



# PETROGRAND

PRESS RELEASE DATED 2014-03-17

## **Statement from the newly elected Board of Petrogrand regarding Shelton's new offer**

The acceptance period of Shelton Petroleum AB ("Shelton") to Petrogrand AB's ("Petrogrand" or the "Company") shareholders (the "Offer") expired on 12 March 2014. Only 12.4 % of the shareholders had at this point accepted the Offer. Shelton, who had stipulated in the Offer that at least 50 % of Petrogrand's shareholders should accept the Offer, has nevertheless declared the Offer unconditional and will therefore register the shares tendered during the acceptance period. In connection with the Offer being declared unconditional, Shelton has raised the Offer from 0.34 to 0.44 Shelton B shares for each share in Petrogrand, and given the shareholders who have not accepted the Offer the opportunity to do so up until 28 March 2014. A group of investors, including Metroland, representing 12.5 % of the shares in Petrogrand, has announced its support for the updated Offer. However, a number of other large shareholders in Petrogrand still consider the Offer to be substantially lower than what can be deemed fair.

For this reason the Board of Petrogrand has made a re-evaluation and taken the updated Offer in consideration, but again for the reasons mentioned below unanimously decided to recommend the Company's shareholders not to accept the Offer. The Board's conclusion is further supported by the updated fairness opinion prepared by ABG Sundal Collier which considers the bid still not to be fair.

### **The reason behind the Board's decision not to accept the Offer**

The Board considers the value of Shelton to be highly uncertain, which can be seen in the share price decline of Shelton that has happened after Petrogrand pointed out information regarding the potential risks in Shelton. Petrogrand's valuation is more certain due to its liquid and financial assets that per 31 December 2013 amounted to approximately SEK 370 million and due to the fact that the Company has zero financial debt. There is also potentially unrealized value in Petrogrand's licenses Nizhnepaninsky and Muromsky 2 through the cooperation agreement that is being negotiated with Gazprom Neft. Shelton's valuation is on the other hand highly uncertain due to the uncertainty regarding the terms for the Ukrainian licenses, geological uncertainty related to the resource potential in the Rustamovskoye field in Russia, the lack of up to date reporting of reserves and resources and the growing accounts receivables in the Lelyaki field. Shelton's year-end report from February 17 2014 shows that short-term receivables amount to SEK 63.5 million. If the claims in the Ukraine according to Shelton only amounts to SEK 48 million, and total short-term receivables are SEK 63.5 million, what do the additional receivables of SEK 15.5 million regard, and how secure are these receivables? There is also considerable uncertainty about Shelton's tax liabilities of approximately SEK 25 million, when will these be regulated? Considering the above, the Board of Petrogrand is highly concerned about Shelton's financial situation. The uncertainty in Shelton's value can also be seen in the recent development of its market valuation. Since the first Offer on 22 January 2014, the share price of Shelton has dropped from 30.6 SEK per share to 19.8 SEK per share on 17

March 2014 at 2:00 pm. This means that the market valuation has declined from approximately SEK 370 million to SEK 237 million during the offer period. Furthermore, according to an official statement from the Crimea Parliament it has been decided that all assets, including the gas and oil fields, of Chernomorneftegaz will be nationalized.

According to Shelton, the new Offer on Petrogrand's shares has a bid premium of approximately 52.7 % given the stock prices of both companies. This premium is only true if the valuation of Shelton is correct. If the bid premium was to be based on Petrogrand's financial assets (equivalent to approximately SEK 9.18 per share) the actual bid premium is negative 5.2 % with respect to the current share price of 19.8 SEK per share for Shelton on March 17, 2014 at 2:00 pm. It is evident that the bid premium based solely on the share price shows a considerable difference compared to the premium based on the Company's actual assets.

To be able to form an opinion of the true value of Shelton, the Board of Petrogrand has proposed formal meetings with Shelton, both in writing and orally, with the purpose of receiving answers to the questions and insecurities mentioned above. Shelton has not answered Petrogrand's proposals. Petrogrand has highlighted a number of issues, concerning for example the increasing accounts receivables from the Ukrainian operations. The fact that Shelton has not been prepared to enter into a dialogue with Petrogrand strengthens the Board's assessment of the Offer not being fair for the shareholders in Petrogrand.

Before the shareholders of Petrogrand make any decision about the Offer, the Board of Petrogrand strongly recommends that a due diligence is made on Shelton so that potential hazards are found and presented. Petrogrand is also willing to cover 50 % of the costs related to the due diligence. The Board of Petrogrand cannot, at the moment, recommend the shareholders in Petrogrand to exchange their certain financial assets for shares in a company that is not able to provide adequate information about their current financial situation and geological resources.

Furthermore, the Board of Petrogrand finds Shelton's hostile actions concerning since they distract the Company's daily operations, affecting among other things our negotiations with Gazprom Neft.

The Board of Petrogrand

This is a translation of the Swedish version. In case of any discrepancy between the English and the Swedish version, the Swedish version shall take precedence.

**For further information, please contact:**

Maks Grinfeld, CEO, phone: +46 8 5000 7810  
Mikael Wallgren, Chairman, phone: +46 8 5000 7810  
Certified Adviser First North: Mangold Fondkommission AB

**Reasonable caution notice:** The statement and assumptions made in the company's information regarding Petrogrand AB's ("Petrogrand") current plans, prognoses, strategies, concepts and other statements that are not historical facts are estimations or "forward looking statements" concerning Petrogrand's future activities. Such future estimations comprise but are not limited to statements that include words such as "may occur", "concerning", "plans", "expects", "estimates", "believes", "evaluates", "prognosticates" or similar expressions. 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.