



PETROGRAND

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Dear Shareholders,

Now that we have had the Extraordinary General Meeting and received the renewed confidence of our shareholders, the Board can concentrate on the future. First and foremost however, together with you we intend to evaluate and review all the information related to Shelton Petroleum's share offer.

In response to the share offer that Shelton Petroleum AB (publ), hereafter "Shelton", made to the shareholders of Petrogrand AB (publ), hereafter "Petrogrand" and the ensuing discussion, I would as Petrogrand's member of the Board, CEO and shareholder like to highlight a few of the items that we discussed and which I personally find puzzling.

In 2013, Petrogrand and Shelton entered a convertible debentures agreement in which the conversion price was set at SEK 20. The price for Shelton's shares in the bid Shelton has now presented to Petrogrand's shareholders is set at SEK 32.4. Given the robust increase in value over such a short period of time, I have assumed the task of exploring the reasons for this sudden increase in value. To put it briefly, I have not found any explanation for this increase but, after reviewing the information available to the general public, I have several questions about Shelton's operations. Because only public information has been used, it is possible that the conclusions are erroneous.

Offshore-licences in the Ukraine

To start, I would like to point out that the three offshore licences in the Ukraine that Shelton mentions in its marketing are 100% owned by Chernomorнеftegaz ("CNG"), while Shelton is a 50% partner in an investment agreement. This means that if CNG is neither able nor willing to invest in prospecting of these licences Shelton has no right to do so either. Because Shelton is not a partner in the license company, 50% of the resources should not be attributed to Shelton.

Second, I feel there is a great deal of uncertainty in terms of the extension of the two offshore licenses that expire in 2014 given that only CNG may apply for an extension of these licences. Moreover, I am uncertain if the investment agreement between CNG and Shelton applies also after

an extension. Shelton has conveyed no concrete communication regarding the situation for these two items.

Third, and most important: which country will have jurisdiction for managing these licenses after the vote on 16 March? The Crimean peninsula's status as an independent sovereign state or as a part of the Russian Federation will be determined then. What happens then to the state-owned company CNG?

Accounts receivable for the Lelyaki field

I am also very concerned about the accounts receivable presented by Shelton. In 2013, accounts receivable rose from MSEK 28 to MSEK 48 million according to Shelton's year-end report. Shelton's wholly-owned Canadian subsidiary, Shelton Canada, has simultaneously received just over SEK 6 million in dividends from Kashtan Petroleum for Q4 2013 – which prompts the question of whether the amount refers to unpaid dividends instead of accounts receivable. If so, I also question whether these unpaid dividends can be reported as income in the income statement.

Shelton writes that the amount and validity of the receivable has been confirmed by the other party. The next question must be then, which company has a claim on which party? Is the other party UkrtatNafta or Privat Group? Should not these accounts receivable be reserved as bad debts given that no payment plan has been signed for them? Should such a payment plan be signed, it would be interesting to know how this payment plan will be guaranteed. If these are bad debts, then perhaps they should be written off which would have an impact on the profit. The obscurity surrounding these issues is augmented by the fact that the figures for 2013 have not been audited.

Shelton's CEO announced at the information meeting on 3 March that payments to Kashtan Petroleum are always made, albeit somewhat delayed. If we look at Shelton's own production figures, we can conclude that the payments made only cover production expenses, such as taxes, wages and remuneration to UkrtatNafta for the operations agreement. However, it appears that the margin for profit remains in UkrtatNafta, which is Kashtan's sole customer. This appears to have been the routine since Q4 2012, and is so even today.

Unfortunately, there are no updated accounting records for Kashtan Petroleum in the official Ukrainian register. This begs the question, is it this money that Shelton Petroleum is reporting as short-term receivables?

Effects of currency exchange rates

The sale of oil has been conducted in the Ukrainian currency, Gryvna. Should these accounts receivable/unpaid dividends be paid, the value in Swedish kronor will have diminished since the exchange rate between Gryvna and USD has climbed from 8.15G/USD to 10 G/USD from the close of 2013 to today. Naturally, currency risks are always a factor in international business, but the impact of these risks would not be as extensive had the receivables/dividends been paid on time.

Joint venture arrangement

Finally, as concerns the Ukrainian organisation, I have received a legal memo regarding the joint venture arrangement for Kashtan Petroleum, see the appendix. It makes me wonder what risks are linked to the extension of the Lelyaki license after 2016, as well as the legal status of the joint venture company, Kashtan Petroleum.

Bashkiria

As it says in the report from ABG Sundal Collier, only reserves confirmed by an independent third party can be used when evaluating an oil company. In Shelton's case, there is a confirmed and registered reserve of 1 million 1P+2P and 6 million 3P – according to a five-year old report.

While it may be true that an oil company on the Stockholm Stock Exchange (OMX Nordic Exchange Stockholm) does not need to regularly update its reserves, an oil company that wants to convince investors to spend substantial capital on its operations should present a fresher report than the one currently available.

I also want to object to Shelton Petroleum using in its public presentation the internal material that Shelton's management was given in the greatest confidence. This material was compiled as grounds for discussion about the continued financing of drilling activities in Bashkiria within the framework of Convertible debenture 2.

As representative for the largest shareholder in Shelton Petroleum AB, I want to direct one final question to Shelton's management team. In the year-end report dated 17 February 2014, short-term receivables are reported to be TSEK 63 548. If the receivables in the Ukraine only amount to MSEK 48 according to the company, and the total short-term receivables are MSEK 63.5, then to what does the receivable for MSEK 15.5 refer? Bashkiria?

As I said, there are a lot of questions, but not a lot of time to get answers to them all. Hopefully, we will find a few in the revised year-end report for 2013. Until then, I encourage the shareholders of Petrogrand to reject Shelton Petroleum's share offer in line with the previous Board's recommendation, which also has the backing of the newly elected Board of Directors. And let us not forget the opposition to the bid made by the Swedish Shareholders' Association("Aktiespararna").

Yours sincerely,

Maks Grinfeld

CEO

Petrogrand AB

P.S.

Other relevant information related to the above questions has been published on Petrogrand's website.

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.

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