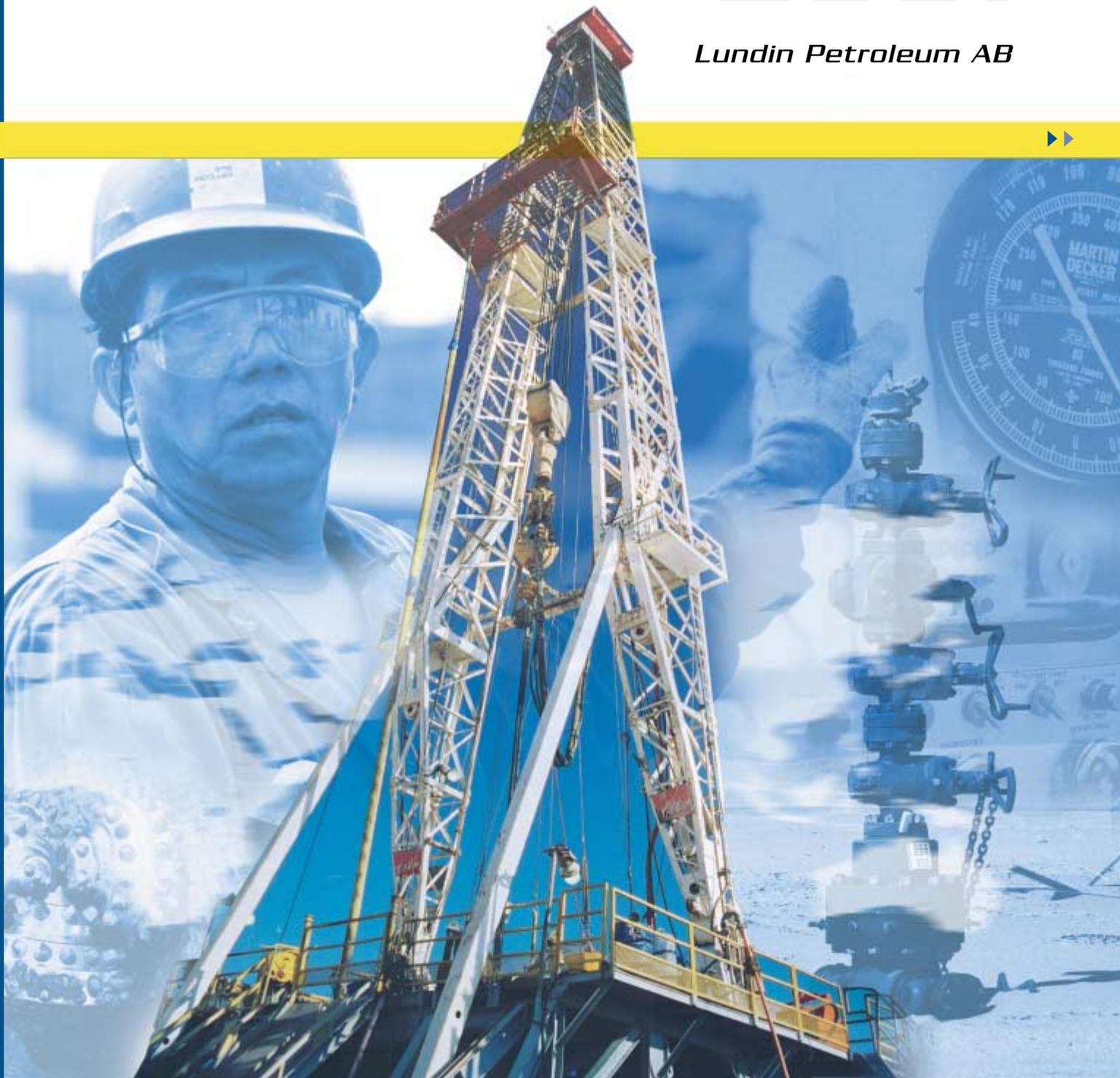


ANNUAL REPORT **2001**

*Lundin Petroleum AB*



*Exploring for Energy*

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### Definitions:

References to "Lundin Petroleum" or "the Company" pertain to the corporate group of which Lundin Petroleum AB (publ) (company registration number 556610-8055) is the parent company or to Lundin Petroleum AB (publ), depending on the context.

References to "Lundin Oil" pertain to Lundin Oil AB (publ) (company registration number 556297-9483).

References to "Talisman" pertain to Talisman Energy Inc.

References to "Öhman" pertain to E. Öhman J:or Fondkommission AB.

### THE COMPANY

Lundin Petroleum is a Swedish independent oil and gas exploration company with a strategic focus on areas of the world where there are proven petroleum systems, large reserves potential and lack of recent exploration activity. The Company's shares are traded on the New Market at Stockholmsbörsen in Sweden (ticker 'LUPE').



# *Lundin Petroleum*

## *Exploring for Energy*

INTRODUCTION <<



### VISION

Lundin Petroleum's vision is to build a significant oil and gas exploration and production company, which will deliver significant growth and provide increasing value to the shareholders.

### MISSION

Lundin Petroleum's mission is to explore for, and produce, oil and gas in the most economically efficient and socially and environmentally responsible way, for the benefit of shareholders, employees and coventurers

*In hindsight it is clear that the sale of  
Lundin Oil was a well-timed and  
highly lucrative deal*

▶▶ **LETTER TO SHAREHOLDERS**

**Dear shareholders,**

**2001 witnessed the creation of Lundin Petroleum through the sale of Lundin Oil.**

Lundin Petroleum came into existence as a result of the SEK 4 billion takeover of Lundin Oil by Talisman in the summer of 2001. As a consequence of this transaction, Lundin Oil shareholders received SEK 36.5 in cash plus one share in Lundin Petroleum for each share held in Lundin Oil.

On 6 September 2001 the shares of the new Company started trading on the New Market at Stockholmbörsen with Öhman as sponsor. In addition to SEK 68 million in cash, the Company had assets of SEK 558 million including a strong acreage position in Sudan. Lundin Petroleum retained the same Board and management team that made Lundin Oil a success. In October 2001 a SEK 558 million rights issue was initiated, the first tranche of which was fully subscribed netting the Company SEK 302.7 million.

In hindsight it is clear that the sale of Lundin Oil was a well-timed and highly lucrative deal for our shareholders. When we started talking to Talisman, the oil price was holding firmly at above USD 25 per barrel. Since we completed the sale, the oil price has been very volatile, dipping below USD 20 per barrel before recovering recently.

Our philosophy has always been to be prepared to see our projects through to the end if we want to maximise the value of the Company. It has served us well. For instance, when the going was tough, we could have walked away from Malaysia and Libya. Instead we persevered until we got an offer we felt reflected the full value of the assets.



IAN H. LUNDIN

President and

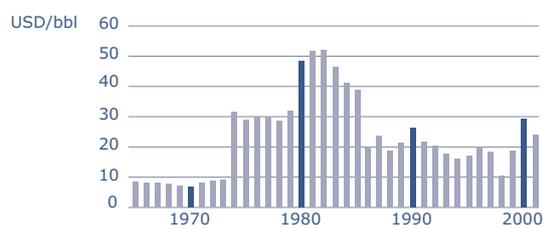
Chief Executive Officer

LUNDIN PETROLEUM NET RESERVES



Proven & probable recoverable oil reserves  
60.2 million barrels of oil

OIL PRICE DEVELOPMENT IN REAL TERMS



Source: Tor Wergeland / BP Statistical Review / Pareto Securities

LETTER TO SHAREHOLDERS

The same philosophy is being applied to Lundin Petroleum. Sudan is a case in point. As announced on 22 January 2002, operations were suspended temporarily as a result of deteriorating security conditions. The potential of this asset remains huge, so while Sudan is proving to be a very challenging project we intend to persevere until the value of the asset can be fully realised.

Our engagement in Sudan has also raised ethical issues, due to the ongoing conflict in that country. The question being asked is whether oil fuels the war or sets the conditions for peace by providing the country with the necessary means to lift itself out of poverty. We believe in the latter. Peace and stability are basic necessities for any investor. Long-term investors, such as us, require long-term solutions. This is a message that we have delivered and will continue to deliver to all parties to the conflict, including the Government of Sudan. Ultimately we are confident that both Blocks 5A and 5B, in which our Company has a 40.375% and 24.5% interest, respectively, will yield large quantities of oil for the benefit of Sudan as a whole and will create enormous value for you, our shareholders.

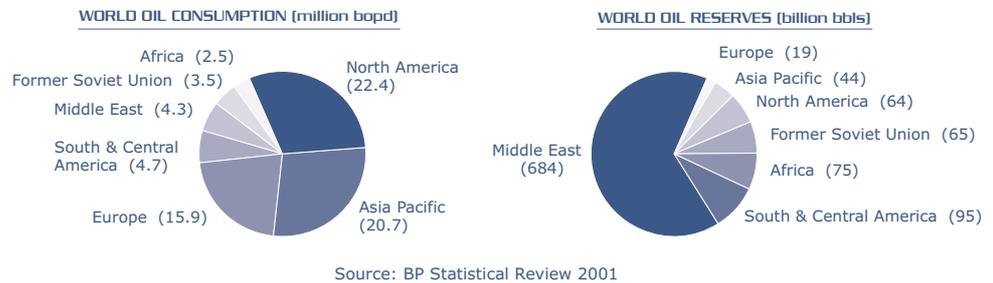
As an early indication of this prediction, an independent reserves study by Resource Investment Strategy Consultants (RISC) of Perth, Australia, has assigned proven and probable recoverable reserves of 149.1 million barrels of oil to the Thar Jath field in Block 5A as of 1 January 2002. This report allows us to book net recoverable reserves of 60.2 million barrels in Sudan.

Meanwhile in Iran, where the Company has a 40% interest in the Munir Block, we intend to build on our existing relationships with a view to pursuing more exploration and development opportunities. Iran is, and will continue to be, one of the main producers of hydrocarbons in the world, and our objective is to gain a strong foothold in that country.

Finally, we continue to evaluate production opportunities around the world using our extensive industry contacts. The theory of buying while prices are low and selling when they are high is as simple as it is fool proof.

Thank you for your continued support.





## ▶▶ THE MAKING OF LUNDIN PETROLEUM

### A WORD OF THANK YOU

The sale of Lundin Oil to Talisman could not have taken place without excellent cooperation between the two companies. Quoting Talisman senior management at the deal closing "the transaction was not the largest we have done but it was certainly one of the most complex."

Talisman management should be complimented on their handling of the transaction – an agreement was reached at short notice and despite extensive due diligence and complicated legal issues, Talisman stood by the original deal.

The small Lundin internal team worked long hours to get the deal done. They were aided by a team of outside advisors who we would like to thank for their inputs.

These advisors include; our external lawyers – Lagerlöf & Leman in Sweden and Gibson, Dunn and Crutcher in the UK and the USA, our tax advisors CW Energy in the UK and our investment-bankers Öhman in Sweden who sponsored the listing and handled the rights issue for Lundin Petroleum.

All in all it was a great team effort by a group of highly motivated, professional people. The former Board of Lundin Oil extends, its gratitude to all those involved.

### The sale of Lundin Oil to Talisman was completed in August 2001.

We were all very pleased with the deal, which left Lundin Oil shareholders with a substantial windfall.

We now intend to achieve the same success with Lundin Petroleum. The existing management has the requisite technical and financial skills, and a strong desire to make this a reality. Our assets in Sudan and Iran are exciting in terms of world-class exploration potential. We intend to use our industry contacts and experience to add producing assets to this portfolio.

The objective is to create value for Lundin Petroleum shareholders. Let's take a look at our view of the world and how we intend to achieve our goal. A few facts:

- ▶ *The world today consumes close to 30 billion barrels of oil per year. This is in excess of the reserves of the North Sea. Despite the various economic cycles and talk of alternative energy this demand continues to grow.*
- ▶ *The major world oil companies have production growth targets of around 3–5% per year. Their existing production is declining and therefore the majors need to add at least 5% of new oil to their reserves base every year to meet their growth targets. In absolute terms, this means that some of the larger companies have to find in excess of one billion barrels of net reserves every year just to replace existing production, let alone effect any increase in reserves.*
- ▶ *The result is that the majors are finding it increasingly difficult to grow organically and as a result are searching out acquisition opportunities. This has made the independent oil companies, which have been more successful at finding oil, very attractive take-over targets for the majors.*

*We focus on finding oil, but to generate cash flow in the short term we plan to acquire producing assets*

## THE MAKING OF LUNDIN PETROLEUM

As a small oil company we can create a lot of value by finding oil. This was the case with Lundin Oil and is now the model for Lundin Petroleum. Our particular strategy in finding oil and thereby creating value for our shareholders is as follows:

- ▶ *We are driven by a desire to find oil. Our primary focus is on exploration but we plan to balance our portfolio and generate cash flow in the short term through the acquisition of producing assets*
- ▶ *We are ready to face political challenges and will consider investing in any country provided that there are mature oil basins, established infrastructure, reasonable fiscal terms and of course the potential to make large discoveries.*
- ▶ *Technical innovation and people are critical. The oil business is people driven and therefore we place a high value on our staff. Our people have already shown that they not only have the ability to discover oil but that they also have the ability to deliver value to our shareholders.*

We work in a dynamic environment, which is driven from the top. Our Chairman, Adolf Lundin, his many successes notwithstanding, is still ultimately consumed by the desire to find "big oil." At a recent gathering of oil company executives, people were asked what they did in their spare time – the answers that came from around the room were golf, hunting and art. Adolf was at first silent but when prodded, replied: "elephants." "So you hunt big game," they said, "how exciting." "No," said Adolf, "elephants – i.e. billion barrel oil fields – I look for elephants."

Adolf has found a lot of oil but he is still looking for that elusive elephant. Lundin Petroleum plans to deliver.



A blue ink signature of C. Ashley Heppenstall, written in a cursive style.

C. ASHLEY HEPPENSTALL  
Finance Director  
and Chief Financial Officer



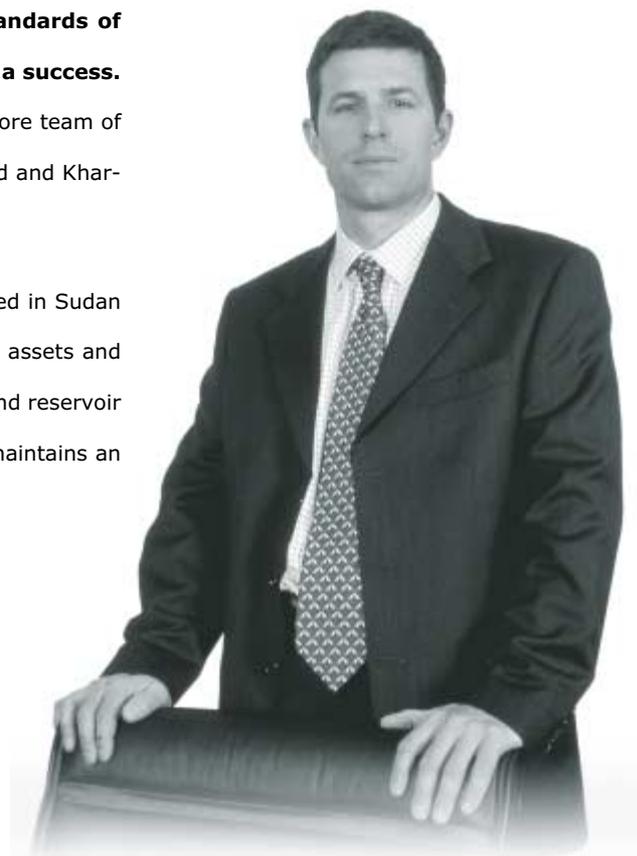
*Lundin Petroleum's core assets  
are interests in Block 5A and 5B in Sudan  
and the Munir Block in Iran*

**OPERATIONS** ▶▶

**Our challenge at Lundin Petroleum is to maintain the high standards of technical work and operational efficiency that made Lundin Oil a success.**

In order to achieve this objective, we have kept in place the original core team of professional, dedicated and enthusiastic people in Geneva, Switzerland and Khartoum, Sudan.

Lundin Petroleum's core assets are Block 5A and Block 5B, both located in Sudan and the Munir Block in Iran. The technical team responsible for these assets and for reviewing new opportunities consists of geologists, geophysicists and reservoir engineers, all based in the technical office in Geneva. The Company maintains an office in Khartoum to oversee Block 5A operations.



ALEX SCHNEITER

Exploration Director

**Concessions as at 31 December 2001**

COUNTRY	BLOCK	AREA KM <sup>2</sup>	WORKING INTEREST, %	OPERATOR	JOINT VENTURE PARTNERS
<b>ASSETS</b>					
Sudan	5A	20,917	40.375	Lundin Petroleum	Petronas, OMV & Sudapet
Sudan	5B	20,119	24.500	Petronas/Sudapet	Petronas, OMV & Sudapet
Sudan	Halaib	10,304	100.000	Lundin Petroleum	None
Iran	Munir	2,690	40.000	Edison	Edison
<b>CONTINGENT ASSET</b>					
Somalia	35 & M-10A	16,282	20.000	BP Amoco	BP Amoco, Murphy, Fortum & Gulfstream

Photo opposite – 3D seismic acquisition on Block 5A, Sudan

*The Thar Jath field is large  
by any standards at over  
one billion barrels of oil in place*

## OPERATIONS

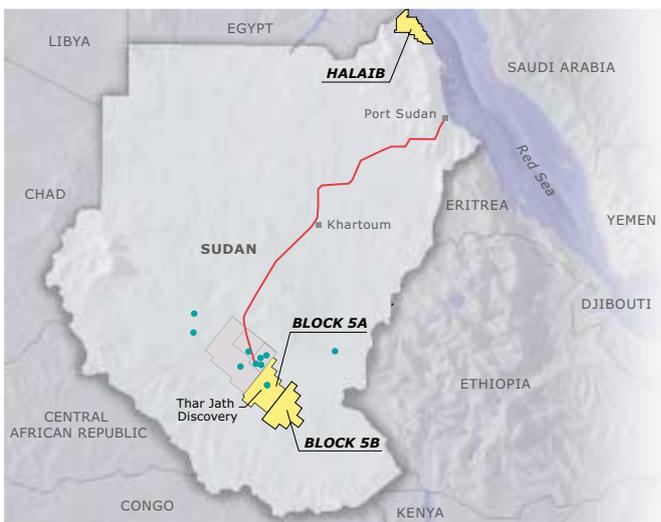
### SUDAN BLOCK 5A

Lundin Petroleum is the operator and has a 40.375% interest in Block 5A in Unity State, onshore Sudan. The block is situated in the prolific Muglad Basin of southern Sudan where over one billion barrels of oil have already been discovered and where approximately 250,000 bopd are being produced from fields directly to the north of the block.

The year 2001 was successful for our operations from a technical perspective. The Thar Jath discovery well flowed at a cumulative rate of 4,260 bopd. The appraisal well Thar Jath-2 confirmed a substantial discovery flowing at a cumulative rate of 2,257 bopd. This very encouraging start to the year was tempered only by a disappointing exploration well at a location 10 kms south of



Thar Jath wellsite



- Lundin Petroleum and Partners Concession
- GNPOC Concession
- Existing Pipeline
- Oil Fields

Thar Jath, known as Jarayan. In order to accurately map the Thar Jath field a 3-D seismic campaign was carried out over the field, confirming our belief that the structure is very large indeed.

The Thar Jath field is large by any standards at over one billion barrels of oil in place. A third party reservoir engineering study was completed in early 2002 assigning proven and probable recoverable reserves of 149.1 million barrels of oil to the Thar Jath field.

A preliminary development plan has been completed on the Thar Jath project using technologies tried and tested in the GNPOC fields to the north of Block 5A. Other technologies not yet introduced into Sudan are being investi-



Drill floor during Thar Jath-2 well

gated to increase the production rate and the ultimate recovery from this large and complex reservoir. The oil will be exported via the existing 1,500 km pipeline that extends from the Muglad Basin to the Red Sea coast.

The exploration potential of Block 5A is very large and the Company has been actively defining locations of future exploration wells that should prove up this potential.

At the time of publishing this report, operations on Block 5A remain suspended due to ongoing security problems in the area, which started affecting operations in early 2002. Lundin Petroleum plans to resume operations as soon as conditions allow.

#### **SUDAN BLOCK 5B**

The agreement covering Block 5B, in which the Company has a 24.5% interest, was signed on 2 May 2001. Although the Consortium, consisting of OMV (Sudan) Exploration GmbH, Petronas Carigali Overseas Sdn Bhd, Sudapet and Lundin Petroleum, is the same for Block 5A, Block 5B is operated jointly by Petronas and Sudapet.

Block 5B is also located in the prolific Muglad Basin directly adjacent to Block 5A. Together Block 5A and Block 5B cover the entire southern half of the Basin, an area roughly equivalent in size to Switzerland. Given the ongoing insecurity in the area, operations on Block 5B have not yet commenced.

*The Munir Block is located in the Khuzestan province, one of the richest petroleum provinces in Iran*

## OPERATIONS

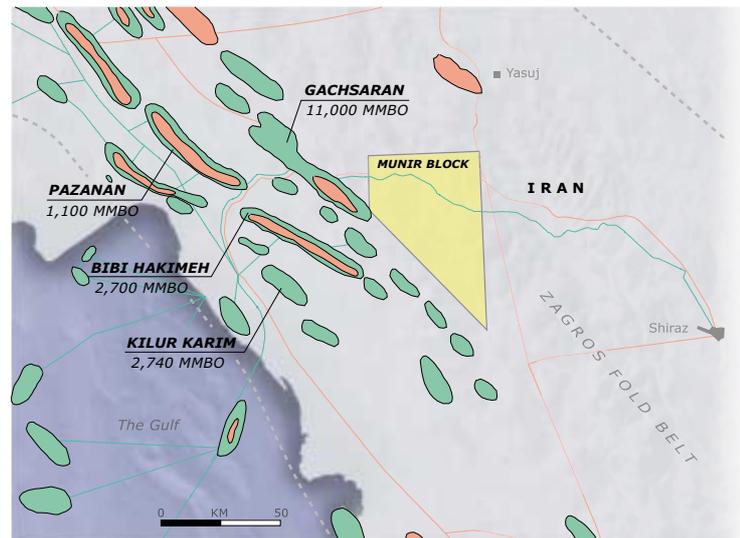
### IRAN MUNIR BLOCK

The Exploration Service Contract for the Munir Block was signed on 16 January 2001 by the National Iran Oil Cooperation (NIOC) and Edison International. The Company was later assigned a 40% interest by Edison International who retained a 60% interest and is acting as operator.

The Munir Block is located in the Khuzestan province, one of the richest petroleum provinces in Iran. It is directly on trend with a number of major oil fields: Di Gachsaran (11 billion barrels of oil reserves), Di Bibi Hakimeh (2.7 billion of oil) and other smaller but still significant fields like Kilur Karim, Pazanan, Di Ch. Bisheh, Chillingar, Rudak and Milatan.

The Munir Block has remained significantly under explored as a result of the general lack of exploration activity in the country during the last 25 years.

The work program consists of seismic acquisition and the drilling of 3 exploration wells. Seismic preparations are well underway with expected operations start up in the first half of 2002. Drilling operations are expected to start in 2003.



- Lundin Petroleum & Partners
- Oil Field
- Gas Field
- Oil Pipeline
- Gas Pipeline



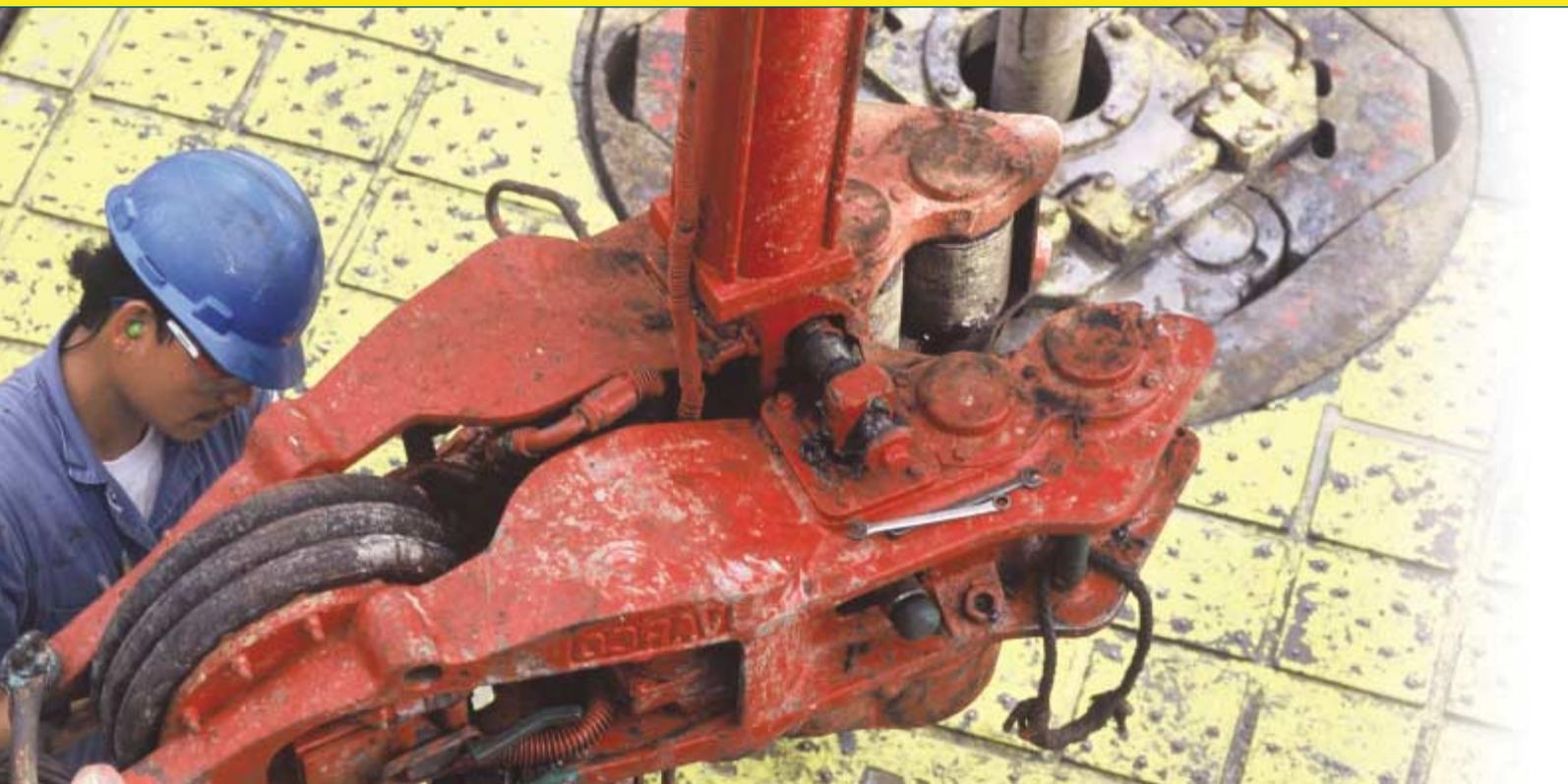
Seismic interpretation



Seismic acquisition vehicles

### **SOMALIA BLOCK 35 AND M-10**

Lundin Petroleum has a three-year option, which expires in 2004, to acquire a 20 percent working interest in Block 35, onshore and Block M-10A, offshore, in Northern Somalia, also referred to as Somaliland. During the subsequent two years Lundin Petroleum will have the option to purchase a 10 percent working interest in the same two blocks. Both blocks have been in "force majeure" since 1986.



#### **CORPORATE RESPONSIBILITY IN PRACTICE**

Lundin Petroleum has pledged, in its Code of Conduct\*, to act as a responsible corporate citizen; we are committed to integrate ethical considerations into our business ventures and to be judged accordingly. Our aim is to develop ways of improving our commercial and social performance, which will satisfy our shareholders, employees, host countries and local communities.

In 2001 we identified three areas that require particular attention: community development, environment and health and safety. We devised relevant corporate policies

\* The Code of Conduct is posted on [www.lundin-petroleum.com](http://www.lundin-petroleum.com) in the Corporate Responsibility section.

that are applicable wherever we are active.

#### **COMMUNITY DEVELOPMENT**

Lundin Petroleum believes that commercialising the oil and gas reserves of a particular area is a way of contributing to its economic development. Nonetheless, since it takes time before oil is actually produced and benefits accrue to the local community, we have decided that where and when required, we will try to contribute to the welfare of the community through targeted development projects.

The main objective of Lundin Petroleum's community

*We are committed to integrate ethical considerations into our business ventures*



development program is to “help people help themselves”, i.e. to give people means to improve their daily life. A secondary objective is to promote good neighbourly relations between us and the host community. We can achieve these two objectives by working with community representatives to identify key needs, and devise jointly projects that aim to respond to those needs.

#### **ENVIRONMENT**

Lundin Petroleum is attentive to the potential impacts of its exploration and production activities on the environment. We have a policy of carrying out environmental studies prior to any significant work phase and to adopt adequate measures to avoid, minimise or mitigate potential environmental impacts. Follow up studies occur on completion of significant work phases to assess the impact and effect restoration or rehabilitation, as required. Our policy is complemented by operations procedures that guide our staff in the field.

#### **HEALTH AND SAFETY**

Lundin Petroleum’s principal health and safety objective is to provide a safe and sound working environment for its employees, contract personnel and members of the general public who may be affected by the Company’s activities. Due attention is paid to the special circumstances in which our employees are required to work and measures are taken to limit potential risk or hazards. Safety procedures are effective in all field operations and

regular drills are carried out to ensure that everyone is prepared to deal with crisis situations. Evacuation procedures are in place in case of medical emergencies.

Competent and dependable employees are vital to the success of Lundin Petroleum. To recruit and retain our employees, we offer working conditions that match or surpass those of our peers. We promote fair and safe employment practices whereby all employees are entitled to equal employment opportunities and no employee or job applicant is discriminated against for employment because of race, colour, religion, creed, age, sex, national origin or ancestry, or political affiliation.

▶▶ COMMUNITY DEVELOPMENT IN SUDAN



Corporate responsibility is more than words, it is an attitude and a commitment translated into action.

A handwritten signature in white ink, appearing to read 'Christine Batruch', set against a dark background.

CHRISTINE BATRUCH  
Head of Corporate  
Responsibility

**COMMUNITY DEVELOPMENT AND HUMANITARIAN ASSISTANCE PROGRAM (CDHAP)**

Lundin Petroleum has operations in Block 5A, Unity State, South Sudan, which is mostly inhabited by the Nuer people. Due to a combination of climatic, geographic and political reasons, the Nuers live in precarious conditions. To try to enhance the well-being of this community and raise its living standards, Lundin Petroleum has initiated a Community Development and Humanitarian Assistance Program (CDHAP). After consulting with local leaders and development experts, it devised the following projects aiming at meeting some of the inhabitants basic needs:

- ▶ *Infrastructure development – building of an all-weather road, bridges and seasonal roads to different parts of the concession area, thereby increasing people’s mobility.*
- ▶ *Water supply – delivery of freshwater by trucks; drilling 6 and repairing 10 shallow water wells; installation of a water filtration system in a populous village.*
- ▶ *Health – treatment of nearly 6,000 patients in two mobile clinics; prevention of diseases through vaccination programs and distribution of blankets, mosquito nets, soap, etc.*
- ▶ *Education – distribution of school supplies to 5 local schools, and supply of a meal per day to over 500 pupils.*
- ▶ *Capacity building – hiring local people for operations, seismic surveys and community development projects (over 250 people on part-time basis); distribution of agricultural equipment; selection of local candidates for medical training programs.*



- ▶ *Humanitarian assistance – provision of medical services and related supplies to alleviate humanitarian crises on a needs basis.*

CDHAP is being implemented on the ground by a dedicated Sudanese staff consisting of a program coordinator, doctors, paramedics, field officers and ad hoc personnel hired to carry out specific tasks. While the bulk of the activities address current problems, Lundin Petroleum remains committed to finding ways to help the local community achieve long-term economic self-sufficiency.

As a pilot project we have financed the start up and running costs of a mobile brick factory. The project is significant in that it has involved the training and full-time employment of villagers and has produced over 100,000 bricks, which are to be used towards building local schools and medical dispensaries. This project was meant as a test to determine how to help the community diversify its means of livelihood. It has generated new ideas and confirmed Lundin Petroleum's resolve to pursue other projects of this type.

## ▶▶ DIRECTORS, MANAGEMENT & AUDITORS



Kai Hietarinta  
Ashley Heppenstall

Ian H Lundin  
Lukas H Lundin

Adolf H Lundin

Carl Bildt  
William Rand

Magnus Unger

**Adolf H. Lundin**, Chairman, born 1932

Other board duties: Chairman of North Atlantic Natural Resources AB, Vostok Nafta Investment Ltd. and Vostok Energo Investment Ltd.

Master of Science degree (Department of Engineering) from the Royal Institute of Technology, Stockholm. Master of Business Administration degree from Centre d'Etudes Industrielles, Geneva.

Salaries and remunerations: SEK 593,497.

Agreements on retirement remuneration and pensions: none  
Shares in Lundin Petroleum: 45,242,045.

Warrants in Lundin Petroleum: 11,310,511.

Incentive options: 0.

**Carl Bildt**, Director, born 1949

Other board duties: Chairman of Teleoptimering AB, board member of HiQ AB, Humany AB, Melody Interactive Solutions AB, E. Öhman J:or Fondkommission AB, KREAB, Vostok Nafta Investment Ltd. and Talisman Energy AB.

Member of the Swedish Parliament 1979–2001. Prime Minister of Sweden 1991–1994. UN Secretary General's Special Envoy for the Balkans 1999–2001.

Salaries and remunerations: SEK 76,521.

Agreements on retirement remuneration and pensions: none  
Shares in Lundin Petroleum: 0.

Warrants in Lundin Petroleum: 0.

Incentive options: 0.

**Ashley Heppenstall**, Finance Director and Chief Financial Officer, born 1962

Other board duties: Board member of Champion Resources  
Bachelor of Science degree in mathematics from the University of Durham.

Salaries and remunerations: SEK 847,613.

Agreements on retirement remuneration and pensions: none  
Shares in Lundin Petroleum: 914,600.

Warrants in Lundin Petroleum: 228,650.

Incentive options: 444,500.

**Kai Hietarinta**, Director, born 1932

Other board duties: Board member of Vostok Nafta Investment Ltd. Vostok Energo Investment Ltd.

Master of Science degree in Engineering from Helsinki University of Technology. MBA from Helsinki School of Economics. Dr of Economics HC from the School of Economics and Business Administration in Turku.

Salaries and remunerations: SEK 76,521.

Agreements on retirement remuneration and pensions: none  
Shares in Lundin Petroleum: 0.

Warrants in Lundin Petroleum: 0.

Incentive options: 0.

**Ian H. Lundin**, President and CEO, born 1960

Bachelor of Science degree in petroleum engineering from the University of Tulsa.

Salaries and remunerations: SEK 925,299.

Agreements on retirement remuneration and pensions: none  
Shares in Lundin Petroleum: 12,757,955.

Warrants in Lundin Petroleum: 3,432,501.

Incentive options: 635,000.

**Lukas H. Lundin**, Director, born 1958

Other board duties: Chairman of Tanganyika Oil Co. Ltd. and International Curator, board member of North Atlantic Natural Resources AB, Vostok Nafta Investment Ltd., Tenke Mining Corp., Santa Catalina Mining Corp. and Vostok Energo Investment Ltd.

Graduate from New Mexico Institution of Mining, Technology and Engineering.

Salaries and remunerations: SEK 76,521.

Agreements on retirement remuneration and pensions: none

Shares in Lundin Petroleum: 393,644.

Warrants in Lundin Petroleum: 98,411.

Incentive options: 0.

**William A. Rand**, Director, born 1942

Other board duties: International Curator Resources Ltd., International Uranium Corporation, Tenke Mining Corp and ResourceCan Ltd.

Commerce degree (Honours Economics) from McGill University. Law degree from Dalhousie University.

Master of Law degree in international law from the London School of Economics.

Salaries and remunerations: SEK 76,521.

Agreements on retirement remuneration and pensions: none

Shares in Lundin Petroleum: 44,000.

Warrants in Lundin Petroleum: 11,000.

Incentive options: 0.

**Magnus Unger**, Deputy Managing Director, born 1942

Other board duties: Chairman of the Odin Group.

MBA from the Stockholm School of Economics.

Salaries and remunerations: SEK 238,385.

Agreements on retirement remuneration and pensions: none

Shares in Lundin Petroleum: 45,818.

Warrants in Lundin Petroleum: 11,455.

Incentive options: 76,200.

## MANAGEMENT

**Adolf H. Lundin**

Chairman of the Board, see Board of Directors

**Ian H. Lundin**

President and Chief Executive Officer, see Board of Directors

**Magnus Unger**

Deputy Managing Director, see Board of Directors

**Ashley Heppenstall**

Finance Director and Chief Financial Officer, see Board of Directors

**Alexandre Schneider**, Exploration Director, born 1962

Bachelor of Science in Geology from the University of Geneva and a Masters degree in Geophysics.

Shares in Lundin Petroleum: 106,000.

Warrants in Lundin Petroleum: 26,500.

Incentive options: 444,500.

## AUDITORS

**Carl-Eric Bohlin**, born 1946

Authorised Public Accountant

Company's auditor since 2001

PricewaterhouseCoopers AB, Stockholm

**Klas Brand**, born 1956

Authorised Public Accountant

Company's auditor since 2001

PricewaterhouseCoopers AB, Gothenburg

**Bo Hjalmarsson**, Deputy Auditor, born 1960

Authorised Public Accountant

Company's deputy auditor since 2001

PricewaterhouseCoopers AB, Stockholm

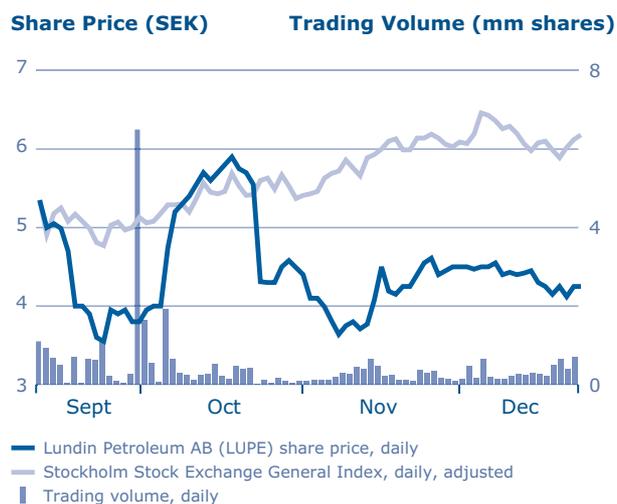
**Dividend policy**

The primary objective of Lundin Petroleum is to add value to the shareholders, employees and society through profitable operations and growth. The added value will be expressed partly by dividends paid and partly by a long-term increase in the share price. This will be achieved by increased hydrocarbon reserves, developing discoveries and thereby increasing production and ultimately cash flow and net income.

The size of any dividend has to be determined by the Company's financial position and the possibilities for growth through profitable investments. Dividends will be paid when the Company generates sustainable cash flow and sufficient net income from operations to maintain long-term financial strength and flexibility.

Over time the total return to shareholders is expected to accrue to a greater extent from the increase in share price than from dividends received.

Due to the nature of Lundin Petroleum's operations, the dividend policy is to give funding priority to the ongoing exploration projects, and satisfy the immediate capital requirements of the Company. The extent to which future dividends can be paid is dependent on when these requirements have been met and the Company is able to generate positive cash flow from the production of oil and gas. It is unlikely that a dividend will be payable for the foreseeable future.



**Shares and Warrants Outstanding**

Lundin Petroleum's share capital as at 31 December 2001 amounts to SEK 2,124,076 represented by 212,407,568 shares of nominal value SEK 0.01 each.

In addition, outstanding at 31 December 2001 are 53,101,892 warrants with an exercise price of SEK 4.50 exercisable between 15 May 2002 and 14 June 2002.

Under the Group incentive program for employees 2,500,000 incentive warrants with a strike price of SEK 4.30 expiring on 1 May 2004 were issued on 3 October 2001. The incentive warrants are exercisable from 1 May 2002. In accordance with the terms of the issue of the Group incentive warrants, the number of incentive warrants was increased to 3,175,000 and the exercise price amended to SEK 3.37 following the dilution from the rights issue effected during November 2001.



## Share Capital

Since the incorporation of the Lundin Petroleum, the Company's share capital has developed as shown below.

Transactions	Month and year	Nominal value, SEK	Change in number of shares	Total number of shares	Change in share capital, SEK	Total share capital, SEK	Subscription price, SEK
Initial formation of the Company	May, 2001	100.00	1,000	1,000	100,000	100,000	100.00
Share split 10,000:1	June, 2001	0.01	9,999,000	10,000,000	-	100,000	-
New share issue	June, 2001	0.01	92,861,283	102,861,283	928,613	1,028,613	0.01
New share issue	July, 2001	0.01	3,342,501	106,203,784	33,425	1,062,038	0.01
New share issue	November, 2001	0.01	106,203,784	212,407,568	1,062,038	2,124,076	3.00

## Share Ownership Structure

The 10 largest shareholders according to a report from VPC, 28 February 2002.

Shareholders as at 28 February 2002	Number of shares	Subscription capital/votes, %
Lundin, Adolf H	45,242,045	21.3
SIS Segaintersettle	33,476,553	15.8
Lundin, Ian H	12,757,955	6.0
Lombard Odier	4,848,722	2.3
Deutsche Bank	4,262,007	2.0
Bank Julius Baer	4,008,546	1.9
SEB Private Bank	3,295,000	1.5
Merrill Lynch	2,616,513	1.2
Pictet	2,613,984	1.2
Gylling, Bertil	1,900,000	0.9
Other shareholders	97,386,243	45.9
<b>Total</b>	<b>212,407,568</b>	<b>100.0</b>

## Distribution of Shareholdings

Distribution of shareholdings in Lundin Petroleum according to a report from VPC, 28 February 2002.

Size categories as at 28 February 2002	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1-500	2,647,972	1.25	14,188	54.03
501-1,000	3,295,676	1.55	3,963	15.09
1,001-10,000	21,766,264	10.25	6,789	25.85
10,001-50,000	22,203,703	10.45	1,053	4.01
50,001-100,000	9,203,703	4.31	129	0.49
100,001-	153,209,250	72.19	136	0.53

## ▶▶ KEY FINANCIAL DATA

### KEY DATA for the period 4 May - 31 December 2001

	Group
Return on equity <sup>1</sup> , %	-6
Return on capital employed <sup>2</sup> , %	-6
Debt/equity ratio <sup>3</sup> , %	0
Equity ratio <sup>4</sup> , %	96
Share of risk capital <sup>5</sup> , %	96

1 Return on equity is defined as the Group's net result divided by average shareholders' equity (the average over the Group's existence).

2 Return on capital employed is defined as the Group's income before tax plus interest expenses plus/less exchange differences on financial loans divided by the average capital employed (the average balance sheet total less non interest-bearing liabilities over the Group's existence).

3 Debt/equity ratio is defined as the Group's interest-bearing liabilities in relation to shareholders' equity.

4 Equity ratio is defined as the Group's shareholders' equity, including minority interest, in relation to balance sheet total.

5 Share of risk capital is defined as the sum of the shareholders' equity and deferred taxes, including minority interest, divided by balance sheet total.

### DATA PER SHARE for the period 4 May - 31 December 2001

	Group
Shareholders' equity <sup>1</sup> , SEK	4.1
Operating cash flow <sup>2</sup> , SEK	0.0
Cash flow used in operations <sup>3</sup> , SEK	0.1
Earnings <sup>4</sup> , SEK	-0.4
Earnings, (fully diluted) <sup>5</sup> , SEK	-0.4
Dividend, SEK	-
Quoted price at the end of the financial period (regards the parent company), SEK	4.25
Number of shares at period end	212,407,568
Weighted average number of shares for the period <sup>6</sup>	105,142,301
Weighted average number of shares for the period (fully diluted) <sup>5</sup>	105,813,439

1 Shareholders' equity per share is defined as the Group's shareholders' equity divided by the number of shares at period end.

2 Operating cash flow per share is defined as the Group's operating income less production costs and less current taxes divided by the weighted average number of shares for the period.

3 Cash flow used in operations per share is defined as cash flow used in operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the period.

4 Earnings per share is defined as the Group's net result divided by the weighted average number of shares for the period.

5 Earnings per share fully diluted is defined as the Group's net result divided by the fully diluted weighted average number of shares for the period.

6 Weighted average number of shares is defined as the number of shares at the beginning of the period with newly issued shares weighted for the proportion of the period they are in issue.

### SEK TO USD EXCHANGE RATES used in the preparation of the financial statements

Average rate	10.594
Closing rate	10.667

Lundin Petroleum AB (publ) Reg no. 556610-8055 (Amounts in TSEK unless otherwise stated)



**The Board of Directors and the Managing Director of Lundin Petroleum AB hereby present the annual report for the financial period ended 31 December 2001**

#### FORMATION

Lundin Petroleum AB (Lundin Petroleum) was formed as a result of the SEK 4 billion takeover of Lundin Oil AB by Talisman Energy Inc. in the summer of 2001. As a result of the transaction Lundin Oil AB shareholders received SEK 36.5 in cash plus one share in Lundin Petroleum for each share held in Lundin Oil AB.

On 6 September 2001 the shares of Lundin Petroleum started trading on the new market at Stockholmbörsen with Öhman J:or Fondkommission AB as sponsor. In addition to SEK 68 million in cash the Company had assets of SEK 558 million including a strong acreage position in Sudan. It also had the same Board and Management Team as Lundin Oil. In October 2001 the Company initiated a SEK 558 million rights issue, the first tranche of which was through a new share issue and was fully subscribed netting the Company SEK 302.7 million. The second tranche comprising warrants is exercisable during May and June 2002.

#### OPERATIONS

The main business of Lundin Petroleum is the exploration for, the development of and the production of oil and natural gas.

#### Discovery of Thar Jath in Block 5A, Sudan

The first exploration well drilled in Block 5A resulted in the discovery of the Thar Jath field which has subsequently been appraised by a further well. The field was in the process of being further appraised with two more wells planned when operations had to be suspended for security reasons. On resumption of operations it is proposed to complete a development plan to bring the Thar Jath field on production.

The announcement of the suspension of operations in early 2002 was due to a deterioration in the security situation in Block 5A which resulted in an inability to provide a safe working environment for the Company's employees and contractors. The Company has advised the Government of Sudan it requires a safe environment to enable the resumption of operations and that this will most likely require a peace agreement in respect of the Company's area of operations. At this time it is not possible for the Company's management to determine when operations will resume but it is unlikely this will happen until the start of the dry season in late 2002. In the interim period the operation will be run on a care and maintenance basis to protect the tangible assets and ensure that if the security situation improves, operations can begin as soon as possible. The drilling and ancillary contracts for the Thar Jath appraisal programme have been terminated and the drilling rig and associated equipment have been demobilised from the Thar Jath location.

The Company's management believe it will be possible to resume operations to realise the value of the Thar Jath discovery and further explore Block 5A when security conditions improve.

#### **Continued exploration in Sudan and Iran**

In 2001 Lundin Petroleum signed contracts in respect of new exploration areas in Block 5B in Sudan and the Munir Block in Iran. Both areas have high potential to find hydrocarbon reserves in proven petroleum systems.

The Block 5B Sudan acreage and the company's interest in the adjoining Block 5A represent a major position in the southern part of the underexplored Muglad Basin.

In Iran, the Munir Block is in the heart of the prolific Zagros Fold Belt producing region in western Iran. The intention is to acquire seismic data on the Block during 2002 following which the first exploration well will be drilled.

#### **Future Outlook**

The Company is actively pursuing opportunities to expand its oil and gas portfolio particularly in relation to the acquisition of producing properties.

#### **ENVIRONMENT**

Lundin Petroleum and its international exploration and production affiliates conduct their international exploration and production operations, at a minimum, in accordance with all applicable environmental procedures and programs. The Group has no operations in Sweden.

#### **CODE OF CONDUCT**

Lundin Petroleum has pledged, in its Code of Conduct, to act as a responsible corporate citizen. This means that it has committed itself to integrate ethical considerations into its commercial endeavors and to be

judged on that basis.

#### **REPORT ON BOARD ACTIVITIES**

Lundin Petroleum's Board of Directors, consisting of eight members, was formed on 8 June 2001 at an EGM. No deputy directors were appointed. There are no members appointed by employee organisations. The Managing Director and the Deputy Managing Director are members of the Board. Three regular board meetings were held during the year.

The Board has adopted procedural rules for its internal activities that contain rules pertaining to the number of Board meetings, matters to be handled at regular Board meetings, duties incumbent on the Chairman, instructions specifying when and how information that is required to enable the Board to evaluate the Company's and the Group's financial position is to be reported to the Board, as well as the distribution of work between the Board and the Managing Director.

During the year the Board reviewed the economic and financial positions of the Company and the Group on a regular basis. The Board also regularly dealt with matters concerning acquisitions and divestments, financing, issues of warrants to the shareholders and the employees, review and adoption of the budget, as well as matters related to the annual report and the interim reports. The Chairman of the Board has met with the Group's auditors as part of the annual audit function.

#### **Changes in the Board Of Directors and Management**

There have been no changes to the Board of Directors since its members were appointed on 8 June 2001.

## FINANCIAL STATEMENTS

The Company was incorporated on 4 May 2001. The financial statements represent the period from 4 May 2001 until 31 December 2001. The reporting Group was formed on 22 August 2001 following the restructuring of Lundin Oil AB to effect the takeover by Talisman Energy of Lundin Oil AB. As this is the first financial reporting period there are no comparative numbers available.

## OPERATING RESULTS

The Group reports a net result for the period of TSEK -41,983. This loss arose from a combination of the following factors.

Service income received for the financial period amounted to TSEK 749. This amount represents payments by the joint venture partners in Block 5A, Sudan to Lundin Petroleum as the operator.

Other income of TSEK 4,373 is the amount charged to third parties for work carried out by Lundin employees.

General, administrative and depreciation expenses amounting to TSEK 23,145 are mainly attributable to salaries, office leases and corporate costs. Included within general, administration and depreciation expenses is an amount of TSEK 4,446 being non-recurring expenditure relating to the Company's initial share registration on the Stockholmsbörsen in Sweden.

Result from financial investments, net of TSEK -22,907 arises from TSEK 1,972 in interest income received on bank deposits and the USD 1.3 million promissory note issued by Khanty Mansyisk Oil Corporation (KMOC), offset by TSEK 679 in currency exchange movements and TSEK 24,200 in financial expenses. Financial

expenses comprise primarily an amount of TSEK 23,823 being a write down in the carrying value of the shares held in KMOC. Details of the write down can be found under the heading financial fixed assets.

Tax charge amounts to TSEK 551 and represents tax payable in Switzerland based on a percentage of expenditure incurred. No provision has been made for the tax benefit of the tax losses incurred in Sweden due to the uncertainty of the timing of this benefit.

## INVESTMENTS AND FINANCIAL CONDITION

### Tangible fixed assets

As at 31 December 2001, tangible fixed assets amounted to TSEK 376,181, of which TSEK 366,289 are attributable to oil and gas properties in Sudan. Tangible fixed assets relating to oil and gas properties are attributable to capitalised costs of exploration, appraisal and development and are accounted for using the full cost method further described in the accounting principles within the notes to the financial statements.

### Financial fixed assets

As at 31 December 2001, Lundin Petroleum held 37,836 shares representing approximately 10 percent of the undiluted shares in the Delaware, United States, company KMOC. Lundin Petroleum held a USD 1.3 million promissory note issued by KMOC payable with interest payable at a rate of 10 percent per annum.

The shares and the promissory note were transferred from Lundin Oil to Lundin Petroleum according to the reorganisation agreement relating to Talisman Energy's acquisition of Lundin Oil at a value of USD 21.1 million, compared to Lundin Oil's original purchase price of approximately USD 8.4 million.

Lundin Petroleum sold its shares and promissory note to Enterprise Oil plc for approximately USD 18.3 million on 26 February 2002. The shares in KMOC have been written down during the financial period to reflect the sale value.

#### **Restricted cash**

As at 31 December 2001, restricted cash of TSEK 31,939 reflects an amount placed as collateral for a bank guarantee to the Minister of Energy and Mining, representing the Republic of the Sudan, in relation to the first commitment period in Block 5B. The total exploration expenditure commitment amounts to USD 33 million, of which 33.3 percent is guaranteed by the joint venture partners in Block 5B, Sudan. The restricted cash reflects Lundin Petroleum's paying interest of 27.2 percent. The collateral for the bank guarantee, and hence the restricted cash, will be reduced in proportion with work performed.

#### **Current receivables**

As at 31 December 2001, current receivables amounted to TSEK 9,475. This amount consists of prepaid expenses and other receivables attributable to joint venture partners in respect of operated ventures.

#### **Cash and bank**

As at 31 December 2001, Lundin Petroleum's cash position amounts to TSEK 301,519. This amount primarily reflects the proceeds from the rights issue.

#### **Current liabilities**

As at 31 December 2001, current liabilities amounted to TSEK 38,387. This amount includes the Group's share of joint venture liabilities.

#### **Financial position**

As at 31 December 2001, Lundin Petroleum has no interest-bearing liabilities.

#### **Share data**

On 1 October 2001, the Board of Directors ratified the terms and conditions of the previously notified new share issue with preferential rights being offered to existing shareholders of Lundin Petroleum.

One outstanding share entitled the holder to subscribe for one new share in Lundin Petroleum at a subscription price of SEK 3.00. Following full subscription, 106,203,784 shares were issued for proceeds of MSEK 302.7 after share issue costs.

In addition, the subscribers received - at no cost - one warrant for every two new shares subscribed for. Each warrant entitles the holder to subscribe for one new Lundin Petroleum share at a subscription price of SEK 4.50 during the period 15 May - 14 June 2002. In the event the warrants are fully exercised an additional MSEK 237 will be raised after share issue costs.

Under the Group incentive program for employees 2,500,000 incentive warrants with a strike price of SEK 4.30 expiring on 1 May 2004 were issued on 3 October 2001. The incentive warrants are exercisable from 1 May 2002. In accordance with the terms of the issue of the Group incentive warrants, the number of incentive warrants was increased to 3,175,000 and the exercise price amended to SEK 3.37 following the dilution from the rights issue detailed above.

#### **Cash flow**

The change in cash and bank is attributable to the raising of equity in Lundin Petroleum and the investment in oil and gas operations in Sudan.

**RISKS**

The Group faces a number of additional risks and uncertainties in its exploration stage properties which may adversely impact on its ability to successfully pursue its exploration plans. These are discussed more fully in Note 6 of the Notes to the financial statements.

**LIQUIDITY**

As at 31 December 2001 the Group's available cash position amounted to TSEK 301,519, with a further amount of cash of TSEK 31,939 held as collateral for a bank guarantee to cover exploration work commitments. The Group is contractually committed under various concession agreements to complete various exploration work programmes. Management estimate that the total commitment under these agreements is approximately TSEK 864,027 of which third parties who are joint venture partners have contractually agreed to contribute approximately TSEK 561,270, resulting in the Group's share amounting to TSEK 302,757. Of this amount, it has been estimated that TSEK 40,535 will be fulfilled during the coming year.

**OTHER**

The Group does not carry out any research and development.

The Group has no foreign branches.

The future development of the Group is dependent on, among others, oil and gas prices which are outside the control of the Group, and continued exploration success as well as completion of development projects.

**Parent Company**

The net result for the parent company for the period ended 31 December 2001 amounted to TSEK -41,440. The loss resulted mainly from administration expenses

of TSEK 19,036 and a write down of the carrying value of KMOC of TSEK 23,823.

Shares in subsidiaries amounted to TSEK 485,674 as at 31 December 2001. Shares and participations amount to TSEK 181,619 as at 31 December 2001. This amount represents the written down investment in KMOC. (See Note 9 of the Notes to the financial statements). Liquid assets at 31 December 2001 amounted to TSEK 193,683.

**DIVIDEND**

The Directors propose that no dividend be paid for the year.

**TREATMENT OF RESULT FOR THE PERIOD**

The Group's result for the period amounts to TSEK -41,983.

The Board of Directors and the Managing Director propose that the result for the period of the parent company, being a loss of TSEK 41,440, be offset against the share premium reserve.

The result of the Group and the Parent Company's operations and their financial position at the end of the financial year are shown in the following income statements, balance sheets, statements of cash flow and related notes.

Stockholm, 2 April 2002

**Adolf H Lundin**  
Chairman of the Board

**Ian H. Lundin**  
President & Managing Director

**Magnus Unger**  
Deputy Managing Director

**Carl Bildt**  
**Ashley Heppenstall**

**Kai Hietarinta**  
**Lukas H. Lundin**

**William Rand**

## ▶▶ INCOME STATEMENT

Group and Parent Company Income Statement for the financial period ended 31 December 2001

Expressed in TSEK	Note	Group	Parent Company
Net sales of oil and gas		-	-
Service income		749	1,304
Write off of capitalised exploration expenditure	1, 6	-502	-
<b>Gross profit</b>		<b>247</b>	<b>1,304</b>
Other income		4,373	63
General, administrative and depreciation	2	-23,145	-19,036
<b>Operating result</b>		<b>-18,525</b>	<b>-17,669</b>
<b>Result from financial investments</b>			
Financial income	3	1,972	1,222
Financial expenses	4	-24,879	-24,993
<b>Net financial items</b>		<b>-22,907</b>	<b>-23,771</b>
Income before tax		-41,432	-41,440
Tax	5	-551	-
<b>Net result for the period</b>		<b>-41,983</b>	<b>-41,440</b>

Group and Parent Company Balance Sheet as at 31 December 2001

Expressed in TSEK	Note	Group	Parent Company
<b>ASSETS</b>			
<b>Tangible fixed assets</b>			
Oil and gas properties	6	376,181	-
Other fixed assets	7	6,254	55
<b>Total tangible assets</b>		<b>382,435</b>	<b>55</b>
<b>Financial fixed assets</b>			
Shares in subsidiaries	8	-	485,674
Shares and participations	9	181,619	181,619
Promissory note	10	13,867	13,867
Restricted cash	11	31,939	-
<b>Financial fixed assets</b>		<b>227,425</b>	<b>681,160</b>
<b>Total fixed assets</b>		<b>609,860</b>	<b>681,215</b>
<b>Current assets</b>			
Current receivables	12	9,475	2,539
Cash and bank		301,519	193,683
<b>Total current assets</b>		<b>310,994</b>	<b>196,222</b>
<b>Total assets</b>		<b>920,854</b>	<b>877,437</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity including net result for the period	13	882,467	871,039
Current liabilities	14	38,387	6,398
<b>Total shareholders' equity and liabilities</b>		<b>920,854</b>	<b>877,437</b>
Pledged assets and contingent liabilities	15, 16	-	-

## ▶▶ STATEMENT OF CASHFLOW

Group and Parent Company Statement of Cash Flow for the financial period ended 31 December 2001

Expressed in TSEK	Note	Group	Parent Company
<b>Cash flow used in operations</b>			
Net result for the period		-41,983	-41,440
<i>Adjustments for non-cash items</i>			
Depreciation	7	1,606	-
Write off of capitalised exploration costs	1, 6	502	-
Write off of fixed assets	7	652	-
Interest received as shares	10	-683	-683
Provision for decrease in value of shares in KMOC	9	23,823	23,823
Unrealised currency exchange movement		-415	-415
<i>Changes in working capital</i>			
Increase in current assets		-1,369	-2,539
Increase in current liabilities		21,635	6,398
<b>Total cash flow from/used in operations</b>		<b>3,768</b>	<b>-14,856</b>
<b>Cash flow used for investments</b>			
Change in restricted cash	11	5	-
Investment in shares in subsidiary		-	-95,297
Investment in oil and gas properties	6	-77,263	-
Investment in other fixed assets	7	-1,072	-55
<b>Total cash flow used for investments</b>		<b>-78,330</b>	<b>-95,352</b>
<b>Cash flow from financing</b>			
Proceeds from share issue		303,891	303,891
<b>Total cash flow from financing</b>		<b>303,891</b>	<b>303,891</b>
Change in cash and bank		229,329	193,683
Cash and bank at the beginning of the period		-	-
Cash contributed in connection with formation of the Group		69,792	-
Currency exchange difference in cash and bank		2,398	-
<b>Cash and bank at the end of the period</b>		<b>301,519</b>	<b>193,683</b>

## Notes to the Consolidated Financial Statements for the financial period ended 31 December 2001

### ACCOUNTING PRINCIPLES

The Annual Report of Lundin Petroleum AB (publ) has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and statements.

#### Principles of consolidation

The consolidated financial statements include the accounts of the parent company and each of those companies in which it owns, directly or indirectly, shares representing more than 50 percent of the voting rights or has the sole right to exercise control over the operations.

The consolidated financial statements of the Lundin Petroleum Group have been prepared using the purchase method of accounting. Under the purchase method of accounting, in addition to the parent company equity, only changes in subsidiary equity arising after acquisitions are included in group equity.

All intercompany profits, transactions and balances are eliminated on consolidation.

#### Foreign currencies

The balance sheets and income statements of foreign subsidiary companies are translated using the current rate method. All assets and liabilities of the subsidiary companies are translated at the balance sheet date rates of exchange, whereas the income statements are translated at weighted average rates of exchange for the period. The translation differences, which arise, are taken directly to shareholders' equity.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in the income statement.

### Corporation Taxes

#### Current tax

Corporation tax payable is provided on taxable profits at the current tax rate.

#### Deferred tax

Deferred tax (which arises from differences in the timing of the recognition of items, principally depletion and site restoration charges, in the accounts and by tax legislation) is calculated using the liability method. To the extent that a net liability on a field by field basis exists deferred tax is provided on temporary differences, between the carrying amounts of assets and liabilities and their tax bases, net of losses available for future relief, at the current tax rate.

### Valuation principles

Assets and liabilities are included at their acquisition cost and nominal amounts respectively unless stated otherwise.

Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds.

Receivables are valued at the amounts they are expected to realise.

Short-term investments are valued at the lower of cost and market value for the portfolio taken as a whole.

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on a first in, first out basis. Inventories of hydrocarbons are valued at the lower of cost and net realisable value.

Long-term investments are valued at cost or at written-down amounts to reflect any diminution in value, which is other than temporary.

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is based on cost and is calculated on a straight-line basis over the estimated economic life.

#### **Oil and gas operations**

##### *Accounting for costs of exploration, appraisal and development*

Oil and gas operations are accounted for using the full cost method. All costs for acquiring concessions, licenses or interests in production sharing contracts and for the survey, drilling and development of such interests have been capitalised on a country-by-country cost centre basis.

Net capitalised costs, together with anticipated future capital costs determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proven and probable reserves of oil and gas in accordance with the unit of production method.

Proved reserves are defined as the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data, as presented by independent third parties, demonstrate

with reasonable certainty (more than 90%) to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is prices and costs as at the date the estimate is made.

Probable reserves are defined as those reserves which are not yet proven, but which are estimated, by independent third parties, to have better than a 50 percent chance of being technically and economically producible.

Proceeds from the sale or farm-out of oil and gas concessions are offset against the related capitalised costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalised included in the income statement. A gain or loss is recognised on the sale or farm-out of producing areas when the depletion rate is changed by more than 20 percent.

Total costs capitalised in a country cost centre are written-off when future recovery of such costs is determined to be unlikely.

##### *Revenues*

Revenues from the sale of oil and gas are recognised in the income statement net of royalties taken in kind and are accounted for when the major risks and benefits are passed to the buyer.

Incidental revenues from the production of oil and gas are offset against capitalised costs of the related cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

#### Service income

Service income is the fee received from joint venture partners for providing management services in accordance with the terms of each operated concession agreement.

#### Other income

Other income is income generated through the provision of technical services to the operated joint ventures.

#### Joint ventures

Oil and gas operations are conducted by the Group as co-licensees in joint ventures with other companies. The accounts reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities applicable to the Group's interests.

#### Ceiling tests

Ceiling tests are carried out at least annually to determine that the net book amount of capitalised costs of producing fields within each country cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields.

Provision is made for any permanent impairment, where the net book amount, according to the above, exceeds the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting.

#### Effects of changes in estimates

The effects of changes in estimated costs and commercial reserves or other factors affecting unit of production calculations for depletion and site restoration costs do not give rise to prior year adjustments and are dealt with prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

#### Segmental reporting

The Group records its costs within geographical cost pools on a countrywide basis. Since the Group is not in a production phase all operational expenses are capitalised to the relevant cost pool. Therefore it is not relevant to state any income statement related segmental information. For the segmental split regarding capitalised costs see note 6.

**NOTE 1 - WRITE-OFF OF OIL AND GAS PROPERTIES (TSEK)**

	<b>Group Period ended 31 December 2001</b>	<b>Parent Company Period ended 31 December 2001</b>
<b>Oil and gas properties written off were as follows:</b>		
Other	502	-
	<b>502</b>	<b>-</b>

**NOTE 2 - GENERAL, ADMINISTRATION AND DEPRECIATION (TSEK)**

	<b>Group Period ended 31 December 2001</b>	<b>Parent Company Period ended 31 December 2001</b>
<b>Remuneration to the Group's auditors for</b>		
Audit fees		
- PricewaterhouseCoopers	296	296
Other		
- PricewaterhouseCoopers	489	489

**NOTE 3 - FINANCIAL INCOME (TSEK)**

	<b>Group Period ended 31 December 2001</b>	<b>Parent Company Period ended 31 December 2001</b>
<b>Financial income comprise:</b>		
Interest income	1,972	1,222
	<b>1,972</b>	<b>1,222</b>

**NOTE 4 - FINANCIAL EXPENSES (TSEK)**

	<b>Group Period ended 31 December 2001</b>	<b>Parent Company Period ended 31 December 2001</b>
<b>Financial expenses comprise:</b>		
Write-down of investment in KMOC	23,823	23,823
Foreign exchange loss, net	679	793
Loan commitment fees	377	377
	<b>24,879</b>	<b>24,993</b>

**NOTE 5 - TAX (TSEK)**

<b>Tax expenses comprise:</b>	<b>Group Period ended 31 December 2001</b>	<b>Parent Company Period ended 31 December 2001</b>
Sweden	-	-
Switzerland	551	-
	<b>551</b>	<b>-</b>

**Sweden**

The Group has incurred a Swedish tax loss in the current financial year of MSEK 33.3 which has not yet been assessed. The tax loss can be utilised indefinitely. A deferred tax asset relating to the tax loss has not been recognised.

**Switzerland**

Taxes are payable in Switzerland based on the level of costs incurred during the period.

**NOTE 6 - OIL AND GAS PROPERTIES (TSEK)**

Under full cost accounting for oil and gas properties, costs are pooled in country-by-country cost centres and depletion is calculated once production commences. A depletable cost pool can contain licenses in an exploration or development stage.

<b>Oil and gas properties</b>	<b>Acquired on consolidation</b>	<b>Addition</b>	<b>Write-offs</b>	<b>Currency translation difference</b>	<b>31 December 2001</b>
<b>Group</b>					
Sudan	289,935	66,942	-	9,412	366,289
Iran	-	9,825	-	67	9,892
Other	6	496	-502	-	-
	<b>289,941</b>	<b>77,263</b>	<b>-502</b>	<b>9,479</b>	<b>376,181</b>

**Capitalised interest**

There are no capitalised interest costs included within the costs of oil and gas properties.

**Exploration expenditure commitments**

The Group participates in joint ventures with third parties in oil and gas exploration activities. The Group is contractually committed under various concession agreements to complete certain exploration programs. The Directors estimate the present commitments to be no more than MSEK 864.0 (MUSD 81.0), of which third parties who are joint venture partners have contractually agreed to contribute approximately MSEK 561.3 (MUSD 28.4).

**Risks and uncertainties**

The Group faces a number of risks and uncertainties in the exploration stage properties which may adversely impact on its ability to pursue its exploration plans.

- Border disputes. The exact location and jurisdictions within which the Group's concessions exist periodically become the subject of disputes.
- Military disturbances. Certain of the countries in which the Group is exploring have experienced military difficulties in the recent past.
- Political uncertainties. Certain aspects of the Group's exploration programs require the consent or favourable decisions of governmental bodies.

**NOTE 7 - OFFICE EQUIPMENT AND OTHER ASSETS (TSEK)**

Office equipment and other assets comprise:	Group	Parent Company
<i>Cost</i>		
Opening balance	-	-
Acquired on consolidation	11,515	-
Additions	1,072	55
Write-off	-1,645	-
Currency translation difference	351	-
31 December	<b>11,293</b>	<b>55</b>
<i>Depreciation</i>		
Opening balance	-	-
Acquired on consolidation	-4,289	-
Depreciation charge for the year	-1,606	-
Write-off	993	-
Currency translation difference	-137	-
31 December 2001	<b>-5,039</b>	<b>-</b>
Net book amount as at 31 December 2001	<b>6,254</b>	<b>55</b>

Depreciation charge for the year reflects depreciation according to plan which is based on cost and an estimated economic life of 3 to 5 years for office equipment and other assets. Depreciation is included within the general, administration and depreciation line in the income statement.

**NOTE 8 - SHARES IN SUBSIDIARIES (TSEK)**

Shares in subsidiaries comprise	Registration number	Registered office	Number of shares	Percentage	Nominal value per share	Book amount 31 December 2001
Lundin Energy AB	556619-2299	Stockholm, Sweden	10,000,000	100	SEK 0.01	100
Lundin Petroleum Holdings Limited	EC-29120	Hamilton, Bermuda	12,000	100	USD 1.00	485,574
- Lundin Oil Services SA	1731/1999	Geneva, Switzerland	1,000	100	CHF 100.0	-
- Lundin Sudan Limited	EC-15676	Hamilton, Bermuda	12,000	100	USD 1.00	-
- Lundin Sudan (Block 5B) Limited	EC-30543	Hamilton, Bermuda	12,000	100	USD 1.00	-
- Lundin Munir Limited	EC-29955	Hamilton, Bermuda	12,000	100	USD 1.00	-
- Lundin Somalia Limited	EC-14476	Hamilton, Bermuda	12,000	100	USD 1.00	-
- Lundin Sudan (Halaib) Limited	EC-16775	Hamilton, Bermuda	12,000	100	USD 1.00	-
- Lundin Technical Services Limited	EC-29614	Hamilton, Bermuda	12,000	100	USD 1.00	-
						<b>485,674</b>

**NOTE 9 - SHARES AND PARTICIPATIONS (TSEK)**

Shares and participations comprise:	Number of shares	Share %	Market Value 31 December 2001	Book amount 31 December 2001
<b>Group</b>				
Khanty Mansiysk Oil Corporation (US)	37,836	10	181,619	181,619
			<b>181,619</b>	<b>181,619</b>
<b>Parent company</b>				
Khanty Mansiysk Oil Corporation (US)	37,836	10	181,619	181,619
			<b>181,619</b>	<b>181,619</b>

Lundin Petroleum held 37,836 shares representing approximately 10 percent of the undiluted shares in the Delaware, United States, company Khanty Mansiysk Oil Corporation (KMOC).

The shares and the promissory note (see Note 10) were transferred from Lundin Oil AB to Lundin Petroleum according to the reorganisation agreement relating to Talisman Energy's acquisition of Lundin Oil AB at a value of USD 21.1 million, compared to Lundin Oil AB's original purchase price of approximately USD 8.4 million.

Lundin Petroleum sold its shares and promissory note (see Note 10) to Enterprise Oil plc for approximately USD 18.3 million on 26 February 2002. The shares in KMOC have been written down to reflect the sale value during the financial period.

**NOTE 10 - PROMISSORY NOTE**

Promissory note comprised a receivable from KMOC of USD 1.3 million earning interest at 10% per annum. In accordance with the terms of the promissory note the interest has been paid partly in cash and partly through the issuance of new shares in KMOC. The loan note is repayable upon an initial public offering of KMOC's common stock or upon request from a majority of the holders of promissory notes at any time after 14 October 2002 or prior to a registered public offering of Common Stock. Lundin Petroleum sold the promissory note to Enterprise Oil plc (see Note 9).

**NOTE 11 - RESTRICTED CASH**

Restricted cash represents an amount placed as collateral for a bank guarantee to the Minister of Energy and Mining, representing the Republic of Sudan, in relation to the first commitment period in Block 5B. The total exploration expenditure commitment amounts to USD 33 million, of which 33.3 percent is guaranteed by the Sudan partners. The restricted cash reflects Lundin Petroleum's paying interest of 27.2 percent. The collateral for the bank guarantee, and hence the restricted cash, will be reduced in proportion with the work performed.

**NOTE 12 - CURRENT RECEIVABLES (TSEK)**

Current receivables comprise:	Group 31 December 2001	Parent Company 31 December 2001
Prepaid expenses and accrued income	1,296	648
Due from Group companies	-	800
Other	8,179	1,091
	<b>9,475</b>	<b>2,539</b>

**NOTE 13 - SHAREHOLDERS' EQUITY (TSEK)**

Shareholders' equity comprises:

Group 2001	Restricted		Unrestricted		Total
	Share Capital	Restricted reserves	Retained earnings	Net result	
Balance at 22 August	-	-	-	-	-
New share issue	2,124	910,355	-	-	912,479
Currency translation difference	-	11,976	-	-5	11,971
Net result	-	-	-	-41,983	-41,983
Balance at 31 December	<b>2,124</b>	<b>922,331</b>	-	<b>-41,988</b>	<b>882,467</b>

Parent company 2001	Restricted		Legal reserve	Unrestricted	Total
	Share Capital	Share premium reserve		Net result	
Balance at 4 May	-	-	-	-	-
New share issue	2,124	910,355	-	-	912,479
Net result	-	-	-	-41,440	-41,440
Balance at 31 December	<b>2,124</b>	<b>910,355</b>	-	<b>-41,440</b>	<b>871,039</b>

The total number of issued shares amounts to 212,407,568. All shares have a nominal value of SEK 0.01 each.

**NOTE 14 - OTHER CURRENT LIABILITIES (TSEK)**

Other current liabilities comprise:	Group	Parent Company
	31 December 2001	31 December 2001
Trade payables	34,430	1,183
Accruals and deferred income	2,003	1,454
Loans from group companies	-	3,463
Other	1,954	298
	<b>38,387</b>	<b>6,398</b>

**NOTE 15 - PLEDGED ASSETS**

There are no pledged assets

**NOTE 16 - CONTINGENT LIABILITIES**

There are no contingent liabilities.

**NOTE 17 - RELATED PARTY TRANSACTIONS**

The Group has entered into transactions with related parties on an arm's length basis as described below:

The Group paid TSEK 134 to Namdo Management Services Ltd., a private corporation owned by Lukas H. Lundin, a director of the Company, pursuant to a services agreement. Namdo has approximately 12 employees and provides administration and financial services to a number of public companies. Accordingly, there is no basis for allocating the amounts paid to Namdo to Mr Lukas H. Lundin directly.

The Group received TSEK 340 from Vostok Nafta Investment Ltd for the provision of office and accounting services. Vostok Nafta is considered a related party because the Chairman of Lundin Petroleum AB, Mr Adolf H Lundin has significant investment within this company.

Mr Adolf H Lundin agreed to provide the Company with a loan facility up to a maximum of USD 10 million to provide liquidity until the completion of the share issue in November 2001. No funds were drawn under this facility so no interest was incurred, and the facility was cancelled on 16 November 2001. A commitment fee was payable on undrawn funds during the period of the loan agreement. This fee amounted to TSEK 376.6.

**NOTE 18 - ACQUISITION OF SUBSIDIARY COMPANIES (TSEK)**

**Group:** At the formation of the group, which was made through capital contributions in the form of promissory notes and the subsequent forgiveness of such promissory notes from Lundin Oil AB (publ) in connection with the public offer by Talisman Energy Inc., the following assets and liabilities were received.

Tangible fixed assets	297,167
Financial fixed assets	249,199
Current assets	8,551
Cash and bank	69,792
Current liabilities	-16,121
Capital contribution	<b>608,588</b>

**Parent Company:** The parent company has, through shareholder's contributions, capitalised the subsidiary Lundin Petroleum Holdings Ltd. in the amount of TSEK 485,674 of which TSEK 390,377 was made in the form of forgiveness of debt.

**NOTE 19 - AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS (TSEK)**

Average number of employees	2001	
	Total employees	of which men
<b>Parent company</b>		
Sweden	2	-
<b>Total parent company</b>	2	-
<b>Subsidiary companies in Sweden</b>	-	-
<b>Subsidiary foreign companies</b>		
Switzerland	28	21
<b>Joint venture operations</b>		
Sudan	32	28
<b>Total subsidiary companies</b>	60	49
<b>Total Group</b>	<b>62</b>	<b>49</b>

Salaries, other remuneration and social security costs	2001	
	Salaries and other remuneration	Social security costs
<b>Parent company</b>		
Sweden	612	186
<b>Total parent company</b>	612	186
<b>Subsidiary companies in Sweden</b>	-	-
<b>Subsidiary foreign companies</b>		
Switzerland	9,518	1,344
<b>Joint venture operations</b>		
Sudan	6,267	316
<b>Total subsidiary companies</b>	15,785	1,660
<b>Total Group</b>	<b>16,397</b>	<b>1,846</b>
Of which pension costs	24	-

**NOTE 19 continued....**

Salaries and other remuneration per country split between the board of directors and other employees	2001	
	Board of Directors and MD	Other employees
<b>Parent company</b>		
Sweden	383	229
<b>Total parent company</b>	383	229
<b>Subsidiary companies in Sweden</b>	-	-
<b>Subsidiary foreign companies</b>		
Switzerland	1,851	7,667
<b>Joint venture operations</b>		
Sudan	-	6,267
<b>Total subsidiaries</b>	1,851	13,934
<b>Total Group</b>	<b>2,234</b>	<b>14,163</b>

**NOTE 20 - RESERVE QUANTITY INFORMATION (UNAUDITED)**

Proved and probable oil and gas reserve quantities, Group 2001	Total		Sudan	
	Oil MMBL	Gas MMCF	Oil MMBL	Gas MMCF
Proved and probable oil and gas reserves, 22 August:				
- proved and probable developed reserves	-	-	-	-
- proved and probable undeveloped reserves	-	-	-	-
	-	-	-	-
Changes during the period:				
- discoveries	60,200	-	60,200	-
- revisions of previous estimates of proved and probable developed reserves	-	-	-	-
- revisions of previous estimates of proved and probable undeveloped reserves	-	-	-	-
- production	-	-	-	-
	60,200	-	60,200	-
Proved and probable oil and gas reserves, 31 December:				
- proved and probable developed reserves	-	-	-	-
- proved and probable undeveloped reserves	60,200	-	60,200	-
Proved and probable oil and gas reserves, net, 31 December	<b>60,200</b>	-	<b>60,200</b>	-

Reserves are stated on a working interest basis before Government take.

**NOTE 21 - SUBSEQUENT EVENTS**

Operations in Sudan have been temporarily suspended due to a deterioration in the security situation in Block 5A which resulted in an inability to provide a safe working environment for our employees and contractors. Lundin sold its investment in KMOC on 26 February 2002 for a cash consideration of approximately USD 18.3 million.

**To the annual general meeting of the  
shareholders of Lundin Petroleum AB (publ)  
(Reg no 556610-8055)**

We have audited the annual accounts and the consolidated accounts on pages 21 – 38 and the accounting records and the administration of the Board of Directors and the President of Lundin Petroleum AB for the financial period 4 May – 31 December 2001. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability, if any, to the Company or any Board member, or the President. We also examined whether

any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. Regarding the situation in Sudan we refer to the description in the Administration Report.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the accumulated deficit of the Parent Company be dealt with in accordance with the proposal in the Administration Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 2 April 2002

CARL-ERIC BOHLIN

Authorised Public Accountant  
PricewaterhouseCoopers AB

KLAS BRAND

Authorised Public Accountant  
PricewaterhouseCoopers AB

### CURRENCY ABBREVIATIONS

<b>SEK</b>	Swedish krona
<b>USD</b>	US dollar
<b>TSEK</b>	Thousand SEK
<b>TUSD</b>	Thousand USD
<b>MSEK</b>	Million SEK
<b>MUSD</b>	Million USD

### OIL RELATED TERMS AND MEASUREMENTS

<b>BBL</b>	Barrel
<b>BBLs</b>	Barrels
<b>BOE</b>	Barrels of oil equivalents
<b>BOPD</b>	Barrels of oil per day
<b>MBBL</b>	Thousand barrels (in Latin mille)
<b>MMBO</b>	Million barrels of oil
<b>MMBOE</b>	Million barrels of oil equivalents
<b>MMBOPD</b>	Million barrels of oil per day

### INDUSTRY SPECIFIC TERMS

<b>Barrel</b>	One barrel is equivalent to 159 litres.
<b>Basin</b>	A depression of large size in which sediments have accumulated.
<b>ESC</b>	Exploration Service Contract
<b>EPSA</b>	Exploration Production Sharing Agreement.
<b>Hydrocarbons</b>	Naturally occurring organic substances composed of hydrogen and carbon. They include crude oil, natural gas and natural gas condensate.
<b>Oil in Place</b>	The total volume of oil originally in the reservoir.
<b>Paying interest</b>	The cost-bearing interest arising out of the obligation to bear initial exploration, appraisal and development costs on behalf of a partner. The difference between the paying interest and the working interest will be recovered out of the partner's share of oil produced.

**Probable reserves** Probable reserves are defined as those reserves which are not yet proven, but which are estimated, by independent third parties, to have better than a 50 percent chance of being technically and economically producible.

**Proven reserves** Proven reserves are defined as the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data, as presented by independent third parties, demonstrate with reasonable certainty (more than 90 percent) to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is prices and costs as at the date the estimate is made.

**Seismic** A method of geophysical prospecting involving the interaction of sound waves and buried rocks.

**Working interest** The actual interest owned by a party.

An extensive list of definitions can be found on the Lundin Petroleum website [www.lundin-petroleum.com](http://www.lundin-petroleum.com) under the heading "Definitions"

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**FINANCIAL INFORMATION**

The Company will publish the following interim reports:

- ▶ Three month report (January–March 2002)  
will be published on 8 May 2002
- ▶ Six month report (January–June 2002)  
will be published on 8 August 2002
- ▶ Nine month report (January–September 2002)  
will be published on 7 November 2002

Up to date information on  
Lundin Petroleum can be  
found on its website  
[www.lundin-petroleum.com](http://www.lundin-petroleum.com)



[www.lundin-petroleum.com](http://www.lundin-petroleum.com)