Other senior executives, 2 in total	1,392	183	0	0	161	1,736
Total for Board and Management	**4,395**	**369**	**290**	**49**	**506**	**5,609**

* Other remuneration refers to remuneration for geological expertise
** Other remuneration refers to consultancy services in geology
*** Refers to base salary only, does not receive a directors' fee

Remuneration to personnel and senior executives in 2012 (SEK thousand)

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

* Other remuneration refers to remuneration for special committee work
** Other remuneration refers to consultancy services relating to geological expertise
*** Refers to base salary only, does not receive a directors' fee

2013 guidelines for remuneration of senior executives

The remuneration of senior executives should be the going rate and enable the Company to retain qualified employees. For the individual senior executives the remuneration should be based on factors such as position, competence, experience and performance. In addition to the basic salary, senior executives shall receive variable remuneration, pension, additional benefits and incentive programs. The fixed salary, which should be individual and differentiated based on individual responsibility, experience and achievements, is set in accordance with principles adjusted to market conditions. Variable remuneration is based on the Company's earnings growth and is designed to promote long term value creation for the Company. The maximum annual variable remuneration may amount to 30 percent of the basic salary. For share and share price related incentive programs, the earning period, or the period from entering into an agreement to when a share may be acquired, may not be less than three years. Other benefits will be equal to what is considered reasonable in relation to market practices. The parts are designed to create a balanced remuneration and benefits program that reflects the employees performance and responsibilities and the Company's financial performance. The Board may waive the guidelines if, in an individual case, there are special reasons for it.

Benefits for senior executives

Principles

Remuneration to the Board, including the Chairman of the Board, is determined by the shareholders at the AGM, and applies for the period until the next AGM. At the AGM, principles for remuneration to senior executives for the coming year are also adopted.

Remuneration and benefits to the Board

The total remuneration for the financial year 2013 to the Company's Board amounted to SEK 903 thousand. Of this amount, SEK 613 thousand referred to directors' fees, of which SEK 160 thousand was for the chairman. For the allocation of Board remuneration and other compensation to the other Board directors, see the table above.

Remuneration and benefits to the CEO

Remuneration to the Chief Executive Officer in 2013 was SEK 1,797 thousand, consisting of a fixed salary of SEK 1,403 thousand, a variable remuneration of SEK 132 thousand, a car benefit of SEK 49 thousand and a pension cost of SEK 345 thousand. The Chief Executive Officer has a defined contribution pension plan and receives a contribution to this amounting to 25 percent of the salary per year. In accordance with this defined contribution system, the pension entitlement is earned by the Group's annual payments of premiums.

Pension plans

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

Severance pay

No severance agreements 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 directors and the CEO in the parent company total 8 people, of which 7 are men and 1 is a woman. In the period from August 22 to February 27 there were 9 Board directors, of which 8 were men and 1 was a woman.

	2013			2012		
Average number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Sweden*	2	2	0	2	2	0
Russia	25	19	6	22	17	5
Ukraine**	8	6	2	8	6	2
Canada	1	1	0	1	1	0
Total	**36**	**28**	**8**	**33**	**26**	**7**

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

	Group		Parent company	
Salaries and remuneration for all employees and Board (SEK thousand)*	**2013**	**2012**	**2013**	**2012**
Senior executives and Board	5,054	5,334	3,401	3,579
Pension expenses	506	482	506	482
Other employees	4,917	4,858	202	211
Pension expenses	445	287	0	0
Social security costs	1,880	1,954	1,023	971
Total	**12,802**	**12,16**	**5,131**	**5,243**

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

Geographical distribution (SEK thousand)	2013	2012
Sweden	5,569	5,359
Russia	5,007	4,969
Ukraine	888	832
Canada	1,309	1,756
Total	**12,772**	**12,916**

NOTE 5

Payments to auditors (SEK thousand)

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Ernst & Young				
Audit assignments	682	707	646	450
Non-audit assignments	138	130	138	130
Tax consultancy	0	0	0	0
Other services	0	105	0	105
Total	**820**	**942**	**784**	**685**
Alinga				
Audit assignments	145	48	0	0
Total	**145**	**48**	**0**	**0**
Total	**964**	**990**	**784**	**685**

Audit assignments include the review of the Annual Report and bookkeeping and of the Board's and the CEO's administration, other assignments that the Company's auditor performs, as well as consultancy or other assistance that follows from the audit or performance of such other assignments. Everything else is considered an assignment outside the scope of the audit assignment.

NOTE 6

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

	2013	**2012**
Machinery and equipment	188	309
Intangible assets	220	220
Oil and gas assets	2,470	1,733
Total	**2,878**	**2,262**

NOTE 7

Financial income (SEK thousand)

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Capital gain/loss from financial assets	0	0	4,355	0
Interest income, Group	0	0	2,975	1,795
Interest income, other*	925	1,833	796	383
Total	**925**	**1,833**	**8,126**	**2,178**

* Of which the Group's received interest is 925 (1,833) and the parent company's received interest is 796 (383).

NOTE 8
Financial costs (SEK thousand)

	Group		Parent company	
	2013	2012	2013	2012
Exchange rate differences	–410	–611	–291	–534
Capital gain/loss from financial assets	–12,045	0	0	0
Interest expense, convertible loan*	–570	0	–3,380	–2,863
Interest expense, other**	–40	–56	0	–53
Total	–13,065	–667	–3,671	–3,450

* Interest expenses relating to the convertible loan KV 2013/2014 (formerly KV 2012/2013) are capitalized in the Group. During the year SEK 2,771 thousand (2,863) have been capitalized. Interest cost above (Group) relates to convertible 2 and was paid in January 2014.
** Of which the Group's paid interest is -40 (-56) and the parent company's paid interest is 0 (-53).

NOTE 9
Income tax (SEK thousand)

	2013	2012
Current tax	–6,373	–6,256
Deferred tax	1,405	292
Total	**–4,968**	**–5,964**

Reconciliation of tax for the period	**2013**	**2012**
Reported pre-tax profit	17,370	30,779
Tax at current tax rate	–3,821	–8,095
Difference in tax rate in foreign operations	1,079	1,677
Effect of changes in current tax rate	1,658	1,707
Non-taxable items	0	0
Non-deductible items	135	–26
Deductible items not included in the reported profit/loss	0	0
Tax on dividends received	–219	–461
Non-capitalized loss carry-forward	–3,800	–767
Reported tax	**–4,968**	**–5,964**

In 2013, the corporate tax rate in Ukraine was reduced from 21 percent to 19 percent and in 2012 from 23 percent to 21 percent. The table above reports an effect of the changed tax rate, which may primarily be attributed to the deferred tax liability that occurred upon acquisition of Shelton Canada, the assets of which are primarily located in Ukraine. In Sweden, the corporate tax rate was reduced from 26.3 percent to 22 percent on January 1, 2013. The effect was taken into account in 2012 and reduced the deferred tax liability on the convertible loan by SEK 29 thousand.

The applicable tax rates amount to 22 percent in Sweden, 20 percent in Russia, 10 percent in Cyprus, 27 percent in Canada and 19 percent in Ukraine. As at December 31, 2013, the Group had tax loss carryforwards of approximately SEK 195 million (132). Deferred tax assets attributable to loss carry-forward are only recognized to the extent that it is probable that they will be utilized. As the Company's future opportunities to utilize these loss carry-forwards are uncertain, no deferred tax asset has been recognized. The value of the loss carryforward is approximately SEK 41 million (28). There is no limit to the use of loss carry-forward, except in Russia where there is a 10-year limit.

Deferred tax assets and liabilities are attributable to the following:

	2013	2012
Exploration and evaluation assets	6,918	7,554
Tangible non-current assets	14,010	14,912
Convertible loans	3,039	2,593
Other	1,718	2,299
Total	**25,685**	**27,358**

Change in net deferred tax assets and liabilities, Group

Deferred taxes 2013	Opening balance	Recognized in the income statement	Charged to comprehen-sive income	Charged to equity	Translation differences	Closing balance
Exploration and evaluation assets	7,554	–332	0	0	–304	6,918
Tangible non-current assets	14,912	–916	0	0	14	14,010
Convertible loans	2,593	402	0	44	0	3,039
Other	2,299	–559	0	0	–22	1,718
Total	**27,358**	**–1,405**	**0**	**44**	**–312**	**25,685**

Deferred taxes in 2012	Opening balance	Recognized in the income statement	Charged to comprehen-sive income	Charged to equity	Translation differences	Closing balance
Exploration and evaluation assets	8,079	–331	0	0	–194	7,554
Tangible non-current assets	17,052	–939	0	0	–1,201	14,912
Convertible loans	2,214	408	–29	0	0	2,593
Other	1,084	1,154	0	0	61	2,299
Total	**28,429**	**292**	**–29**	**0**	**–1,334**	**27,358**

NOTE 10
Goodwill (SEK thousand)

	Group	
	2013	2012
Accumulated acquisition cost		
At the beginning of the year	6,807	6,807
Carrying amount at the end of the year	**6,807**	**6,807**

Goodwill relates to the value that occurred at the reverse acquisition of TFS AB in 2009. When goodwill was valued, no impairment loss was identified.

NOTE 11

Exploration and evaluation assets and oil and gas assets (SEK thousand)

	Group	
	Exploration and evaluation assets	**Oil and gas assets**
Acquisition cost		
At 1 January 2012	**69,156**	**172,858**
Additions	5,520	21,409
Advance payment for oil and gas assets	0	5,188
Translation differences	–1,368	–10,492
At 31 December 2012	**73,308**	**188,964**
Additions	10,833	54,031
Advance payment for oil and gas assets	0	3,655
Translation differences	–4,566	–14,762
At 31 December 2013	**79,574**	**231,888**
Depreciation		
At 1 January 2012	**0**	**–17,853**
Depreciation for the year	0	–1,733
Translation differences	0	1,286
At 31 December 2012	**0**	**–18,300**
Depreciation for the year	0	–2,470
Translation differences	0	101
At 31 December 2013	**0**	**–20,669**
Net book value:		
At 31 December 2012	**73,308**	**170,664**
At 31 December 2013	**79,574**	**211,219**

Exploration and evaluation assets consist of the Group's non-producing assets and Oil and gas assets consist of the Group's producing assets in Russia and Ukraine.

Exploration and evaluation assets have been allocated to cash-generating units and tested for impairment. The Group's cash-generating units consist of the portion of the Rustamovskoye field in Russia that is oil producing along with the Lelyaki field in Ukraine. The Group assesses its exploration and evaluation assets and its oil and gas assets for any impairment loss in the light of events or changed circumstances indicating that the reported values of the assets cannot be justified. Such indications comprise changes in the Group business plans, changes in raw material prices leading to lower revenues and, for oil and gas holdings, a lowering of the estimated quantities of reserves.

The main assumptions made have been as follows:

- Discount rate of 15 (14) percent,
- Reserves of 14 (14) million barrels of oil

Future oil prices in the global market reflected in:

- Russia USD 38 (40) per barrel of oil and
- Ukraine USD 95 (100) per barrel of oil.

The carrying value of the Group's and subsidiaries' exploration and evaluation assets amount to SEK 80,216 (74,150) thousand, of which SEK 62,834 (56,587) thousand is attributable to Russia and SEK 16,577 (16,564) thousand is attributable to the Group's interests in offshore assets in the Sea of Azov and the Black Sea.

The carrying values of the Group's oil and gas assets amount to SEK 211,219 (170,664) thousand, of which SEK 113,394 (75,624) thousand is attributable to Russia and 97,302 (95,034) is attributable to Ukraine.

When testing for impairment losses on capitalized costs related to exploration and evaluation assets, no impairment losses were identified.

The total number of non-current assets, besides financial non-current assets, which are located in Sweden is SEK 6,807 thousand (6,807) and the total of such non-current assets which are in other countries is SEK 288,434 thousand (240,407).

NOTE 12

Machinery and equipment and Intangible assets (SEK thousand)

	Group	
	Machinery and equipment	Intangible assets
Acquisition cost		
At 1 January 2012	**1,932**	**1,141**
Additions	1	152
Translation differences	–3	–79
At 31 December 2012	**1,931**	**1,214**
Additions	78	18
Translation differences	–124	1
At 31 December 2013	**1,885**	**1,233**
Depreciation		
At 1 January 2012	**–962**	**–160**
Depreciation for the year	–309	–220
Translation differences	41	9
At 31 December 2012	**–1,231**	**–371**
Depreciation for the year	–188	–220
Translation differences	106	0
At 31 December 2013	**–1,313**	**–590**
Net book value:		
At 31 December 2012	**700**	**843**
At 31 December 2013	**573**	**643**

NOTE 13

Financial assets available for sale / Other non-current securities (SEK thousand)

	Group		Parent company	
Change during the year	**2013**	**2012**	**2013**	**2012**
As of 1 January	**23,503**	**35,147**	**23,503**	**35,147**
Acquisitions	0	293	0	293
Divestments	–27,857	0	–27,857	0
Liquidation TRAB	0	–11,874	0	–11,874
Losses transferred to/from other comprehensive income	4,354	–63	0	0
Write-backs/Write-downs	0	0	4,354	–63
As of 31 December	**0**	**23,503**	**0**	**23,503**

Financial assets available for sale / Other long-term securities includes the following	Headquarters	% share	Book value December 31, 2013	Book value December 31, 2012
Listed securities, Shares				
Pan European Terminals PLC	United Kingdom	12.94 %	0	23,503
Total			**0**	**23,503**

Shelton Petroleum views this category as a residual category with placements of long-term assets that do not fit into any other category. In 2013, the Company's holdings of this category were divested, and thus at the end of the year there were no holdings. In 2012 there were shares and other interests in companies where the Group owned less than 20% of the votes and capital and did not have control. Valuation was at fair value directly to other comprehensive income.

The holding in the PAN European Terminals PLC was sold in 2013, which generated cash funds amounting to SEK 28 million for Shelton Petroleum. The Group's holdings as of 31 December 2012 amounted to 13,177,368 shares which were valued at 17.00 pence per share at an exchange rate of GBP/SEK 10.49. Shelton Petroleum's holding was equivalent to 12.94 percent of the capital. Compared to the book value per 31 December 2012, a profit of approximately SEK 4 million was reported. Of this, approximately SEK -12 million was reported in net financial items (currency exchange rates and decline in the stock price compared to the original acquisition cost), and approximately SEK +16 million in other comprehensive income (reversal of previous fair value adjustments).

NOTE 14

Interests in affiliated companies (SEK thousand)

The table below is a specification of the Group's subsidiaries as of 31 December 2013. Petrosibir Exploration AB and Shelton Canada Corp. are owned directly, while Novats Investment Limited, Shelton Canada Exploration Limited, Shelton Canada Energy Limited, Shelton Canada Black Sea Corporation, ZAO Ingeo Holding, Kashtan Petroleum Ltd and JIA # 2847 are owned indirectly.

Subsidiaries	Headquarters	% share	Equity	The Group's share profit for the year	Business
Petrosibir Exploration AB	Stockholm	100	65,564	1,927	Holding company
Novats Investments Ltd	Cyprus	100	24,254	–46	Holding company
Shelton Canada Exploration Ltd	Cyprus	100	–152	–47	Holding company
Shelton Canada Energy Ltd	Cyprus	100	–152	–47	Holding company
Shelton Canada Black Sea Corporation	British Virgin Islands	100	–140	–23	Holding company
ZAO Ingeo Holding	Russia	100	4,955	6,224	Exploration and production of oil and gas
Shelton Canada Corporation	Canada	100	37,083	286	Holding company
Zhoda (2001) Corporation	Ukraine	100	0	0	Holding company
Kashtan Petroleum Ltd	Ukraine	45	68,643	25,197	Exploration and production of oil and gas
JIA #2847 Ltd	Ukraine	50	590	–18	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) via Zhoda 2001 Corporation and a 50 percent participating interest in Joint Investment Activity # 2847 (JIA) in Ukraine via Shelton Canada Corporation. Kashtan operates the oil producing field Lelyaki in Chernigov and JIA possesses three offshore licenses in the Black Sea. The company is jointly controlled along with the other shareholders. The Group's proportion of assets and liabilities as of December 31, 2013 and 2012, which were included in the balance sheet in accordance with the proportional method, is presented in the table below.

The Group's proportion of assets and liabilities	2013	2012
Current assets	61,214	32,490
Tangible non-current assets	23,925	24,021
Intangible assets	660	860
Current liabilities	–14,494	–8,614
Non-current liabilities	–2,072	–2,323
Equity	**69,233**	**46,434**

The Group's proportion of revenue and costs	2013	2012
Revenue	79,278	79,046
Operating costs	–48,477	–46,445
Financial items	110	1,405
Tax	–5,732	–6,751
Profit/loss for the year	**25,179**	**27,255**

NOTE 15

Finished goods and commodities (SEK thousand)

	Group	
	2013	**2012**
Crude oil	128	139
Total	**128**	**139**

NOTE 16

Reserves (SEK thousand)

	Translation differences	Financial assets available for sale	Total reserves
Opening balance per 1 January 2012	**–19,015**	**–16,335**	**–35,350**
Change during the year	–8,145	–63	–8,208
Closing balance per 31 December 2012	**–27,160**	**–16,398**	**–43,558**
Opening balance per 1 January 2013	**–27,160**	**–16,398**	**–43,558**
Change during the year	–9,779	16,398	6,619
Closing balance per 31 December 2013	**–36,939**	**0**	**–36,939**

NOTE 17

Accounts receivable and other receivables (SEK thousand)

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Value added tax	2,561	418	504	295
Accounts receivable	48,936	28,395	0	0
Accrued income oil	10,706	0	0	0
Other receivables	1,079	610	784	88
Total	**63,282**	**29,423**	**1,288**	**383**

The table below shows the ageing of the Group's accounts receivable. At the date of this annual report, all not yet due and SEK 16 million of receivables > 120 days have been settled.

The Group's provision for bad debts is also shown below. Given that the customer in Ukraine, accounting for SEK 48 (28) million of accounts receivable, every month has been paying part of the receivables since the late payments arose, the Group believes that full payment of outstanding receivables will be received. Therefore no provisions for bad debts have been made.

	Group	
Receivables past due, not written-down	**2013**	**2012**
Not yet due	1,018	5,563
< 30 days	7,394	6,728
31–60 days	14,668	8,073
61–90 days	7,274	8,030
91–120 days	0	0
> 120 days	18,852	0
	48,936	**28,395**

	Group	
Provision for bad debts	**2013**	**2012**
Provision at the beginning of the year	–	–
Provision at the beginning of the year	–	–
Provision for the year	–	–
Reversed provisions	–	–
Translation differences	–	–
Provision at the end of the year	–	–

NOTE 18

Equity

In 2013, Shelton Petroleum issued a convertible bond of SEK 30 million, Convertible 1, to Petrogrand AB, with a conversion price of SEK 20. Petrogrand AB converted the loan into 1,500,000 B shares in Shelton Petroleum. Shelton Petroleum also issued another convertible bond to Petrogrand AB for approximately SEK 185 million, Convertible 2, with a conversion price of SEK 20. Convertible 2 was not converted but instead repaid to Petrogrand AB in early 2014 in exchange for the convertible bond. In the fall of 2013, SEK 360 thousand of the convertible bond KV 2012/2013 (originally issued in 2009) were converted to 22,500 Shelton Petroleum B shares.

Other than the above, there have been no changes in the total number of shares. After the above changes, the total number of A shares is unchanged at 170,580, the total number of B shares is 11,992,508 and the total number of shares is 12,163,088.

	Number of shares
As of December 31, 2012	10,640,588
Exchanged convertible bonds	1,522,500
As of December 31, 2013	**12,163,088**

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

Financing

The Group has thus far to a large extent used equity to finance its business and expansion in Russia by issuing new shares or other financial instruments when the need for additional capital has arisen. At the end of 2009 the Company issued convertible bonds of approximately SEK 30 million. Shelton Petroleum has also issued shares to the owner of Shelton Canada Corp. in order to complete the merger. The convertible bonds that were issued in 2009 have been extended twice through offers to the holders to exchange them for a new convertible bond with unchanged conditions. The first exchange took place in November 2011, when the new convertible bonds were offered with a maturity date of December 31, 2013. Of the then outstanding approximately SEK 30 million, holders of approximately SEK 22 million elected to replace, and holders of approximately SEK 8 million requested repayment. In connection with the offer, new convertibles were subscribed for approximately SEK 1 million. The other exchange took place in October 2013, when the holders of approximately SEK 22 million elected to exchange to a new convertible bond, KV 2013/2014, with a maturity date of June 30, 2014. Approximately SEK 0.4 million was converted to B shares in Shelton Petroleum. KV 2013/2014 may be converted into B shares from June 1–15, 2014 at a conversion price of SEK 16 and carries a nominal interest rate of 10%. If all outstanding convertible bonds KV 2013/2014 were to be converted to shares, the number of B shares would increase by 1,400,625 shares. On a complete conversion, the total number of shares would amount to 13,563,713. The shares have a quotient value of SEK 5.

Translation differences in equity

As of December 31, 2013, the reported translation differences under other comprehensive income amounted to SEK -9,779 thousand (-8,145). The translation differences arise upon restating the foreign subsidiaries' balance sheets 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 using the average exchange rates.

Translation differences also arise upon the restatement of monetary assets and liabilities in foreign currencies, as these are restated on the balance sheet day at the exchange rate applicable that day. These exchange rate differences are normally accounted for in the income statement, except for loans in foreign currencies that constitute a currency collateral of a net investment in an overseas business. These exchange rate differences are accounted for in other comprehensive income.

Management of capital

The managed capital of the Company consists of equity. Management manages capital that has not yet been used for investments or in operations by investing liquid funds in various credit institutions with a high credit rating and at the best possible return. There are no other external capital requirements than those required by the Companies Act.

NOTE 19

Loans (SEK thousand)

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Non-current				
Convertible loans	0	0	0	0
Other loan liabilities	0	0	0	0
Total non-current	**0**	**0**	**0**	**0**
Current				
Convertible 2 Petrogrand	185,249	0	185,249	0
Convertible 2013/2014	22,141	22,102	22,141	22,102
Total current	**207,390**	**22,102**	**207,390**	**22,102**
Total	**207,390**	**22,102**	**207,390**	**22,102**

The convertible loans that are classified as short-term for the comparative year 2012 were in the previous annual report classified as long-term. A correction of these items has thus been made in the table above.

In 2009, convertible bonds (KV 2009/2011) were issued nominally of approximately SEK 30,540 thousand. SEK 1,020 thousand of these were converted through exchange for shares in 2010. In November 2011, the Company offered the holders to exchange this bond for a new convertible bond, KV 2012/2013. Holders nominally equivalent to SEK 21,720 thousand accepted the offer and additionally a nominal SEK 1,050 thousand was subscribed for in the new convertible. In October 2013, the Company offered the holders to exchange the KV 2012/2013 bond for a new convertible bond, KV 2013/2014. Holders of an equivalent to SEK 22,410 thousand accepted the offer, and holders nominally equivalent to SEK 360 thousand elected to convert to shares. The loan matures on June 30, 2014 to the extent conversion has not taken place earlier. The conversion price is SEK 16 and conversion may take place from June 1–15, 2014. The loan carries an interest rate of 10 percent. The discounted present value of KV 2013/2014 amounts to SEK 22,141 as of 31 December 2013.

In September 2013, Shelton Petroleum issued Convertible 2 to Petrogrand AB amounting to SEK 185,249 thousand. The loan was repaid in cash at the beginning of January 2014. The loan carried an interest rate equivalent to the interest on the blocked account where the funds were kept, whereby it effectively did not incur any expense for Shelton Petroleum.

NOTE 20

Other current liabilities (SEK thousand)

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Source tax	91	94	91	94
Compulsory employer contributions	193	192	193	192
Value added tax	1,557	2,463	–19	–5
Production taxes	4,439	766	0	0
Other taxes	0	338	0	0
Other	3,444	179	0	0
Total	**9,724**	**4,032**	**265**	**281**

NOTE 21

Accrued expenses and deferred income (SEK thousand)

	Group		Parent company	
	2013	**2012**	**2013**	**2012**
Interest	940	2,277	940	2,277
Acquisition and new issue costs	200	1,093	200	1,093
Audit fees	399	0	399	0
Legal fees	1,187	0	1,187	0
Accrued vacation and social security costs	479	355	479	355
Remuneration to the Board	394	373	394	373
Other	529	333	127	0
Total	**4,128**	**4,431**	**3,726**	**4,098**

NOTE 22

Related party transactions (SEK thousand)

In addition to what is otherwise reported in this Annual Report, additional information about related parties is provided below

	2013	**2012**
Purchase of services from Sergey Titov	373	348
Purchase of services from #Co 1144449 Alberta Ltd	268	652
Total	**641**	**1,000**
Balances carried forward at the year-end		
Liabilities to related parties	0	0

Remuneration to senior executives

The Group has concluded a consultancy agreement with Sergey Titov, one of the initiators and shareholders of the Company. The contract relates to services in project management and business development. According to the agreement, monthly remuneration amounting to approximately SEK 30,000 per month is payable, which the Group believes is the going rate. The contract runs from November 1, 2007 and has a mutual notice period of 3 months. He receives no other remuneration from the Group.

Other transactions with related parties

The Group has concluded a consultancy agreement with a company (#Co 1144449 Alberta Ltd) of which Richard N. Edgar, Board director, is one of several owners. The agreement is hourly based and relates to geological expertise. In 2013, approximately SEK 268 thousand was paid to #Co 114449 Alberta Ltd.

See Note 4 for remuneration of Board directors and senior executives.

NOTE 23

Earnings per share, before and after dilution

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

When calculating diluted earnings per share, the result is adjusted for interest on the convertible loan. The average number of shares is then adjusted by the estimated number of shares from the convertible bonds and stock options. Potential shares from stock options are only included when the share price of the shares is equal to or exceeds the average stock exchange price for the shares during the period. For 2013, potential shares from issued options are included, but not for 2012.

Calculation of diluted earnings per share takes place by dividing the adjusted result by the adjusted average number of shares.

The Board proposed to the AGM that there be no dividend distribution for the financial year 2013.

	2013	2012
Profit attributable to parent company shareholders (SEK thousand)	12,402	24,815
Weighted average number of ordinary shares	10,911,656	10,640,588
Weighted average number of ordinary shares, diluted	10,972,019	12,063,713
Earnings per share, (SEK/share)	1.14	2.33
Diluted earnings per share (SEK/share)	1.13	2.23

NOTE 24
Financial instruments (SEK thousand)

Group 2013

Category	Loans and accounts receivable	Other financial liabilities	Financial assets available for sale	Assets and liabilities valued at fair value	Reported value
Assets					
Non-current financial assets					0
Accounts receivable	48,936				48,936
Cash on blocked account	185,818				185,818
Cash and cash equivalents	33,729				33,729
Total assets	**268,483**	**0**	**0**	**0**	**268,483**
Liabilities					
Current liabilities		207,390			207,390
Accounts payable		15,305			15,305
Other liabilities		3,911			3,911
Total liabilities	**0**	**226,606**	**0**	**0**	**226,606**

Group 2012

Category	Loans and accounts receivable	Other financial liabilities	Financial assets available for sale	Assets and liabilities valued at fair value	Reported value
Assets					
Non-current financial assets			23,503		23,503
Accounts receivable	28,395				28,395
Cash and cash equivalents	30,764				30,764
Total assets	**59,159**	**0**	**23,503**	**0**	**82,662**
Liabilities					
Current liabilities		22,102			22,102
Accounts payable		6,108			6,108
Other liabilities		2,271			2,271
Total liabilities	**0**	**30,481**	**0**	**0**	**30,481**

The reported values equal in all material respects the fair value. For accounts receivable, accounts payable, other current receivables and liabilities valued at cost, the duration is short, and therefore the fair value equals the reported value. The Group has not reported any financial assets and liabilities on a net basis and has no agreements which allow set-off.

Fair value estimation
The Group applies the amendment to IFRS 13 for financial instruments, valued at fair value in 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) in active markets for identical assets or liabilities (level 1);
- Other observable data for assets or liabilities other than quoted prices included in Level 1, either directly (i.e., as the quotations) or indirectly (i.e., derived from the quotations) (level 2), and
- Data for assets or liabilities that is not based on observable market data (i.e. not observable data) (level 3).

As of December 31, 2012, the Group had financial assets available for sale at fair value in other comprehensive income in the amount of SEK 23,503 thousand at level 1 and SEK 0 thousand at level 3. As at December 31, 2013, the Group did not have any financial assets available for sale at fair value in other comprehensive income.

The following table shows changes for instruments at level 3.

	2013	2012
Opening balance	0	11,582
Transfers to and from level 3	0	0
Purchase	0	293
Adjustment	0	–11,875
Closing balance	**0**	**0**

Maturity

The Group's financial liabilities fall due as follows:

Per December 31, 2013	Less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Interest-bearing loans and liabilities	186,284	23,531	–	–	–	–
Accounts payable and other liabilities	16,066	2,683	–	–	–	–
Total	**202,350**	**26,214**	–	–	–	–

Per December 31, 2012	Less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Interest-bearing loans and liabilities	–	–	27,318	–	–	–
Accounts payable and other liabilities	6,287	–	–	–	–	–
Total	**6,287**	–	**27,318**	–	–	–

Interest-bearing loans and liabilities that mature within 3 months relate to Convertible 2 to Petrogrand AB plus accrued interest, amounting to SEK 185,817 thousand, and interest on convertible loan 2013/2014, SEK 467 thousand. All these amounts were paid in January 2014. Interest-bearing loans and liabilities that mature in between 3 and 6 months, relate to Convertible 2013/2014, plus interest for the period January 1 to June 30, 2014, which are due for payment on June 30, 2014, to the extent as conversion has not taken place earlier.

NOTE 25
Provisions (SEK thousand)

	Group	
Provision for restoration costs	**2013**	**2012**
Ukraine	169	169
Russia	200	180
Total	**369**	**349**

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

NOTE 26

Obligations (SEK thousand)

Operational leasing

The Group's business is dependent to a certain extent on rented premises and equipment. The rental (leasing charges) are expensed in the period when they fall due. Future minimum lease payments as per balance sheet date:

	Group	
	2013	2012
Lease payments within 1 year	2,965	2,548
Lease payments between 1 and 3 years	5,011	1,486
Lease payments after 5 years	0	0
Total	**7,976**	**4,034**

Leasing charges in 2013 amounted to SEK 2,152 thousand (2,233).

NOTE 27

Contingent liabilities (SEK thousand)

In conjunction with the issue of convertible bond KV 2012/2013 in December 2011, the Group and the parent company pledged the wholly-owned Canadian subsidiary Zhoda (2001) Corporation (Zhoda) as collateral for the convertible loan. In conjunction with the exchange of KV 2012/2013 for KV 2013/2014, Zhoda was pledged for this loan. Zhoda holds the Group's 45% ownership of Kashtan Petroleum Ltd, the Ukrainian company with oil production operations at the Lelyaki field in Ukraine. The book value of Zhoda as of December 31, 2013 amounted to approximately SEK 73 million.

(i) Disputes

In December 2013, Shelton Petroleum was in a dispute with Petrogrand AB regarding the right to convert Convertible 2 into B shares in Shelton Petroleum. According to the agreement reached between the parties in July 2013, certain conditions had to be met by December 31, 2013 for Petrogrand to be able to request conversion, inter alia, a specific company acquisition should be made. In December, Petrogrand called for conversion despite that the conditions for conversion had not been met. Shelton Petroleum contested Petrogrand's request and the dispute ended on December 30, 2013, when Petrogrand withdrew its request for conversion. Shelton Petroleum has received SEK 675 thousand in compensation for legal costs from Petrogrand.

Otherwise, the Group and parent company have no known disputes that could have any significant negative effect on the Group or the parent company.

(ii) Contingent liabilities related to tax

Russia

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

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

The Russian tax authorities have up to three years to reopen tax audits of previous income tax returns. Changes in the tax system that are applied retroactively by the authorities can affect previously submitted tax returns. Even if the Group judges that adequate provisions have been made based on the Group's interpretation of current and previous tax legislation, the risk remains that the tax authorities in Russia may have a different interpretation. This uncertainty means there is a risk of additional taxation and fines that can amount to substantial amounts.

Ukraine

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

(iii) Russia and Ukraine

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

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

NOTE 28

Events after the balance sheet date

Convertible 2 was repaid and canceled in January 2014 when Shelton Petroleum transferred SEK 185 million to Petrogrand AB in exchange for the convertible.

On January 9, 2014, an extraordinary general meeting of Shelton Petroleum was held. The meeting resolved to authorize the Board on one or more occasion during the period until the next AGM, to issue new shares, warrants and/or convertible bonds against cash and/or in kind or set-off or otherwise with conditions, and to thereby be able to deviate from the shareholders' preferential rights, however, that such issue should not cause the Company's share capital or number of shares to exceed the maximum share capital or number of shares according to the currently applicable Articles of Association. The purpose of the authorization and the reason for the deviation from the shareholders' preferential rights is to facilitate the raising of capital for expansion through company acquisitions or acquisition of operating assets and for the Company's business and the adjustment of the Company's capital and/or ownership structure. In the event an issue takes place with deviation from the shareholders' preferential rights, the issue shall be on market terms. Issue pursuant to the authorization may relate to both Class A and Class B shares, or any of the share categories.

On January 20, 2014, Shelton Petroleum announced an investment program of SEK 20 million in scalable oil facilities at the Rustamovskoye field in Russia in order to increase efficiency in the handling of current and expected future oil production.

On January 22, 2014, Shelton Petroleum announced an offer to acquire all outstanding shares in Petrogrand AB. The offer states that for every share in Petrogrand, 0.30 B shares in Shelton Petroleum are received.

On February 26, Shelton Petroleum raised the bid to 0.34 Shelton Petroleum B shares for each Petrogrand share and simultaneously extended the acceptance period. On March 14, 2014, Shelton Petroleum raised the bid yet again to 0.44 Shelton Petroleum B shares for each Petrogrand share and simultaneously extended the acceptance period yet again. On April 14, Shelton Petroleum closed the bid. The Company had then received a total of 11,585,308 Petrogrand shares representing approximately 28.8% of the total number of shares and votes in Petrogrand.

On January 29, 2014, Shelton Petroleum announced that the Company has started field work for the collection of 85 km of seismic data at the Suyanovskoye field in Bashkiria. The seismic program covers the eastern part of Suyanovskoye, located directly adjacent to Rustamovskoye. The purpose is to identify structures for future drilling. Given the successful exploration drillings and that commercial flows of oil have been found, Shelton Petroleum may book oil reserves and begin production drilling.

As a result of the positive drilling results from well #12, on February 13, 2014 Shelton Petroleum announced a geological update and presented the Company's new and strengthened view of the Russian oil fields.

On February 27, 2014, it was announced that Maks Grinfeld and Mats Jansson were stepping down from the Shelton Petroleum Board at their own request. Maks Grinfeld, CEO and Board Director of Petrogrand, and Mats Jansson, former Board Director of Petrogrand, were elected to the Shelton Petroleum Board at an Extraordinary General Meeting on August 22, 2013.

On March 21, 2014, Petrogrand AB announced a cash offer to acquire all Class A shares at a price of SEK 18.6 per share, Class B shares at a price of SEK 18.6 per share, convertibles of class 2013/2014 at a price of SEK 17.5, plus accrued interest per convertible, and subscription options at a price of SEK 3.0 per subscription option in Shelton Petroleum AB. The acceptance period was expected to run from April 7 to April 25, 2014. On April 4, 2014, Petrogrand announced that the timing of the offer was postponed, whereby the acceptance period is expected to run from April 22 up to and including May 13, 2014. Furthermore, following criticism from the Swedish Securities Council, certain terms of the originally announced offer were withdrawn.

On April 9, Shelton Petroleum called an Extraordinary General Meeting for May 2, 2014. On March 28, 2014, Petrogrand made a written request to Shelton Petroleum to convene an extraordinary general meeting to decide on the appointment of a minority auditor and election of Board of Directors. Since the Securities Council stated that Petrogrand has no right to request the convening of an extraordinary general meeting to decide on a new Board, in light of the cash offer to Shelton Petroleum shareholders, announced by Petrogrand, Petrogrand withdrew the request for a new Board to be elected at the EGM. The extraordinary general meeting on May 2, 2014 will therefore only address the issue of appointment of the minority auditor.

On March 18, 2014, Petrogrand made a written request to Shelton Petroleum to convene an extraordinary general meeting to decide on the appointment of a minority auditor. On March 19, 2014, Petrogrand added to its request that the requested extraordinary general meeting also resolve to appoint a new Board of Directors with the discharge of the current Shelton Petroleum Board. The Shelton Petroleum Board was, and is, of the understanding that Petrogrand lacked the legal authority to make this request and therefore did not call an extraordinary general meeting. Petrogrand applied for the Swedish Companies Registration Office (SCRO) to call an extraordinary general meeting. The SCRO rejected Petrogrand's application. Petrogrand appealed to the Administrative Court in Härnösand which approved Petrogrand's application and decided that the SCRO should call an extraordinary general meeting. On April 22, 2014, the SCRO called an extraordinary general meeting of Shelton Petroleum to be held on May 13, 2014. Shelton Petroleum appealed the Administrative Court's decision to the Administrative Court of Appeal in Sundsvall which granted leave to appeal. As at the date of this annual report, the Administrative Court of Appeal has not ruled on the issue.

Shelton Petroleum's operations in Ukraine consist of two joint ventures. The Shelton Petroleum wholly owned subsidiary Zhoda 2001 Corporation has entered into a joint venture with Ukrnafta, Ukraine's largest oil and gas company, regarding the oil production field Lelyaki. Operations at the Lelyaki field have not been affected by the recent political developments in Ukraine.

Shelton Petroleum's wholly owned subsidiary Shelton Canada Corp. has entered into a Joint Investment Agreement (JIA) with Chornomornaftogaz (CNG) in respect of three licenses in the Sea of Azov and the Black Sea, where CNG is a license holder.

Following a referendum on March 16, 2014, Crimea has declared itself independent from Ukraine and requested to become part of the Russian Federation. The request was approved by the Russian president and the Russian parliament. The new Prime Minister of Crimea has declared that CNG's interests in Crimea will be nationalized by the Republic of Crimea. It has been stated that private interests and contracts will be respected. Neither the referendum nor the nationalization of CNG, which is a violation of the Ukrainian constitution, has been recognized by the Ukrainian government in Kiev or internationally.

Due to the events described above, Shelton Petroleum's Board sees an increased risk regarding potential future financial benefits from the JIA with CNG. This JIA accounted for 0 percent of Shelton Petroleum's revenue and profit for 2013 and about 2 percent, or about SEK 13 million, of the Group's total assets in the balance sheet as of December 31, 2013.

In the first quarter of 2014, the values of the Russian and Ukrainian currencies weakened against the Swedish krona. By the middle of April 2014, the value of the Russian ruble had fallen by about 8 percent and the Ukrainian Hryvnia had fallen by about 35 percent against the Swedish krona compared to December 31, 2013.

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 provide a true picture of the Group's position and performance. The Annual Report has been prepared in accordance with generally accepted accounting principles and provide a true picture of the parent company's financial position and results.

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

The consolidated statement of comprehensive income and financial position and the parent company's income statement and balance sheet will be presented to the Annual General Meeting on May 20, 2014 for adoption.

Stockholm April 29, 2014

Björn Lindström
Chairman

Hans Berggren

Richard N. Edgar

Peter Geijerman

Freddie Linder

Zenon Potoczny

Katre Saard

Robert Karlsson
CEO

Our auditor's report was submitted on April 29, 2014
Ernst & Young AB

Per Hedström
Authorized Public Accountant

Auditor’s report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Shelton Petroleum AB (publ) for the year 2013 except for the corporate governance report on pages 36-41. The annual accounts and consolidated accounts of the Company are included in the printed version of this document on pages 32-84.

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

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

Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 36-41. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopts the income statement and balance sheet for the parent company and the consolidated statement of comprehensive income and consolidated statement of financial position for the Group.

Report on other requirements in accordance with laws and other statues

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the Company's profit or loss and the administration of the Board of Directors and the Managing Director of Shelton Petroleum AB (publ) for the year 2013. We have also conducted a statutory examination of the corporate governance report.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. The Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance report on pages 36–41 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

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

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

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

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

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

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

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

Stockholm, April 29, 2014
Ernst & Young AB

Per Hedström
Authorized Public Accountant

Financial overview

Key figures	2013	2012	2011	2010	2009	2008
Revenue (SEK thousand)	109,064	99,914	47,183	29,291	0	0
Operating profit/loss (SEK thousand)	29,510	29,613	2,392	–11,441	–16,664	–8,790
Result attributable to shareholders in the parent company, SEK thousand	12,402	24,815	634	–12,417	–15,519	–8,059
Earnings per share, SEK	1.14	2.33	0.06	–1.46	–4.87	–20.50
Earnings per share after dilution, SEK	1.13	2.23	0.06	–1.46	–4.87	–20.50
Equity per share, SEK	26.20	25.43	23.82	25.23	24.96	199.00
Equity/assets ratio (%)	55	80	78	80	71	91
Cash and cash equivalents (SEK thousand)	33,729	30,764	45,986	22,171	32,725	5,517
Investment in exploration and production assets (SEK thousand)	57,093	29,357	19,845	26,917	18,948	28,515
Number of shares at end of period	12,163,088	10,640,588	10,640,588	10,640,198	7,603,381	395,943
Average number of shares	10,911,656	10,640,588	10,640,428	8,498,582	3,186,053	395,943
Average number of shares after dilution	10,972,019	12,063,713	11,483,857	8,516,395	3,186,053	395,943

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

Information for the financial years 2013, 2012, 2011, 2010 and 2009 has been obtained from Shelton Petroleum's audited annual accounts for the years 2013, 2012, 2011, 2010 and 2009, in which consolidated accounts have been prepared in accordance with the IFRS, International Financial Reporting Standards, and in accordance with the Annual Accounts Act and the parent company's accounts in accordance with the Annual Accounts Act. Information for the financial year 2008 has been obtained from the then Petrosibir AB's (the Group in which the subsidiary with the present name Petrosibir Exploration AB was the parent company) audited annual accounts, in which consolidated accounts have been prepared in accordance with the IFRS, International Financial Reporting Standards, and the Annual Accounts Act and the parent company's accounts in accordance with the Annual Accounts Act. Shelton Petroleum's acquisition of Shelton Canada Corp. was completed as of December 31, 2009, after which Shelton Petroleum assumed the name Shelton Petroleum AB. This means that the consolidated balance sheet as of December 31 of 2013, 2012 and 2011, 2010 and 2009, respectively, covers Shelton Petroleum including Shelton Canada Corp. but that the income statement for the full year 2009 exclusively refers to Shelton Petroleum before the merger with Shelton Canada Corp. With effect from January 1, 2010, the consolidated income statement includes the activities of Shelton Canada Corp., including the sale of crude oil. Earnings per share for 2010 and 2009 were calculated on the average number of shares in Shelton Petroleum and for 2008 on the average number of shares in the then Petrosibir AB (the Group in which the subsidiary with the present name Petrosibir Exploration AB was the parent company).

Key figure definitions:
Number of shares at end of period: The number of issued shares of class A and B at the end of the period.
Average number of shares: The average number of issued shares during the period.
Average number of shares after dilution: Average number of shares during the period after full utilization of the outstanding subscription options and convertible bonds that lead to dilution.
Income: As of January 1, 2010, the Company has had income from the sale of crude oil.
Operating profit: Operating income minus operating costs.
Earnings per share: The period's profit/loss after tax in relation to the average number of shares for the period. Earnings per share for 2013, 2012. 2011, 2010 and 2009 have been calculated on the average number of shares in Shelton Petroleum AB and for 2008 on the average number of shares in the then Petrosibir AB.
Earnings per share after dilution: The result after tax for the period in relation to the average number of shares for the period adjusted for potential dilution effect of convertible bonds and options.
Equity per share: Equity in relation to the number of shares at the end of the period.
Equity/assets ratio: Equity as percent of balance sheet total at the end of the period.
Cash and cash equivalents: Cash and cash equivalents at the end of the period.
Investment in exploration assets: Investments in exploration assets that affected cash flow during the relevant period.

Definitions and abbreviations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Production and pressure: EO
Photo: Shelton Petroleum
Paper: ProfiSilk

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