

## Interim report January-March 2012

### Increased oil production and reduced oil taxes generate higher profit

- Total revenue for the period: SEK 30 (0) million
- Operating result for the period: SEK 12 (-5) million
- Result for the period after tax: SEK 11 (-5) million
- One-off item affects revenue and profit by SEK 7\* million
- Basic and diluted earnings per share: SEK 1.04 (-0.50)

<u>Oil production</u>	<u>Q1 2012</u>	<u>Q1 2011</u>	<u>2011</u>
Barrels	41,400	4,600	77,300
Barrels per day	455	51	212

### Statement from the CEO

I am pleased to announce that the positive development continues. During the quarter, we increased oil production by 7 per cent compared to the previous quarter. The operating profit, adjusted for the positive effect of the investment in Tomsk Refining, amounts to SEK 5 million and is almost 50 per cent higher than the fourth quarter last year. The previously announced reformed production taxes in both Russia and Ukraine have now been implemented and we can see the effect in our income statement.

Shelton Petroleum's prioritized objective is to continue to increase production volumes in both Ukraine and Russia. As part of the work program on the Lelyaki field in Ukraine, we have during the quarter completed five workovers and taken one new well into production. During the second half of 2012, we intend to start drilling the first sidetrack, a cost efficient alternative to drilling new wells, on this field.

On Rustamovskoye in Russia, the company has completed a workover of the well RS#1, implemented a new pumping system in RS#2 and performed extensive analysis of available geological data and technical production data. The objective has been to implement measures to counteract the natural depletion that all wells are exposed to, and also to maximize information on reservoir characteristics in order to determine drill locations and optimize drilling technology. We plan to finalize this work during the summer and then conclude drilling contracts and commence mobilization and assembly of the rig. Shelton Petroleum will announce a schedule for the drilling once the drilling contract has been concluded and access to a rig has been confirmed.

Whilst Shelton Petroleum's prioritized objective is to increase production, I would also like to highlight the company's exploration potential of over 300 million barrels of oil equivalent. In parallel to our production activities, we are also taking cost-effective steps in the exploration of these opportunities. We will also continue to pursue expansion opportunities. The recently signed memorandum of understanding with the state partner Nadra of Ukraine is an example of our efforts. The activity on the oil and gas market in Ukraine is very high, and we are continually taking steps to strengthen our position.

Robert Karlsson

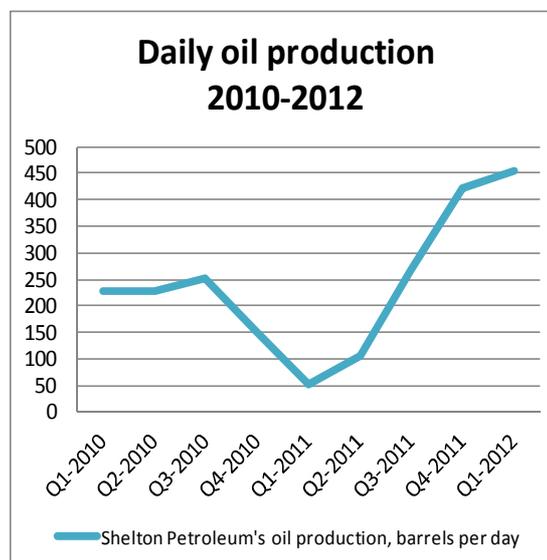
\* Regards payment from the shareholding in Tomsk Refining

## January - March 2012

### Financial development

Revenue from oil sales during the quarter amounted to SEK 23 (0) million. Revenue for the first quarter 2012 stems from the sale of oil at Rustamovskoye and Lelyaki, whereas in the same period in 2011 no oil was sold. Revenue increased by 6 per cent compared to revenue from oil sales in the fourth quarter 2011. During the quarter, Shelton Petroleum sold 41,400 (0) barrels of oil. Shelton Petroleum benefited from the increase in the world market oil price.

Production during the quarter amounted to 41,400 (4,600) barrels, which is significantly higher compared to the same period last year. The production included oil extraction from both Rustamovskoye and Lelyaki, while it only included test production on Rustamovskoye in the first quarter 2011.



The average daily production during the first quarter 2012 amounted to 455 barrels compared 51 barrels the same period 2011. The average daily production during the fourth quarter 2011 amounted to 421 barrels.

Operating expenses in the first quarter amount to SEK 19 (6) million and consist primarily of production costs, personnel costs and other external expenses. The result for the quarter amounted to SEK 11 (-5) million.

The operating result for the period January – March 2012 amounted to SEK 12 (-5) million, which is a significant improvement compared to the same period last year.

Shelton Petroleum reports other revenue of SEK 7 (0) million. The majority of other revenue relates to an adjustment of the fair value of the investment in Tomsk Refining AB (TRAB). In the beginning of April 2012 the company received the final payment, SEK 18 million, in the voluntary liquidation of TRAB. In total, together with the first payment received in 2011, the company has received approximately SEK 69 million from the liquidation and has reported a total gain of SEK 18 million.

An adjustment of the fair value of the investment in Baltic Oil Terminals, SEK 1 million, and translation differences, SEK -1 million, related to intra-group loans in foreign currency is included in other comprehensive income. The adjustments to fair value and translation differences do not affect the cash flow.

The group held SEK 47 million in cash and cash equivalents at the end of the period compared to SEK 13 million at 31 March 2011 and SEK 46 million at 31 December 2011. Cash flow for the quarter was SEK 2 (-8) million. Investments in exploration and development activity in Russia and Ukraine amounted to a total of SEK 2 (3) million in the quarter. During the quarter the company repaid 8 million to those holders of the convertible loan that chose not to exchange it for the new convertible loan, which was issued in December 2011. Cash and cash equivalents at the end of the period do not include the payment from TRAB, which was received in the beginning of April.

Financial fixed assets amounted to SEK 43 million at the end of the period compared to SEK 35 million at 31 December 2011. The increase is related to the adjustments of fair value mentioned above.

Shareholders' equity per share at 31 March 2012 was SEK 24.87 (23.42) and the equity to assets ratio was 81 (79) per cent.

### **Russian operations**

Shelton Petroleum's production of oil in Russia during the first quarter amounted to 12,400 (4,600) barrels, which is significantly higher than previous year and 500 barrels lower than the fourth quarter 2011. Production per day amounted to 136 (50) barrels.

The decrease in Russian oil production taxes as of 1 January 2012 have increased profitability by approximately 10 USD per barrel for Shelton Petroleum.

During the quarter the company completed a workover on well RS#1, implemented a new pump system in RS#2 and extensively analyzed available geological and technical production data. The objective was to implement measures to counteract the natural depletion that all wells are exposed to, and also to maximize information on reservoir characteristics in order to determine drill locations and optimize drilling technology. The new pump system in RS#2 has decreased well depletion and the company is now considering fracking (to break up the rock of the reservoir by inserting fluids with additives under high pressure) one of the wells during the summer in order to enhance productivity.

As announced in the previous interim report, the company decided to postpone the start of drilling new wells until the work with the new pump was completed. Furthermore, the company has been closely following the release of funds from TRAB, which has now strengthened the financial position of Shelton Petroleum. The company intends to finalize the study of the above-mentioned geological and technical production data during the summer and then to conclude a contract with a drilling company. The time plan for the drilling will be announced once it has been agreed with the drilling company.

### **Ukrainian operations**

Production in the first quarter amounted to 29,000 (0) barrels, which is 3,100 higher than the fourth quarter 2011 production. Production per day amounted to 319 (0) barrels. The average daily production during the first quarter increased by 12 per cent compared to the average daily production in the fourth quarter 2011. Oil in inventory at the end of the fourth quarter amounted to approximately 1,600 barrels.

The decrease in Ukrainian oil production taxes as of 1 January 2012 have increased profitability by approximately 15 USD per barrel for Shelton Petroleum.

The increase in production is a direct result of the continued field development program performed by Shelton Petroleum (Zhoda 2001 Corporation) and its partner Ukrnafta, Ukraine's largest oil and gas company. The objective is to step by step enhance productivity and increase production volumes. In the first quarter, the operator Kashtan Petroleum put well #309 into production. In addition the company performed workovers on five wells. Production can vary somewhat between months but the company's objective is continued increased production by performing additional workovers and sidetracks. In addition, the operator expects to get rig access during the third quarter for the spudding of the new well #310.

In March Shelton Petroleum and the state company Nadra of Ukraine (NJSC Nadra) signed an agreement (Memorandum of Understanding) for a joint effort to explore oil and gas projects in Ukraine. Nadra of Ukraine has over 100 projects and licenses that Shelton Petroleum will analyze during the year in order to identify potential candidates to enter into a joint venture.

### Significant events occurring after the reporting period

In the beginning of April the company received the final payment of SEK 18 million from the voluntary liquidation of Tomsk Refining AB.

The Ukrainian state auction committee has postponed the oil auction scheduled for April. Shelton Petroleum will announce the new date once it has been determined. The oil storage capacity at Lelyaki is large and the postponement of the auction has not affected production.

### The parent company

The parent company's total assets as at the period end amounted to SEK 309 (311) million. Cash and cash equivalents amounted to SEK 21 (33) million. The result after tax for the first quarter was SEK 5 (-9) million, mostly due to the adjustment of fair value of the investments in TRAB and BOT.

### Risk factors and uncertainties

A detailed account of the risks facing the company can be found in the 2011 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

Annual General Meeting	22 May 2012
Interim Report April – June 2012	23 August 2012
Interim Report July – September 2012	22 November 2012

## 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 22 May 2012 at 08:30 CET.

This report has not been reviewed by the company's auditors.

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## About Shelton Petroleum

Shelton Petroleum is a Swedish company focused on exploring and developing concessions in Russia and the resource-rich basins of Ukraine. The company holds three licenses in the Volga-Urals area 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, two leading Ukrainian oil and gas companies. Shelton Petroleum is pursuing an integrated business model and holds an equity stake in Baltic Oil Terminals PLC. The Shelton Petroleum share is traded on the NGM stock exchange under the under the symbol SHEL B.

## Shelton Petroleum's exploration and production portfolio

Production onshore	Geography	Primary product	Reserves			Resource potential	Working interest	Partner
			1P	2P	3P			
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%	

\* Aysky and Suyanovskoye were added to the portfolio in autumn 2009 and have not yet been subject to an independent audit. The independent seismic service company Udmurtgeofizika estimates Russian C1+C2 reserves and C3 resources to amount to 12 and 10 million recoverable barrels of oil respectively, based on Shelton Petroleum's seismic program and wells drilled during the Soviet era.

Exploration offshore								
Arkhangelskoye	Ukraine Black Sea	Gas & NGL	-	-	-	130	50%	CNG
Biryucha	Ukraine Azov Sea	Gas	-	-	-	166	50%	CNG
North Kerchenskoye	Ukraine Azov Sea	Gas	-	-	-	4	50%	CNG

All reserves and resources in the tables are in million barrels of oil equivalent net to Shelton Petroleum. Reserves are based upon assessment carried out in year 2009 by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd.

## Note on the reserves and resources calculation

Reserves are based upon assessment carried out by Trimble Engineering Associates and AGR TRACS International Consultancy Ltd. The calculations have been derived in accordance with the Canadian Oil and Gas Evaluation Handbook and have been compiled in cooperation with the Society of Petroleum Evaluation Engineers ([www.spee.org](http://www.spee.org)) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society). Resources have been estimated by AGR TRACS. Resources have a lower probability of extraction than reserves. All estimates are based upon information as of 30 September 2009. 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. Amounts are reported in millions of barrels of oil equivalent. Aysky and Suyanovskoye are two exploration licenses that lie immediately next to Rustamovskoye. Drilling during the Soviet era has confirmed the presence of oil in these fields, and the company has begun an exploration program on these blocks. These licenses were acquired during the fall of 2009 and were not included in the reserve studies.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK thousand	Note	Jan-Mar 2012	Jan-Mar 2011	Jan-Dec 2011
Net revenue		23 178	0	35 714
Other revenue	3	6 618	34	11 469
<b>Total revenue</b>		<b>29 796</b>	<b>34</b>	<b>47 183</b>
Work performed by the company for its own use and capitalized		1 051	738	3 331
Raw material and consumables		-12 611	0	-24 177
Personnel costs		-2 575	-3 715	-10 454
Other external expenses		-3 161	-2 155	-12 571
Depreciation		-618	-148	-920
<b>Operating expenses</b>		<b>-18 965</b>	<b>-6 018</b>	<b>-48 122</b>
<b>Operating result</b>		<b>11 882</b>	<b>-5 246</b>	<b>2 392</b>
Financial income		988	775	935
Financial expenses		0	-5	-1 786
<b>Total financial items</b>		<b>988</b>	<b>770</b>	<b>-851</b>
<b>Result before tax</b>		<b>12 870</b>	<b>-4 476</b>	<b>1 541</b>
Income tax		-1 830	-825	-907
<b>Result for the period</b>		<b>11 040</b>	<b>-5 301</b>	<b>634</b>
<b>Other comprehensive income</b>				
Financial assets available for sale		882	-5 970	-15 039
Exchange differences		-781	-7 994	-1 387
<b>Total other comprehensive income</b>		<b>101</b>	<b>-13 964</b>	<b>-16 426</b>
<b>Total comprehensive income for the period</b>		<b>11 141</b>	<b>-19 265</b>	<b>-15 792</b>
Earnings per share for the period before/after dilution		1,04	-0,50	0,06
Average number of shares *		10 640 588	10 640 198	10 640 428

\* The average number of shares have been adjusted for the period January - March 2011 to reflect the reverse split 50:1 that was registered in July 2011.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

SEK thousand	<b>Mar 31 2012</b>	<b>Mar 31 2011</b>	<b>Dec 31 2011</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	6 807	6 807	6 807
Intangible assets	72 531	57 470	70 137
Tangible fixed assets	155 805	143 260	155 975
Financial assets	42 895	85 383	35 147
<b>Total non-current assets</b>	<b>278 038</b>	<b>292 920</b>	<b>268 066</b>
<b>Current assets</b>			
Inventory	672	4 386	321
Other short-term receivables	2 241	3 052	9 849
Cash and cash equivalents	46 945	13 311	45 986
<b>Total current assets</b>	<b>49 858</b>	<b>20 749</b>	<b>56 156</b>
<b>Total ASSETS</b>	<b>327 896</b>	<b>313 669</b>	<b>324 222</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>264 594</b>	<b>249 173</b>	<b>253 453</b>
<b>Non-current liabilities</b>			
Convertible loan	21 656	0	21 517
Deferred income tax liabilities	28 736	27 023	28 429
Other provisions	337	314	344
<b>Total non-current liabilities</b>	<b>50 729</b>	<b>27 337</b>	<b>50 290</b>
<b>Current liabilities</b>			
Convertible loan	0	27 126	7 800
Accounts payable	3 415	3 535	5 272
Other current liabilities	9 158	6 498	7 407
<b>Total current liabilities</b>	<b>12 573</b>	<b>37 159</b>	<b>20 479</b>
<b>Total EQUITY AND LIABILITIES</b>	<b>327 896</b>	<b>313 669</b>	<b>324 222</b>

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

SEK thousand	Jan-Mar 2012	Jan-Mar 2011	Jan-Dec 2011
Cash flow from operating activities	11 516	-5 769	-4 851
Cash flow from investing activities	-2 169	-2 107	31 728
Cash flow from financing activities	-7 800	0	-3 409
<b>Cash flow for the period</b>	<b>1 547</b>	<b>-7 876</b>	<b>23 468</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>45 986</b>	<b>22 171</b>	<b>22 171</b>
Cash flow for the period	1 547	-7 876	23 468
Exchange differences in cash and cash equivalents	-588	-984	347
<b>Cash and cash equivalents at end of the period</b>	<b>46 945</b>	<b>13 311</b>	<b>45 986</b>

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK thousand	2012	2011
<b>Opening balance January 1</b>	<b>253 453</b>	<b>268 438</b>
Total comprehensive income for the period	11 141	-15 790
Equity part of convertible loan	0	803
Share issue	0	2
<b>Closing balance March 31</b>	<b>264 594</b>	<b>253 453</b>

**CONDENSED PARENT COMPANY INCOME STATEMENT**

<b>SEK thousand</b>	<b>Jan-Mar 2012</b>	<b>Jan-Mar 2011</b>	<b>Jan-Dec 2011</b>
Net revenue	110	159	435
Other revenues	6 573	0	11 362
<b>Total revenues</b>	<b>6 683</b>	<b>159</b>	<b>11 797</b>
Personnel costs	-1 003	-812	-4 465
Other external expenses	-1 182	-468	-5 108
<b>Operating results</b>	<b>4 498</b>	<b>-1 121</b>	<b>2 224</b>
Financial items	523	-8 023	-20 814
<b>Result before tax</b>	<b>5 021</b>	<b>-9 144</b>	<b>-18 590</b>
Income tax	37	160	619
<b>Result for the period</b>	<b>5 058</b>	<b>-8 984</b>	<b>-17 971</b>

**CONDENSED PARENT COMPANY BALANCE SHEET**

SEK thousand	<b>Mar 31 2012</b>	<b>Dec 31 2011</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Financial non-current assets	281 037	271 892
<b>Total non-current assets</b>	<b>281 037</b>	<b>271 892</b>
<b>Current assets</b>		
Other receivables	6 123	5 719
Cash and cash equivalents	21 421	33 353
<b>Total current assets</b>	<b>27 544</b>	<b>39 072</b>
<b>Total ASSETS</b>	<b>308 581</b>	<b>310 964</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>282 102</b>	<b>277 218</b>
<b>Non-current liabilities</b>		
Convertible loan	21 656	21 517
Deferred income tax liabilities	293	330
<b>Total non-current liabilities</b>	<b>21 949</b>	<b>21 847</b>
<b>Current liabilities</b>		
Convertible loan	0	7 800
Other liabilities	4 530	4 099
<b>Total current liabilities</b>	<b>4 530</b>	<b>11 899</b>
<b>Total EQUITY AND LIABILITIES</b>	<b>308 581</b>	<b>310 964</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 the NGM stock exchange under the ticker SHEL. 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 31 March 2012 has been prepared in accordance with IAS 34 and the Swedish Annual Reports Act (Sw. *Årsredovisningslagen*). The consolidated financial statements have been prepared, consistently with the 2011 consolidated financial statements, 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 recommendations "RFR 2 on 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 2011 and in the way they were described in the 2011 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 2011 annual report.

### Note 3. Other revenue

As of 31 March 2012 the Company adjusted the investment in Tomsk Refining AB to fair value which resulted in an adjustment of 6,573 thousand. This is reported in other revenue in the statement of comprehensive income. The carrying value after the adjustment per 31 March 2012 amounts to 18,447 thousand. In the beginning of April the company received the final payment, amounting to 18,447 thousand, from the liquidation of Tomsk Refining AB.

### Note 4. Related party transactions

Shelton Petroleum has entered into a consultancy contract with Sergey Titov, one of the initiators and shareholders of Shelton Petroleum. Remuneration under the contract is approximately SEK 30 thousand per month. The company has also entered into a consultancy agreement with a company (Co. # 1144449 Alberta Ltd.) in which Richard N. Edgar (director) is one of several partners. The agreement includes project management, business development and geological analysis. Remuneration under the contract is approximately CAD 12.5 thousand per month, which the group regards as the going rate.

### Note 5. 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 reporting local 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 and work performed by the company for its own use and capitalized. 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".

<b>January - March 2012</b>				<b>Group &amp;</b>	
<b>Income statement, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>eliminations</b>	<b>Total</b>
Revenue, external	3 331	19 891	6 573	0	<b>29 795</b>
Capitalized own work	1 051	0	155	-155	<b>1 051</b>
Raw materials and consumables	-1 481	-11 129	0	0	<b>-12 610</b>
Other operating expenses	-2 152	-1 126	-3 231	155	<b>-6 354</b>
Operating profit/loss	749	7 636	3 497	0	<b>11 882</b>

<b>January - March 2011</b>				<b>Group &amp;</b>	
<b>Income statement, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>eliminations</b>	<b>Total</b>
Revenue, external	0	30	4	0	<b>34</b>
Capitalized own work	738	0	159	-159	<b>738</b>
Raw materials and consumables	0	0	0	0	<b>0</b>
Other operating expenses	-1 506	-1 466	-3 205	159	<b>-6 018</b>
Operating profit/loss	-768	-1 436	-3 042	0	<b>-5 246</b>

<b>31 March, 2012</b>				<b>Group &amp;</b>	
<b>Balance sheet, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>eliminations</b>	<b>Total</b>
<b>Assets</b>					
Tangible and intangible fixed assets	119 257	108 935	6 950	0	<b>235 142</b>
Current assets, external	1 497	24 345	24 016	0	<b>49 858</b>
Current assets, internal	0	0	16 047	-16 047	<b>0</b>
Investments in tangible and intangible fixed assets	1 727	442	0	0	<b>2 169</b>

<b>31 March, 2011</b>				<b>Group &amp;</b>	
<b>Balance sheet, SEK thousand</b>	<b>Russia</b>	<b>Ukraine</b>	<b>Other</b>	<b>eliminations</b>	<b>Total</b>
<b>Assets</b>					
Tangible and intangible fixed assets	99 540	101 188	6 809	0	<b>207 537</b>
Current assets, external	5 332	13 347	2 070	0	<b>20 749</b>
Current assets, internal	0	0	12 338	-12 338	<b>0</b>
Investments in tangible and intangible fixed assets	3 145	0	0	0	<b>3 145</b>