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The Board of Directors' of Shelton Petroleum AB proposal for resolution on agreement between the company and one of the company's large shareholders, Petrogrand AB (p. 15)

Below is the Board of Directors' of Shelton Petroleum statement pursuant to the Swedish Securities Council's statement in AMN 2012:05, which also include the Board of Director's proposal for resolution (*see* section 3).

1 Background

In January 2014 Shelton Petroleum announced an offer to the shareholders of Petrogrand. The offer was completed in the middle of April 2014 whereby Shelton Petroleum became the owner of approximately 29 per cent of the shares in Petrogrand. In March 2014 Petrogrand announced an offer to the shareholders of Shelton Petroleum. The offer is open until 1 July 2014. Petrogrand currently holds approximately 28 per cent of the shares and approximately 20 per cent of the votes in Shelton Petroleum. Since quite some time there are disputes and a strained relationship between the companies, which affects both the companies and their shareholders negatively. Despite many efforts during the last six months the board of Shelton Petroleum has been unable to find an arrangement that would create value for the shareholders of both companies. The board believes that the best for both companies would be to dissolve the cross-ownership to create opportunities for the companies to develop their respective license portfolios on their own. The board of Shelton Petroleum therefore presents a proposal where the companies swap their holdings with each other at the same exchange ratio that Shelton Petroleum earlier offered to the shareholders of Petrogrand in the public offer. The proposal thus entails that for each share in Petrogrand that Shelton Petroleum holds, and swaps with Petrogrand in the proposal, Petrogrand returns 0.44 shares in Shelton Petroleum.

The board of Shelton Petroleum believes that the proposal, which is outlined in detail below, is beneficial for the shareholders of both companies.

- 1.1 Shelton Petroleum is Petrogrand's largest shareholder and owns at the date of this proposal 11,585,308 shares in Petrogrand, representing approximately 29 per cent of the shares and votes (all of the shares in Petrogrand owned by Shelton Petroleum from time to time are in this proposal referred to as the "**Petrogrand Shares**"). Petrogrand is one of Shelton Petroleum's largest shareholders and owns at the date of this proposal 4,983,756 shares of series B in Shelton Petroleum, representing approximately 28 percent of the shares and approximately 20 per cent of the votes (all of the shares in Shelton Petroleum owned by Petrogrand from time to time are in this proposal referred to as the "**Shelton Shares**").
- 1.2 The Swedish Securities Council has so far made eight statements regarding Shelton Petroleum's exchange offer on Petrogrand (the "**Exchange Offer**") and Petrogrand's cash offer on Shelton Petroleum (the "**Cash Offer**"). The statements

have been characterised by the strong conflicts between the parties and the Swedish Securities Council has in a letter dated the 20 May 2014 asked Shelton Petroleum and Petrogrand to inform the council if there are any prospects for a resolution to the conflicts. To this end, Shelton Petroleum has drafted a proposal to an agreement between Shelton Petroleum and Petrogrand to dissolve their cross-ownership in each other (the “**Agreement**”).

- 1.3 The Board of Directors’ considers the Agreement to include such a related-party transaction which is covered by the Swedish Securities Council’s statement in AMN 2012:05 and, therefore, should be referred to the general meeting for approval. The Board of Directors of Shelton Petroleum has therefore resolved that the Agreement shall be referred to the annual general meeting for approval.
- 1.4 Petrogrand has further, at Shelton Petroleum’s request, convened an extraordinary general meeting, to take place on 27 June 2014, to (among other things) consider the matter “agreement between Shelton Petroleum AB and Petrogrand AB”. This matter concerns the Agreement and a corresponding proposal will, therefore, be presented at the extraordinary general meeting in Petrogrand on 27 June 2014.
- 1.5 The Swedish Securities Council has in AMN 2014:29 stated that the Agreement does not contravene good practices on the stock market.

2 The Agreement

- 2.1 Shelton Petroleum forms a new subsidiary (“**NewCo1**”) and contributes the Petrogrand Shares with a reduction for Surplus Shares if the number of Surplus Shares (*see* further below section 2.2) is positive, to NewCo1, subject to Petrogrand forming a new subsidiary (“**NewCo2**”) and contributing the Shelton Shares, with a reduction for the number of shares that corresponds to Surplus Shares if the number of Surplus Shares is negative, to NewCo2.
- 2.2 In connection with the Exchange Offer, Shelton Petroleum issued in total 5,097,534 shares of series B (the “**Exchange Shares**”) in exchange for in total 11,585,308 shares in Petrogrand. The exchange ratio in the Exchange Offer was 0.44 shares in Shelton Petroleum for each share in Petrogrand. On the basis of this exchange ratio, there is at the date of this proposal a positive difference between the Exchange Shares and the Shelton Shares of 113,778 shares of series B, corresponding to 258,586 shares in Petrogrand, which could become negative if Petrogrand increases its holding of shares in Shelton Petroleum (the share difference which can arise from time to time is in this proposal referred to as the “**Surplus Shares**”). The Surplus Shares shall not be contributed to any of the NewCo companies but shall be divested by Shelton Petroleum (if the number of Surplus Shares is positive) or by Petrogrand (if the number of Surplus Shares is negative) within six months.

- 2.3 Shelton Petroleum and Petrogrand shall, thereafter, through foreign subsidiaries, exchange all of the shares in one NewCo company against all of the shares in the other NewCo-company, whereby NewCo2 becomes a wholly-owned subsidiary of Shelton Petroleum and NewCo1 becomes a wholly-owned subsidiary of Petrogrand (the “**Exchange Transaction**”). Following completion of the Exchange Transaction, each party has the right to freely dispose of the shares in NewCo1 and NewCo2, respectively, in accordance with applicable law and good stock market practice.
- 2.4 As a part of the Agreement, Petrogrand terminates the Cash Offer as soon as practicably possible without any further prolongation. To this end, it shall be noted that the Swedish Securities Council has declared that it is prepared to make a withdrawal of the Cash Offer possible by granting, at Petrogrand’s request, an exemption from section II.5 of the take over-rules (*see* AMN 2014:29).

3 Proposal for resolution

The Board of Directors proposes that the annual general meeting approves the Agreement and instructs the Board of Directors of Shelton Petroleum to, as soon as practicably possible, effectuate the Agreement.

4 Miscellaneous

This proposal and an appraisal from an independent expert regarding the Agreement’s fairness for Shelton Petroleum’s shareholders on a financial basis, is made available, or with respect to the appraisal will be made available at latest three weeks before the annual general meeting, at the company (Hovslagargatan 5B, 111 48 Stockholm). The documents will be sent without cost to shareholders who so request and provide their postal address. The documents will during the same time also be available on www.sheltonpetroleum.com and be presented at the annual general meeting.

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Stockholm on 4 June 2014
Shelton Petroleum AB
The Board of Directors