

*This is an English translation of the Swedish original and, in case of discrepancies, the Swedish original shall prevail.*

**The board of directors' of Shelton Petroleum AB (publ) statement pursuant to Chapter 12, section 7 of the Swedish Companies Act**

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In view of the board of directors of Shelton Petroleum AB (publ) proposed resolutions regarding reduction of the share capital with retirement of shares of series B and the increase of the share capital by bonus issue in accordance with to the paragraphs (B) mentioned above, the board of directors may give the following statement as referred to in Chapter 12, section 7 of the Swedish Companies Act.

The events of substantial importance for Shelton Petroleum AB (publ), that have occurred after the annual report for the period between 1 January 2013 to 31 December 2013 was submitted, are described in the interim report January – September 2014 and in the press releases, [appendix 1](#), and which are also available on the company's website.

It was noted that no transfers of value have been resolved on after the submission of the above mentioned annual report and that no other changes in the company's restricted equity has occurred other than those set forth in the [appendix 2](#).

\* \* \*

Stockholm, 2 January 2015  
Shelton Petroleum AB (publ)  
*The board of directors*

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**Appendix 1 to the board of directors' of Shelton Petroleum AB (publ)  
statement pursuant to Chapter 12, section 7 of the Swedish Companies Act**

**Press releases:**

	<b>Date</b>	<b>Name</b>
1	2014-12-19	Agreement to dissolve the cross ownership with Petrogrand



## Interim report January-September 2014

### Significantly strengthened reserves base in Russia

#### January - September 2014

- Total revenue for the period: SEK 93 (72) million
- Write-down of exploration assets affects the operating result by SEK -7 (0) million
- Operating result for the period: SEK 16 (19) million
- Operating result and margin excluding write-down: SEK 23 (19) million, 24% (26%)
- Basic and diluted earnings per share: SEK 0.71 (0.14)

#### July - September 2014

- Revenue during the quarter: SEK 29 (26) million
- Write-down of exploration assets affects the operating result by SEK -7 (0) million
- Operating result during the quarter: SEK 1 (8) million
- Operating result and margin excluding write-down: SEK 8 (8) million, 27% (32%)
- Basic earnings per share: SEK 0.05 (0.53), Diluted earnings per share: SEK 0.05 (0.30)

<u>Oil production</u>	<u>Q3</u> <u>2014</u>	<u>Q3</u> <u>2013</u>	<u>Q1-Q3</u> <u>2014</u>	<u>Q1-Q3</u> <u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Barrels	79,100	57,700	245,537	156,810	248,870	177,850	77,300
Barrels per day	860	627	899	574	682	486	212

#### Statement from CEO Robert Karlsson

Production during the third quarter amounted to 860 barrels per day. Excluding a one-off item related to exploration assets, the underlying oil and gas business generated an operating result of SEK 8 million and operating margin of 27 per cent. In order to reflect the increased risk regarding future financial benefit from our interests located offshore Crimea, an adjustment has been made of the carrying value of these exploration assets. Although not affecting cash flow, it reduced the quarter's operating results by SEK 7 million. Shelton Petroleum's production in central Ukraine, on the other hand, is stable and unaffected by the recent events in the country.

Step by step Shelton Petroleum is demonstrating that it holds high quality assets in Russia. The cumulative production from the Rustamovskoye field of 400,000 barrels clearly shows that the oil can be produced under high profitability. On the back of the demonstrated commercial value of the field, the recently published reserves update, where total reserves increased from 6 to 41 million barrels, manifests the impact future drillings will have on production and cash flows. In the reserves auditor's financial model, a peak production of over 7,000 barrels per day could be reached on the Rustamovskoye field alone when the development plan is implemented.

On the adjacent Suyanovskoye license, a recent seismic program has identified three promising structures with estimated recoverable resources of 47 million barrels. Given further success in our exploration efforts, Suyanovskoye may become equally if not more important for us than the successful Rustamovskoye field. Increased oil reserves and resources provide stability and predictability in the planning of further drillings. In addition, they provide better support for investors and lenders, which in turn facilitates financing of field development.

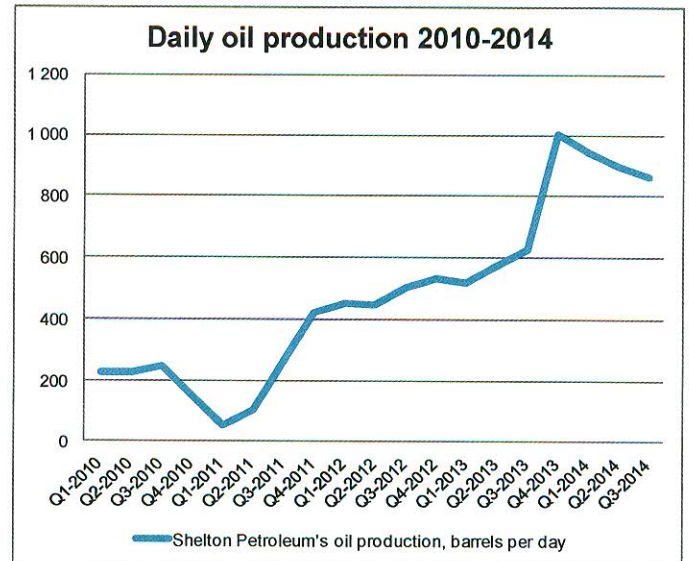
Although the geopolitical events and development of the oil price has affected the oil sector in many ways, I am encouraged by the recent positive results in Russia and committed to further developing Shelton Petroleum.

## January - September 2014

### Financial development

Revenue from oil sales amounted to SEK 92 (72) million. During the period, Shelton Petroleum sold 236,810 (151,580) barrels of oil and the production in the period amounted to 245,537 (156,810) barrels of oil. The production has increased in both Russia and Ukraine compared to last year. The price of oil in USD in both Russia and Ukraine during the first nine months of 2014 was lower compared to the same period last year.

The average daily production during the first nine months 2014 amounted to 899 barrels compared to 574 barrels the same period in 2013.



The company reported an operating result for the period January – September 2014 of SEK 16 (19) million. One-off items for a write-down of exploration assets in Crimea by SEK 7 million and expenses for legal advice of SEK 5 million related to the dispute with Petrogrand and to Shelton Petroleum's public offer to acquire all the outstanding shares in Petrogrand, had a significantly negative impact on the operating result. As a result of the geopolitical events in Ukraine the Parliament approved emergency laws, one of them being a temporary increase of the production taxes on oil effective during the period August to December 2014, which increased production costs by approximately SEK 1 million. Excluding these one-off items, the underlying oil and gas business generated an operating profit of SEK 28 million and operating margin of 30 per cent.

The company held SEK 24 million in cash and cash equivalents at the end of the period, which is a slight increase from the second quarter 2014. Cash flow from operations during the year was SEK 16 million, whereas cash flow from investing activities was SEK -24 million, of which SEK -19 million were related to the oil and gas operations. As of 31 December 2013, the accounts receivable amounted to SEK 49 million. All of these receivables have been settled through payments from the customers during the year. As of 30 September 2014 the company's accounts receivable, included in other current receivables in the balance sheet, amounted to SEK 56 (47) million. SEK 55 million of the accounts receivable balance at the end of September is related to sale of oil from the Lelyaki field, where the buyer of the oil makes payments with delays. The validity of the receivables and the outstanding amount as of 30 September 2014 have been confirmed by the counterparty. Although management believes that the receivables will be settled in full, the increase of the receivables is not satisfactory. The company will continue to monitor the situation closely and at year end analyze its efforts to reduce the receivables and make a new assessment of its carrying value.

Shelton Petroleum's wholly owned Canadian subsidiary has received approximately SEK 9 million in dividends from Kashtan Petroleum, operator of the Lelyaki field, during the period January – September 2014, that can be used freely within the Shelton Petroleum group for investments and working capital.

Investments in exploration and development activity amounted to a total of SEK 19 (46) million in the period.

Non-current financial assets consisting of shares in Petrogrand amounted to SEK 69 million at the end of the period compared to SEK 0 million at 31 December 2013. As of 30 September 2014 Shelton Petroleum held 11,585,308 shares in Petrogrand, see below.

In May 2014 Shelton Petroleum acquired SEK 9.5 million of the convertible bond 2013/2014 in exchange for 593,750 shares of series A. The remainder of the convertible bond, SEK 12.9 million, was converted into 806,875 shares of series B in June 2014. Following the acquisition and conversion Shelton Petroleum does not have any interest-bearing debt.

Shareholders' equity per share at 30 September 2014 was SEK 19.54 (26.09) and the equity to assets ratio was 86 (49) per cent. The improved ratio is due to the repayment of a convertible bond issued to Petrogrand.

As of 30 September 2014 the Ukrainian Hryvnia had weakened by 31% and the Russian Ruble weakened by 7% against the Swedish Krona compared to the exchange rate at 31 December 2013. As a result of the weakened currencies Shelton Petroleum reports translation differences in other comprehensive income of SEK -57 (-11) million during January to September 2014. The translation differences arise when the income statement and balance sheet of foreign entities are translated from local currency to SEK. The translation differences, which do not affect cash flow, mainly relate to intra-group loans and fixed assets. See note 7 for a table of exchange rates that have been used.

Shelton Petroleum's wholly owned subsidiary Shelton Canada Corp is party to a Joint Investment Agreement (JIA) with Chornomornaftogaz (CNG) regarding three licenses in the Azov Sea and Black Sea to which CNG is the license holder. Following a referendum on 16 March 2014, Crimea declared independence from Ukraine and requested to be part of the Russian Federation, which has been granted by the Russian President and the Russian Parliament. The new Crimean Prime-minister has declared that the CNG interests on Crimea have been nationalized by the Crimean Republic. It has been reported that private interests and agreements will be respected. Neither the referendum nor the nationalization of CNG, which is in violation of the Ukrainian constitution, has been recognized by the government in Kiev or the Western community.

CNG has officially moved its head office from Crimea and registered it in Kiev. CNG and Shelton Petroleum have recently held a partner meeting on how to progress the licenses, handle claims for potential losses regarding the offshore licenses and how to develop future joint activities. Despite the fact that CNG and Shelton Petroleum remain committed to the JIA, the board of directors of Shelton Petroleum perceives an increased risk regarding future financial benefit from the JIA and it has therefore decided to reduce the value of the assets, which affects the operating result by SEK -7 million and profit tax by SEK 1 million. The JIA accounted for 0 per cent of Shelton Petroleum's revenue in the period January – September 2014. The JIA's carrying value net of deferred taxes was SEK 4 million as of 30 September 2014, equivalent to approximately 1 per cent of total assets in the balance sheet as of 30 September 2014.

### **Agreement with Petrogrand**

On 26 June 2014 Shelton Petroleum announced that it had entered into an agreement with Petrogrand that will facilitate for the companies to negotiate a breakup of the cross-ownership, which in turn will enable the companies to focus on the development of their operations and license portfolios. Following the signing of the agreement, neither company used its voting rights at the shareholders' meetings in June. The agreement expired on 30 September 2014 and has not been extended. The companies have discussed various solutions but have not been able to reach an agreement. It is Shelton Petroleum's opinion that a break-up of the cross-ownership would be beneficial to both parties.

### **Public offers**

In January 2014 Shelton Petroleum announced a public offer to the shareholders of Petrogrand. Initially Shelton Petroleum offered 0.30 shares of series B in Shelton Petroleum for each share in Petrogrand. The offer was subsequently raised to 0.34 and finally to 0.44 shares. On 14 April 2014 Shelton Petroleum completed the offer. On the completion date Shelton Petroleum had received 11,585,308 shares, equal to 28.8% in Petrogrand, and in exchange for those shares issued 5,097,534 shares of series B in Shelton Petroleum.

On 21 March, Petrogrand announced an offer to the shareholders of Shelton Petroleum. Petrogrand's offer expired on 1 July 2014 and only 248,901 shares, or 1.33% of the total number of shares, had accepted the offer. Petrogrand announced that they would not complete the offer.

## July - September 2014

### **Russian operations**

Shelton Petroleum's production of oil in Russia during the third quarter amounted to 49,470 (25,620) barrels. Production per day amounted to 538 (278) barrels, which is an increase of 94 per cent compared to the same quarter last year. Revenue in the third quarter for the Russian segment amounted to SEK 12.0 (6.1) million and operating profit to SEK 4.9 (2.4) million, corresponding to an operating margin of 41% (40%).

On behalf of Shelton Petroleum, AGR-TRACS has carried out an independent Western reserves update related to the Rustamovskoye and Aysky oil fields in Russia. The oil reserves on the producing Rustamovskoye field are estimated to amount to approximately 41 million barrels, which corresponds to an increase by seven times compared to the previous study. Furthermore, Shelton Petroleum has been attributed gas reserves of up to 7 million barrels of oil equivalent and oil resources of just under 26 million barrels. In its reserves update AGR-TRACS has also made an economic model which, with a discount factor of 10 %, values the 1P reserves on Rustamovskoye to USD 50 million, 2P to USD 171 million and 3P to USD 284 million.

In September Shelton Petroleum announced the results of 95 km of seismic work on the Suyanovskoye license block in Bashkiriya. The first stage of the seismic program covered one third of the total 300 square kilometers on the block and three promising structures were identified. According to the seismic company responsible for the interpretation, the Russian C3 recoverable resources may amount to approximately 47 million barrels of oil on the three structures. In order to confirm these amounts, Shelton Petroleum has commenced preparations for additional seismic to tighten the grid in order to delineate the structures and identify future drilling locations.

### **Ukrainian operations**

Production in the third quarter amounted to 29,630 (32,080) barrels. Production per day amounted to 322 (349) barrels. Revenue in the third quarter in the Ukrainian segment amounted to SEK 17.2 (19.8) million. Excluding the impairment of the offshore assets of SEK 7 million, the Ukrainian segment showed an operating profit of SEK 6.4 (8.8) million, corresponding to an operating margin of 37% (44%). The operations in Ukraine were negatively affected in the quarter by lower oil prices and a decision in the Ukrainian parliament to introduce a temporary increase of production taxes.

Shelton Petroleum (Zhoda 2001 Corporation) and its partner Ukrnafta, Ukraine's largest oil and gas company continue the field development program on the Lelyaki field. The objective is to step by step enhance productivity and increase production volumes.

In Ukraine, a recent election has changed the composition of the parliament, which should prove positive for the country. On the other hand, the unrest in eastern Ukraine will likely continue for some time. Shelton Petroleum's production is, due to its geographical location in central Ukraine, however stable and unaffected by the recent events.

For information regarding the JIA with CNG, please see section on financial development above.

## Significant events occurring after the reporting period

On 30 October 2014 Shelton Petroleum announced that AGR-TRACS had completed an independent Western reserve update related to the Rustamovskoye and Aysky license blocks in Russia. The reserve study, which was carried out in accordance with the industry standard SPE/PRMS methodology, showed a significant increase in reserves.

## The parent company

The parent company's total assets as at the period end amounted to SEK 375 (515) million. The decrease in total assets is due to the repayment of a convertible loan issued to Petrogrand. Cash and cash equivalents amounted to SEK 10 (29) million. The result after tax January – September 2014 was SEK -27 (-3) million. The negative result is an effect of non-recurring costs for legal advice during the period January – September and an adjustment to fair value of the shares in Petrogrand.

## Change of number of shares

Upon the request of a shareholder and in accordance with the company's articles of association, the Board in the third quarter granted conversion of 2,430 shares of series A to 2,430 shares of series B. Following the conversion, the total number of shares of series A amounts to 761,900 and the total number of shares of series B amounts to 17,899,347. The total number of votes amounts to 25,518,347. The share capital remains unchanged, SEK 93,306,235.

## Risk factors and uncertainties

A detailed account of the risks facing the company can be found in the 2013 annual report. During the period, there has been no major change in material risk factors or uncertainties for the group or the parent company. Risks include exploration risk, oil price risk, exchange rate risk, liquidity risk, credit risk, interest rate risk and political risk, among others.

## Upcoming financial reporting

Year-end Report January – December 2014	20 February 2015
Annual report 2014	April 2015
Interim Report January – March 2015	20 May 2015
Interim Report April – June 2015	21 August 2015
Interim Report July – September 2015	20 November 2015
Annual General Meeting 2015	21 May 2015

## Publication under Swedish law

Shelton Petroleum is publishing this information in accordance with the Swedish Financial Markets Act (Sw. Lag om värdepappersmarknaden) and/or the Swedish Financial Trading Act (Sw. Lag om handel med finansiella instrument). This information was released for publication on 21 November 2014 at 08:00 CET.

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## About Shelton Petroleum

Shelton Petroleum is a Swedish company focused on exploring and developing concessions in Russia and Ukraine. In Russia, the company holds three licenses in the Volga-Urals area in Bashkiria and has commenced production on the Rustamovskoye field after a successful exploration program. In Ukraine, Shelton Petroleum's wholly owned subsidiary has a joint venture with Ukrnafta and Chornomornaftogaz. The Shelton Petroleum share is traded on NASDAQ OMX Stockholm under the symbol SHEL B.

## Shelton Petroleum's exploration and production portfolio

### Production onshore

License	Product	Reserves			Working interest
		1P	2P	3P	
Rustamovskoye	Oil	7	23	41	100%
Rustamovskoye	Gas	1	4	7	100%
Lelyaki	Oil	3	8	8	45%
<b>Total</b>		<b>10</b>	<b>34</b>	<b>55</b>	

### Exploration onshore

License	Product	Contingent and risked prospective resources			Working interest
		L	M	H	
Rustamovskoye	Oil	1	4	6	100%
Aysky	Oil	4	13	20	100%
Suyanovskoye	Oil	47	47	47	100%
<b>Total</b>		<b>51</b>	<b>60</b>	<b>67</b>	

### Exploration offshore

License	Product	Prospective resources			Working interest
		L	M	H	
Arkhangelskoye	Gas and NGL	1	55	130	50%
Biryucha	Gas	1	10	166	50%
North Kerchenskoye	Gas	1	2	4	50%
<b>Total</b>		<b>2</b>	<b>68</b>	<b>300</b>	

*The amounts may not add up due to roundings.*

Amounts are reported in millions of barrels of oil equivalent. Reserves and resources refer to the amounts of oil and gas attributable to Shelton Petroleum's share in the fields where the company conducts joint operations via joint ventures and joint investment agreements. Calculations in the assessments have been made in accordance with SPE PRMS with the exception of Suyanovskoye resources, which are of category D according to Russian standards. AGR TRACS has made the assessment for Rustamovskoye and Aysky (2014) and the offshore assets (2009). Trimble Engineering Associates has made the assessment for Lelyaki (2009) and GeoSeis Group for Suyanovskoye (2014).

Arkhangelskoye, Biryucha and North Kerchenskoye are offshore licenses in the Black Sea and Sea of Azov. Following the annexation of Crimea, the Board of Directors perceives an increased risk regarding future financial benefit from these licenses.

Resources have a lower probability of extraction than reserves.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

SEK thousand	Note	Jul-Sep 2014	Jul-Sep 2013	Jan-Sep 2014	Jan-Sep 2013	Jan-Dec 2013
Net revenue		29 151	25 909	92 451	71 520	108 802
Other revenue		19	24	56	238	262
<b>Total revenue</b>		<b>29 170</b>	<b>25 933</b>	<b>92 507</b>	<b>71 758</b>	<b>109 064</b>
Work performed by the company for its own use and capitalized		944	1 052	2 531	3 061	3 993
Raw material and consumables		-16 074	-12 815	-47 462	-36 207	-55 183
Impairment of exploration and evaluation assets		-6 993	0	-6 993	0	0
Personnel costs		-2 687	-2 704	-8 805	-8 708	-11 611
Other external expenses		-2 863	-2 643	-14 069	-9 286	-13 876
Depreciation		-535	-545	-2 133	-1 796	-2 878
<b>Operating expenses</b>		<b>-29 152</b>	<b>-18 707</b>	<b>-79 462</b>	<b>-55 997</b>	<b>-83 548</b>
<b>Operating result</b>		<b>962</b>	<b>8 278</b>	<b>15 576</b>	<b>18 822</b>	<b>29 509</b>
Financial income		-6	217	245	362	925
Financial costs		-290	-283	-568	-12 525	-13 065
<b>Total financial items</b>		<b>-296</b>	<b>-66</b>	<b>-323</b>	<b>-12 163</b>	<b>-12 140</b>
<b>Result before tax</b>		<b>666</b>	<b>8 212</b>	<b>15 253</b>	<b>6 659</b>	<b>17 369</b>
Income tax	4	298	-1 814	-3 474	-4 944	-4 968
<b>Result for the period</b>		<b>964</b>	<b>6 398</b>	<b>11 779</b>	<b>1 715</b>	<b>12 401</b>
<b>Other comprehensive income</b>						
Financial assets available for sale	5	-1 738	0	-15 133	16 400	16 400
Exchange differences		-15 043	-10 451	-57 076	-11 102	-9 779
<b>Total items which may be or have been re-classified to result for the period</b>		<b>-16 781</b>	<b>-10 451</b>	<b>-72 209</b>	<b>5 298</b>	<b>6 621</b>
<b>Total other comprehensive income</b>		<b>-16 781</b>	<b>-10 451</b>	<b>-72 209</b>	<b>5 298</b>	<b>6 621</b>
<b>Total comprehensive income for the period</b>		<b>-15 817</b>	<b>-4 053</b>	<b>-60 430</b>	<b>7 013</b>	<b>19 023</b>
Earnings per share		0,05	0,53	0,71	0,14	1,14
Earnings per share after dilution		0,05	0,30	0,71	0,14	1,13
Average number of shares		18 661 247	12 163 088	16 503 577	12 163 088	10 911 656
Average number of shares after dilution		18 661 247	22 878 884	16 544 915	12 168 619	10 972 019

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

SEK thousand	Note	Sep 30 2014	Sep 30 2013	Dec 31 2013
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill		6 807	6 807	6 807
Exploration and evaluation assets		68 592	73 603	79 574
Oil and gas assets		183 588	204 522	211 219
Other fixed assets		1 767	1 622	1 215
Financial assets	5	68 933	0	0
<b>Total non-current assets</b>		<b>329 687</b>	<b>286 554</b>	<b>298 815</b>
<b>Current assets</b>				
Inventory		289	191	128
Other current receivables		64 781	56 487	63 548
Cash on blocked account		0	185 249	185 818
Cash and cash equivalents		23 993	35 111	33 729
<b>Total current assets</b>		<b>89 063</b>	<b>277 038</b>	<b>283 223</b>
<b>Total ASSETS</b>		<b>418 750</b>	<b>563 592</b>	<b>582 038</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>		<b>358 903</b>	<b>277 578</b>	<b>318 643</b>
<b>Non-current liabilities</b>				
Deferred income tax liabilities		18 718	27 889	25 685
Other provisions		317	347	369
<b>Total non-current liabilities</b>		<b>19 035</b>	<b>28 236</b>	<b>26 054</b>
<b>Current liabilities</b>				
Convertible loan		0	237 844	207 390
Accounts payable		20 990	10 691	15 305
Other current liabilities		19 822	9 243	14 646
<b>Total current liabilities</b>		<b>40 812</b>	<b>257 778</b>	<b>237 341</b>
<b>Total EQUITY AND LIABILITIES</b>		<b>418 750</b>	<b>563 592</b>	<b>582 038</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**

<b>SEK thousand</b>	<b>Jul-Sep 2014</b>	<b>Jul-Sep 2013</b>	<b>Jan-Sep 2014</b>	<b>Jan-Sep 2013</b>	<b>Jan-Dec 2013</b>
Cash flow from operating activities	6 251	569	15 899	-7 068	3 837
Cash flow from investing activities	-4 942	-22 743	-23 639	-46 371	-29 250
Cash flow from financing activities	-2	30 000	-730	57 857	28 536
<b>Cash flow for the period</b>	<b>1 307</b>	<b>7 826</b>	<b>-8 470</b>	<b>4 418</b>	<b>3 123</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>23 194</b>	<b>27 346</b>	<b>33 729</b>	<b>30 764</b>	<b>30 764</b>
Cash flow for the period	1 307	7 826	-8 470	4 418	3 123
Exchange differences in cash and cash equivalents	-508	-61	-1 266	-71	-158
<b>Cash and cash equivalents at end of the period</b>	<b>23 993</b>	<b>35 111</b>	<b>23 993</b>	<b>35 111</b>	<b>33 729</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<b>SEK thousand</b>	<b>2014</b>	<b>2013</b>
<b>Opening balance January 1</b>	<b>318 643</b>	<b>270 565</b>
Comprehensive income for the period	-60 430	7 013
Share issue	79 010	0
Issue costs	-730	0
Conversion of convertible loan	22 410	0
<b>Closing balance September 30</b>	<b>358 903</b>	<b>277 578</b>

**CONDENSED PARENT COMPANY INCOME STATEMENT**

SEK thousand	Jul-Sep 2014	Jul-Sep 2013	Jan-Sep 2014	Jan-Sep 2013	Jan-Dec 2013
Net revenue	193	120	501	360	480
Other revenue	0	0	0	0	0
<b>Total revenues</b>	<b>193</b>	<b>120</b>	<b>501</b>	<b>360</b>	<b>480</b>
Personnel costs	-1 086	-1 008	-3 997	-3 719	-4 901
Other external expenses	-1 494	-1 033	-9 915	-3 750	-6 188
<b>Operating results</b>	<b>-2 387</b>	<b>-1 921</b>	<b>-13 411</b>	<b>-7 109</b>	<b>-10 609</b>
Financial items	-732	-20	-13 520	4 041	4 455
<b>Result before tax</b>	<b>-3 119</b>	<b>-1 941</b>	<b>-26 931</b>	<b>-3 068</b>	<b>-6 154</b>
Income tax	0	37	59	108	132
<b>Result for the period</b>	<b>-3 119</b>	<b>-1 904</b>	<b>-26 872</b>	<b>-2 960</b>	<b>-6 022</b>

**CONDENSED PARENT COMPANY BALANCE SHEET**

SEK thousand	Note	Sep 30 2014	Dec 31 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets		349 639	287 815
<b>Total non-current assets</b>		<b>349 639</b>	<b>287 815</b>
<b>Current assets</b>			
Other receivables		15 544	12 803
Cash on blocked account		0	185 818
Cash and cash equivalents		10 024	25 958
<b>Total current assets</b>		<b>25 568</b>	<b>224 579</b>
<b>Total ASSETS</b>		<b>375 207</b>	<b>512 394</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		<b>373 099</b>	<b>299 281</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		0	59
<b>Total non-current liabilities</b>		<b>0</b>	<b>59</b>
<b>Current liabilities</b>			
Convertible loan		0	207 390
Other liabilities		2 108	5 664
<b>Total current liabilities</b>		<b>2 108</b>	<b>213 054</b>
<b>Total EQUITY AND LIABILITIES</b>		<b>375 207</b>	<b>512 394</b>

## Notes to the financial statements

### Note 1. Information about the company

Shelton Petroleum AB (publ), with Swedish corporate identity number 556468-1491 and registered office in Stockholm, Sweden, is listed on NASDAQ OMX Stockholm under the ticker SHEL B. The company's and its subsidiaries' operations are described under "About Shelton Petroleum" herein.

### Note 2. Accounting principles

The interim report for the period ended 30 September 2014 has been prepared in accordance with IAS 34 and the Swedish Annual Reports Act (*Sw. Årsredovisningslagen*). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Reports Act. The parent company's financial statements have been prepared in accordance with the Swedish Annual Reports Act and the recommendation RFR 2 "Financial Reporting for Legal Entities" issued by the Swedish Financial Reporting Board (*Sw. Rådet för finansiell rapportering*).

The same accounting principles have been applied during the period as were applied during the financial year 2013 and in the way they were described in the 2013 annual report. No new or revised standards, interpretations or amendments adopted by the EU had an effect on the group. No acquisitions were made during the accounting period.

The interim report does not contain all the information that appears in the annual report and, accordingly, the interim report should be read in conjunction with the 2013 annual report.

### Note 3. Fair value

Financial instruments are classified in the following categories:

	Sep 30 2014	Dec 31 2013
Loans and accounts receivable	80 539	268 483
Financial assets available for sale	68 933	0
<b>Total assets</b>	<b>149 472</b>	<b>268 483</b>
Other financial liabilities	20 990	223 067
<b>Total liabilities</b>	<b>20 990</b>	<b>223 067</b>

The reported values equal, in all material respects, the fair value. Shelton Petroleum has not offset any financial assets and liabilities and has no agreements that allows set-off.

### Note 4. Income tax

The company reports income tax expense of SEK 3 (5) million. The income tax is primarily related to corporate profits tax on the operations in Ukraine. It also contains changes in deferred taxes.

### Note 5. Financial assets

As of 30 September 2014 Shelton Petroleum held 11,585,308 shares in Petrogrand corresponding to 28.8% of the shares and votes. Shelton Petroleum does not have any representation on the board of directors in Petrogrand and does not have any influence over Petrogrand in any other way. Shelton Petroleum therefore classified the shares in Petrogrand as financial assets at fair value, instead of accounting for the shares using

the equity method. As at 30 September, the price per share was SEK 5.95 and value of the shares amounted to SEK 69 million. An adjustment to fair value of the shares, SEK -15 million, was reported for the period January to September in other comprehensive income in the consolidated statement of comprehensive income and in financial items in the income statement of the parent company.

#### Note 6. Related party transactions

The company is party to a consultancy agreement with a company in which Richard N. Edgar (director) is one of several partners. The hourly-based agreement includes technical expertise.

#### Note 7. Exchange rates

The following exchange rates have been used when translating the financial statements of foreign operations in the respective periods presented in this report.

	Jan-Sep 2014		Jan-Sep 2013		2013	
	Balance sheet date	Average rate	Balance sheet date	Average rate	Balance sheet date	Average rate
1 Euro	9,18	9,04	8,68	8,58	8,94	8,65
1 USD	7,24	6,68	6,43	6,52	6,51	6,51
1 CAD	6,49	6,10	6,23	6,37	6,07	6,33
100 Rubles	18,39	18,83	19,78	20,61	19,85	20,46
100 Hryvnia	55,95	60,88	80,28	81,51	81,32	81,49

#### Note 8. Segment reporting

The group is organized in and managed from geographical regions. These correspond to the operating segments for which information is reported and followed up on by the management of the company. Operating segments per geographical region include all local reporting entities within each respective region. The operating segments apply the same accounting principles as the group. The operating segments' revenue, expenses and assets include items directly attributable to the segment and items that can be allocated to a specific operating segment in a reasonable and reliable way.

Sale of oil is accounted for as externally reported revenue for the operating segments. Internally reported revenue consists of invoiced expenses for intra-group services. The arm's length principle is applied and market price considered when transactions are made between operating segments. Group management follows up the profit or loss measure "operating result".



Income statement January – September 2014 and 2013

<b>January - September 2014</b>					
<b>Income statement, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total</b>
Revenue, external	35 812	56 695	0	0	92 507
Revenue, internal	0	0	558	-558	0
Capitalized own work	2 531	0	0	0	2 531
Raw materials and consumables	-14 819	-32 644	0	0	-47 463
Impairment of offshore assets	0	-6 993	0	0	-6 993
Other operating expenses	-7 429	-1 495	-16 640	558	-25 006
<b>Operating result</b>	<b>16 095</b>	<b>15 563</b>	<b>-16 082</b>	<b>0</b>	<b>15 576</b>

The impairment in Ukraine above relates to the offshore licenses located in the Black Sea and Azov Sea on. It is not related to the producing oil field in Lelyaki.

<b>January - September 2013</b>					
<b>Income statement, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total</b>
Revenue, external	15 502	56 255	0	0	71 757
Revenue, internal	0	0	465	-465	0
Capitalized own work	3 061	0	0	0	3 061
Raw materials and consumables	-5 924	-30 283	0	0	-36 207
Other operating expenses	-7 643	-1 923	-10 688	465	-19 789
<b>Operating result</b>	<b>4 996</b>	<b>24 049</b>	<b>-10 223</b>	<b>0</b>	<b>18 822</b>

Income statement July – September 2014 and 2013

<b>July - September 2014</b>					
<b>Income statement, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total</b>
Revenue, external	12 006	17 164	0	0	29 170
Revenue, internal	0	0	227	-227	0
Capitalized own work	944	0	0	0	944
Raw materials and consumables	-5 644	-10 432	0	0	-16 076
Impairment of offshore assets	0	-6 993	0	0	-6 993
Other operating expenses	-2 411	-298	-3 601	227	-6 083
<b>Operating profit/loss</b>	<b>4 895</b>	<b>-559</b>	<b>-3 374</b>	<b>0</b>	<b>962</b>

The impairment in Ukraine above relates to the offshore licenses located in the Black Sea and Azov Sea on. It is not related to the producing oil field in Lelyaki.

<b>July - September 2013</b>					
<b>Income statement, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total</b>
Revenue, external	6 115	19 817	0	0	25 932
Revenue, internal	0	0	155	-155	0
Capitalized own work	1 052	0	0	0	1 052
Raw materials and consumables	-2 385	-10 430	0	0	-12 815
Other operating expenses	-2 354	-622	-3 070	155	-5 891
<b>Operating profit/loss</b>	<b>2 428</b>	<b>8 765</b>	<b>-2 915</b>	<b>0</b>	<b>8 278</b>

Balance sheet as of 30 September 2014 and 2013

<b>September 30, 2014</b>					
<b>Balance sheet, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total</b>
<b>Assets</b>					
Tangible and intangible fixed assets	180 236	73 552	6 966	0	<b>260 754</b>
Current assets, external	7 817	69 030	12 216	0	<b>89 063</b>
Current assets, internal	0	0	17 819	-17 819	<b>0</b>
Investments in tangible and intangible fixed assets	15 184	3 399	0	0	<b>18 583</b>
<b>September 30, 2013</b>					
<b>Balance sheet, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total</b>
<b>Assets</b>					
Tangible and intangible fixed assets	168 169	111 437	6 948	0	<b>286 554</b>
Current assets, external	7 447	52 443	217 148	0	<b>277 038</b>
Current assets, internal	0	0	12 964	-12 964	<b>0</b>
Investments in tangible and intangible fixed assets	45 168	1 324	0	0	<b>46 492</b>

## Auditor's Review Report

### Introduction

We have reviewed the condensed interim report for Shelton Petroleum AB as of 30 September, 2014 and for the nine month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of review

We conducted our review in accordance with the Swedish Standard on Review Engagements, ISRE 2410 Review of Interim Reports Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing practices.

The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material aspects, prepared in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Stockholm, November 21, 2014  
Ernst & Young AB

Per Hedström  
Authorized Public Accountant



Press release  
Stockholm, 19 December 2014

## **Agreement to dissolve the cross-ownership with Petrogrand**

**Shelton Petroleum and Petrogrand have entered into an agreement to dissolve the cross-ownership between the companies through a share swap. The exchange ratio is 0.40 shares in Shelton Petroleum for each share in Petrogrand. The agreement is subject to shareholder resolution at general meetings in both companies. Dissolving the cross-ownership will enable the companies to focus on developing their respective license portfolios on their own.**

“The agreement to be brought forward to the shareholders puts an end to the strenuous cross-ownership between the companies. It enables Shelton Petroleum to focus on developing the company and its license portfolio. There is great potential in the current production from the company’s proven assets, which is evidenced by the recent reserves update that significantly increased the company’s oil reserves,” says Robert Karlsson, CEO of Shelton Petroleum.

Shelton Petroleum holds 11,585,308 shares in Petrogrand, equivalent to 29% of the capital and votes. Petrogrand owns 4,900,563 B-shares in Shelton Petroleum, equivalent to 26% of the capital and 19% of the votes. The agreement and proposal to the shareholders entails a swap of the holdings at an exchange ratio of 0.40 B-shares in Shelton Petroleum for each share in Petrogrand. The exchange ratio based on yesterday’s closing price was 0.43 and the average ratio based on the volume weighted share price for the last thirty days is 0.37.

Following the share swap, Shelton Petroleum will not hold any shares in Petrogrand and Petrogrand will hold 266,440 B-shares in Shelton Petroleum, equivalent to 2% of the capital and 1% of the votes. The board of directors in Shelton Petroleum will propose that the shareholders resolve to cancel the 4,634,123 B-shares in Shelton Petroleum that the company receives in the swap. Following the cancellation of shares, the total number of A-shares and B-shares will amount to 14,027,124, which corresponds to a 25% reduction of the number of shares.

The financial result of the transaction will be included in Financial Items in the profit and loss statement. The result will be calculated as the difference between the market value as of the day of the exchange at the end of January 2015 of the Shelton Petroleum shares received and the acquisition value of the current holding in Petrogrand.

In light of the above, the board of directors shortly intends to call for an extra general meeting in Shelton Petroleum to be held in the end of January 2015. The proposal, board’s report on the proposal and a fairness opinion will be made available at the company’s head office and on the company’s website [www.sheltonpetroleum.com](http://www.sheltonpetroleum.com) no later than three weeks prior to the general meeting.

Shelton Petroleum AB (publ)  
*The Board of Directors*

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**About Shelton Petroleum**

Shelton Petroleum is a Swedish company focused on exploring and developing concessions in Russia and Ukraine. In Russia, the company holds three licenses in the Volga-Urals area in Bashkiria and has commenced production on the Rustamovskoye field after a successful exploration program. In Ukraine, Shelton Petroleum's wholly owned subsidiary has a joint venture with Ukrnafta and Chornomornaftogaz. The Shelton Petroleum share is traded on NASDAQ Stockholm under the symbol SHEL B.

The information provided herein is such that Shelton Petroleum AB is obligated to disclose it pursuant to the Securities Markets Act and/or the Financial Instruments Trading Act. The information was submitted for publication at 08.30 on 19 December 2014.

*This is an English translation of the Swedish original. In case of discrepancies, the Swedish original shall prevail.*

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**Appendix 2 to the board of directors' of Shelton Petroleum AB (publ) statement pursuant to Chapter 12, section 7 of the Swedish Companies Act**

Changes in the restricted equity of Shelton Petroleum AB since the Annual report for the financial year 2013 was submitted:

<b>Date</b>	<b>Transaction</b>	<b>Increase/Decrease of number of shares</b>	<b>Change in share capital, SEK</b>	<b>Share capital, SEK</b>
2014-03-14	Issue in kind	4 422 841 B-shares	22,114,205	82,929,645
2014-03-28	Issue in kind	615 108 B-shares	3,075,540	86,005,185
2014-04-14	Issue in kind	59 585 B-shares	297,925	86,303,110
2014-05-14	Repurchased convertible	593 750 A-shares	2,968,750	89,271,860
2014-06-16	Exchange of convertible	806 875 B-shares	4,034,375	93,306,235