

# Shelton Petroleum



Offer to the shareholders in  
Petrogrand  
March 2014

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# Shelton Petroleum overview

Market capitalization fully diluted  
SEK 330 million  
USD 50 million

Shares outstanding:

Basic	12.14 million
Fully diluted	13.88 million

Trading at NASDAQ OMX Stockholm

Management & board ownership 20%

- Oil and gas exploration and production company founded in 2007
- Operations in Russia and Ukraine
- Producing oil in Russia following a successful exploration program
- Combination of production and large resource potential in Ukraine
- Significant management ownership with vast sector experience

# Why invest in Shelton Petroleum?

- Attractive risk-reward
- Proven oil fields, profitable oil production and large resource potential
- Healthy profit at current production level
- Positive trend in production
  - Rostamovskoye Russia – from exploration to production
  - Lelyaki Ukraine – a classic redevelopment case
- Significant improvement in tax regimes
- Large unexploited Black/Azov Sea potential and exposure to Ukraine's reborn oil and gas market
- Solid track record in corporate transactions
- Strengthened financial position
- NASDAQ OMX Stockholm Main Market listing



## Highlights Q4 2013

Daily production of over 1,000 barrels

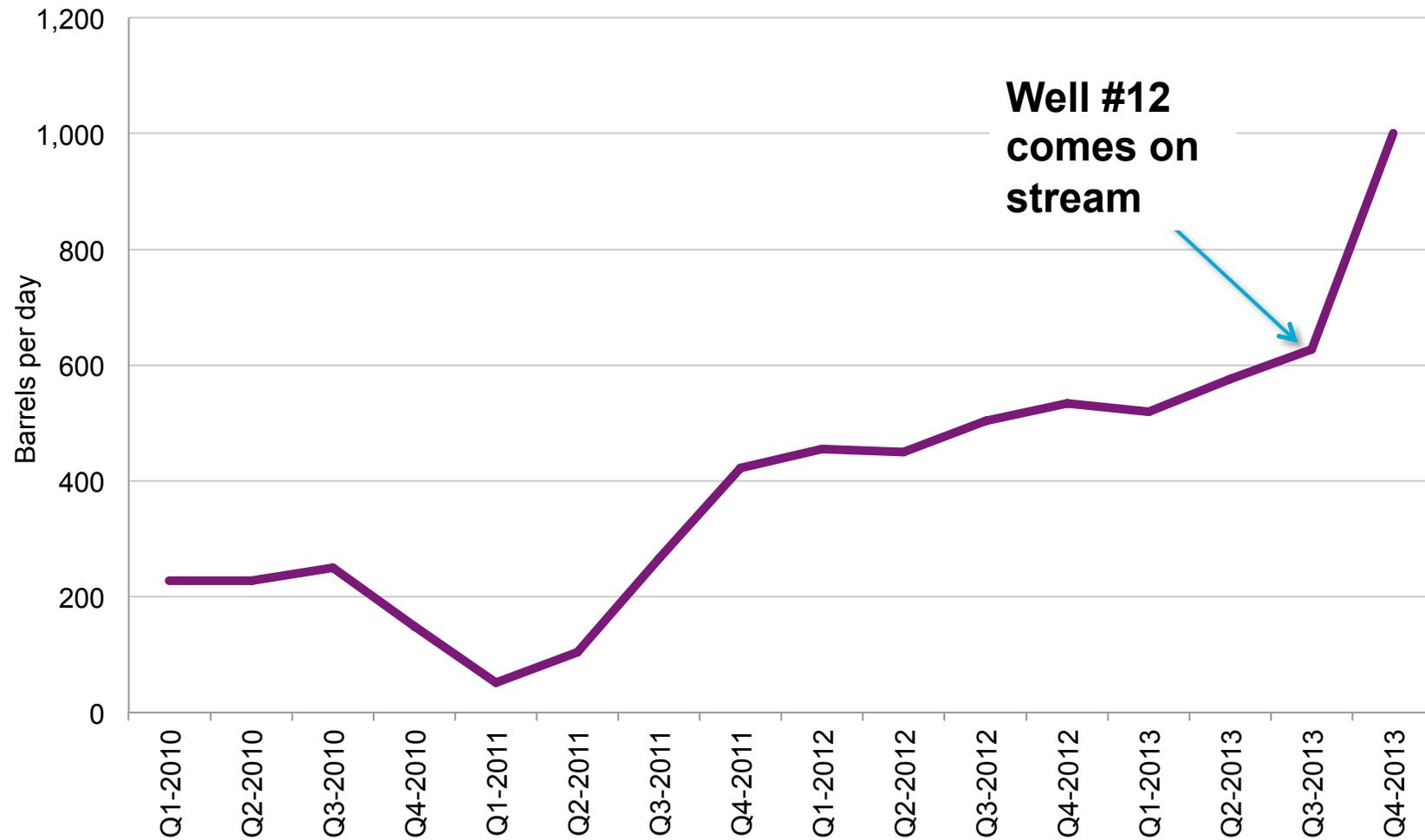
#12 well is a possible game changer

Operating margin 29%

	2013	Q4-2013	Q3-2013	Q2-2013	Q1-2013	2012	2010	2009	2008	2007
Production, barrels	248 870	92 060	57 700	52 360	46 750	177 850	77 900	0	0	0
Revenue, SEK th	109 064	37 306	25 933	22 776	22 858	99 914	29 291	0	9	0
Operating profit, SEK th	29 510	10 687	8 278	4 724	5 820	29 614	-11 440	-16 664	-8 791	-2 871

Revenue and operating profit for 2012 contain a positive one-off item of SEK 7 million

# Positive trend in oil production



## Prioritized objectives



### Increase production

- Development of Rustamovskoye
- Work program on Lelyaki

### Create value in offshore assets

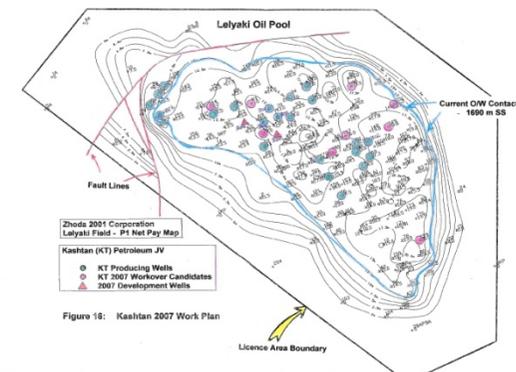
- Offshore gas exploration in Ukraine

### Seize expansion opportunities

- Strong network and local presence on dynamic market

# Shelton Petroleum in Ukraine

- Joint venture with Ukrnafta, onshore in Ukraine
  - Previously one of the largest producing onshore fields in Soviet Union
  - Current field production is 800 bopd, of which Shelton Petroleum has a 45% working interest
  - 2P reserves of 8 mmbbl (net to Shelton), with significant upside
  - Low cost development with operating profit of \$40/barrel
  - Significant future potential in applying modern reservoir engineering
- 50% Joint Activity Agreement (JIA) with state-owned Chornomornaftogaz (CNG)
  - CNG is Ukraine's leading offshore company
  - Licences are offshore Black Sea and Azov Sea
  - Unrisked resource potential of 600 million boepd, of which Shelton Petroleum has a 50% working interest
  - Analog pools are producing significant volumes of gas
  - Shallow water depth implies relatively low cost drilling



# Recent developments in Ukraine

- Political unrest that started with EU rallies and demonstrations for modernization of Ukraine
- Complex historic and political situation in Crimea
- Shelton has partnerships with Ukrnafta and Chornomornaftogaz with state ownership
- Lelyaki field has had no disturbances in oil production
- Ukraine imports approximately 70% of its oil and gas consumption and is dependent on its oil production
- Shelton Petroleum monitors the development and conducts “business as usual”

# Highlights Bashkiria, Russia

Combination of proven oil and exploration upside

The most recent well #12 is a possible game changer

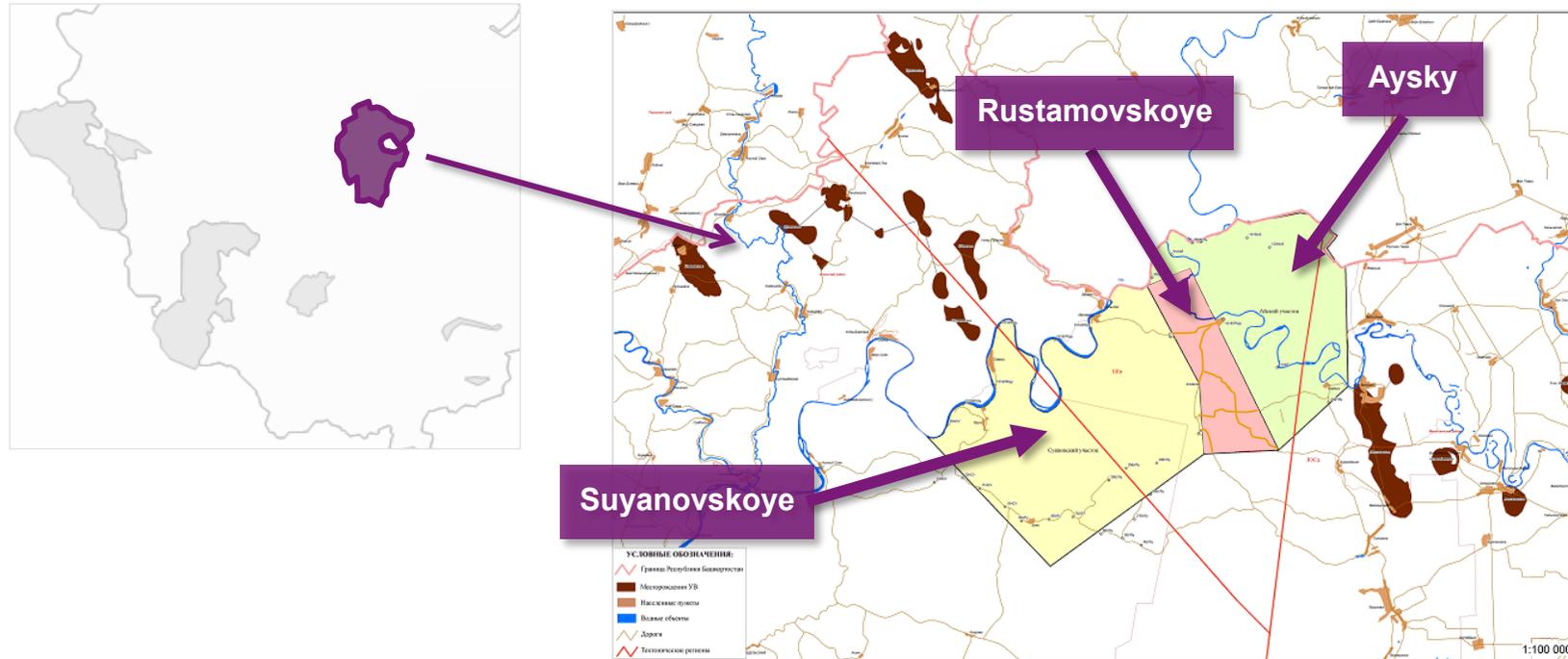
Significant increase in reserves expected in next reserves report

Investing to increase production

Better understanding of the reservoir decreases the geologic risks

- Horizontal wells with superior economics
- Scalable facilities under construction

# Surrounded by Bashneft producing fields



License	Area (km2)	Validity	Shelton wells	Soviet wells	Seismic (km)	Production (bopd)
Rustamovskoye	52	2030	4	5	167	600
Aysky	180	2017	0	10	138	0
Suyanovskoye	300	2034	0	15	85	0

bopd = barrels per day

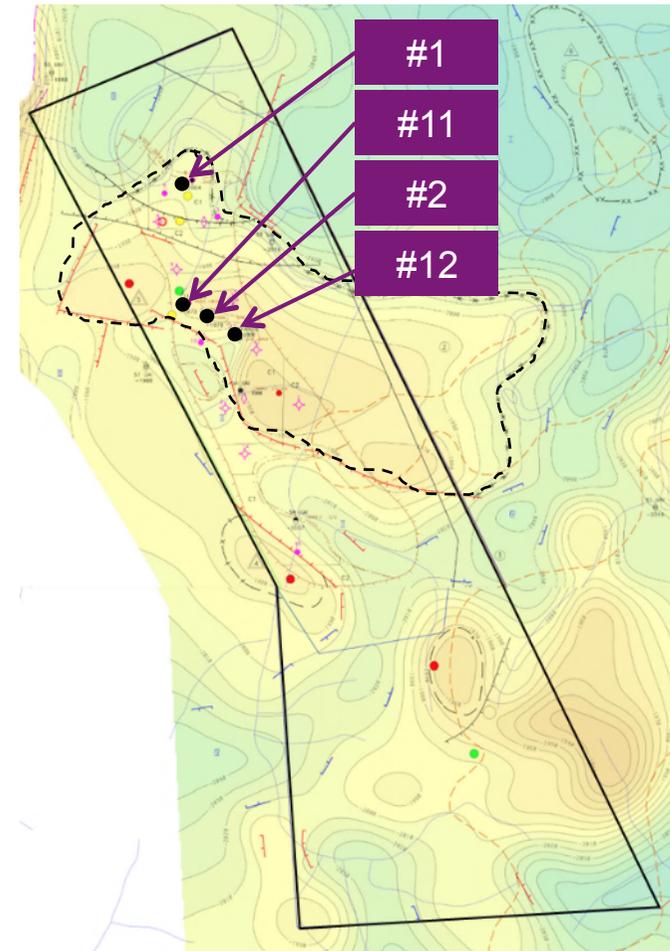
# The latest #12 well is a possible game changer

## New findings

- Higher initial production than previous wells
- Significantly higher net pay
- Extension of the known oil column

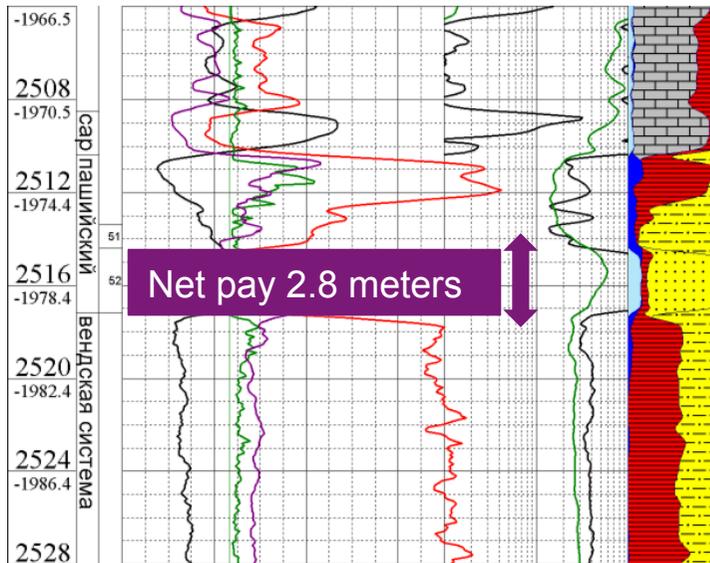
## Positive implications

- Larger reserves
- Improved well economics
- Better conditions for horizontal wells
- Shifts focus towards southeast and into neighboring Aysky license

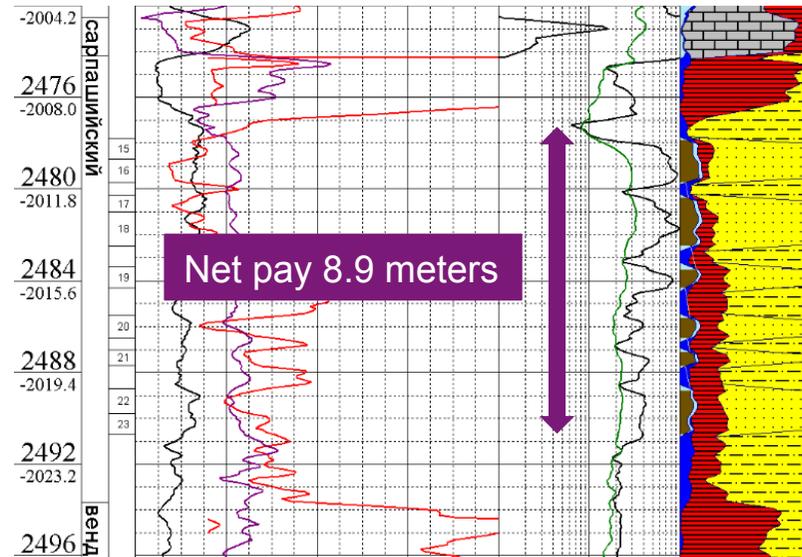


# Record flow rate from #12 well

Well #11

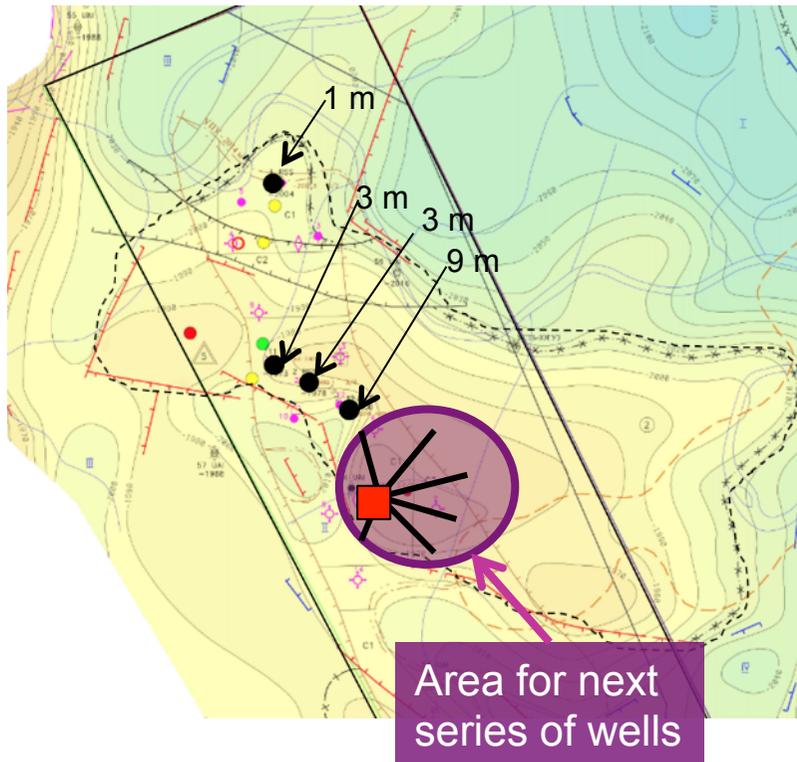


Well #12



- Significantly higher net pay compared to previous wells
- Extended known oil column from 35 to 48 meters
- Current production in #12 is over 300 barrels per day

# Future drillings to target thicker net pay



- Drill new production wells with new focus towards south-east
- Target thickening sands
- Horizontal wells with superior well economics
- Reservoir studies and well designs are being conducted to prepare for new drillings

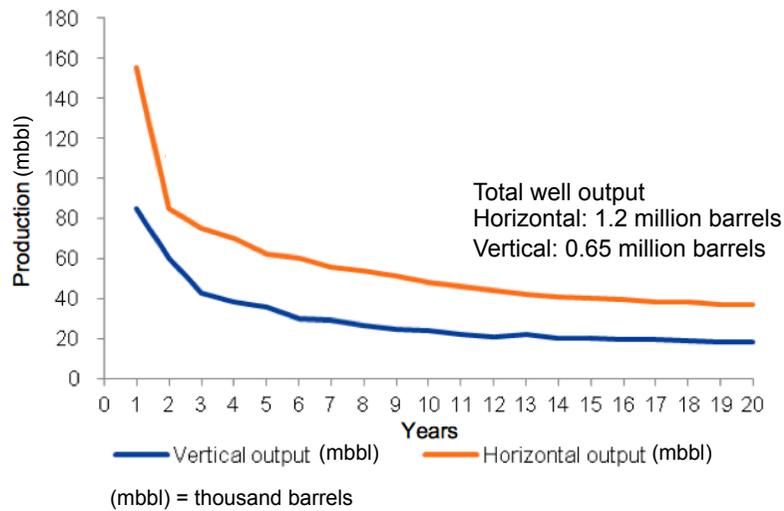
● Wells drilled by Shelton Petroleum  
Numbers indicate net pay in meters

■ New drill pad being designed

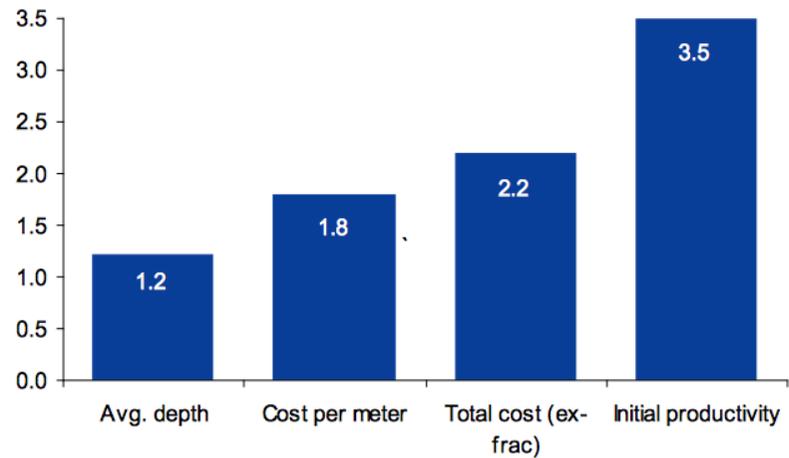
— Schematic new production wells

# Horizontal drillings increase well productivity and profitability

**Horizontal vs. vertical wells – production profile**



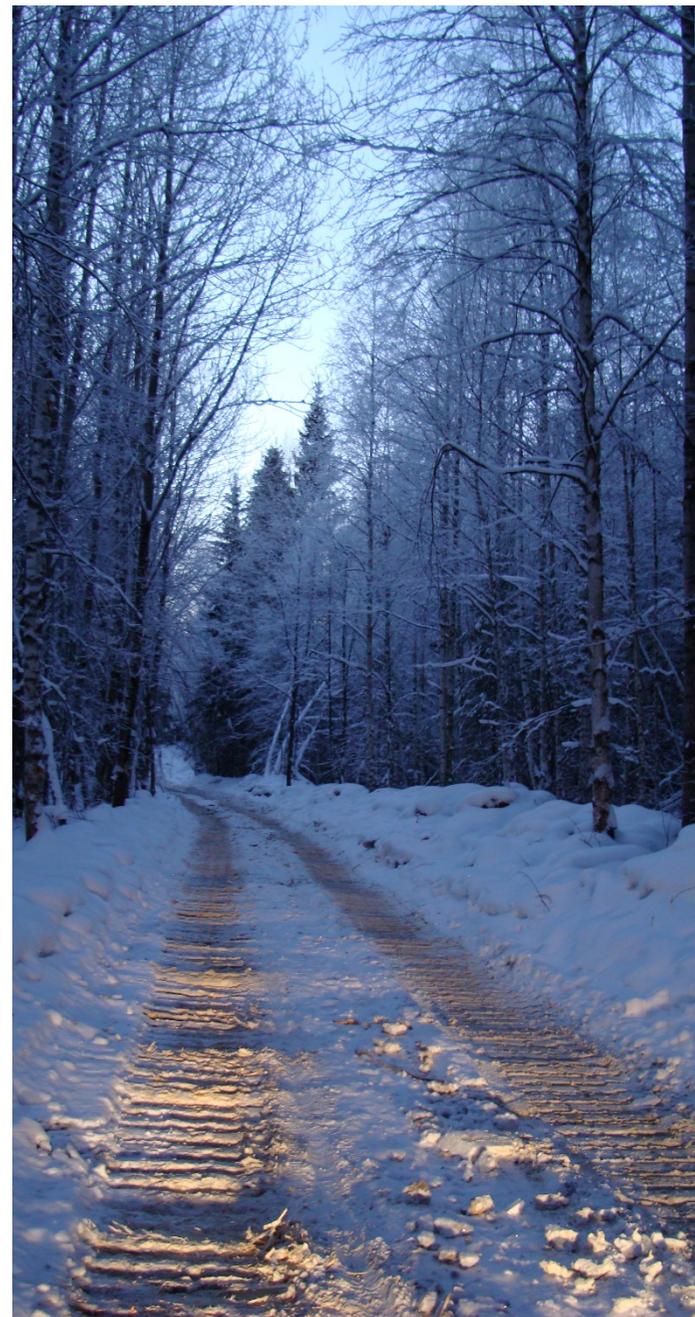
**Average horizontal-to-vertical well ratios (x)**



Source: Oil services company C.A.T Oil. The figures are based on industry averages and not necessarily fully representative for Shelton Petroleum

## Keys to value creation in Bashkiria

- Drilling of new wells on Rustamovskoye
- Repeating the results from well #12
- Increased reserves and resources at next reserves update
- New oil facilities will improve efficiency from wellhead to point of sales
- High exploration potential on neighboring licenses



# Erbjudande till aktieägarna i Petrogrand

## Erbjudande till aktieägarna i Petrogrand

- För varje aktie i Petrogrand erhålls 0,34 aktier i Shelton (höjt från 0,30 aktier)
- Villkorad av 50% acceptans
- Premie på 53% baserat på kurserna en månad för budet
- Premie på 57% baserat på kursen dagen före budet
- Premie på 17% baserat på dagens kurs
- Acceptperioden löper till 12 mars 2014

## Petrogrand rekommenderar inte budet, men värderingsrapporten utelämnar viktig information

Värderingsrapport	Kommentar
Baserat på reservrapport från 2009	Beaktar därmed inte de goda borresultaten från brunn #12
Räknar med 1 miljon fat i reserver på Rustamovskoye	Att jämföra med de betydligt högre bedömningarna Petrogrand gjort tidigare
Värderar reserverna i Ryssland till 0,9-2,4 USD/fat	Rörelseresultatet per fat uppgick till 18 USD/fat i Q4 2013
Värderar reserverna i Ukraina till 0,9-2,3 USD/fat	Rörelseresultatet per fat uppgick till 41 USD/fat i Q4 2013
Frågor kring licensvillkor och kundfordringar	Det finns reglerade processer för att förlänga licenser. Betalning för olja i Ukraina sker varje månad men med fördröjningar. SEK 6 miljoner erhållet i utdelning för Q4 2013 från Ukraina

## Vad tyckte Petrogrand tidigare?

”Robert, I don’t think you understand how great these results are.”

James Smith till Robert Karlsson efter att ha tagit del av resultaten från brunn #12 på Rustamovskoye

Framfört under en lunch i Moskva september 2013

James är styrelsesuppleant och teknisk expert i Petrogrand

# Vad tyckte Petrogrand tidigare?

- Rapport från Petrogrand författad av James Smith 13 september 2014

## Ayazovskoe oil field – well #12 results

Ayazovskoe development well #12 has recently reached the target.

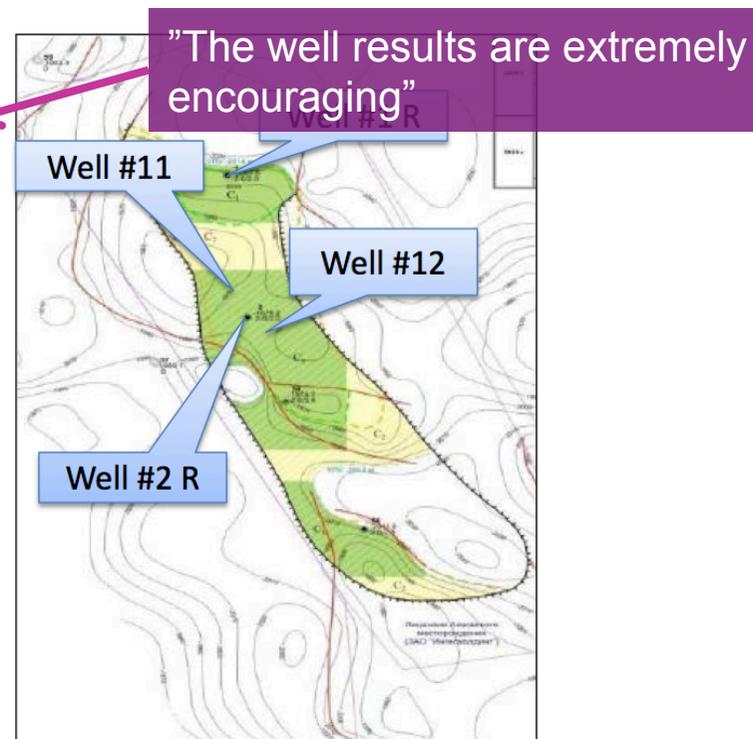
The well results are **extremely encouraging**, and a significant improvement on previous results.

- The well remains to be tested.

Main Conclusion for #12 well:

1. The main objective reservoir has **8.7m of pay**, compared to 3 m in #2 well and 2 m in #1 well.
  - Approx 3 times average net pay for the field.
2. The well has **extended the known hydrocarbon oil column** in the field by at least another 13m.
3. Known oil column was 35m and is **now at least 48m**, and is probably deeper.
4. Known oil is deeper than mapped structural closure
5. The well is structurally 30m down-dip.

The well will be tested in the next 2 weeks – **anticipated initial rates of around 25 t/d, could be as high as 40 t/d.**



Sheltons faktiska flöden överträffar Petrogrands optimistiska scenario

# Vad tyckte Petrogrand tidigare?

- Rapport från Petrogrand författad av James Smith 13 september 2014

## Ayazovskoe oil field – well #12 IMPACT

Well #12 results have the potential to have significant impact on the valuation of Ayazovskoe oil field.

From a reserves audit standpoint, if the **thickening pay is repeated** to the East and Southeast, then a reserves auditor will recognize this increase, in the reserves report.

However, if the result is only seen in a single well, it will be regarded as a “one-off”, until it is repeated and will not really impact reserves too much.

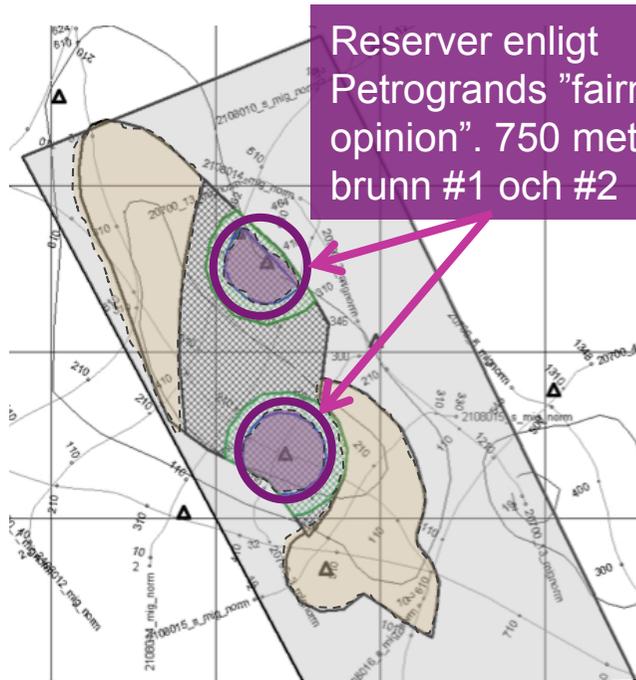
If a 2<sup>nd</sup> well to the Southeast is drilled (well #9) and this encounters a similar result to well#12, then we could expect the following:

1. Increase C1+C2 reserves from c. 1 million Tonnes to 5-6 million Tonnes.
2. Increase in areal size from 22 sqkm to over 30sqkm.
3. Reduced Capital spend in the future, due to fewer wells being required to drain the field.
4. All resulting in a **SIGNIFICANT VALUATION INCREASE.**

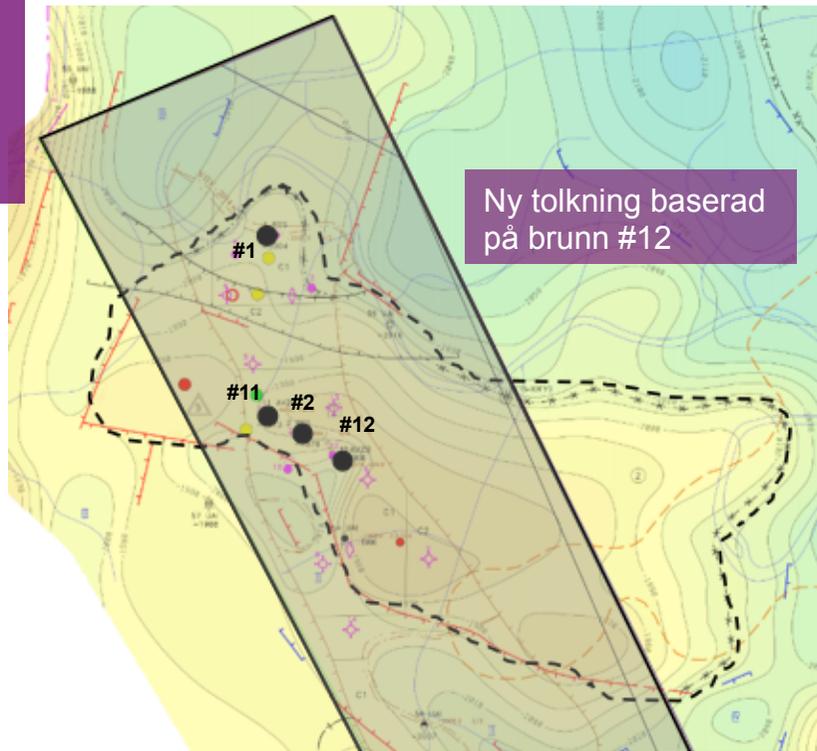
Proposal: Use the rig that is on location NOW, to drill 1 additional well (well#9) to the southeast.

”Ny brunn kan öka reserverna från 7 till 37-44 miljoner fat”  
(att jämföras med 1 miljon fat i Petrogrands egna värderingsrapport för budet)

# På vilka ytor har Petrogrand beräknat reserverna?



Reserver enligt Petrogrands "fairness opinion". 750 meter runt brunn #1 och #2



Ny tolkning baserad på brunn #12

Areas used for AGR TRACS reserve assessment 2009

-  1P=0.8 mmbbl (1.2 km<sup>2</sup>)
-  2P=1.4 mmbbl (2.6 km<sup>2</sup>)
-  3P=6.0 mmbbl (5.3 km<sup>2</sup>)
-  Resources North=8.4 mmbbl (6.2 km<sup>2</sup>)

mmbbl=million barrels recoverable, based on Devonian K-P horizon only

# Komplex geologi men enkel matematik

Utvinningsbara reserver Rustamovskoye		
	TRACS 2P	Brunn #12
	Sep 2009	sep 2013
Yta km2	2,6	> 20
Porositet	17 %	15-20 %
Oljemättnad	75 %	74-84 %
Tjocklek m	2,0	8,9
Utvinningsgrad	38%	
FVF	0,901	
Fat	1 439 980	

Antal fat =

$Yta * reservoartjocklek * porositet * oljemättnad * utvinningsgrad * FVF * 6.3$

Större yta och tjockare reservoarsten  
=> ökade reserver

Nya brunnar för att nå en fortsättning  
av den tjockare reservoarstenen

Reserver enligt Petrogrands "fairness opinion". Beaktar ej resultat från brunn #12

## Hur ska reserver värderas?

### AGR TRACS REPORT ON RUSTAMOVSKOYE 2009

	Barrels	Discounted value 5%	USD/barrel	Dicounted value 10%	USD/barrel	Dicounted value 15%	USD/barrel
<b>Proved</b>	750 000	10	13	8	10	6	8
<b>Probable</b>	690 000	9	13	7	10	5	8
<b>Possible</b>	4 570 000	53	12	35	8	24	5

### TRIMBLE ENGINEERING REPORT ON LELYAKI 2009

	Barrels	Discounted value 5%	USD/barrel	Dicounted value 10%	USD/barrel	Dicounted value 15%	USD/barrel
<b>Proved</b>	2 533 000	61	24	44	17	33	13
<b>Probable</b>	5 202 000	136	26	88	17	61	12
<b>Possible</b>	-	-	-	-	-	-	-

*Discounted value in millions of dollars*

- Petrogrand värderar reserverna i Ryssland till 0,9-2,4 USD/fat...  
... och TRACS värderar dem till 5-13 USD/fat
- Petrogrand värderar reserverna i Ukraina till 0,9-2,3 USD/fat...  
... och TRIMBLE värderar dem till 12-26 USD/fat

## Petrogrands finansiella utveckling

	2013	2012	2011	2010
Rörelsens intäkter	0	0	0	26 521
<i>Produktionskostnader</i>	0	0	0	-9 602
<i>Avskrivningar</i>	0	0	0	-176
<i>Försäljnings- och distributionskostnader</i>	0	0	0	-96
<i>Administrationskostnader</i>	-31 680	-31 028	-27 890	-25 911
<i>Nedskrivning av immateriella tillgångar</i>	-138 608	-49 519	0	0
<i>Övriga rörelsekostnader</i>	0	0	-1 930	-13 615
<i>Rörelsens kostnader</i>	-170 288	-80 547	-29 820	-49 400
<b>Rörelseresultat</b>	<b>-170 288</b>	<b>-80 547</b>	<b>-29 820</b>	<b>-22 879</b>

- Över 300 miljoner kronor i rörelseförlust de senaste fyra åren
- Årliga administrationskostnader på cirka 30 miljoner kronor
- 188 miljoner kronor investerade i misslyckade oljeprojekt
- 300 miljoner kronor i minskat börsvärde
- Styrelsearvodet är 3-4 gånger högre per person i Petrogrand än i Shelton

# Aktieägarna i Petrogrand har två alternativ

## Driva Petrogrand vidare

- Fortsatt implementering av affärsplanen
- Investeringar och borrningar i Ryssland
- Svag finansiell historik och kostnadskontroll
- Diffus kommunikation mot aktiemarknaden
- Nedläggning och utdelning?

## Anta Sheltons erbjudande

- Omedelbar uppvärdering från nuvarande rabatt på kassan (Sheltons premie)
- Ta del av de värden som kan skapas genom att kombinera Petrogrands kassa och Sheltons tillgångar
- Ägande i lönsamt bolag med bra "track record", producerande tillgångar och prospekteringspotential
- Fokus på aktieägarvärde