



PETROGRAND

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Petrogrand and Shelton Petroleum to enter into a business combination

- **Petrogrand and Shelton Petroleum have entered into an agreement to form a combined and enlarged oil group with Russian oil assets exclusively**
- **Shelton Petroleum will according to the agreement issue 17,500,000 B shares for a contribution by Petrogrand of (i) its 49% ownership in its oil assets in Komi and (ii) USD 4 million of cash**
- **The combined license portfolio will consist of Shelton Petroleum's assets in Bashkiria and Petrogrand's assets in Komi, with a net production of about 1,350 barrels of oil per day and 32 million barrels of 2P oil reserves**
- **Petrogrand and Shelton Petroleum have approximately 10,000 shareholders**
- **The new board of directors and management of the combined entity will hold representatives of both Shelton Petroleum and Petrogrand**
- **Shelton Petroleum's oil assets in Ukraine will be spun-off to existing shareholders and will not be part of the new joint entity**
- **Petrogrand's shareholders will receive 0.55 Shelton Petroleum shares for each existing Petrogrand share**
- **After the transaction, Petrogrand plans to shift its focus to new business ventures within real estate**
- **The proposed business combination puts an end to the cross-ownership between Petrogrand and Shelton Petroleum that has been criticized by the Securities Council**
- **The agreement is conditional upon the approval at the extraordinary general meetings of both companies**
- **Petrogrand and Shelton Petroleum are currently subject to a review by the Disciplinary Committee of Nasdaq Stockholm**

Petrogrand AB (PETRO, Nasdaq First North Stockholm) ("Petrogrand") and Shelton Petroleum AB (SHEL B, Nasdaq Stockholm) ("Shelton Petroleum") have entered into an agreement (i) to form a new combined and enlarged oil group with exclusively Russian oil assets and (ii) to dissolve the cross-ownership between the two companies. Shelton Petroleum's and Petrogrand's operations in Bashkiria and Komi regions respectively, both located in the European part of Russia, will be managed as one oil group.

The combined company will have a net working interest oil production of about 1,350 barrels of oil per day and 2P oil reserves of about 32 million barrels. The entity will be owned by the current shareholders of both Shelton Petroleum and Petrogrand, in total about 10,000 shareholders. The combined businesses will benefit from an attractive license portfolio and an improved position on the financial markets. Synergies are anticipated within operational management, oil sales, purchasing power as well as central administration.

Transaction overview

The new entity with operations in Russia

Shelton Petroleum will according to the agreement acquire a subsidiary of Petrogrand holding USD 4 million of cash as well as Petrogrand's stake in the Komi assets (49%) for a total consideration of 17,500,000 newly issued shares of series B in Shelton Petroleum. Petrogrand will distribute these shares, together with the 4,700,000 B shares in Shelton Petroleum it already holds, to its shareholders in accordance with the Lex

Asea rules. Since Shelton Petroleum holds 29% of the shares in Petrogrand, Shelton Petroleum will through Petrogrand's dividend distribution receive 6,387,386 shares in Shelton Petroleum. These shares will be cancelled.

In summary, Shelton Petroleum has 761,900 A shares and 17,899,347 B shares prior to the transaction. A total of 17,500,000 B shares will be issued and 6,387,386 of these will be cancelled. Following the completion of all the steps in the transaction, it is anticipated that the number of shares in Shelton Petroleum will amount to 761,900 A shares and 29,011,961 B shares, comprising 36,630,961 votes. The new enlarged Shelton Petroleum will change its name following the business combination.

Further information about the proposed new issue of shares, etc. can be found in a separate press release containing the notice to the EGM issued by Shelton Petroleum on the date hereof.

Board of directors and management

It is proposed that Björn Lindström, David Sturt, Dmitry Zubatyuk, Hans Berggren and Sven-Erik Zachrisson shall be appointed members of the board of directors of Shelton Petroleum. Björn Lindström shall be appointed chairman of the board and Dmitry Zubatyuk shall be appointed CEO.

Distribution of Shelton Petroleum's assets in Ukraine

As a part of the proposed transaction, Shelton Petroleum will distribute the company's assets in Ukraine to its shareholders. For historical reasons, the Ukrainian operations will continue to operate under the name Shelton. The Ukrainian assets consist of a 45% ownership in Kashtan Petroleum, license holder and operator of the Lelyaki oil field, as well as a Joint Investment Agreement regarding offshore licenses. The production from the Lelyaki field in August 2015 net to Shelton Petroleum amounted to about 330 barrels of oil per day. 2P reserves in Ukraine net to Shelton Petroleum amount to 8 million barrels.

Given the geopolitical development in the area, it is the opinion of Shelton Petroleum and Petrogrand that it makes sense from both an operational and financial point of view to continue developing Russian and Ukrainian assets in separate entities.

The Ukrainian assets will be distributed to the shareholders of Shelton Petroleum prior to the issue of the consideration shares to Petrogrand. As a consequence, the current shareholders of Shelton Petroleum, including Petrogrand, will receive shares in the Ukrainian assets on a pro-rata basis in relation to their holding in Shelton Petroleum. Petrogrand shall not be a long-term shareholder and has undertaken to dispose of its shares. It is the intention of the parties to create liquidity in the shares of the company holding the Ukrainian assets.

Petrogrand after the transaction

After the transaction, Petrogrand is planning to change its name and enter into the real estate business with cash generating operations in Moscow and Stockholm. It is Shelton Petroleum's intention to divest its shareholding in Petrogrand following the transaction. Petrogrand will publish a more detailed update on the future operations in due time.

Nasdaq Disciplinary Committee and dissolving the cross-ownership

The transaction will also put an end to the cross-ownership between the two companies. Prior to the transaction, Petrogrand holds 4,700,000 B shares in Shelton Petroleum, equivalent to 25.2% of the total number of shares and 18.4% of the total votes. Shelton Petroleum holds 11,585,308 shares in Petrogrand, equivalent to 28.8% of the total number of shares and votes. During the end of 2013 and the first six months of 2014, i.e. when Petrogrand was managed by the previous management and board of directors, there were several conflicts between the two companies. Both companies were criticized by the Swedish Securities Council, which requested the companies to solve the conflicts.

As a result of the conflicts, which took place approximately 18 months ago, Nasdaq Stockholm has initiated an investigation of both Petrogrand and Shelton Petroleum regarding possible insufficient disclosure of

information to the market and investors and non-compliance with the relevant takeover rules and good practices on the Swedish stock market.

Based on the fact that the cross-ownership has not been dissolved and Nasdaq Stockholm's investigation, the matter has been submitted to the Disciplinary Committee of Nasdaq Stockholm for further assessment and ruling on an appropriate sanction. Potential sanctions are a warning (where the non-compliance is of less serious nature or excusable), a fine (in the case of Shelton Petroleum as a stock exchange listed company, corresponding to not more than 15 times the annual fee paid by it to Nasdaq Stockholm, approximately SEK 3 million) or delisting (where the breach is material). As at the date hereof, Petrogrand and Shelton Petroleum are awaiting the Disciplinary Committee's decision on a hearing date where both parties can present their respective cases to the committee.

The companies have previously made several attempts to break up the cross-ownership but no solution has been reached until now. In the beginning of the second quarter 2015, a new governance of Petrogrand was implemented with a new board of directors and a new Chief Executive Officer. Since then, Petrogrand has focused on reinstating proper corporate governance, controlling damage caused by previous mismanagement and dissolving the cross-ownership on terms that are beneficial for all parties going forward. The current constructive dialogue resulted in the proposal that is now being put forward to the shareholders in both companies. The board of Petrogrand and Shelton Petroleum believe that the proposal balances the interests of the shareholders of both companies and creates a profitable oil company with solid production, a strong license portfolio and a platform for future expansion. It should also satisfy Nasdaq Stockholm's request to dissolve the cross-ownership between Shelton Petroleum and Petrogrand.

General meeting of shareholders

The agreement entered into by the board of directors is subject to shareholders' approval at extraordinary general meetings to be held on 9 November 2015 and certain other conditions.

Given the cross-ownership, Petrogrand and Shelton Petroleum will not be entitled to vote at each others general meeting in any matter constituting a related party transaction. Both companies will use its best reasonable efforts to obtain written undertakings from its shareholders to vote in favor of the proposals. Shelton Petroleum and Petrogrand will publish independent fairness opinions on the transaction. Shelton Petroleum will issue a prospectus prior to listing the newly issued shares.

The agreement entered into between Shelton Petroleum and Petrogrand as well as the notice to the extraordinary general meetings will be made available on www.sheltonpetroleum.com and www.petrogrand.se. The notice to the extraordinary general meeting will also be published in a separate press release. These documents provide a fuller description of the transaction than what is included in this press release.

For more information, please contact:

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About Petrogrand

Petrogrand's overall business concept is to conduct oil production through acquired Russian subsidiaries and oil licenses. The company is also to manage and refine Russian oil resources and, when favorable, divest assets and licenses. The shares in Petrogrand are listed at Nasdaq First North Stockholm under the symbol PETRO, an alternative market place (i.e. not a regulated market) and the company's Certified Adviser is Mangold Fondkommission AB. For more information visit our webpage www.petrogrand.se.

About Shelton Petroleum

Shelton Petroleum is a Swedish company focused on exploring and developing concessions in Russia and Ukraine. In Russia, the company holds 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. Shelton Petroleum oil and gas 2P reserves amount to 34 million barrels. The company's share is traded on Nasdaq Stockholm under the symbol SHEL B.