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## **The Board of Directors' of Shelton Petroleum AB (publ) proposal for resolution on agreement between the company and Petrogrand AB (publ) (item 7)**

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

### **1 Background**

In January 2014 Shelton Petroleum AB (publ) ("**Shelton Petroleum**") announced an offer to the shareholders of Petrogrand AB (publ) ("**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. On 2 July 2014, Petrogrand announced, by way of a press release, that Petrogrand would not implement its public offer to the shareholders in Shelton Petroleum. Petrogrand currently holds approximately 26 per cent of the shares and approximately 19 per cent of the votes in Shelton Petroleum. In the light of the strained relationship between the companies Shelton Petroleum and Petrogrand have entered into an agreement that will dissolve the cross-ownership through a swap of shareholdings with each other. Dissolving the cross-ownership will enable the companies to develop their respective license portfolios on their own. The agreement entails that for each share in Petrogrand that Shelton Petroleum holds, and swaps with Petrogrand in accordance with the proposal, Shelton Petroleum receives 0.40 shares in Shelton Petroleum from Petrogrand. The exchange ratio based on the closing price on the day before the announcement of the agreement was 0.43 and the average exchange ratio based on the volume weighted share price for the last 30 days before the announcement was 0.37. The agreement is conditional upon approval at extraordinary general meetings in both companies.

The Board of Directors of Shelton Petroleum believes that the proposal, which is outlined in detail below, under the current market conditions is beneficial for the shareholders of Shelton Petroleum.

- 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 4,900,563 shares of series B in Shelton Petroleum, representing approximately 26 percent of the shares and approximately 19 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 Shelton Petroleum and Petrogrand entered into an agreement on 18 December 2014 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 extraordinary general meeting for approval.
- 1.4 Under the Agreement, Petrogrand has further undertaken to convene an extraordinary general meeting, to take place on 26 January 2015, to consider the Agreement.

## **2 The Agreement**

- 2.1 Pursuant to the Agreement, Shelton Petroleum will establish a foreign subsidiary (“**NewCo4**”). NewCo4 in turn establish a new subsidiary (“**NewCo2**”), whereby Shelton Petroleum contributes the Petrogrand Shares, to NewCo2, subject to Petrogrand establishing a foreign subsidiary (“**NewCo3**”) which in turn establish a new subsidiary (“**NewCo1**”) and Petrogrand contributing the Shelton Shares, with a reduction for Surplus Shares (see further below section 2.2), to NewCo1.
- 2.2 In connection with Shelton Petroleum’s exchange offer on Petrogrand (the “**Exchange Offer**”), Shelton Petroleum issued in total 5,097,534 shares of series B in exchange for in total 11,585,308 shares in Petrogrand. The exchange ratio based on the closing price on the day before the announcement of the Agreement was 0.43 and the average exchange ratio based on the volume weighted share price for the last 30 days before the announcement was 0.37. Shelton Petroleum and Petrogrand have agreed, taking into account the recent market development, that the exchange ratio in the Agreement shall be 0.40 shares of series B in Shelton Petroleum for each share in Petrogrand. This means that a total of 4,634,123 shares of series B in Shelton Petroleum (the “**Exchange Shares**”) are included in the Agreement. On the basis of this new exchange ratio, there is at the date of this proposal a difference between the Exchange Shares and the Shelton Shares, corresponding to 266,440 shares of series B in Shelton Petroleum (the “**Surplus Shares**”). The Surplus Shares shall not be contributed to any of the NewCo companies but shall be kept or divested in accordance with the terms of the Agreement by Petrogrand. The Surplus Shares will amount to 2% of the total number of shares and 1% of the total number of votes in Shelton Petroleum after the share swap and cancellation of the Exchange Shares have been completed.
- 2.3 Shelton Petroleum and Petrogrand shall, thereafter, through the foreign subsidiaries NewCo4 and NewCo3, exchange all of the shares in NewCo2 against all of the shares in NewCo1, whereby NewCo1 becomes an indirectly wholly-owned

subsidiary of Shelton Petroleum and NewCo2 becomes an indirectly wholly-owned subsidiary of Petrogrand (the “**Exchange Transaction**”). Following completion of the Exchange Transaction, each party has the right to freely dispose of its indirectly owned own shares in accordance with applicable laws and good stock market practice.

### **3 Proposal for resolution**

The Board of Directors proposes that the extraordinary general meeting approves the Agreement and instructs the Board of Directors and management of Shelton Petroleum to, as soon as practicably possible, effectuate the Agreement. The proposed resolution is conditional upon the extraordinary general meeting in Petrogrand (scheduled to take place on 26 January 2015) approves 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 extraordinary general meeting, at the company (Hovslagargatan 5, 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](http://www.sheltonpetroleum.com) and be presented at the extraordinary general meeting.

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Stockholm in January 2015  
Shelton Petroleum AB (publ)  
*The Board of Directors*