PETROGRAND

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Petrogrand's Board's recommendation regarding Shelton Petroleum's updated public offer

On 22 January 2014 Shelton Petroleum AB (publ) ("Shelton") announced an offer to acquire all outstanding shares in Petrogrand AB (publ) ("Petrogrand") for a consideration of 0.30 Shelton B shares for each Petrogrand share. On 24 February 2014, the Board of Directors ("the Board") of Petrogrand commented Shelton's offer and advised Petrogrand's shareholders not to accept the offer. Since Petrogrand's press release on 24 February 2014, Shelton has updated their offer on 26 February 2014. The Board would like to substantiate the recommendation not to accept the new offer ("the Offer") in more detail below.

The Board has in accordance with the Swedish Securities Trading Act considered the offer document from Shelton Petroleum as well as the updated Offer. The Board has unanimously decided upon a recommendation to the company's shareholders not to accept the Offer, which, based on the current market price of the Shelton share, has a value of approximately SEK 9.62 per Petrogrand share. As of 31 December 2013, Petrogrand's liquid and financial assets amounted to approximately SEK 370 million and the company has zero financial debt. This corresponds to SEK 9.18 per Petrogrand share, with no value added for the company's licences in Russia.

The Board has through valuations performed by Petrogrand concluded that the underlying value of the Shelton share is not sufficient to support the Offer of 0.34 Shelton shares of series B for each Petrogrand share and that the Offer should be significantly improved in order to be deemed fair. The Board's conclusion is further supported by the fairness opinion prepared by ABG Sundal Collier, which was published on 24 February 2014.

The Board has valued Shelton based on recognized methodologies in the international capital markets, where Shelton's equity value given the proven 2P oil reserves in Lelyaki and Rustamovskoye as reported in 2009 has been compared to relevant peers listed on recognized stock exchanges who operate in Ukraine and Russia. The 2P oil reserves amounted in 2009 to 1 million barrels of oil in Rustamovskoye and 8 million barrels of oil in Lelyaki which need to be adjusted for the production in the period from 2009 to YTD 2014. The value of the reserves established by analysing relevant peers derived a valuation range of 0.9 to 2.4 USD/bbl in Rustamovskoye and 0.9 to 2.3 USD/bbl in Lelyaki.

The Board also sees value in the resource potential in the Rustamovskoye field, which requires probability weighting and adjustment for capital expenditures for appraisal and development purposes, but no significant value has been assigned to the offshore joint investment agreements in Ukraine as there is high uncertainty related to if the Biryucha and North Kerchenskoye licenses are going to be renewed or not. Furthermore the capital expenditure associated with new seismic and drilling is of such extent that the actual joint investment agreement is of little or no value.

It shall also be noted that for small- and mid-cap Exploration & Production companies trading on recognized stock exchanges, including the NASDAQ OMX Stockholm Exchange and Oslo Stock Exchange, and with up to date disclosure of relevant information including independently certified reserves and resources on an annual basis, the achieved market pricing is well below the core net asset value ("NAV") (producing reserves, reserves under development and discoveries) as calculated by industry analysts. As such, resource potential (exploration assets) is currently and normally not reflected in market valuations.

Furthermore the Board believes that the following main risks should be weighted into the overall evaluation of Shelton:

- There is uncertainty regarding the license terms for the Ukrainian assets
- Geological uncertainty related to the resource potential in the Rustamovskoye field in Russia
- Lack of up to date reporting of reserves and resources, the most recent independent reserves report for Shelton is more than four years old
- Growing accounts receivable in the Lelyaki field - a repayment agreement has been discussed but is not yet signed and agreed upon.

Even though there is a strategic rationale behind Shelton's Offer from an industrial point of view, Petrogrand's shareholders will only own approximately 50% in Shelton with the current Offer. The Board is of the opinion that this is inadequate and not reflecting the relative underlying values in the two companies.

The Board of Directors

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Such expressions reflect the management of Petrogrand's expectations and assumptions made on the basis of information available at that time.

These statements and assumptions are subject to a large number of risks and uncertainties. These, in their turn, comprise but are not limited to I) changes in the financial, legal and political environment of the countries in which Petrogrand conducts business, II) changes in the available geological information concerning the company's projects in operation, III) Petrogrand's capacity to continuously guarantee sufficient financing to perform their activities as a "going concern", IV) the success of all participants in the group, or of the various interested companies, joint ventures or secondary alliances, V) changes in currency exchange rates, in particular those relating to the RUB/USD rate. Due to the background of the many risks and uncertainties that exist for any oil-prospecting venture and oil production company in its initial stage, Petrogrand's actual future development may significantly deviate from that indicated in the company's informative statements.