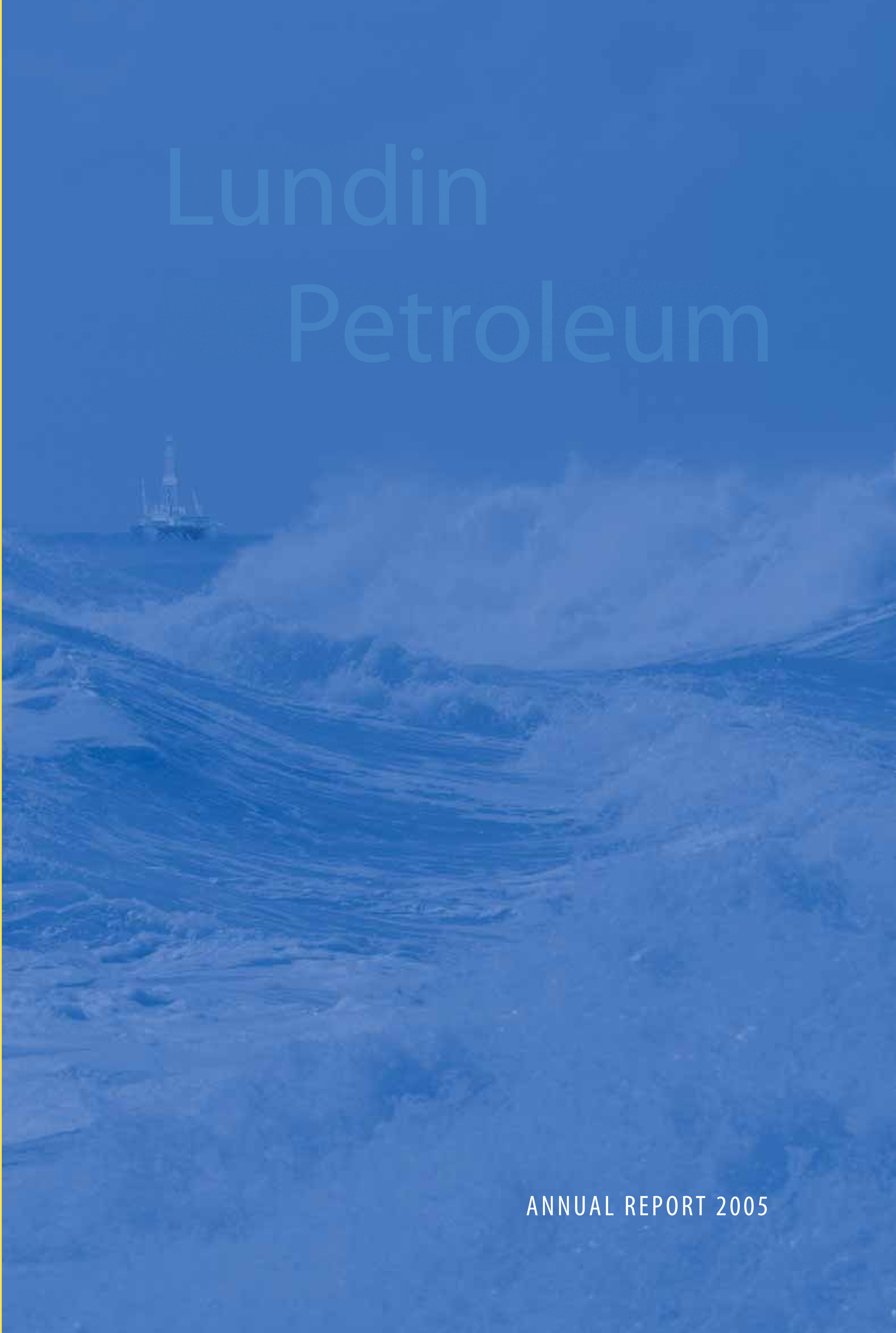
Lundin Petroleum



ANNUAL REPORT 2005

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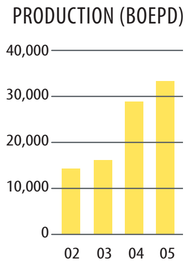
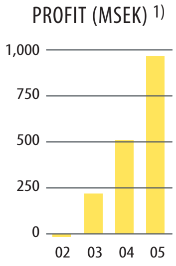
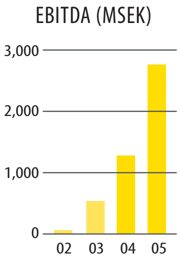
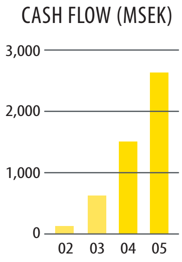
2005 HIGHLIGHTS





1) Adjusted to exclude sale of assets





RESULTS

- **Average production increased to 33,190 boepd (28,921 boepd)**
- **Operating income increased to MSEK 4,190.2 (MSEK 2,468.3)**
- **Net profit (profit after tax) increased to MSEK 994 (MSEK 605.3)**
- **Operating cash flow increased to MSEK 2,627.4 (MSEK 1,502.8)**
- **EBITDA of MSEK 2,782.6 (MSEK 1,281.5)**
- **Diluted earnings per share was SEK 3.87 (SEK 2.37)**
- **Debt/equity ratio was 9% (45%)**

2004 in brackets

OPERATIONS

- **Proved and probable reserves increased by 12%**
- **Broom Phase 2 successfully completed**
- **New exploration licences awarded in the United Kingdom and Norway**
- **Ongoing development of the Alvheim field in Norway and the Oudna field in Tunisia**
- **Increased global market price for oil and gas**

OUTLOOK 2006

- **Capital budget for development and exploration over MUSD 300**
- **Active global exploration programme**
  - 15 wells planned
  - Seismic acquisition programmes in United Kingdom and Sudan
- **Ongoing development projects**
  - Alvheim, offshore Norway
  - Oudna, offshore Tunisia
  - TBA, offshore Salawati Island Indonesia
- **Further infill drilling in the UK North Sea**

LUNDIN PETROLEUM'S CONTINUED GROWTH

A strong and diverse asset base gives us a solid springboard in our search for new oil and gas reserves. We have the global and local experience to find and develop these resources in a profitable and responsible manner. Ongoing exploration, development and production projects in Europe, Africa, South America and the Far East will ensure our future as one of Europe's leading independent oil companies

YEAR	**2005**	2004	2003	2002	2001
Net result, MSEK*	**970.0**	507.1	218.0	-17.3	-42.0
EBITDA, MSEK	**2,782.6**	1,281.5	542.8	60.8	-18.0
Cash flow, MSEK	**2,627.4**	1,502.8	634.6	115.1	0.2
Debt/equity ratio, %	**9**	45	–	89	–
Production in MMboe	**12.1**	9.8	5.8	1.4	–
Production in boepd	**33,190**	28,921	16,062	14,010	–

* Excluding result on sale of assets

LETTER TO SHAREHOLDERS

...first production from the Oudna field offshore Tunisia and the Alvheim field offshore Norway will take Lundin Petroleum production to over 50,000 boepd

C. ASHLEY HEPPENSTALL
President and CEO

Dear Fellow Shareholders,
Lundin Petroleum continued its rapid growth in 2005 generating record net profit and operating cash flow. Our continued ability to increase reserves and production coupled with strong world oil prices has driven the strong financial performance.

Financial performance
Lundin Petroleum generated a net profit after taxes of MSEK 994.0 (MUSD 133.3) and an operating cash flow of MSEK 2,627.4 (MUSD 352.4) during 2005. This represents increases of 64 percent and 75 percent respectively compared to 2004. The table opposite summarises the growth achieved by Lundin Petroleum over the last three years.

Reserves and production
I continue to emphasise that the success of Lundin Petroleum will be driven by our ability to increase reserves and production. Despite 2005 being disappointing from an exploration perspective, we continue to be successful in increasing our reserve base. Primarily as a result of the United Kingdom development drilling and development studies in Norway, we announced third party certified reserves as at 1 January 2006 of 146.1 million barrels of oil equivalent (boe) representing a 12 percent increase on 2005 and a replacement ratio of 126 percent. Our 2005 production of 33,190 boepd represents a 15 percent increase over 2004 production but was still below forecast particularly due to United Kingdom related production facility issues.

Significant growth in production will continue in 2006 and into 2007 with first production from the Oudna field offshore Tunisia and the Alvheim field offshore Norway which will take Lundin Petroleum production to over 50,000 boepd.

Financial forecast
Independent of acquisitions, additional developments and exploration success, increased production will lead to a continued growth in the financial performance of Lundin Petroleum over this period. Assuming an average Brent oil price of USD 55 per barrel for 2006, we forecast a net profit after taxes of MSEK 1,320 (MUSD 170) for 2006.

Exploration and development
The strong world oil prices over the past couple of years have resulted in marked changes in the valuation of oil and gas assets. For example the industry and financial markets are now attributing significant value to exploration assets and contingent resources (discovered oil and gas that has yet to be commercialised). Lundin Petroleum believes that strong world oil prices will remain and accordingly is aggressively investing in its existing asset base to generate future growth. In 2006 we will implement our active investment programme with a capital budget of over USD 300 million which will be fully funded from internally generated cash flow. Over USD 100 million of this budget, which is almost double compared to the 2005 expenditure, will be spent on exploration with a drilling programme in Norway, Sudan, Indonesia, France and Ireland. Despite the 2005 exploration disappointments we continue to strongly believe that shareholder value can be generated through aggressive exploration where success can have a material impact on the value of Lundin Petroleum.

		2005	2004	2003
Production	Mboepd	33.2	28.9	16.1
Oil price achieved	USD per barrel	52.93	37.67	27.35
Operating cash flow	MSEK	2,627	1,503	635
	MUSD	352	205	79
Earnings before interest, tax and depreciation (EBITDA)	MSEK	2,783	1,282	543
	MUSD	373	175	67
Net profit (excluding result on sale of assets)	MSEK	970	507	218
	MUSD	131	69	27
Shareholders' equity	MSEK	3,680	2,367	1,857
	MUSD	462	357	257
Average exchange rate used	*USD/SEK*	*7.46*	*7.34*	*8.08*
Closing exchange rate used	*USD/SEK*	*7.96*	*6.62*	*7.22*

We also continue to seek new acquisition opportunities. Our balance sheet is very strong with net debt of less than USD 50 million which means that we have significant financial liquidity for investment opportunities. Nevertheless, competition is tough with lots of liquidity in the industry chasing very few deals. We have chosen to remain patient and not to push acquisition prices to levels which we believe are unsustainable from a technical perspective. Timing is difficult to predict but Lundin Petroleum has both the financial and technical capacity to complete acquisitions which will enable us to act very quickly if the right opportunity materialises.

In the meantime we continue to grow organically. We have been successful in 2005, acquiring new exploration acreage in the United Kingdom, Norway and Ireland and are proactively investing in new seismic acquisition programmes to generate investment opportunities on new and existing acreage.

Oil industry and people

There has, in my opinion, been a significant under investment in the oil industry for a number of years. The demand for oil continues as the world economy grows, particularly in the developing world. However this under investment has created material bottlenecks in our supply chain. Availability of drilling rigs is now at a premium and is likely to remain that way for a few years to come. Similarly the cost of materials and services has increased, placing pressure on the industry. However the biggest problem facing our industry is the availability of good technical staff. There has not been sufficient investment in training and recruitment of personnel over the past few years and the industry is now paying the price.

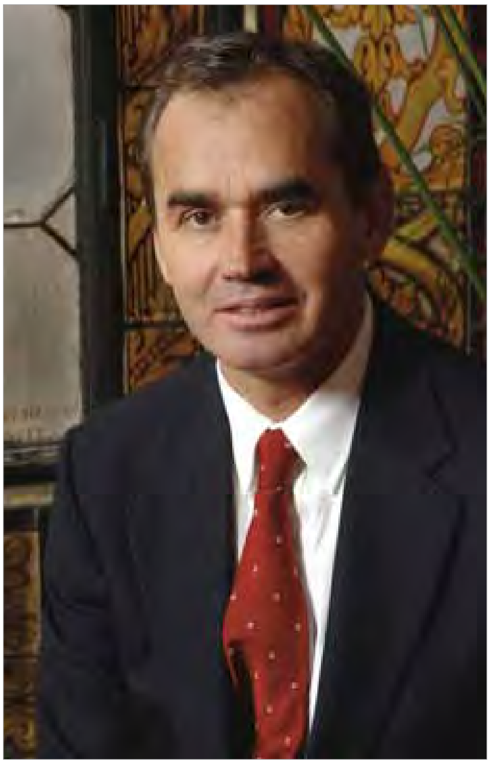
I believe that the current state of the industry is an advantage to a growing independent oil company such as Lundin Petroleum. We have the flexibility to provide success oriented remuneration and can provide an environment with short and quick decision making processes. We have been able to attract an excellent team of individuals and continue to grow our personnel base. We live in a world of scarce oil reserves and an ever increasing demand which will result in continued high oil prices. The company is still of a size where a project that is too small to have a material impact on the majors would have a material impact on Lundin Petroleum. With our strong technical team we can therefore generate projects which will ensure the continued growth profile of Lundin Petroleum.

We continue to put emphasis on safety, environmental and social responsibility within our operations whilst continuing to create shareholder value. Lundin Petroleum has been a great success story over the last four years. We retain an important entrepreneurial spirit within the company and yet are managing the demands associated with the current size of our business. The oil industry remains an exciting place to work and Lundin Petroleum provides a dynamic environment in which to take advantage of the numerous opportunities. I remain positive and look forward to 2006 and the future with optimism.

Best regards

C. Ashley Heppenstall
President and Chief Executive Officer

WORDS FROM THE CHAIRMAN



IAN H. LUNDIN
Chairman

We continue to do what we do best, explore, develop, produce and acquire oil and gas reserves wherever they may be.

Dear Fellow Shareholders,
2005 was a year of consolidation where we reaped the rewards of the acquisition of the United Kingdom and Norwegian assets from DNO. The Broom field was the shining star of the portfolio of acquired producing assets. The field which came onstream in August 2004 continued to produce above expectations and acted as the main driver in achieving an overall production growth of 15 percent in 2005. We had some setbacks in 2005 with wells failing to deliver on their exploration promise, particularly in Nigeria. These failures are another demonstration of the difficulty the industry is facing in replacing reserves. However, despite the lack of exploration successes, Lundin Petroleum managed to increase its reserve base by 12 percent in 2005. This is a result of both good reservoir management and the conservative approach we take to reserves evaluation. Future production growth will be driven by two ongoing developments: the Alvheim project in Norway and the Oudna field in Tunisia. When these fields come onstream in late 2006 and early 2007, overall production should exceed 50,000 boepd or about 50 percent more than the average 2005 production of 33,000 boepd. In parallel, a number of exploration wells will be drilled in Norway, Sudan, Indonesia, France and Ireland which have the potential to increase our reserves base several times over. Of all our exploration plays, Block 5B in Sudan has the biggest potential. Drilling is expected to commence in the 4th quarter of 2006 on Block 5B, and a discovery would ensure continued growth in production for years to come.

The oil industry's hunger for new reserves has resulted in a buying frenzy of both companies and producing fields. It is clear that as long as these conditions prevail it will be difficult to grow through acquisitions. Therefore concentrating on internally generated growth and maintaining a high level of exploration activity are the main priorities for the Company.

Lundin Petroleum is going from strength to strength as we continue to generate our own opportunities. This, of course, can only be achieved with a motivated and hard working management and staff. On behalf of the Board, I would like to thank all the employees for their efforts and their dedication which have allowed the Company to reach its current position as a leading European independent oil and gas company.

I expect that the demand for oil and gas will continue to grow at a steady rate of 2–3 percent per year. In parallel, spare production capacity will continue to shrink resulting in a very tight market which will remain extremely sensitive to political events.

In my opinion, we can expect spikes in the oil price up to USD 100 per barrel during the next twelve months.

For Lundin Petroleum, this only means that we have to continue to do what we do best, explore, develop, produce and acquire oil and gas reserves wherever they may be.

Sincerely,

Ian H. Lundin
Chairman of the Board

VISION, STRATEGY , FINANCIAL OBJECTIVES

Vision
As an international oil and gas exploration and production company, Lundin Petroleum's aim is to explore for and produce oil and gas in the most economically efficient, socially responsible and environmentally acceptable way, for the benefit of shareholders, employees, and co-venturers.

Lundin Petroleum applies the same standards to all of its activities worldwide to satisfy both the commercial and ethical requirements. Lundin Petroleum strives to continuously improve its performance and to act in accordance with good oilfield practice and high standards of corporate citizenship.

Strategy
Lundin Petroleum is pursuing the following strategy:

- Proactively investing in exploration to organically grow its reserve base. Lundin Petroleum has an inventory of drillable prospects with large upside potential and continues to actively pursue new exploration acreage around the world particularly in areas which have not been fully explored.
- To exploit its existing asset base with a proactive subsurface strategy to enhance ultimate hydrocarbon recovery. Lundin Petroleum is investing actively in mature assets through infill drilling, workovers and enhanced recovery techniques to maximize profitability.
- To acquire new hydrocarbon reserves, resources and exploration acreage where opportunities exist to enhance value.

Financial objectives
The primary objective of Lundin Petroleum is to add value for the shareholders, employees and co-venturers through profitable operations and growth. The added-value of Lundin Petroleum will flow from a mixture of improved cash flow and profitability from the producing assets and through exploration and technical success leading to an increase in reserves. Cash flow and profitability from the producing assets can be improved through good technical management of the assets leading to improved production levels and lower production costs. Lundin Petroleum aims to increase hydrocarbon reserves through exploration and through acquisitions. Lundin Petroleum will fund acquisitions through a mixture of internally generated funds, third party debt and if necessary, through new equity.

The shareholders' equity of Lundin Petroleum does not reflect the underlying value of its assets as the recorded value relates to part exploration and development expenditures and part acquisition costs capitalised in accordance with generally accepted accounting principles (IFRS). The underlying value of Lundin Petroleum's assets is the calculation of discounted cash flows based on future production from its reserves, which cash flow is then invested proactively to grow the reserves and production base.

Lundin Petroleum's dividend policy is to give funding priority to ongoing exploration and development projects and to satisfy the immediate capital requirements of the Company prior to considering distribution to shareholders. The Company continues to generate investment opportunities which are utilising such capital resources.

UNDERSTANDING RESERVES AND RESOURCES

Reserves

Lundin Petroleum, like most companies in Europe, calculates reserves and resources according to the SPE/WPC definition of petroleum resources. This definition was first published in 1997 by the SPE (Society of Petroleum Engineers) and WPC (World Petroleum Congress) in an effort to standardise reserves reporting.

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Estimation of reserves is inherently uncertain and to express an uncertainty range, reserves are subdivided in Proved, Probable and Possible categories. Lundin Petroleum reports its reserves as Proved plus Probable reserves, also abbreviated as 2P.

Lundin Petroleum's reserves are calculated using forward projections of production levels, work programmes and the associated capital investment, and operating cost levels. From these projections the last year of economic production is calculated, given an assumed oil price scenario. The aggregate production until this economic cut off point constitutes the reserves. This year Lundin Petroleum has used a long term oil price scenario of USD 35 per barrel for this calculation.

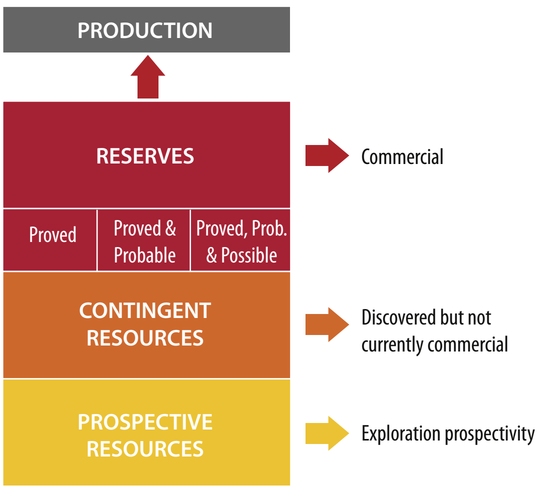
Each year Lundin Petroleum's reserves base is certified by an independent reserves certifier. Over the last couple of years Gaffney, Cline and Associates (GCA) has performed this service. GCA is one of the largest independent reserves certifiers in the world and this year GCA certified 146.1 MMboe (million barrels of oil equivalent) of 2P oil and gas reserves net to Lundin Petroleum. This is an increase of 12 percent compared to last year's reserves and Lundin Petroleum replaced last year's production by 126 percent.

Contingent resources

In addition to its certified reserves, Lundin Petroleum has a number of discovered oil and gas resources which currently do not classify as reserves. According to the SPE/WPC these classify as contingent resources. Contingent resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

Lundin Petroleum has an estimated 131 MMboe of contingent resources. These resources are not reserves, because further work is required to mature them. Additional work can be the drilling of a 'productivity prover' in the Heather Triassic,

Resource Classification System



the shooting of additional seismic in South-West Heather, the successful application of under balanced drilling techniques in Villeperdue or additional appraisal drilling in PL006c in Norway.

Lundin Petroleum estimates its contingent resources in exactly the same manner as its reserves. In addition, an associated work programme is required to mature these into reserves. There is a chance that identified resources will not mature into reserves.

It is important to realise that Lundin Petroleum contingent resources are not the same as Lundin Petroleum's exploration resources. Under the SPE/WPC definitions exploration resources are classified as prospective resources. Prospective resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Prospective resources

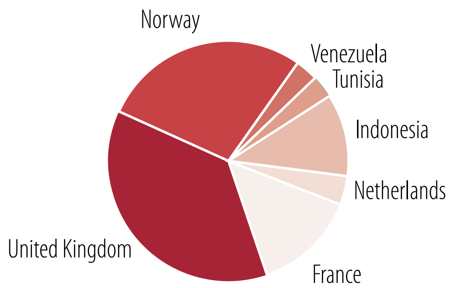
Lundin Petroleum has a large portfolio of exploration blocks. These exploration blocks are evaluated using techniques like gravity and magnetic surveys, geochemical surveys, seismic surveys and basin analysis. This analysis results in a long list of leads and drillable prospects. Leads are identified potential hydrocarbon accumulations that will require additional study before they are matured into prospects and appear in drilling plans. Prospects are ready to drill. It is important to realise that prospects and leads carry exploration risks, which result in a chance of not finding commercial hydrocarbons. These risks are identified by Lundin Petroleum and help management in ranking exploration activities.

In 2006 Lundin Petroleum is planning to drill (operated and non-operated) 15 exploration wells targeting in total 750 MMboe of unrisked prospective resources net to the Company. By assuming that about 50 percent of the identified leads in Lundin Petroleum's portfolio do not mature to drillable prospect status, Lundin Petroleum estimates a further 1,130 MMboe of net unrisked prospective resources, which could be targeted by exploration work programmes in 2007 and beyond.

Organic growth

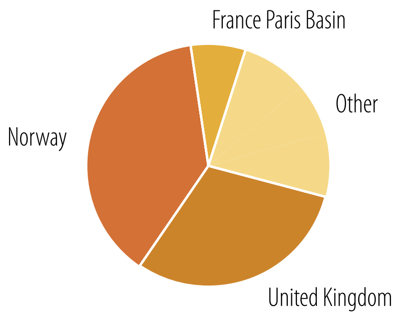
As an integrated exploration and production company, Lundin Petroleum is continuously aiming to grow the business by identifying exploration targets and maturing exploration targets into drillable prospects, and thus increase its prospective resource base. By drilling exploration wells and discoveries, prospective resources are moved into contingent resources and after formulating a development strategy and demonstrating commerciality, contingent resources are moved into 2P reserves.

Lundin Petroleum Proven and Probable Reserves



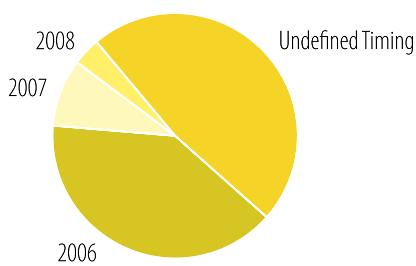
Proven and Probable Reserves 146.1 MMboe at 1 January 2006

Contingent Resource Estimate



Contingent Resources Internal Estimate 131 MMboe net Lundin Petroleum

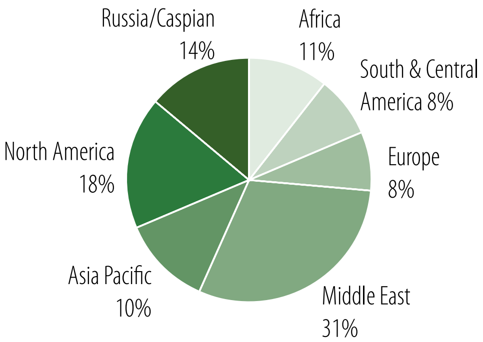
Prospective Resource Estimate



Prospective Resources Internal Estimate 1,130 MMboe net Lundin Petroleum

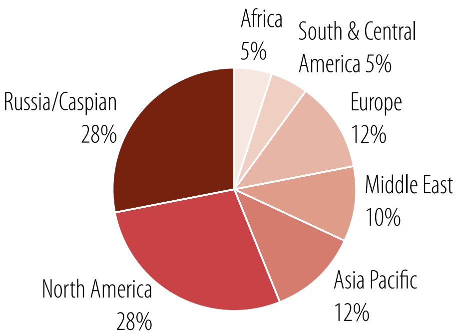
MARKET DESCRIPTION

World Oil Production 2004



Total Production 80.3 million bopd

World Gas Production 2004



Total Production 2,691.6 billion m^3

GLOBAL RESERVES

Crude oil

Crude oil is found on all continents of the world. The Middle East is by far the region where the largest proven oil reserves are found, followed by Russia/Caspian and Africa. In total, global proven oil reserves amounted to 1,189 billion bbls at the end of 2004, of which 62 percent was attributable to the Middle East.

Natural gas

As well as oil, natural gas exists on all continents. However, the reserves of natural gas are distributed differently compared to the oil reserves. At the end of 2004 there was 179.5 trillion m3 of proven natural gas reserves, of which the Middle East had 40 percent and Russia/Caspian 32 percent.

The growing gap

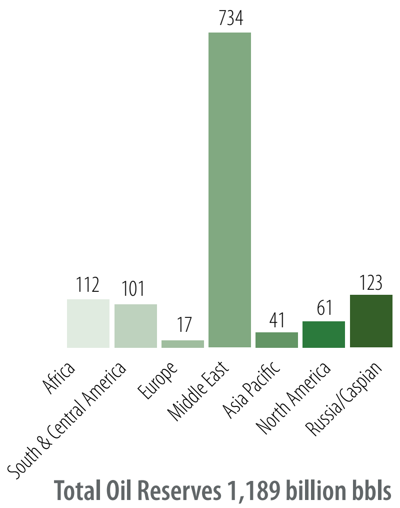
The world has up until now been supplied by oil discovered particularly from 1950 through to the 1970. Despite significant improvements in technology the industry has not discovered enough new reserves to replace the oil being consumed since the mid 1980s (see World Oil Demand graph). The International Energy Agency (IEA) estimates that global oil production will increase by less than one percent up to 2030.

Competition - Partners

The players in the oil and gas market consist of national oil companies (eg. Aramco, CNPC, Petronas, Statoil), the big integrated oil companies, the majors (eg. Exxon, Shell, BP) and independent oil companies such as Talisman Energy, Tullow Oil and Lundin Petroleum.

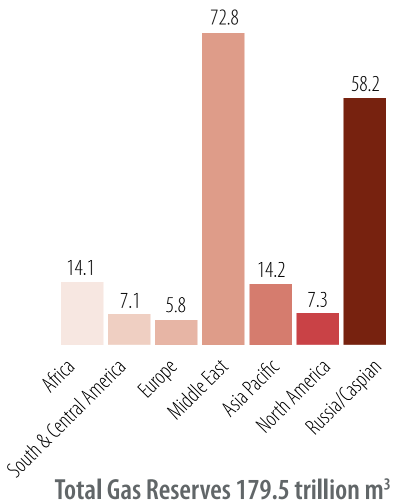
The main strategy of the national oil companies is to secure the energy supply for their respective countries. They often have downstream operations i.e. refineries and distribution network/petrol stations.

World Oil Reserves End 2004



Total Oil Reserves 1,189 billion bbls

World Gas Reserves End 2004



Total Gas Reserves 179.5 trillion m^3

Source: BP Statistical Review of World Energy 2005

The majors are public companies with both upstream and downstream operations while the independents are mainly focused on the upstream business. Their advantage is that they are smaller and more flexible and move quicker into new areas. Companies may be competitors when acquiring new acreage but can become partners in a later phase of the development.

Sales of crude oil and natural gas

Crude oil is transported globally between producers and consumers primarily by oil tankers, implying that the prices for different qualities of crude oil are relatively homogenous on the world market. Natural gas is primarily transported through pipelines, making the pricing dependent on the field's geographical location in relation to the potential consumer. To a lesser extent natural gas is also transported by tankers in the form of liquefied natural gas.

Global consumption of crude oil and natural gas

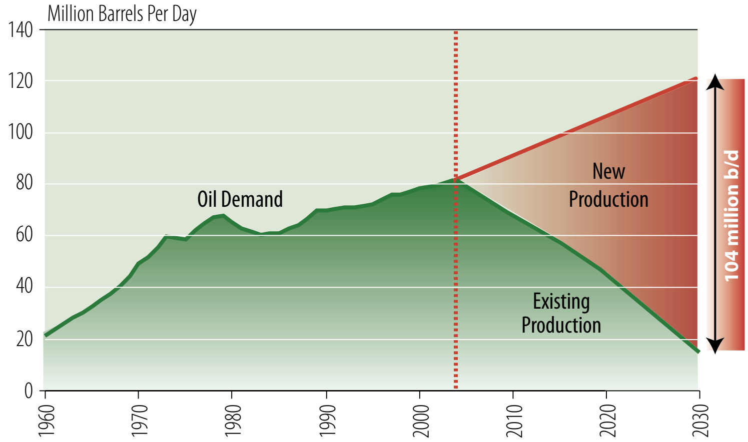
The primary driving force behind the demand for oil is economic growth. To a great extent the world's energy needs are met by fossil fuels, of which oil is the dominant fuel. In developing countries, demand for energy is much in line with economic growth, whereas in industrialised countries the growth in demand is more volatile in comparison with economic growth. The consumption per capita varies greatly between different regions. North America has by far the greatest consumption per capita, followed by Europe. The world today consumes over 80 million barrels of oil per day representing 30 billion barrels of oil per year.

Natural gas is consumed primarily in geographical proximity of the production, resulting in North America, former Soviet Union and hence Europe being the largest consumers of natural gas.

Oil price development

Oil prices have historically fluctuated widely. Aside from supply and demand, factors affecting the oil prices include global and regional economic and political developments in resource-producing regions as well as the extent to which the Organisation of Petroleum Exporting Countries ("OPEC") and other producing nations influence global production levels. In addition, prices of alternative fuels, global economic conditions and weather conditions affect the oil prices.

World Oil Demand



OPERATIONS REVIEW

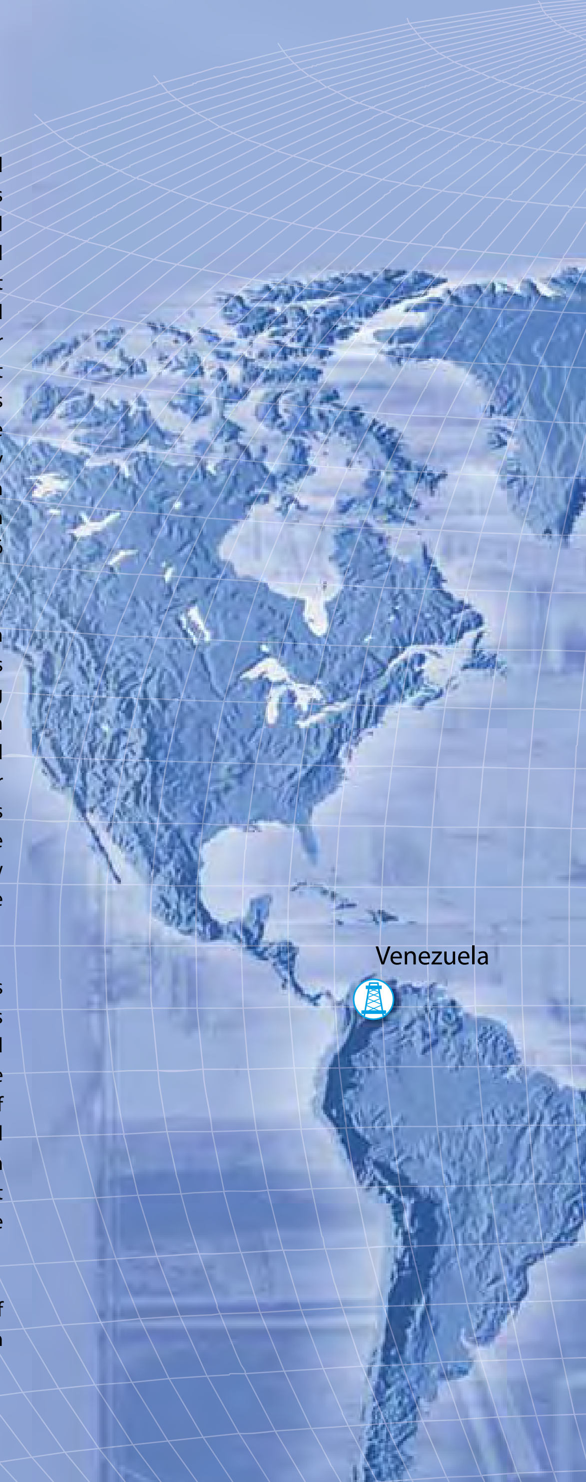
2005 was another very challenging and busy year for Lundin Petroleum. In terms of development projects, the successful completion of Broom Phase 2 in the United Kingdom was achieved. Further development projects in Tunisia and Norway were started and are on schedule with target dates for first oil in the fourth quarter 2006 and first quarter 2007 respectively. These two projects will enable Lundin Petroleum to increase production to over 50,000 boepd by early 2007. Meanwhile, despite no new acquisition or significant discoveries, Lundin Petroleum succeeded in replacing its reserves by 126 percent in 2005.

We continued to invest proactively in exploration during 2005 but the results were disappointing, particularly the drilling results in Nigeria. We will however continue our exploration investment strategy and in 2005 acquired two new licences offshore Norway and three new licences offshore United Kingdom. Exploration requires a long term investment perspective and in 2006 our exploration work programme will increase significantly with participation in 15 new wells worldwide and seismic acquisition programmes in the United Kingdom and Sudan. We also continue to invest in exploration personnel with the expansion of our Exploration New Ventures team in Geneva which is focused upon increasing our asset base in prospective new areas with the potential for increasing our reserve base.

The production from our operating assets increased by 15 percent from 2004. Nevertheless production was below forecast in 2005 particularly due to the performance from our assets in the United Kingdom. From a subsurface perspective the United Kingdom performed well and I am confident that the reserves will be ultimately recovered. The problems were related to facilities issues where we underestimated the throughput and reliability of our equipment. We are constantly challenged with facilities issues associated with old infrastructure particularly in an environment where personnel and equipment are in high demand. These issues will remain challenging but I believe that with proactive management and support from our operating services contractor Petrofac we can realise the subsurface potential of our assets.

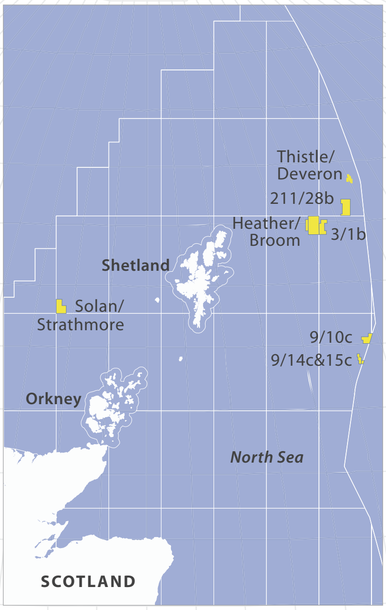
I feel privileged to work with such a dynamic, experienced and entrepreneurial group of people. With this team I am confident that we can continue to grow the Company through solid technical and operational management.

ALEXANDRE SCHNEITER
Executive Vice President & COO



COUNTRY	NUMBER OF LICENCES	WORKING INTEREST
Albania	1 licence	50%
France	16 licences	33.3 - 100%
Indonesia	6 licences	14.5 - 100%
Ireland	2 licences	12.5 - 30%
Netherlands	20 licences	1.2 - 10%
Nigeria	1 licence	22.5%
Norway	16 licences	7 - 100%
Sudan	1 licence	24.5%
Tunisia	4 licences	40 - 50%
United Kingdom	9 licences	37.5 - 100%
Venezuela	1 licence	12.5%


Ireland - Donegal Basin
-1 exploration well to be drilled in this frontier area in 2006
Norway Alvheim project 2006-2007
-Approximately USD 1.3 billion oil & gas development
-First oil 2007
-3 exploration wells in 2006 in other NCS licences
UK
Norway
Ireland
Netherlands
France
United Kingdom
-Broom Phase 2 successfully completed
-Further production enhancing activities in 2006
-Extensive 3D seismic acquisition over Heather
Albania
Tunisia
Tunisia - Oudna project
-Production through owned FPSO
-First oil scheduled for late 2006
Sudan
Nigeria
Indonesia
Sudan - Block 5B
-Operations to resume on the block in 2006 with 2D seismic acquisition
-3 exploration wells planned for 2006
Indonesia
-TBA development first oil in 2006
-7 exploration wells in 2006




Heather platform

UNITED KINGDOM

Lundin Petroleum has working interests in four production and five exploration licences in the northern sector of the United Kingdom Continental Shelf (UKCS). The major operated assets include three mature producing fields, Thistle and Heather, and the Broom field which was brought on stream by Lundin Petroleum in 2004 with production in excess of 25,000 bopd (gross).

To optimise the production on Heather and Thistle a variety of techniques have been used including workovers, artificial lift, water injection, development drilling programmes and maintenance of the topsides facilities.

The discovery and development of new accumulations near existing fields is an important stage in the life of a mature hydrocarbon province such as the UKCS.

The Broom field, which comprises two accumulations, West Heather and North Terrace, is an example of what impact new discoveries in the vicinity of old fields can have. The Broom Phase 2 was successfully completed during 2005 increasing the production from the Heather complex. The Broom field will extend the life of the Heather field and provide substantial production and reserves of its own via a sub-sea tie back to the Heather platform.

Reserves 54.1 MMboe
2005 average net production: 20,170 boepd

2005 highlights
- Completion of Broom Phase 2 with a sidetrack of the original discovery well to a new up-dip location on West Heather and the first production well on North Terrace. Production from the West Heather well commenced in August 2005 and from the North Terrace well in October 2005.
- Outsourced platform operations for both the Heather and Thistle installations with effect from 1 May 2005.
- Thistle shutdown to ensure facilities are fit for purpose for ongoing operations.
- Completed third Thistle water injection well workover.
- Awarded 3 exploration blocks in the 23rd licencing round.

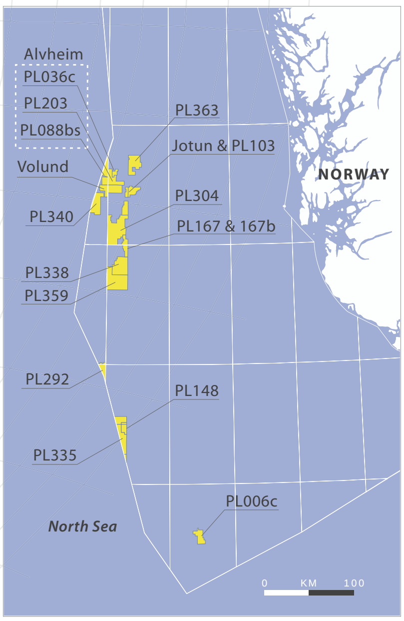
2006 work programme
- Complete reactivation of Heather drilling rig and carry out 2 well workovers and drill the first development well of the underlying Triassic reservoir.
- Acquire 3D seismic over the greater Heather area.
- Increase produced water handling capacity on both Heather and Thistle fields.


Alvheim FPSO modifications at the Keppel shipyard, Singapore

NORWAY

The Norwegian Continental Shelf (NCS) is one of the principal growth areas for Lundin Petroleum with increased activities planned for 2006.

The existing licences comprise the full spectrum from exploration to mature assets. Recently awarded licences in 2005 consist of exploration acreage locally associated with existing discoveries. Other licences contain as yet unexploited but proven marginal accumulations of oil and gas. The PL203 licence contains the Alvheim field complex, which is currently under development with first oil planned for early 2007. Alvheim is an approximate USD 1.3 billion development which will result in oil and gas being produced from a series of good quality sandstone reservoirs via a floating, production, storage and offloading vessel (FPSO). Gross initial Alvheim production is forecast to be approximately 85,000 boepd. It is anticipated that Alvheim will become the hub for additional satellite developments in this area. The nearby Volund discovery (previously named Hamsun) is likely to be tied back to Alvheim, and a development plan will be submitted to the Norwegian government during 2006.



Production from Norway is currently generated from the Jotun field.

Reserves 41.0 MMboe
2005 average net production: 990 boepd

2005 highlights

- The Alvheim FPSO has been modified at the Keppel Shipyard in Singapore and will be completed with topside modifications in Norway.
- 2 new licences awarded in the APA 2005 licencing round, PL359 and PL363 as operator.
- Acquired 60% interest in PL304 from Esso.
- Completed the sale and leaseback of the Jotun FPSO.

2006 work programme

- 3 infill wells to be drilled 2006/2007 on the Jotun licence.
- 4 oil producers and 2 water disposal wells are planned to be drilled on the Alvheim field in 2006. Drilling of development wells will continue into 2007 and 2008.
- Complete the topside installation and modification on the Alvheim vessel and commence the hook-up and commissioning.
- 1 exploration/appraisal well to be drilled on the East Kameleon structure in the Alvheim field area.
- 2 exploration wells to be drilled on PL338 and PL335.
- Submit a Plan for Development and Operation approval for the Volund field (previously named Hamsun) from the Ministry of Petroleum and Energy (MPE).

OPERATIONS REVIEW

Workover rig, Paris Basin

Zuidwal platform, Netherlands

FRANCE

France is one of the operated producing areas of Lundin Petroleum. In the Paris Basin and Aquitaine Basin, production is optimised by using a variety of workover techniques, water injection and development drilling programmes. Facilities and infrastructure are in place with excess capacity to enable future development.

Further exploration opportunities and exploitation of contingent resources are being pursued to provide Lundin Petroleum with stable production and cashflow.

Through selective drilling programmes, investments in new projects and continued operational improvements, the French assets will continue to provide Lundin Petroleum with long term production.

Reserves: 20.1 MMboe
2005 average net production: 4,200 boepd

2005 highlights
- 1 exploration well drilled in the Nemours licence, La Tonelle-1. The well is under a long term production test.
- 2 producers in Vert La Gravelle and Courdemanges converted into injectors.
- Successfully fractured a Soudron Rhaetian producer using cold water, resulting in an 8-fold productivity improvement.
- First oil from the Les Mimosas discovery via temporary production facilities.

2006 work programme
- Continue cold water fracture campaign in the Paris Basin.
- Further develop the North-East part of Villeperdue by drilling 3 producers and 1 injector using under balanced drilling techniques.
- Continue to optimise water injection pattern in Soudron and Grandville by converting 2 existing wells into water injectors.
- Drill an exploration well in the Val des Marais permit.
- Develop Les Mimosas field with permanent facilities.

NETHERLANDS

The Netherlands is a mature gas province providing Lundin Petroleum with stable, long term onshore and offshore production. The production is generated from non-operated interests. Although most of the producing fields are mature, additional infill drilling and development opportunities are actively pursued.

The Dutch government continues to provide a market for all discovered gas through its small gas field policy. As a result several development and exploration projects are ongoing to maintain and increase current production profiles.

Reserves: 5.9 MMboe
2005 average net production: 2,340 boepd

2005 highlights
- 1 development well K5-EC5 well on stream.
- 1 development well K4-BE4 spudded.
- 1 exploration well F12/4 spudded.

2006 work programme
- Drill K4-BE4 well.
- K4-A5 well to be drilled offshore.
- Following successful tie-back L4/9 well, finalise L4G development, with tie-back to L4A platform. First gas in 2006.

Ikdam FPSO


Oudna-3 wellhead in transit to the field

TUNISIA

Lundin Petroleum is the operator of four concessions offshore Tunisia with production from the Isis field and the ongoing development of the Oudna field where production is due to commence in the last quarter of 2006 at an expected rate of 20,000 boepd (gross).

The Oudna field was discovered in 1978 when Oudna-1 well tested 41° API at a rate of 7,000 bopd. The development plan was approved by the Tunisian government during 2005 and will consist of a single production and a single water injection well, tied back to the Ikdam FPSO.

Production from the Isis field continues to decline as projected and the field will be suspended when the FPSO is moved for shipyard works in May 2006.

Ikdam FPSO

The Ikdam is an 'Aframax' tanker with a storage capacity of almost 600,000 barrels. The vessel complies with requirements for operating as a tanker, oil terminal and production facility. The vessel is owned by Ikdam Production S.A. and the shareholders are Lundin Petroleum (40%), PGS (40%) and Brovig (20%). The commercial arrangements are such that Lundin Petroleum and PGS each have a 50 percent commercial interest in the vessel.

Reserves: 4.7 MMboe
2005 average net production: 970 boepd

2005 highlights

- Secured approval for the Oudna development.
- Signed commercial agreement with state partner ETAP.
- Commenced detailed Oudna development planning in April.
- Secured approval from Ministry of Environment for the Isis field decomissioning plan.

2006 work programme

- Drill Oudna producer and injector wells in first half 2006.
- Shut in production on Isis in mid April.
- Sail Ikdam FPSO to Malta shipyard for refurbishment, upgrade and re-classification works.
- Commence decommissioning works on Isis and leave production wells 7, 8 and 9 ready for abandonment.
- Re-enter, plug and abandon Isis well 5.
- Redeploy Ikdam FPSO on Oudna to start production last quarter 2006.

OPERATIONS REVIEW

INDONESIA

Lundin Petroleum has been operational in Indonesia since 2002 and has a portfolio of production, development and exploration assets. Production is generated from non-operated assets in the Salawati Island and Salawati Basin licences.

Development of the TBA field offshore Salawati Island is ongoing with first production expected mid 2006.

First gas production from the Singa field on the Lematang Block is expected in 2008. Gas will be exported through Sumatra to Java phase 1 pipeline. The Heads of Agreement for the sale of the gas was signed with PT Perusahaan Gas Negara (PGN) in January 2006.

There is further exploration potential and 2006 provides for an active exploration programme both for operated and non operated assets.

Reserves: 15.9 MMboe
2005 average net production: 2,260 boepd

2005 highlights

- 14 development wells drilled in Salawati Island/Salawati Basin.
- 2 development wells drilled in the TBA field.
- 10 exploration wells drilled in Salawati Island/Salawati Basin – 3 small discoveries.
- 1 operated exploration well commenced drilling, Jati-1. Drilling at year end.

2006 work programme

- 8 development wells to be drilled in Salawati Basin.
- 2 development wells to be drilled in Salawati Island.
- Complete the development of the TBA field offshore Salawati Island by installing a mobile production unit.
- 2 exploration wells to be drilled in Salawati Basin.
- 4 exploration wells to be drilled in Salawati Island.
- 1 exploration well to be completed, Jati-1 in the Banyumas PSC.
- 1 exploration well to be drilled, Tengis-1 in the Blora PSC.

VENEZUELA

Venezuela is one of the world's most prolific petroleum regions. Lundin Petroleum has a working interest of 12.5 percent in the Colón Block located in the western edge of the Maracaibo Basin, near Lake Maracaibo.

Oil and gas is produced from eight individual fields in the Colón Block with the La Palma field being the main producer. Current export capacity via the pipeline system is approximately 20,000 boepd (gross), although with increasing water production the concession produces currently at around 13,000 to 14,000 boepd. Ongoing development drilling on La Palma is necessary to maintain good production rates as the field is characterised by rapid water breakthrough and oil production decline soon after drilling. Additional wells are planned for the La Palma field.

Following the decision of the Venezuelan government in 2005 to restructure all operating service agreements in the country, the Colón Block consortium agreed to commence negotiations with Petróleos de Venezuela S.A (PDVSA) to create a "mixed enterprise". Negotiations are ongoing with PDVSA regarding this conversion.

Reserves: 4.4 MMboe
2005 average net production: 2,110 bopd

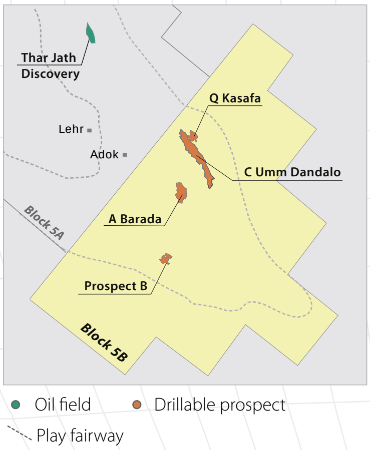
2005 highlights

- Drilling of 2 successful producers in La Palma field Mirador reservoir (LPT-11 and 12).
- Drilling of LPT-14 in La Palma field. This well found a full oil column in the main Mirador reservoir and tested oil from two deeper reservoirs, not previously drilled in La Palma field – the well has been on long term test and is producing oil under natural flow.
- 2 other La Palma field wells were drilled LPT-10 and 13. However, LPT-10 was found to have been swept due to production from other wells and LPT-13 found the reservoir unexpectedly deep and was essentially non-productive.

2006 work programme

- Drill LPT-15 well in early 2006.
- Complete long term testing of deep reservoirs in LPT-14 and formulate plan for further development.
- Bring on stream the main Mirador reservoir in LPT-14.

Swamp buggy and air boats survey the area of operation



SUDAN

In 2001 Lundin Petroleum was awarded a 24.5 percent working interest in Block 5B, operated by White Nile (5B) Petroleum Operating Company Ltd. (WNPOC), a joint operating company owned by Petronas Carigali White Nile (5B) Ltd. and Sudapet Co. Ltd..

A comprehensive peace agreement was signed in Sudan in early 2005 between the government and the Sudan People's Liberation Army (SPLA). A new government has been formed with representatives of the major political factions. In addition a National Petroleum Commission has been constituted with representatives of the government of National Unity, the government of Southern Sudan and representatives of the local areas where oil activity is taking place. The National Petroleum Commission will oversee petroleum activities in Sudan.

Mobilisation of equipment for a 1,100 kilometre 2D seismic acquisition is currently under way. Exploration drilling will commence in 2006 with a three well initial drilling programme to test the large prospectivity of Block 5B.

2006 work Programme

- 1,100 km 2D seismic acquisition.
- 3 well exploration drilling programme to commence.

ALBANIA

Lundin Petroleum signed a production sharing contract for the Durresi Block, offshore Albania. The Durresi exploration area (4,200 km^2) is located offshore Albania between Cape Rodoni to the north and the Karaburuni Peninsula to the south. Most of the block is located in shallow water 0 to 100 metres deep. The area has excellent logistics provided by the ports of Vlora and Durres.

2005 highlights

- Acquisition of 400 km^2 of 3D seismic.

2006 work programme

- Processing and interpretation of 400 km^2 of 3D seismic.
- Reprocessing 200 km 2D seismic.
- Mapping, definition and reserve calculation of prospect to be drilled in 2007

OPERATIONS REVIEW

IRELAND

In January 2005 Lundin Petroleum was granted Frontier Exploration Licence 1/05 in the Donegal Basin. Lundin Petroleum will operate the licence, which covers Block 13/7 and part-Blocks 13/11 (NE) and 13/12 (N) off the north western coast of Ireland. Lundin Petroleum and partners have a single exploration well commitment on this licence, to be drilled within two years of the award. Following significant activity in late 2005, Lundin Petroleum has contracted a semi-submersible drilling rig, which will drill the Inishbeg exploration well in the summer of 2006.

Lundin Petroleum also holds a 12.5 percent interest in the Seven Heads Oil licensing option, which lies below the Seven Heads producing gas field. This option has been extended to end 2006, by which time the partnership has to decide whether or not to mature it to a full exploration licence or allow the licence to lapse.

2005 highlights 2005

- Completed sale of Seven Heads gas field.
- Award of Frontier Exploration Licence 1/05 in the Donegal Basin.
- Agreement reached with partners regarding well design, drilling location and drilling rig selection for 2006 drilling.

2006 work programme

- Drilling of an exploration well to test the Inishbeg gas prospect scheduled for summer 2006.

NIGERIA

In January 2005, Lundin Petroleum signed an agreement to acquire a 22.5 percent net revenue interest in Block OML 113 located offshore West Nigeria. The Block is operated by the indigenous company Yinka Folawiyo Petroleum Company and Lundin Petroleum acts as a technical advisor on behalf of a consortium of several international oil and gas companies.

Nigeria is a prolific province for oil and gas with an oil production in excess of 2 million bopd. Block OML 113 is located in the Benin Basin, where oil is produced from the Seme field.

The Aje field was discovered in 1996 by the Aje-1 well which encountered around 300 feet of gas and a thin underlying oil rim within Turonian sandstones reservoir. Aje-2 located east of Aje-1 confirmed the presence of gas and oil within the Turonian reservoir and discovered a new oil accumulation within a deeper Cenomanian sandstones reservoir. The Aje-3 appraisal well was drilled during 2005. The presence of gas in the Turonian reservoir could not be tested due to poor reservoir properties. The Cenomanian sandstone reservoir was below the water contact.

2005 work programme

- Aje-3 appraisal well was drilled.

2006 work programme

- Re-processing of 3D seismic data.
- New seismic interpretation of the whole block OML 113 together with a 3D geological and reservoir model.

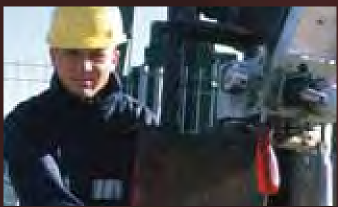
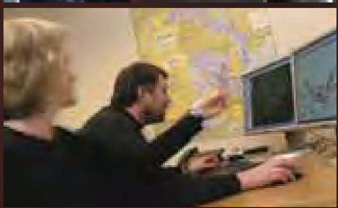
EXPLORATION NEW VENTURES

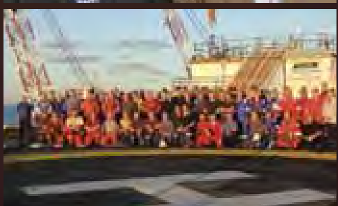
Lundin Petroleum's strategy is to create value through proactive exploration. In today's highly competitive acquisition environment the company is following an organic growth strategy to increase its exploration exposure. There have been significant advances in exploration technology over recent years which are now widely available. The differentiating factor is people. We have invested and continue to invest heavily in a team of focused new venture explorationists who have the experience, network and high levels of motivation to generate new opportunities.

Depending on the project, Lundin Petroleum may decide to adjust the working interest or secure partners to mitigate risk capital exposure, develop strategic alliances with other companies which provide a competitive advantage to the consortium, and contemplate creative acreage or asset swaps which leverage our expertise in one area to gain a new position in another region.

Lundin Petroleum continues to take a long term view with regards to political risk. The Company is willing to work in developing countries which at times possess higher political risk. Oil reserves are becoming more difficult to find and as such one has to go to more challenging locations to find the oil and gas reserves of the future. We will remain dedicated to upholding the highest standard of social responsibility as outlined in our Code of Conduct and to endeavour to be the partner of choice for both industry and government.

OUR PEOPLE ARE OUR STRENGTH



We have been able to attract an excellent team and continue to grow our personnel base. We live in a world of scarcer oil reserves and an ever increasing demand which will result in continued high oil prices. The company is still of a size where a project that is too small to have a material impact to the majors would have a material impact to Lundin Petroleum. With our strong technical team we can therefore generate projects which will ensure the continued growth profile of Lundin Petroleum.

CORPORATE RESPONSIBILITY

A COMMITMENT FROM THE TOP

When Lundin Petroleum was constituted in 2001, the Board of Directors believed it was important that the Company's mission and tasks be clearly known to the staff, as well as the manner in which these were to be conducted. It thus adopted the Lundin Petroleum Code of Conduct .

The Code establishes to whom Lundin Petroleum is responsible, i.e. shareholders, employees, host countries, local communities and society at large, as well as the business principles founded on the respect of law, fairness and equity, by which the Company is guided. The Code of Conduct is an integral part of the contract of employment of all Company staff and performance under the Code is reviewed by management and reported by the CEO to the Board on an annual basis.

The purpose of the Code of Conduct is to give general guidance on how the Company is to perform its tasks; while the Company relies on the technical competence and efficiency of its staff and contractors in carrying out operations, these must also understand potential effects and impacts of operations on the health and safety of the staff and affected communities, on the integrity of facilities and equipment, on the environment, and have measures in place to prevent or mitigate anticipated impacts.

Lundin Petroleum's Health (H) and Safety (S) Environmental (E) and Community Relations (CR) Policies were developed in order to emphasise the importance of integrating these elements in operational strategies and planning, while Lundin Petroleum's Health, Safety and Environmental (HSE) Management System (the "Green Book"), modeled after ISO-14001, details how this integration must take place in practice, i.e. through leadership commitment, attribution of roles and responsibilities, setting of plans, objectives and targets as well as continuous monitoring and review of performance.

2005 ACCOMPLISHMENTS

HSE performance is central to the sustainability of the Company operations. One way of tracking performance is through reporting. Monthly HSE reporting is a corporate requirement which enables the Company to monitor at all times the manner in which operations are conducted and, when required, introduce corrective measures.

As the Company continues to grow, so do the challenges to keep on operating in a manner that protects people, assets and the environment

CORPORATE RESPONSIBILITY

In view of the variety of operations within the Group, the different locations and structures under which they are operated, either by Company staff, by service contractors or joint-venture partners, Lundin Petroleum receives diverse HSE data both on a monthly and ad hoc basis. The Key Performance Indicators (KPIs) reported on monthly that Lundin Petroleum uses for the Group's operated assets are Fatalities, Lost Time Incidents (LTIs) as well as Oil Spills and Gas Leaks.

KPI figures in themselves do not give a full picture on how operations are run; therefore monthly reports also include information regarding HSE training, drills, committee meetings, accident/incident/near miss reports with root cause analyses, other problems encountered, remedial measures put in place and initiatives undertaken to improve HSE performance. As a result, Lundin Petroleum corporate is well aware, at any given time, of the status of such issues in all operations and the areas which require closer surveillance or improvements.

KEY PERFORMANCE INDICATORS (KPIs) IN 2005
Lundin Petroleum's HSE framework has been developed in order to be able to realise its "zero goal" for all its operations:

- **Zero fatalities**
  There were no Fatalities among Company staff or contractors in 2005.
- **Zero injuries**
  The total Lost Time Incident Frequency Rate (LTIFR, per 200,000 man hours) in operated assets in 2005 was 1.19; none of the incidents were of a serious nature.
- **Zero oil spills or gas leaks**
  There was one oil spill (9.25 bbls) constituting a reportable oil spill under Company rules within the operated assets.

HSE ENHANCEMENT INITIATIVES IN 2005
To achieve and enhance HSE performance requires continuous attention and the search for improvement measures. A number of steps were undertaken in 2005 with this objective in mind, among which:

- **External auditing**
  In 2005, Lundin Petroleum's operations and facilities in France, Tunisia and the UK were subjected to third party audits, in order to ascertain conformity with legal and Company standards and identify improvement areas (see third party report below).
- **Training**
  The Company is responsible for providing a safe working environment for its staff through adequate facilities, equipment and work procedures. However, overall HSE performance depends to a great extent on the competence and ability of the staff to carry out their tasks in a safe manner and in accordance with legal and Company rules. In order to underline staff's individual responsibility, the Company decided to introduce STOP training, a behaviour based observation programme which helps to change staff behaviour by enhancing their observation and communication skills in its operated areas.
- **Reducing environmental impacts**
  The main steps to reduce possible adverse impacts on the environment are carrying out environmental impact assessments prior to the commencement of operations and having in place detailed environmental plans which deal with all potential impacts. Careful planning and efficient use of the facilities can help achieve reduction goals. This was the case in the UK, which is Lundin Petroleum's only current area of operations subjected to the Emissions Trading System (ETS) put in place by the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Lundin Britain's CO_2 emissions were well below its allowances.
- **Monitoring of non-operated assets**
  Lundin Petroleum's first and foremost concern is to ensure that it has a sound HSE system in place in the areas it operates; however, it is also concerned with HSE performance in non-operated areas. Joint venture partners are required to have an HSE framework in place and to demonstrate sound HSE practice. The Company requires monthly HSE reporting from those entities, in addition to ad hoc information in the event of an incident which has a detrimental impact on people, plant or the environment.

STAKEHOLDER ENGAGEMENT IN 2005
As a responsible corporate citizen, Lundin Petroleum is committed to foster positive relations with its stakeholders. This takes place throughout the operational cycle from the acquisition of an asset through to its abandonment.

At the acquisition stage, once the Company has identified a technically attractive asset it carries out an analysis of the sociopolitical context in which the operations would take place, identifying the main problems in the area, the extent to which operations would be affected by or contribute to these problems, and the measures to put in place to promote a positive outcome.

In the course of operations, Lundin Petroleum - or, in the case of non-operated assets, its partners - is in contact with a variety of stakeholders, including host authorities, regulators, local communities, interest groups, etc. It maintains an open dialogue with anyone who has a legitimate interest in the area and wishes to cooperate in contributing to improving the status quo. In areas where there are particular socioeconomic problems, such as Nigeria, Sudan or Venezuela, the Company contributes and actively supports community development projects.

At the abandonment stage, the Company meets with regulators as well as those to whom the property reverts to agree jointly on rehabilitation measures.

In some instances there is limited interaction between Lundin Petroleum and host communities, given that some of the activities occur offshore or are carried out through operators other than Lundin Petroleum. The Board of Directors thus decided, at the end of 2005, to set up a fund to enable Lundin Petroleum to contribute to projects in areas or fields where the Company has an interest, even if those areas are not directly impacted by the Company's activities.

CASE STUDY - HSE audit of Lundin Petroleum's Tunisian operations

In October 2005, RC Consultants (RCC), an independent consultancy company in the AGR Ability Group, Norway, carried out a third party HSE audit of Lundin Petroleum AB's (the Company) Tunisian operations.

Despite the fact that Lundin Petroleum's activities are subject to different national requirements and take place under different environmental and operating conditions, there is a common platform for all the companies in the Group- the "Code of Conduct" - which is based on recognised principles of Corporate Social Responsibility (CSR). The Company promotes a culture and an organisation that reflects these principles and seeks to be recognised as fully capable of performing operations in an orderly and safe manner.

The purpose of carrying out the audit at the national level was to provide management with a clear picture of how the Health, Safety, Security and Environmental Management System (the HSSEMS) currently contributes to continual improvements in safety and environmental matters and how it is integrated with critical business processes and controls. The audit was also used as a basis for developing minimum corporate HSE expectations within the Group.

RCC based the audit on expectations expressed in the "Code of Conduct" and verified compliance with relevant parts of ISO 14001 (Environmental Management), OHSAS 18001 (Occupational, Health & Safety Management) and ISO 9001 (Quality Management).

The main focus of the audit was to confirm that governing systems and procedures defined and in place in Tunisia complied with the "Code of Conduct" and recognised industry and regulatory requirements. It was also meant to assess the competence of the personnel in the organisation and their ability to carry out their tasks in a manner that caters to safety, that takes care of the environment and that upholds corporate values.

The audit covered 7 main pre-defined areas, as per ISO standards: leadership & commitment, policy & objectives, organisation, resources & documentation, evaluation & risk management, planning & procedures, implementation & monitoring, auditing & reviewing. The personnel interviewed both in the office in Tunis and offshore on the FPSO Ikdam was very receptive and open to the audit. Staff's efforts and willingness to share status and performance was very high.

The results revealed an overall good performance. The auditing process identified areas for improvement and gave a clearer understanding of priority areas. RCC did not attribute the top score in certain areas, despite the fact that operations complied fully with international maritime and national legislation, as well as with corporate requirements, because it decided to measure performance up against the higher ISO standards and thus encourage continuous improvement of performance. There were two non-conformances registered: the lack of set measurable objectives as part of the HSSEMS and of a written HSE activity plan. Additional areas for improvements included: risk management, contractor management and monitoring of operations, which require a more systematic approach.

During the close out meeting in Tunis, everyone demonstrated their intention to follow up on the audit by immediately starting the discussion of means and ways to work on the findings. An implementation plan was reported to be in place a short time after the audit, demonstrating the seriousness with which they took the audit. All these facts and activities contribute to Lundin Petroleum's status as an internationally recognised responsible energy company.

Erik Grantangen,
Senior Consultant HSE & QA, , RC Consultants
Norway, January 2006

SHARE INFORMATION

Lundin Petroleum share
Lundin Petroleum's shares are listed on the O-list, Attract 40 at the Stockholm Stock Exchange.

Trading and market capitalisation
Trading of Lundin Petroleum shares takes place on Stockholmsbörsen. Market capitalisation as of 31 December 2005 was MSEK 21,857.

Liquidity
High liquidity is important in attracting major institutional investors to Lundin Petroleum. During the year a daily average of 1,200,000 Lundin Petroleum shares with a value of MSEK 88.5 were traded on the Stockholm Stock Exchange.

Lundin Petroleum's share price can be monitored daily at www.lundin-petroleum.com where it is also possible to follow the Brent oil price.

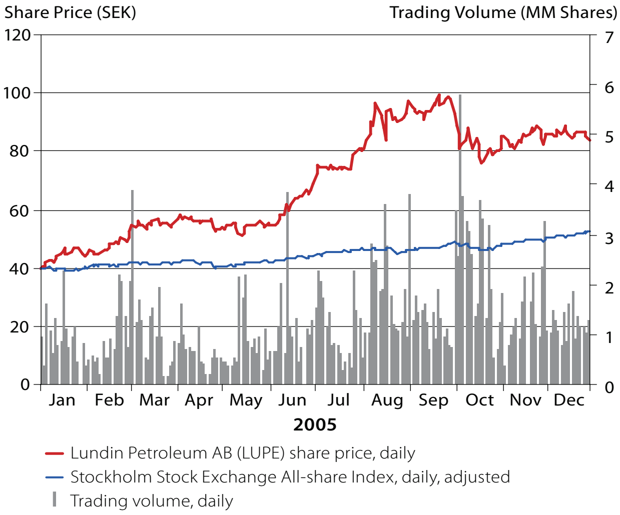
Share capital and voting rights
The registered share capital at 31 December 2005 amounts to SEK 2,567,937 represented by 256,793,666 shares with a quota value of SEK 0.01 each and representing 1 vote each. All outstanding shares are common shares and carry equal rights to participation in Lundin Petroleum's assets and earnings. One trading unit consists of 200 shares. As at 31 December 2005 an additional 346,500 shares have been issued but not registered.

Incentive warrants
The Group operates an employee incentive scheme whereby incentive warrants are issued to employees following approval at the Annual General Meeting (AGM). From 2003 the warrants were issued at 110 percent of the average closing price for the ten days following the AGM. The warrants are issued for a period of three years and are not exercisable during the first year of issue. In the event that all outstanding incentive warrants are exercised Lundin Petroleum will receive an amount of MSEK 238.2 and the number of shares will be diluted by 1.8 percent.

	2003 programme	2004 programme	2005 programme
Number of warrants initially issued	3,400,000	2,250,000	2,900,000
Strike price in SEK	10.10	45.80	60.20
Exercisable as from	31 May 2004	31 May 2005	15 June 2006
Issued and outstanding warrants as at 31 Dec 2005	498,000	1,280,000	2,900,000

2005 Highlights

Stockholmsbörsen Listing	Attract 40
Number of shares issued	257,140,166
Year high/ year low	99.75/38.30
Market capitalisation at 31 Dec 2005	MSEK 21,857
Ticker code, Reuters	LUPE.ST
Bloomberg	LUPE SS



Dividend policy
Lundin Petroleum's primary objective is to add value to the shareholders, employees and co-venturers 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 the dividend has to be determined by Lundin Petroleum's financial position and the possibilities for growth through profitable investments. Dividends will be paid when Lundin Petroleum generates sufficient sustainable cash flow and 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 ongoing projects, and satisfy the immediate capital requirements of Lundin Petroleum.

Share data

Since the company was incorporated in May 2001 and up to 31 December 2005 the Parent Company share capital has developed as shown below:

	Month and year	Quota value (SEK)	Change in number of shares	Total number of shares	Total share capital (SEK)	Subscription price (SEK)
Formation of the Company	May 2001	100.00	1,000	1,000	100,000.00	100.00
Share split 10,000:1	June 2001	0.01	9,999,000	10,000,000	100,000.00	-
New share issue	June 2001	0.01	92,861,283	102,861,283	1,028,612.83	0.01
New share issue	July 2001	0.01	3,342,501	106,203,784	1,062,037.84	0.01
New share issue	Nov 2001	0.01	106,203,784	212,407,568	2,124,075.68	3.00
Warrants	June 2002	0.01	35,609,748	248,017,316	2,480,173.16	4.50
Incentive warrants	2002	0.01	667,700	248,685,016	2,486,850.16	3.37
Incentive warrants	2003	0.01	2,075,850	250,760,866	2,507,608.66	3.37
Incentive warrants	2003	0.01	764,600	251,525,466	2,515,254.66	4.50
Incentive warrants	2004	0.01	247,300	251,772,766	2,517,727.66	3.37
Incentive warrants	2004	0.01	848,500	252,621,266	2,526,212.66	4.50
Incentive warrants	2004	0.01	1,127,100	253,748,366	2,537,483.66	10.10
Incentive warrants	2005	0.01	791,900	254,540,266	2,545,402.66	4.50
Incentive warrants	2005	0.01	1,774,900	256,315,166	2,563,151.66	10.10
Incentive warrants	2005	0.01	825,000	257,140,166	2,571,401.66	45.80
Total			**257,140,166**	**257,140,166**	**2,571,401.66**	

Share ownership structure

Lundin Petroleum had 41,038 shareholders as at 31 December 2005. The proportion of shares held by institutional investors amounted to 76 percent. Foreign investors held 58 percent of the shares. During the year the number of shareholders increased by 24 percent.

The 10 largest shareholders according to VPC, as at 31 December 2005	Numbers of shares	Subscription capital/votes,%
Lorito Holdings Ltd	71,435,168	27.8
Landor Participations Inc.	13,407,456	5.2
Mourgue d'Algue et Cie	7,483,730	2.9
Robur Fonder	4,091,521	1.6
Handelsbanken Fonder	3,772,690	1.5
SEB Fonder	3,561,500	1.4
JP Morgan Chase Bank	2,386,364	0.9
SEB Trygg-Liv	2,136,000	0.8
Andra AP Fonden	2,001,120	0.8
Första AP-Fonden	1,990,800	0.8
Other Shareholders	144,527,308	56.3
Total	**256,793,666**	**100**

- The 10 largest shareholders registered with the VPC, the Swedish Securities Register Center
- Lorito Holdings Ltd. holds 71,435,168 shares in Lundin Petroleum. Lorito Holdings Ltd. is an investment company wholly owned by a trust whose settler is Adolf H. Lundin
- Landor Participations Inc. holds 13,407,456 shares in Lundin Petroleum. Landor Participations Inc. is an investment company wholly owned by a trust whose settler is Ian H. Lundin.
- As per 31 December 2005 346,500 shares were issued but not registered.

Distribution of shareholdings

Distribution of shareholdings in Lundin Petroleum according to VPC, 31 December 2005.

Size categories as at 31 December 2005	Numbers of shareholders	Percentage of shares,%
1–500	24,423	1.8
501–1,000	7,122	2.4
1,001–10,000	8,276	9.9
10,001–50,000	912	7.5
50,001–100,000	135	3.7
100,001–	170	74.7
Total	**41,038**	**100**

Analyst coverage

Broker	Analyst
ABG Sundal Collier	Oystein Oyehaug oystein.oyehaug@abgsc.no
Carnegie	John A. Schj.Olaisen jo@carnegie.no
Enskilda Securities	Julian Beer julian.beer@enskilda.se
Handelsbanken	Anne Gjoen angj01@handelsbanken.se
Merrill Lynch	Andrew Knott Andrew_knott@ml.com
Swedbank Markets	Alexander Vilval alexander.vilval@swedbank.com
Öhman Fondkomission	Joakim Kindahl joakim.kindahl@ohman.se

BOARD OF DIRECTORS

The Annual General Meeting (AGM) elects the Board members for a period of one year. Board members are nominated in accordance with the nomination process adopted by the AGM in 2005 (see below). The composition of the Board of Directors is decided through a vote of the shareholders during the AGM after recommendation from the Nomination Committee.

NOMINATION PROCESS

Election to the Board

The 2005 AGM decided upon the Nomination Process which would take place in 2006, requiring the creation of an external Nomination Committee. This Nomination Committee was formed in 2005 and consists of a total of five members, representing four of the largest shareholders, i.e Magnus Bakke, of Robur Fonder, Ossian Ekdahl, of Första AP-fonden , Björn Lind, of SEB Trygg-Liv, Ian H. Lundin (of Landor Participation Inc. and Lorito Holdings Ltd, also Chairman of Lundin Petroleum) and Magnus Unger (non-executive Board member) who acts as Chairman of the committee. Magnus Unger was unanimously selected as the chairman as it was felt that he had the best knowledge both of the Company and Swedish requirements and thus could best represent the shareholders' interests. The names of the members of the Nomination Committee were announced and posted on the website as soon as the representatives had been appointed.

In furtherance of the Nomination Committee's responsibility to propose members of the Board to the AGM, the Chairman undertook on its behalf a systematic evaluation of the work of the Board and its members through the preparation of a questionnaire and presented the results and conclusions to the Nomination Committee. In addition to the functions described above the Nomination Committee makes recommendations to the AGM regarding fees for the Chairman and Board members and for Board committee work, audit fees and election of the Chairman to the AGM. No remuneration was paid to either the Chairman or any of the members for their work on the Nomination Committee.

Election of auditors

The audit firm PricewaterhouseCoopers AB, Sweden, was appointed by the 2005 AGM as auditors for the period up until 2008. As part of the function of the Nomination Committee auditors are recommended for nomination.

THE BOARD OF DIRECTORS

The composition and the functions of the Board of Lundin Petroleum are described below. The Board adheres to a set of rules and procedures, the Rules of Procedure, which are updated on a regular basis to take into account changes in legislation as well as the structure and orientation of the Company. The Rules were revised on 15 August 2005, to make them conform to the terms of the Swedish Code of Corporate Governance. Major changes were in the reduction in the number of Board Committees and the external Nomination Committee replacing the prior Governance and Nomination Committee.

Composition of the Board

According to the Articles of Association the board shall consist of a minimum of three and a maximum of ten directors. Nine Board members were elected at the AGM on 19 May 2005, including a new member, Viveca Ax:son Johnson. At the statutory Board meeting, Ian H. Lundin was appointed Chairman. No deputy directors have been appointed and the CEO is a member of the Board. There are no members appointed by employee organisations.

As a matter of policy, there is a majority of independent directors on the Board. The criteria to establish whether a director is "independent" are those listed under Article 3.2.4 of the Swedish Code of Governance and the listing requirements of the Stockholm Stock Exchange.

The Chairman of the Board of Directors is not employed by the Company and does not receive any salary nor is he eligible for participation in the Company's incentive programme. The Chairman of the Board of Directors up-holds the reporting instructions for the Company management as drawn up by the Managing Director and approved by the Board of Directors and does not take part in the day-to-day decision-making concerning the business operations of the Company.

REMUNERATION OF BOARD MEMBERS

Remuneration of the Chairman of the Board and Board members is in accordance with the resolution adopted by the Annual General Meeting. The remuneration of the Board of Directors is stated in the Annual Report's note to financial statements (see Note 38, Remuneration to Board of Directors and Management).

Rules of Procedures for the Board

The Rules of Procedure are adopted annually and reviewed when necessary. In order to be in full conformity with the Code of Corporate Governance, the Rules of Procedure were thoroughly reviewed and revised by the Board on 15 August 2005.

The Rules of Procedure set out the details of how the Board is to conduct its work, including the number of Board meetings,

Name	Function	Elected	Audit Committee	Compensation Committee	Independent of Company
Carl Bildt	Director	2001			Yes
Viveca Ax:son Johnson	Director	2005			Yes
C. Ashley Heppenstall	President & CEO	2001			No
Kai Hietarinta	Director	2001		Yes	Yes
Adolf H. Lundin	Honorary Chairman	2001			No
Ian H. Lundin	Chairman	2001	Yes		No
Lukas H. Lundin	Director	2001		Yes	Yes*
William Rand	Director	2001	Yes	Yes	Yes
Magnus Unger	Director	2001	Yes	Yes	Yes

* No professional ties to Lundin Petroleum but linked to dominant shareholder by family ties.

the division of duties within the Board of Directors, the Board composition and functioning, etc.

The Functions of the Board
The Board of Directors' primary duties are the organisation of the Company and the management of the Company's operations including:

- Decisions regarding focus of the business and adoption of Company policies.
- Supply of capital.
- Appointment and regular evaluation of the work of the Managing Director (also referred to as chief executive officer "CEO") and Company management.
- Approval of the reporting instructions for the Company management.
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences.
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals.
- Follow-up and monitoring that operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.
- Ensuring that the necessary guidelines governing the Company's ethical conduct are established.

The Board of Directors ensures that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general include satisfactory systems of internal control.

The Board of Directors further ensures that there is systematic and structured evaluation of its work on an annual basis.

Board meetings
The Board of Directors normally holds at least five ordinary meetings per calendar year. At each of these meetings, the following matters are addressed:

- Review and approval of the minutes from the preceding meeting.
- Report of the Managing Director regarding:
  - Status of the business
  - Prospects
  - Economic and Commercial report
  - Financial report
- Reports from the Committees of the Board of Directors.
- Items related to decisions (e.g. concerning investments, acquisition and sale of companies, formation of subsidiaries and increases in capital of subsidiaries, loans and guarantees, and also structural and organisational matters).
- Miscellaneous issues of material importance for the Company.

During 2005 five board meetings took place, including the statutory meeting. One executive session whereby the Board was given the opportunity to interact directly with the management was also held. This meeting was held in conjunction with a visit to the Norwegian operations.

Committees
The Board has a Compensation Committee and an Audit Committee, each with its clear mandate as described below.

Compensation Committee
The function of the Compensation Committee is to receive information on and determine matters regarding compensation to the Group Management. The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.
Members: William A. Rand (Chairman), Lukas H. Lundin, Kai Hietarinta and Magnus Unger

Audit Committee
The function of the Audit Committee is to review on behalf of the Board, the Company's quarterly (first and third) interim financial statements, review and make recommendations to the Board in relation to the Company's six month and yearly accounts, review audit fees, ensure maintenance of, and compliance with, the Company's internal control systems and liaise with the Group's external auditors as part of the annual audit process. *Members:* William A. Rand (Chairman), Ian H. Lundin and Magnus Unger

Meeting attendance

Name	Board	Audit Committee	Compensation Committee
Carl Bildt	4/5		
Viveca Ax:son Johnson	3/5*		
C. Ashley Heppenstall	5/5		
Kai Hietarinta	5/5		2/2
Adolf H. Lundin	4/5		
Ian H. Lundin	5/5	2/4**	
Lukas H. Lundin	4/5		2/2
William Rand	5/5	4/4	2/2
Magnus Unger	5/5	4/4	2/2

* Joined the Board in May 2005
** Joined the Audit Committee in August 2005

Systematic evaluation of the Board's work
A formal review of the work of the Board was carried out in the course of 2005. Through a questionnaire submitted to all the members, different aspects of Board work were considered including working procedures, working climate, need of special competence and information. The results and conclusions were presented to the Nomination Committee. The overall conclusions from the review process were the following:

- Existing composition of the Board is good for the tasks at hand
- Presentation materials and Board meetings are of professional quality
- Positive atmosphere during Board meetings conducive to open and frank discussions during meetings

BOARD OF DIRECTORS

From left to right William A. Rand, Viveca Ax:son Johnson, Ian H. Lundin, Magnus Unger, Kai Hietarinta, Lukas H. Lundin, Carl Bildt, C. Ashley Heppenstall

PRESENTATION OF THE BOARD OF DIRECTORS
The Board of Directors consists of nine elected Board members. The President and CEO is the only executive member.

Ian H. Lundin, Director since 2001, Chairman since 2002
Born 1960
Other board duties: Vostok Nafta Investment Ltd.
Bachelor of Science degree in Petroleum Engineering from the University of Tulsa.
Shares in Lundin Petroleum: nil[1]
Incentive warrants: 150,000*

Adolf H. Lundin, (not in photographs)
Chairman 2001-2002, Honorary Chairman since 2002
Born 1932
Other significant board duties: Chairman of Vostok Nafta Investment Ltd. Board member of Canadian Gold Hunter Corp., Lundin Mining Corp., Tenke Mining Corp., Valkyries Petroleum Corp.
Master of Science degree (Department of Engineering) from the Royal Institute of Technology, Stockholm. MBA degree from Centre d´Etudes Industrielles, Geneva
Shares in Lundin Petroleum: nil[2]
Incentive warrants: nil

[1] Landor Participations Inc holds 13,407,456 shares in Lundin Petroleum. Landor Participations Inc. is an investment company wholly owned by a trust whose settler is Ian H. Lundin.

[2] Lorito Holdings Ltd. holds 71,435,168 shares in Lundin Petroleum. Lorito Holdings Ltd. is an investment company wholly owned by a trust whose settler is Adolf H. Lundin

* Issued in 2003

Viveca Ax:son Johnson , Director since 2005
Born 1963
Other board duties: Chairman of Axel and Margret Ax:son Johnson Foundation, deputy Chairman of Nordstjernan AB. Board member of GP Förvaltnings AB, Sirius Machinery AB, Skanditek Industriförvaltning AB, Välinge Holding AB and Heerema Trust.
Shares in Lundin Petroleum: nil
Incentive warrants: nil

Carl Bildt, Director since 2001
Born 1949
Other board duties: Chairman of Kreab AB, Nordic Venture Network and Teleoptimering AB. Board member of HiQ AB, E. Öhman J:or AB, Vostok Nafta Investment Ltd., Legg Mason Inc. Member of the Board of Trustees of the Rand Corporation and member of the International Advisory Board of the Council on Foreign Relations in New York.
Member of the Swedish Parliament 1979–2001. Prime Minister of Sweden 1991–1994. UN Secretary General's Special Envoy for the Balkans 1999–2001.
Shares in Lundin Petroleum: nil
Incentive warrants: nil

Board members at the executive session in Norway

Lukas Lundin, Ashley Heppenstall and Ian Lundin boarding the helicopter to fly to the Thistle Platform, offshore UK.

C. Ashley Heppenstall, President and Chief Executive Officer. Director since 2001
Born 1962
Other board duties: Valkyries Petroleum Corp. and Matrix Rm Fund.
Bachelor of Science degree in Mathematics from the University of Durham.
Shares in Lundin Petroleum: 1,143,250
Incentive warrants: 550,000

Kai Hietarinta, Director since 2001
Born 1932
Other board duties: Vostok Nafta 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.
Shares in Lundin Petroleum: nil
Incentive warrants: nil

Lukas H. Lundin, Director since 2001
Born 1958
Other significant board duties: Chairman of Tanganyika Oil Co. Ltd., Canadian Gold Hunter Corp., International Uranium Corporation, Tenke Mining Corp., Valkyries Petroleum Corp. and Lundin Mining Corp. Board member of Vostok Nafta Investment Ltd and Atacama Minerals Corp.
Graduate from New Mexico Institution of Mining, Technology and Engineering.
Shares in Lundin Petroleum: 708,478
Incentive warrants: nil

William A. Rand, Director since 2001
Born 1942
Other significant board duties: Lundin Mining Corp., Tenke Mining Corp., Vostok Nafta Investment Ltd., International Uranium Corp., Canadian Gold Hunter Corp., Pender Financial Group Corporation and Dome Ventures Corp.
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.
Shares in Lundin Petroleum: 50,000
Incentive warrents: nil

Magnus Unger, Director since 2001
Born 1942
Other board duties: Chairman of Strategic Leap AB and CAL-Konsult AB. Board member of System Separation AB and Quartz Pro AB
MBA from the Stockholm School of Economics.
Shares in Lundin Petroleum: 50,000
Incentive warrants: nil

MANAGEMENT

Standing from left to right: Chris Bruijnzeels, Geoffrey Turbott, Jeffrey Fountain, Christine Batruch, Tim Coulter.
Sitting from left to right: C. Ashley Heppenstall, Alexandre Schneiter

MANAGEMENT AND COMPANY STRUCTURE

The President and CEO, who is a member of both the Board of Directors as well as of the Group management, has overall responsibility for the Lundin Petroleum Group. The President and CEO is assisted in his functions by the Group Management (see below). All the managers in the Company are responsible for working in compliance with the company's strategies and procedures.

The main responsibility for the operation of Company assets, ensuring that approved budgets are maintained and that all of Lundin Petroleum's internal rules and principles are followed, rests with the manager of each geographical business unit (General Manager) as well as with the Group management. General Managers regularly report on all technical, commercial, HSE, financial and legal issues to the Group management.

Remuneration

Lundin Petroleum's aim is to recruit, motivate and retain high calibre executives capable of achieving the objectives of the Group, and to encourage and appropriately reward superior performance in a manner that enhances shareholder value. Accordingly, the Group operates a Policy on Remuneration which ensures that there is a clear link to performance and a close alignment with shareholder interests, and aims to ensure that senior executives are rewarded fairly for their contribution to the Group's performance (see Note 38, Remuneration to Board of Directors' and Management).

Changes in management

Marco Zanella left the Company in January 2005. Andrew Harber, Vice President Corporate Services transferred to the role of General Manager of the Company's Indonesian operation during March 2005 and the role of Vice President Corporate Services was withdrawn with the functions of the role being redistributed among other positions. During 2005 Tim Coulter has been appointed Vice President Operations.

Group Management
Ashley Heppenstall, President and Chief Executive Officer, born 1962
As President and Chief Executive Officer, Ashley Heppenstall is responsible for the overall leadership, strategy and vision of Lundin Petroleum.
See Board of Directors

Alexandre Schneiter, Executive Vice President and Chief Operating Officer, born 1962
As Chief Operating Officer Alex Schneiter leads an experienced team of oil and gas professionals and is ultimately responsible for Lundin Petroleum's worldwide operations.
Shares in Lundin Petroleum: 50,000
Incentive warrants outstanding: 550,000

Geoffrey Turbott, Vice President Finance and Chief Financial Officer, born 1963
Geoffrey Turbott is directly responsible for Lundin Petroleum's administration, financial reporting, internal audit, risk management, tax and treasury function.
Shares in Lundin Petroleum: 2,000
Incentive warrants outstanding: 165,000

Christine Batruch, Vice President Corporate Responsibility, born 1959
Christine Batruch is responsible for Lundin Petroleum's strategy in HSE and for overseeing implementation of the Company's policies and procedures. She is also responsible for relations with local communities and relevant interest groups.
Shares in Lundin Petroleum: 2,000
Incentive warrants outstanding: 105,000

Chris Bruijnzeels, Vice President Reservoir and Production, born 1959
Chris Bruijnzeels is responsible for Lundin Petroleum's reservoir management, production forecasting and commercial and economic evaluation.
Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 90,000

Tim Coulter, Vice President Operations, born 1953
Tim Coulter is responsible for engineering, drilling and production operations for Lundin Petroleum.
Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 50,000

Jeffrey Fountain, Vice President Legal, born 1969
Jeffrey Fountain is responsible for all legal matters pertaining to the Lundin Petroleum .
Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 120,000

AUDITORS

PricewaterhouseCoopers AB, Lilla Bommen 5, Gothenburg, Sweden

Carl-Eric Bohlin, born 1946
Authorised Public Accountant
Lundin Petroleum auditor since 2001
PricewaterhouseCoopers AB, Stockholm

Klas Brand, born 1956
Authorised Public Accountant
Lundin Petroleum auditor since 2001
PricewaterhouseCoopers AB, Gothenburg

Deputy Auditor
Bo Hjalmarsson, born 1960
Authorised Public Accountant
Lundin Petroleum auditor since 2001
PricewaterhouseCoopers AB, Stockholm

CORPORATE GOVERNANCE REPORT- Chairman's introduction

In late 2004, the Code Group (appointed by the Swedish government to develop a framework for good governance for Swedish companies), issued the Code of Governance (the Code), which came into effect on 1 July 2005. Lundin Petroleum's Board of Directors thoroughly analysed the Code to ascertain how it should be adopted by Lundin Petroleum AB.

The conclusion reached by the Board was that the Code generally reflected Lundin Petroleum's existing views and practice in this field, and that the Company should therefore adopt the Code and make the necessary changes to conform in all relevant aspects to the Code.

As a result of this decision, a number of concrete steps were taken by Lundin Petroleum in 2005.

Firstly, the Code was reviewed by the management in the spring of 2005 with a view to assess the formal changes which would have to be made to conform to the Code.

Secondly, the Rules of Procedure for the Board were amended to conform to the Code and adopted at a special Board meeting organised for this purpose on 15 August 2005. These amendments consisted of defining more clearly the primary duties and responsibilities of the Board of Directors and the division of duties within the Board of Directors, as well as the restructuring of Board Committees.

Thirdly, as per the Code of Governance requirement and the instruction of the 2005 AGM, an independent Nomination Committee was created. The main functions of the Nomination Committee are to assess the work of the Board and propose candidates to the Board and the auditors at the AGM. As Chairman of the Board, following the decision of the 2005 AGM, I invited a number of institutional shareholders to take part in the new Nomination Committee to be made up of five members. As a result of this invitation three persons who do not sit on the Board but represent some of the largest shareholders agreed to join the Committee, namely, Magnus Bakke for Robur Foundation, Ossian Ekdahl for Första AP Fonden and Björn Lind for SEB Trygg-Liv. Myself, as representative of the two largest shareholders (Lorito Holdings Ltd. and Landor Particpations Inc.). and Magnus Unger, also a Director, are the two other members of the Committee. The decision to have Magnus Unger as chairman was taken unanimously as it was felt that he had the necessary knowledge both of Swedish Corporate Governance and company practice. The Committee members had several informal meetings and discussions before meeting formally for the first time on 15 December 2005.

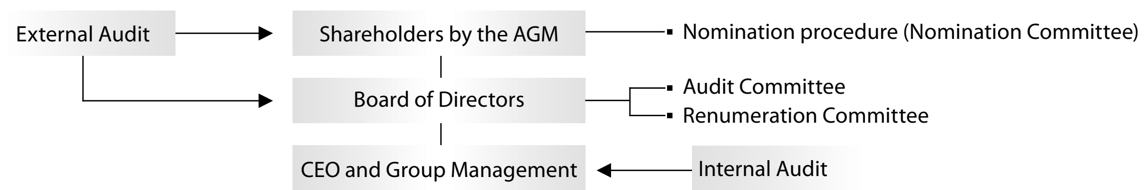
As a result of the above changes the Finance Committee and Governance/Nomination Committee (which previously reported to the Board), were disbanded as their functions were essentially those of the independent Nomination Committee. There are now only two Committees that report directly to the Board (the Compensation Committee and the Audit Committee).

Finally the instructions for the Chief Executive Officer (CEO) and Executive Vice President have been elaborated and a review of the performance of the CEO will be performed on annual basis.

With regard to the work of the Board during 2005, five meetings took place, including the statutory meeting. An executive session whereby management could interact directly with the Board was also held. A Board review was carried out and the results and conclusions were presented to the Nomination Committee.

Corporate Governance at Lundin Petroleum is an evolving issue primarily designed to protect shareholder rights. We will ensure to remain true to its vocation.

Ian H. Lundin
Chairman of the Board



Since its creation, Lundin Petroleum AB (the "Company") has been guided by general principles of corporate governance designed to:

- Protect shareholder rights
- Provide a safe and rewarding working environment to all employees
- Carry out business (i.e. oil & gas exploration and production) in a professional and efficient manner keeping in mind the protection of the environment
- Contribute to the development and improvement of living standards of communities in all areas of operations.

In addition, Lundin Petroleum abides to principles of corporate governance elaborated internally and externally. They are to be found in the following documents:

The Swedish Code of Corporate Governance ("Code of Governance")

The Code of Governance is based on the Swedish Companies Act and the tradition of self-regulation. This document was issued in late 2004 by the Code Group on behalf of the Swedish government (ref: SOU 2004:130) and integrated in the listing agreement with the Stockholm Stock Exchange 1 July 2005.

There are two instances in which the Company does not abide strictly to the terms of the Code of Governance though in substance it does. Firstly, because the Managing Director is not fluent in Swedish, his presentation during the AGM is delivered in English, not Swedish as the Code requires. Nonetheless, Swedish subtitles are provided concurrently on the overhead slides. The second departure is that a board member serves as the chairman of the Nomination Committee, as the Committee felt he was the best candidate to carry out the task.

The Exchange Rules

The Exchange Rules form an integral part of the Listing Agreement between the Company and Stockholmsbörsen AB. Details regarding the Exchange Rules can be found on the following website www.stockholmsborsen.se.

The Listing Agreement is an agreement between Stockholm-börsen and the Company regarding the requirements of being listed at the Stockholm Stock Exchange.

Lundin Petroleum's Code of Conduct ("Code")

The Code is a set of principles formulated by the Board to give overall guidance to employees, contractors and partners on how the Company is to conduct business. The Code was adopted at the formation of Lundin Petroleum in 2001. Compliance with the Code is reviewed on an annual basis by the Board. The Code can be found on the Company's website www.lundin-petroleum.com.

The Code was developed by Lundin Petroleum at a time when there were no formal requirements in Sweden regarding corporate governance. The Company decided to make its values, principles and commitment explicit in order to set the necessary framework for ethical conduct, against which the Company could be assessed and evaluated.

Lundin Petroleum's Policies & Management System

The Company has policies covering Communication, Finance, HSE (Health, Safety and Environment,) Information Technology, Internal Control and Personnel issues. It also has a dedicated Health, Safety and Environmental Management System ("Green Book"), which gives guidance to Management about the Company's intentions and expectations in HSE matters.

While the Code provides the Company's ethical framework, dedicated policies have been developed internally to provide specific guidelines applicable in the different business areas. In the HSE field, this is complemented by a management system modeled after the ISO 14001 standard.

The Board ensures the quality of the financial reports through a system of internal controls as outlined in the Boards report on internal control for 2005 on page 34–35 and maintains appropriate communication with the Company's auditors through its audit committee, see page 27.

The Lundin Petroleum Articles of Association, Code of Conduct and the Green Book are available at www. lundin-petroleum.com.

The Corporate Governance Report has not been subject to an audit.

INTERNAL CONTROL REPORT

THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING FOR THE FINANCIAL YEAR 2005

According to the Swedish Company's Act and the Swedish Code of Conduct the board is responsible for the internal control of the company. This report has been prepared in accordance with the requirements of the Swedish Code of Corporate Governance and is accordingly limited to internal control over financial reporting. This report describes the financial internal control function but does not comment on its effectiveness. This will be included in the report issued for the 2006 accounting year. This report is not part of the formal financial statements and has not been subject to an audit.

The internal control system for financial reporting has been created to ensure that objectives such as effectiveness and efficiency of the accounting processes and the reliability of financial reporting as well as compliance with applicable laws and regulations are met. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, and is designed to manage rather than eliminate the risk of failure to achieve the financial reporting objectives.

Lundin Petroleum's Financial Reporting Internal Control System consists of five key components and is based upon "COSO", which is the generally accepted framework for internal controls systems instigated by the Committee of Sponsoring Organisations of the Treadway Commission.

Control environment
The control environment establishes the overall tone for the organization and is the foundation for all of the other components of internal control. Sub-components of the control environment are:

- Integrity and ethical values
- Commitment to competence and development of people
- Management's philosophy and operating style
- Organisational structure
- Assignment of authority and responsibility
- Human resources policies and procedures
- Participation by those charged with governance (i.e., board of directors, audit committee)

The Board adopted the Lundin Code of Conduct in 2001 when the Lundin Petroleum Group was formed. Through this Code the Board has stated the Group's vision and values and the standards of integrity, ethical value and competence at which the Group's employees must operate.

The inclusion of independent directors within the Board of Directors provides an objective view and monitoring of the Companies processes and application thereof.

The responsibility for maintaining an effective control environment and for operating the system of internal control and risk management is delegated to the President and CEO and the management at varying levels. The managers are responsible for internal control and risk management within their respective areas of responsibility.

The Board has approved an anti-fraud policy outlining the employees' responsibilities with regard to fraud prevention, what to do if fraud is suspected and what action will be taken by management in the case of suspected or actual fraud.

Together with laws and external regulations, these internal guidelines form the control environment which is the foundation of the internal control and risk-management process.

All employees are accountable for compliance with these guidelines, principles and values within their areas of control and risk management.

Risk assessment
Lundin Petroleum has reviewed and analysed the risks that exist within the financial reporting process and has structured its internal control systems around the risks identified.

Some of the risks in the financial reporting process that have been identified, assessed and addressed are:
- control and valuation of inventory
- existence and valuation of assets and liabilities
- incurrence of expenditure
- completeness of accounting
- cash processing and cash balances
- changes to the accounting framework (i.e. from Swedish GAAP to IFRS)
- valuation and reporting of financial instruments used to reduce the risk of currency, interest rate and oil price fluctuations

A principal consideration in the review of risks in the financial reporting process is the possibility of fraud.

Following the identification and evaluation of a risk a control activity must be implemented to minimize the effect on the financial reporting process.

Control activities
Control activities are the methods and activities for securing assets, controlling the accuracy and reliability of reports, fostering efficiency and ensuring compliance with defined accounting principles and other directives given by the management.

The control activities involve:
- approvals
- authorisations
- verifications
- reconciliations
- reviews of operating performance
- security of assets
- segregation of duties and reporting systems and processes.

The degree of compliance with these control activities indicates the level of risk that exists within the financial reporting process.

Information and communication

The information and communication component includes the systems that support the identification, capture, and exchange of information in a form and time frame that enable personnel to ascertain and carry out their responsibilities and for financial reports to be generated accurately. Information and communication also spans all of the other components of internal control. Communicating relevant data throughout all levels of the company and to the appropriate external parties is an important part of internal control. Management has focused on understanding the systems and processes that are important in the accumulation of financial data, including the system of controls that safeguard information, the processes for authorizing transactions, and the system for maintaining records.

The control activities described under the previous paragraph are supported by:

- accounting systems
- financial reporting manuals
- formalised processes (including hedging)
- management reports
- accounting policy updates
- staff meetings
- training

The communication is continuous and the information is spread through the Group regularly.

Monitoring

An internal control system must be monitored to ensure that it is being correctly applied and that it remains relevant and effective. A regular review of the application of internal control activities must be carried out to ensure that the systems are being complied with. Regulatory or operational changes may make a control activity ineffective or irrelevant and therefore a regular review of the internal control system must also be carried out.

The Board of Directors

The Board reviews and evaluates comprehensive financial information regarding the Group as a whole and the entities it comprises. The Board also reviews, primarily through the Audit Committee, the most important accounting principles applied by the Group in financial reporting, as well as changes to these principles. Minutes are taken at all meetings of the Audit Committee and are available to all Board members and the auditors.

The working procedures determined by the Board include detailed instructions regarding the type of internal financial reports that shall be submitted to the Board.

The Board reviews and approves the interim reports for Quarter 2 and Quarter 4 and the annual report. The Quarter 1 and Quarter 3 reports are reviewed and approved by the Audit committee.

External auditing and monitoring

Lundin Petroleum's financial statements are audited by their external auditors on an annual basis for inclusion within the annual report. A limited review is carried out on the half year report. The external auditors meet regularly with the management of the company and attend the Audit Committee meetings for the review and approval of the half and full year financial statements. The external auditors meet the Board of the company without management present at least once a year.

In addition to the interim and annual reports the following are issued to the public thereby enabling shareholders to monitor the activities of the company:

- Press releases on all important matters which could materially affect the share price
- Presentations and telephone conferences for analysts, investors and media representatives on the day of publication of the quarterly and full-year results, and in connection with release of important news

Monitoring of the control activities

Compliance with the control activities is monitored at all levels from departmental management up to the Board of Directors. Lundin Petroleum acknowledges that it is necessary to review the effectiveness of the control activities and the compliance therewith and as such believes that an internal audit function is necessary. During 2005, as part of this internal audit function, Lundin Petroleum commenced an internal review of the accounting procedures in each of its offices to evaluate the extent to which the accounting policies of the group where being followed. Reviews were conducted in five of Lundin Petroleum's seven offices during 2005 and no material divergences from Lundin Petroleum's procedures were reported. The remaining offices will be reviewed during 2006. On a go forward basis it is planned that a review of varying aspects of the accounting processes will be carried out in a selection of offices on an annual basis. Lundin Petroleum has utilised external consultants to conduct the reviews during 2005. In 2006 Lundin Petroleum intends to recruit an employee who will be given the responsibility to manage the internal audit function.

Improving on a continuous basis

The monitoring processes of the financial reporting have created a continuous evaluation of the activities within the internal control and provide a basis for improvements. The evaluation work involves internal as well as external benchmarking.

KEY FINANCIAL DATA

Data per share	2005	2004	2003*	2002*	2001*
Shareholders' equity SEK per share [1]	14.32	9.34	7.38	3.70	4.15
Operating cash flow SEK per share [2]	10.22	5.89	2.52	0.49	0.01
Cash flow from operations SEK per share [3]	9.89	4.59	0.98	1.09	0.14
Earnings SEK per share [4]	3.89	2.39	3.73	-0.07	-0.39
Earnings SEK per share fully diluted [5]	3.87	2.37	3.71	-0.07	-0.39
Dividend per share	–	–	–	–	–
Quoted price at the end of the financial year (regards the parent company), SEK	85.00	38.20	34.30	9.20	4.25
Number of shares at year end	257,140,166	253,748,366	251,525,466	248,685,016	212,407,568
Weighted average number of shares for the year [6]	255,685,730	252,727,926	249,401,389	232,150,181	105,142,301
Weighted average number of shares for the year (fully diluted) [6]	256,974,123	255,134,255	251,041,951	233,235,711	105,813,439

[1] The Group's shareholders' equity divided by the number of shares at year end.

[2] The Group's operating income less production costs and less current taxes divided by the weighted average number of shares for the year.

[3] Cash flow from operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the year.

[4] The Group's net result divided by the weighted average number of shares for the year.

[5] The Group's net result divided by the weighted average number of shares for the year after considering the dilution effect of outstanding warrants.

[6] The number of shares at the beginning of the year with new issue of shares weighted for the proportion of the period they are in issue.

Key data group	2005	2004	2003*	2002*	2001*
Return on equity, %[7]	33	29	67	-2	-6
Return on capital employed, %[8]	49	32	50	-3	-6
Debt/equity ratio, %[9]	9	45	–	89	–
Equity ratio, %[10]	47	41	69	34	96
Share of risk capital, %[11]	70	60	78	44	96
Interest coverage ratio, %[12]	4,231	2,276	1,559	-342	–
Operating cash flow/interest ratio [13]	5,833	3,862	1,011	822	–
Yield [14]	–	–	–	–	–

Key Financial Ratio Definitions

[7] The Group's net result divided by the Group's average total equity.

[8] 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).

[9] The Group's interest bearing liabilities in relation to shareholders' equity.

[10] The Group's total equity in relation to balance sheet total.

[11] The sum of the total equity and the deferred tax provision divided by the balance sheet total.

[12] The Group's result after financial items plus interest expenses plus/less exchange differences on financial loans divided by interest expenses.

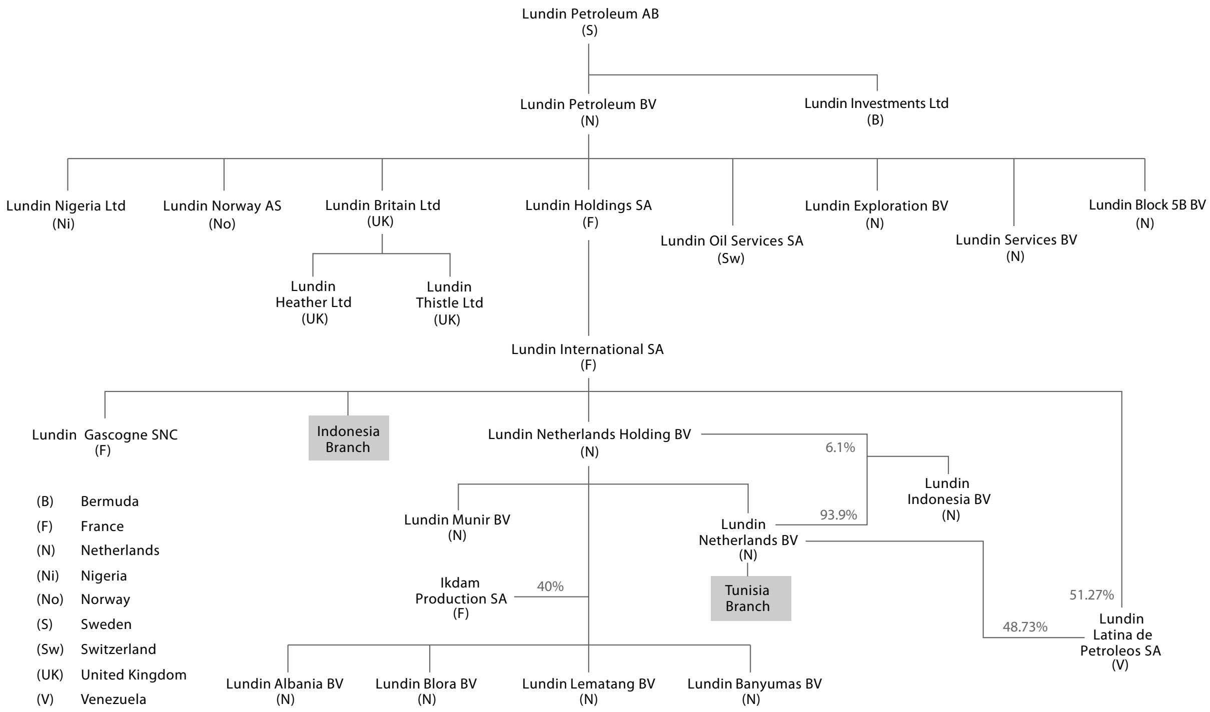
[13] The Group's operating income less production costs and less current taxes divided by the interest charge for the year.

[14] Dividend in relation to quoted share price at the end of the financial year.

* The financial statements for the years 2005 and 2004 have been prepared in accordance with International Financial Reporting Standards (IFRS) (see page 50).

The financial statements for the years 2001, 2002 and 2003 have been prepared under Swedish GAAP and are not in conformity with years 2005 and 2004.

Group Structure as at 31 December 2005



Note: the Group structure shows significant subsidiaries only

FORMATION

Lundin Petroleum AB was formed in connection with the SEK 4 billion take-over of Lundin Oil AB by Talisman Energy Inc. during 2001. As a result of the transaction Lundin Oil AB shareholders received SEK 36.50 in cash plus one share in Lundin Petroleum AB for each share held in Lundin Oil AB.

On 6 September 2001 the shares of Lundin Petroleum AB started trading on the Nya Marknaden (New Market) administered by Stockholmbörsen. On 2 October 2003 the shares in Lundin Petroleum AB were listed on the O-list of Stockholmbörsen. On 1 July 2004 the shares in Lundin Petroleum AB were transferred to the Attract 40 list.

On 19 September 2002 the Company completed the acquisition of 95.3% of the outstanding shares of Lundin International SA (formerly Coparex International SA) from BNP Paribas. On 13 January 2003 the Company completed the acquisition of 75.8% of OER oil AS. OER oil AS subsequently acquired interests in two producing fields offshore Norway and a 100% interest in OER energy AS (formerly called Aker Energy AS). On 23 November 2004, Lundin Petroleum divested its shareholding in OER oil AS to Endeavour International.

On 13 February 2004, Lundin Petroleum completed the acquisition from DNO ASA of its UK and Irish oil and gas interests. On 17 June 2004, Lundin Petroleum completed the acquisition of certain Norwegian assets from DNO ASA.

The address of Lundin Petroleum AB registered office is Hovslagargatan 5, Stockholm, Sweden.

OPERATIONS

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

In accordance with Lundin Petroleum's stated objective of increasing reserves through a strategy of acquisitions and exploration, reserves were acquired during 2002 through the acquisition of Lundin International SA (formerly Coparex International SA). Further reserves were acquired during 2003 in Norway through OER oil AS. During 2004, reserves were acquired through the purchase of all of the UK and Irish assets and substantially all of the Norwegian assets of DNO ASA. Lundin Petroleum maintains a portfolio of oil and gas production assets and development projects in various countries with exposure to further exploration opportunities.

The Group does not carry out any research and development and maintains branches in most of its areas of operation. The Parent Company has no foreign branches.

PRODUCTION AND DEVELOPMENT

United Kingdom

The net production to Lundin Petroleum for the year ended 31 December 2005 amounted to 20,165 bopd representing over 60 percent of the total production for the Group. Production during the fourth quarter of 2005 was 18,685 bopd and was adversely affected by the Thistle shutdown and by the lack of water injection on the Heather and West Heather fields as a result of pump capacity issues. The Thistle field resumed production in mid-December at production rates in excess of 5,000 bopd. Net production during the fourth quarter of 2005 for Broom amounted to 15,606 bopd, for Heather 2,349 bopd and for Thistle 730 bopd.

During 2005 Lundin Petroleum entered into an alliance with Petrofac Facilities Management Limited ("Petrofac") for the provision of production operations services on the Heather and Thistle platforms. The deal was completed successfully with the transfer of duty holder responsibility for the facilities to Petrofac on 1 May 2005.

The performance of the Broom field (Lundin Petroleum Working Interest (WI) 55%) has exceeded expectations and resulted in a 24% reserve increase at the year end of 2005. Net production from the Broom field averaged 14,100 bopd for the year. Phase 1 of the Broom development was successfully completed during 2005 with the completion of the second water injection well. This was followed by the successful completion of Phase 2 of the Broom development which included the sidetrack of the original West Heather 2/05-18 well and the completion of the first North Terrace well 2/05-23 which are now both producing via the Broom subsea manifold and tied back to the Heather platform.

Production from the existing Broom production wells is declining in line with expectations as water production has begun. However it is likely that following the acquisition of 3D seismic over the Broom field in 2006 a further infill drilling programme will be undertaken.

Production from the Thistle field (WI 99%) averaged 3,400 bopd during the year. The three month shutdown of Thistle in the second half of 2005 was successful in debottlenecking production and separation capacity. Further work is ongoing to increase the life of Thistle field production particularly related to drilling operations and power generation.

Production from the Heather field (WI 100%) averaged 2,650 bopd during the year and was adversely impacted by the limitations on water injection capacity due to pump related issues. New pump capacity has been installed in the first quarter of 2006 which has allowed water injection to recommence. A capital investment programme to reinstall the Heather platform drilling rig commenced in 2005 and will be completed in the first half of 2006 following which a drilling programme of new wells and workovers will commence.

Lundin Petroleum has acquired new exploration licences in the United Kingdom 23rd Licensing Round where interests in three new blocks were awarded.

Norway

The production from the Jotun field (WI 7%) offshore Norway averaged 987 bopd for the year 2005. In 2005 the Jotun field partners sold their interests in the Jotun floating, production, storage and offloading vessel (FPSO) to Bluewater/Exxon Mobil. Under a separate agreement the Jotun field partners have leased back the vessel for up to fifteen years.

The development of the Alvheim field (WI 15%) offshore Norway has progressed well during 2005. The Alvheim FPSO conversion was completed in the fourth quarter of 2005 in Singapore and the vessel is currently en-route to Norway for topsides installation. Development drilling on Alvheim will commence in the first half of 2006. It is still anticipated that first production from Alvheim will take place in early 2007 at a forecast gross rate of 85,000 boepd. The proposed Alvheim drilling programme includes further exploration drilling on the existing fields and new prospects which has the potential to increase the current 180 million barrels of oil equivalent forecast for the field.

The Hamsun field (renamed Volund) (WI 35%) to the south of Alvheim will submit a plan of development to the Norwegian government in 2006. Further studies in 2005 have resulted in reserve increases in the 2005 year end reserve study. Commercial discussions are ongoing regarding the development options with a tie back to the nearby Alvheim facilities being the most likely option.

Lundin Petroleum has agreed, subject to Norwegian government approval, to reduce its interest in PL338 from 100% to 50% through agreements with Revus Energy and RWE. An exploration well will be drilled on PL338 in the second half of 2006 and Lundin Petroleum will pay a lower percentage of costs related to the well than its 50% working interest.

Lundin Petroleum continues to be actively involved in Norway in respect of new exploration activity. Two new licences were awarded in the fourth quarter of 2005 in the APA 2005 round and a further application is pending in the 19th Licensing Round. Three exploration wells will be drilled in 2006 for which rig slots are already secured.

France

In the Paris Basin the net production for 2005 was 2,845 bopd. The La Tonelle-1 exploration well is on a long term production test. Temporary production facilities have been constructed and the well is now producing at limited rates on a long term production test basis to determine the appraisal/development plan for the field. During 2006 a four well infill drilling programme will be completed in the Villeperdue field (WI 100%). In the Aquitaine Basin (WI 50%) the net production for 2005 was 1,357 bopd. In 2006 full development of the Mimosa field will be completed.

Indonesia

Salawati Island and Basin (Papua)

The net production from Salawati (Salawati Island WI 14.5% and Salawati Basin WI 25.9%) was 2,261 boepd in 2005. First production from the TBA field offshore Salawati Island is now expected in 2006 following the conversion of a FPSO currently being completed in Singapore. The field will add 1,000 boepd net to Lundin Petroleum. An ongoing programme of development and exploration drilling on Salawati Basin and Island has, despite some exploration success, yielded disappointing results in 2005.

Banyumas (Java)

The Jati-1 exploration well (WI 25%) was spudded in 2005 and is testing a large exploration prospect in an under explored basin onshore Southern Java. The well has reached a total depth of 4,023 meters. Due to drilling problems the well is currently being sidetracked and Lundin Petroleum decided to plug and abandon the well. Lundin Petroleum's partner, Star Energy, has opted, under sole risk provisions, to continue drilling. In the event of a successful discovery Lundin Petroleum has the option to buy back into the well by paying a disproportionate level of the Star Energy costs.

Blora (Java)

An exploration well Tengis-1 (WI 43.3%) will be drilled in 2006 following the resolution of certain land related issues necessary to commence the site preparation operations.

Lematang (South Sumatra)

A heads of agreement in relation to the sale of gas from the Singa gas field (WI 15.88%) has been signed with state gas distribution company PT Persusahaan Gas Negara (PGN) to supply gas to PGN customers in West Java for 10 years starting in 2008. A development plan for the Singa project has been agreed and will be initiated once the gas sales arrangements have been finalised.

The Netherlands

Gas production from the Netherlands for 2005 was 2,344 boepd.

The Luttelgeest-1 exploration well in the onshore Lemmer-Marknesse exploration licence (WI 10%) was tested with unsatisfactory results during the third quarter of 2005 and the well was plugged and abandoned.

The exploration well drilled on Block F-12 (WI 10%) has been plugged and abandoned as a dry hole in January 2006.

Tunisia

The net oil production from the Isis field (WI 40%) for 2005 continues to decline as anticipated as the field approaches the end of its economic life. The field will stop production in the second quarter of 2006 when the Ikdam FPSO currently employed on the Isis field is redeployed on the Oudna field.

The development drilling on the Oudna field (WI 50%) offshore Tunisia commenced in early 2006. The Ikdam FPSO will undergo upgrade and re-classification works in drydock and will then be redeployed on the Oudna field where production is scheduled to start in the fourth quarter of 2006. Initial net production from the Oudna field is forecast at 10,000 bopd.

Venezuela

Production from the Colón Block (WI 12.5%) was 2,108 boepd during 2005. Development drilling on the La Palma field is ongoing. During 2005 one of the new development wells was deepened and tested oil from new reservoirs below the existing producing La Palma field.

In 2005 the Venezuelan government decided to restructure all operating services agreements in the country. Lundin Petroleum and its partners have signed a Transitional Agreement with Venezuelan national oil company PDVSA Petròleo SA relating to entering into good faith negotiations for conversion of the Operating Services Agreement into a joint venture company. Whilst Lundin Petroleum and its partners have been assured by the Venezuelan Ministry of Energy and Petroleum that the new regime will preserve our asset value under the Operating Services Agreement the final effect of this transition on Lundin Petroleum's Venezuelan assets and values remains uncertain.

Ireland

Lundin Petroleum completed the sale of its 12.5% interest in the Seven Heads gas project plus certain other Irish licence interests to Island Oil & Gas plc during 2005. The consideration for the sale was four million shares of Island Oil & Gas plc corresponding to a current market value in excess of GBP 3 million.

During 2005 Lundin Petroleum acquired a new exploration licence in the Donegal Basin (WI 30% operator). A rig has been secured to drill a large gas prospect called Inishbeg in 2006.

OPERATION - EXPLORATION

Albania

A 400 km^2 3D seismic acquisition programme on the Durresi Block (WI 50%) was completed in 2005. Following the processing and interpretation of the acquired seismic exploration drilling is expected to commence in 2007.

Nigeria

In early 2005 Lundin Petroleum acquired a 22.5% net revenue interest in OML 113 offshore Nigeria containing the Aje oil and gas discovery. The Aje-3 appraisal well was drilled in the third quarter of 2005. The two main reservoirs which tested hydrocarbons successfully in both Aje-1 and Aje-2 were found to be down dip from the discovery well as well as below the existing oil water contact defined on the Aje-2 well at the Cenomanian reservoir. The Turonian reservoir was above the gas water contact but the presence of gas in the reservoir was not tested due to poor reservoir properties at the Aje-3 well location. Technical and commercial studies are ongoing to determine whether a further Aje field appraisal well will be drilled. A six month extension has been granted by the Aje field operator Yinka Folawiyo Petroleum (YFP) such that the decision to drill will be made in the fourth quarter of 2006.

DIRECTORS' REPORT

Sudan

A comprehensive peace agreement was signed in Sudan in early 2005 between the government and the Sudan People's Liberation Army (SPLA). A new government has been formed containing representatives of the major political factions. In addition a National Petroleum Commission has been formed comprising of the President of Sudan, representatives of the National government and the government of Southern Sudan and representatives of the local area where oil activity is taking place. The National Petroleum Commission will oversee petroleum activities in Sudan.

Mobilisation of equipment for a 1,100 kilometre 2D seismic acquisition is currently underway. Exploration drilling will commence in 2006 with a three well initial drilling programme to test the large prospectivity of Block 5B.

Future Outlook

The Company is actively pursuing opportunities to further expand its oil and gas portfolio and increasing its reserves through acquisition of producing properties, exploration activity and exploitation of existing assets.

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 programmes. The Group has no operations in Sweden.

THE GROUP

Result and cash flow

Lundin Petroleum reports a net result for the year ended 31 December 2005 of MSEK 994.0 (MSEK 605.3) representing earnings per share on a fully diluted basis of SEK 3.87 (SEK 2.37) for the year ended 31 December 2005. Operating cashflow for the year ended 31 December 2005 amounted to MSEK 2,627.4 (MSEK 1,502.8). Operating cashflow per share on a fully diluted basis amounted to SEK 10.22 (SEK 5.89) for the year ended 31 December 2005.

Revenue

Net sales of oil and gas for the year ended 31 December 2005 amounted to MSEK 3,995.5 (MSEK 2,344.0). Production for the period amounted to 12,083,451 (9,755,455) barrels of oil equivalent (boe) representing 33,190 (28,921) boe per day (boepd). The average price achieved for a barrel of oil equivalent for the year ended 31 December 2005 amounted to USD 52.93 (USD 37.67).

The average Dated Brent price for the year ended 31 December 2005 amounted to USD 54.54 (USD 38.27) per barrel resulting in a charge to the income statement for the post-tax negative hedge settlement of MSEK 261.7 (MSEK 97.1).

Other operating income for the year ended 31 December 2005 amounted to MSEK 194.7 (MSEK 124.3). This amount includes tariff income from the United Kingdom, France and the Netherlands and income for maintaining strategic inventory levels in France. Tariff income has increased from the comparative period of 2004 primarily due to the increased production from the Broom field in the United Kingdom.

Sales for the year ended 31 December 2005 were comprised as follows:

Sales **Average price per barrel *** **expressed in USD**	Group 2005	Group 2004
United Kingdom		
- Quantity in boe	7,240,996	3,674,000
- Average price per boe	54.56	41.75
France		
- Quantity in boe	1,563,840	1,563,576
- Average price per boe	53.75	36.90
Norway		
- Quantity in boe	372,356	870,746
- Average price per boe	51.45	37.92
Netherlands		
- Quantity in boe	855,397	948,548
- Average price per boe	37.45	25.43
Indonesia		
- Quantity in boe	495,852	579,522
- Average price per boe	48.90	34.79
Tunisia		
- Quantity in boe	328,627	677,923
- Average price per boe	62.53	38.65
Ireland		
- Quantity in boe	24,107	121,371
- Average price per boe	33.31	26.24
Total		
- Quantity in boe	**10,881,175**	8,435,686
- Average price per boe	**52.93**	37.67

* The average sales price per barrel is excluding the result on the hedge settlement.

Income from Venezuela is derived by way of a service fee and interest income. For the year ended 31 December 2005, the service fee earned by Lundin Petroleum amounted to USD 22.16 (USD 18.67) per barrel for the 771,146 boe (837,648 boe) that were sold.

Production cost

Production	Group 2005	Group 2004
United Kingdom		
- Quantity in boe	7,360,726	3,973,761
- Quantity in boepd	20,165	12,341
France		
- Quantity in boe	1,533,674	1,561,409
- Quantity in boepd	4,202	4,266
Norway		
- Quantity in boe	360,175	898,519
- Quantity in boepd	987	3,189
Netherlands		
- Quantity in boe	855,397	948,548
- Quantity in boepd	2,344	2,592
Venezuela		
- Quantity in boe	769,364	827,492
- Quantity in boepd	2,108	2,261
Indonesia		
- Quantity in boe	825,099	840,167
- Quantity in boepd	2,261	2,296
Tunisia		
- Quantity in boe	354,794	574,042
- Quantity in boepd	972	1,568
Ireland		
- Quantity in boe	24,222	131,517
- Quantity in boepd	151	408
Total		
- Quantity in boe	**12,083,451**	9,755,455
- Quantity in boepd	**33,190**	28,921

Number of days production		
UK	365	322
Ireland	160	322
DNO's Norwegian assets	365	197
OER	–	328

The number of barrels produced differs from the number of barrels sold for a number of reasons. There are timing differences between sales and production in field areas such as Tunisia and Norway where production is into a Floating Production Storage Offloading vessel (FPSO). Sales are recorded when a lifting takes place and these can be at varying intervals and will not always be equal to the production at the end of a financial quarter. The accounting effect of the timing differences between sales and production are reflected in the movements in the hydrocarbons inventory and the under/overlift position. Over time, the total sales will equal the production. There are permanent differences between production and sales in some of the field areas. The production reported for the UK is the platform production. This is the amount of crude oil that is produced from the field into the pipeline system that takes the crude to the onshore terminal. Once the field's crude enters the pipeline system it is commingled with the crude oil produced from other fields in the pipeline system that produce the blend of crude that is sold. The crude that is pumped into the pipeline system is tested against the blend of crude that arrives at the terminal and an adjustment is made to the number of barrels allocated to each field to reflect the relative quality of the crude oil input into the system. There is an approximate quality adjustment of minus five percent applied to the UK crude oil produced. In Indonesia, production is allocated under a Production Sharing Contract (PSC) where, as part of the commercial terms of the agreement, a part of the working interest production is allocated to the host country as a type of royalty payment.

Production costs for the year ended 31 December 2005 expressed in US dollars were comprised as follows:

Production cost and depletion in TUSD	Group 2005	Group 2004
Cost of operations	148,570	124,006
Tariff and transportation expenses	17,906	16,173
Direct production taxes	4,803	3,821
Changes in inventory/overlift	4,563	2,398
Total production costs	**175,842**	146,398
Depletion	101,064	51,946
Total	**276,906**	198,344

Production cost and depletion in USD per boe	Group 2005	Group 2004
Cost of operations	12.30	12.71
Tariff and transportation expenses	1.48	1.66
Direct production taxes	0.40	0.39
Changes in inventory/overlift	0.38	0.25
Total production costs	**14.56**	15.01
Depletion	8.36	5.32
Total cost per boe	**22.92**	20.33

Production costs for the year ended 31 December 2005 amounted to MSEK 1,310.9 (MSEK 1,074.5). The reported cost of operations amounted to USD 12.30 per barrel (USD 12.71 per barrel) for the year ended 31 December 2005.

Depletion

Depletion of oil and gas properties for the year ended 31 December 2005 amounted to MSEK 753.4 (MSEK 381.3). The depletion charge has increased from the comparative period following the inclusion of the UK assets acquired from DNO in 2004. The depletion cost per barrel has increased from 2004 following a revision of cost and reserve estimates used in the calculation of the depletion rate and because the UK was only included within the depletion charge for five months in 2004, distorting the average depletion rate for the year.

DIRECTORS' REPORT

Write off

Write off of oil and gas properties amounted to MSEK 208.1 (MSEK 150.1) for the year ended 31 December 2005. Whilst Lundin Petroleum retains an interest in Block OML 113 in Nigeria and is reviewing the information that was obtained from drilling the Aje-3 well, it was decided to write off all of the costs amounting to MSEK 158.2 in 2005 following the disappointing well results as described within this report. The other material cost written off in 2005 relates to the Luttelgeest exploration well that was drilled in the Netherlands in 2004. After testing of the well in August 2005 the decision was made to plug and abandon the well and the costs incurred of MSEK 30.2 were written off. During 2004 the decision was made to write off the costs incurred in Iran as well as other exploration project costs resulting in a charge to the income statement for the year ended 31 December 2004 of MSEK 150.1.

Sale of asset

On 1 July 2005 Lundin Petroleum entered into a sale and leaseback agreement for the Jotun vessel utilised in the Jotun field offshore Norway resulting in a pre-tax gain of MSEK 192.1 and a post tax gain of MSEK 24.0. The transaction has also resulted in a tax charge detailed below. On 23 November 2004, Lundin Petroleum completed the sale of its investment in the Norwegian company OER for MSEK 189.9 recording an accounting profit of MSEK 98.2 in the income statement for the year ended 31 December 2004.

Other income

Other income for the year ended 31 December 2005 amounted to MSEK 6.4 (MSEK 17.7) and represents fees and costs recovered by Lundin Petroleum from third parties.

General, administrative and depreciation expenses

General, administrative and depreciation expenses for the year ended 31 December 2005 amounted to MSEK 103.1 (MSEK 130.0). Included within the 2005 costs is an accounting charge of MSEK 19.0 for employee incentive warrants issued in 2004 and 2005 following the adoption of IFRS. The comparative period has been restated to include MSEK 10.7 in relation to the incentive warrants issued in 2004. Depreciation charges included in the general and administrative expenses amounted to MSEK 9.8 (MSEK 5.5) for the year ended 31 December 2005. The general and administration costs for the year of 2004 included an amount of MSEK 17.5 for OER. OER was sold in the fourth quarter of 2004.

Financial income

Financial income for the year ended 31 December 2005 amounted to MSEK 44.0 (MSEK 58.5). Interest income for the year ended 31 December 2005 amounted to MSEK 31.2 (MSEK 11.5) and mainly comprises of interest received on bank accounts of MSEK 12.5 (MSEK 5.5), interest received on a loan to an associated company for an amount of MSEK 3.8 (MSEK 2.6), interest received in relation to tax repayments for an amount of MSEK 9.4 (MSEK –) and the interest fee received from Venezuela for an amount of MSEK 5.4 (MSEK 2.5). Dividend income received of MSEK 12.8 (MSEK 10.9) for the year ended 31 December 2005 relates to distributions received from an unconsolidated investment in a company owning an interest in the Dutch gas processing and transportation infrastructure (NOGAT).

Financial expense

Financial expenses for the year ended 31 December 2005 amounted to MSEK 196.5 (MSEK 60.0). Interest expense for the year ended 31 December 2005 amounted to MSEK 45.0 (MSEK 53.1) and mainly relates to the bank loan facility. The impact of the change in market value of the interest rate hedge for the year ended 31 December 2005 amounted to a gain of MSEK 7.9 (MSEK 17.2).

The amortisation of financing fees amounted to MSEK 15.2 (MSEK 7.2) for the year ended 31 December 2005. The financing fees are in relation to the bank loan facility and are amortised over the life of the bank loan facility. Net exchange losses for the year ended 31 December 2005 amounted to MSEK 104.6 (MSEK -36.1). The exchange losses for the year ended 31 December 2005 are mainly the result of the revaluation of the USD loan outstanding into the EUR and NOK reporting currency of the entities in which the funds were drawn. During the year ended 31 December 2005 the devaluation of the NOK and the EUR against the USD amounted to approximately 12% and 13% respectively.

Tax

The tax charge for the year ended 31 December 2005 amounted to MSEK 866.7 (MSEK 241.6). The current corporation tax charge of MSEK 240.7 (MSEK -46.1) comprises current corporation tax charges in, primarily the United Kingdom, the Netherlands, France, Indonesia and Venezuela. During 2005 the tax losses carried forward in the UK have been fully utilised resulting in a current corporation tax charge of MSEK 209.1 (MSEK –). Corporation tax in Venezuela has historically been charged at 34% in accordance with the local tax legislation. During 2005, the Venezuelan tax authorities stated that companies utilising Operating Service Agreements (OSA) should pay tax under the hydrocarbon exploitation tax regime and issued tax assessments to all 32 OSA's operating in Venezuela for the period 2001 to 2004. The hydrocarbon exploitation regime carries a tax rate of 67% up to 2001 and 50% thereafter. Whilst Lundin Petroleum does not accept the retrospective change in tax regime, Lundin Petroleum has decided to comply with the demands of the Venezuelan tax authorities. Accordingly Lundin Petroleum has accrued and paid the tax assessed for the period up to 2004 of MSEK 15.0 and has accrued corporation tax at the higher rate for 2005 resulting in an additional charge for the year of MSEK 12.3.

The deferred corporate tax charge for the year ended 31 December 2005 of MSEK 647.1 (MSEK 295.6) comprises principally of a charge of MSEK 343.2 in the UK for the utilisation of tax losses acquired with the UK companies and capital allowances generated from the capitalised expenditure on the UK fields and a deferred tax charge in relation to the result on the sale and leaseback agreement for the Jotun vessel for an amount of MSEK 168.2. During 2004, a deferred tax asset was recorded for tax loss carry forwards in Tunisia to the extent that it was believed that they would be utilised. During the year ended 31 December 2005 the tax charge generated for Tunisia has exceeded the recorded tax asset necessitating the recording of a further deferred tax asset of MSEK 14.9 with a corresponding credit to the income statement to restore the deferred tax asset in relation to tax losses carry forward as at 31 December 2005.

The petroleum tax charge for the year ended 31 December 2005 amounts to MSEK 11.3 (MSEK -62.9). The deferred petroleum tax charge for the year ended 31 December 2005 amounts to MSEK -32.3 (MSEK 55.1).

The Group operates in various countries and fiscal regimes where corporate income tax rates are different from the regulations in Sweden. Corporate income tax rates for the Group vary between 28% and 78%. Currently the majority of the Group's profit is derived from the United Kingdom where the effective tax rate amounts to 40%. The effective tax rate for the Group for the year ended 31 December 2005 amounts to approximately 47%. The effective tax rate for the year ended 31 December 2005 excluding the Jotun sale and leaseback transaction and the cost relating to the write off for Nigeria amounts to approximately 38%.

Minority interest

The net result attributable to minority interest for the year ended 31 December 2005 amounted to MSEK 0.5 (MSEK 7.0) and relates to the 0.14% of Lundin International SA that is owned by minority shareholders. The comparative period included the 25% of OER that was not owned by the Group. The investment in OER was sold in November 2004.

BALANCE SHEET

Tangible fixed assets

Tangible fixed assets as at 31 December 2005 amounted to MSEK 5,827.0 (MSEK 4,334.0) of which MSEK 5,732.9 (MSEK 4,296.0) relates to oil and gas properties and are detailed in Note 9 to the Financial Statements. Development and exploration expenditure incurred for the year ended 31 December 2005 can be summarised as follows:

Development expenditure in MSEK	Group 2005	Group 2004
United Kingdom	619.8	702.3
France	24.2	85.1
Norway	596.2	81.2
Netherlands	49.0	44.3
Indonesia	59.8	22.9
Tunisia	72.5	3.9
Venezuela	35.5	12.7
Ireland	–	2.6
Development expenditure	**1,457.0**	955.0

Exploration expenditure in MSEK	Group 2005	Group 2004
United Kingdom	17.2	2.0
France	16.8	41.1
Norway	69.6	30.6
Netherlands	16.6	24.7
Indonesia	61.2	63.6
Tunisia	2.0	–
Iran	6.0	51.9
Albania	24.5	4.1
Ireland	2.6	–
Sudan	7.8	5.6
Nigeria	158.2	–
Other	12.8	9.2
Exploration expenditure	**395.3**	232.8

Other tangible fixed assets as at 31 December 2005 amounted to MSEK 94.1 (MSEK 38.0).

Financial fixed assets

Financial fixed assets as at 31 December 2005 amounted to MSEK 502.5 (MSEK 481.0). Restricted cash as at 31 December 2005 amounted to MSEK 23.8 (MSEK 35.7) and represents the cash amount deposited to support a letter of credit issued in support of exploration work commitments in Sudan. Restricted cash at 31 December 2004 included an additional amount of MSEK 15.9 deposited for the Iranian work commitments which was refunded during 2005. Shares and participations amount to MSEK 151.9 (MSEK 21.2) as at 31 December 2005. The increase during the period relates to the write up of book value of the investment in NOGAT to fair value in accordance with IFRS and to the shares in Island Oil and Gas plc that the Group received as consideration in relation to the sale of the interest in the Seven Heads gas field offshore Ireland. Under IFRS an unconsolidated investment must be recorded at its estimated fair value with any increase in value being recorded against equity. During the period the investments in NOGAT and Island Oil and Gas plc were written up by MSEK 99.1. Deferred financing fees relate to the costs incurred establishing the bank credit facility and are being amortised over the period of the loan. The deferred tax asset comprises tax losses carried forward in the Tunisia, France and Norway. The deferred tax asset as at 31 December 2004 included an amount of MSEK 240.7 for corporate tax loss carry forwards in the UK. This amount was utilised during the first half of 2005. Deferred taxes on tax losses are only recorded when there is a reasonable certainty of utilising them against future taxable income. Hedging instruments valued at fair value amounted to MSEK 1.8 (MSEK nil) and relate to the interest rate hedging contracts. Other financial fixed assets amount to MSEK 8.2 (MSEK 6.0) and are funds held by joint venture partners in anticipation of future expenditures.

Current receivables and inventories

Current receivables and inventories amounted to MSEK 1,043.5 (MSEK 768.9) as at 31 December 2005. Inventories include hydrocarbons and consumable well supplies. Trade receivables have increased from 31 December 2004 to 31 December 2005 primarily due to the higher average sale prices achieved in the fourth quarter of 2005. Taxes receivable as at 31 December 2005 amounted to MSEK 117.3 (MSEK 117.6) and related to tax refunds due in Norway and the Netherlands. Joint venture debtors amounted to MSEK 181.0 (MSEK 74.1) reflecting the development activities in progress in Norway, Tunisia and Indonesia.

Cash and bank

Cash and bank as at 31 December 2005 amounted to MSEK 389.4 (MSEK 268.4).

Non-current liabilities

Provisions as at 31 December 2005 amounted to MSEK 2,087.3 (MSEK 1,497.7). This amount includes a provision for site restoration of MSEK 329.2 (MSEK 296.0). The increase of this provision compared to 31 December 2004 is mainly caused by the devaluation of the SEK against the USD in addition to the unwinding of the provision during the year. The provision for deferred tax amounted to MSEK 1,735.1 (MSEK 1,166.1) and is mainly arising on the excess of book value over the tax value of oil and gas properties and the fair value of the hedging instruments.

Long term interest bearing debt amounted to MSEK 736.2 (MSEK 1,343.0) as at 31 December 2005. On 16 August 2004, Lundin Petroleum entered into a seven-year credit facility agreement to borrow up to MUSD 385.0 comprising MUSD 35.0 for Letters of Credit in support of future site restoration costs payable to former owners of the Heather field, offshore UK, and cash drawings of MUSD 350.0. The amount of cash drawings outstanding under the facility at 31 December 2005 amounted to MUSD 92.5.

Current liabilities

Current liabilities as at 31 December 2005 amounted to MSEK 1,256.3 (MSEK 641.4). Tax payables increased from 31 December 2004 to 31 December 2005 primarily due to the fact that tax losses carry forward in the UK have been fully utilised resulting in a current corporation tax charge and corresponding liability. Following the adoption of IAS 39 as at 1 January 2005, a liability has been recorded to recognise the market value of financial instruments outstanding at the reporting date. As at 31 December 2005, an amount of MSEK 193.8 (MSEK 10.6) has been accounted for and is primarily relating to the oil price hedging contracts. Joint venture creditors amounted to MSEK 389.9 (MSEK 203.8) and mainly relates to the development activities in progress in Norway, Tunisia and Indonesia.

PARENT COMPANY

The business of the Parent Company is investment in and management of oil and gas assets. The net result for the parent company amounted to a gain of MSEK 6.3 (MSEK -28.7) for the year ended 31 December 2005.

The result included administrative expenses of MSEK 52.1 (MSEK 71.2) offset by net financial income and expenses of MSEK 39.6 (MSEK 30.8). Interest income derived from loans to subsidiary companies amounted to MSEK 37.2 (MSEK 29.9). Currency exchange gains amounted to MSEK 2.4 (MSEK 0.5).

No deferred tax asset has been recorded against the historic losses incurred by the Parent Company because of uncertainty as to the timing of their utilisation.

DIVIDEND

The Directors propose that no dividend be paid for the year. For details of the dividend policy refer to the share information page.

TREATMENT OF RESULT

The Board of Directors and the President propose that the net result of the Parent Company for the year of TSEK 6,265 will be added to the retained earnings.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Stockholm on 17 May 2006.

FINANCIAL STATEMENTS

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, statement of changes in equity and related notes.

INCOME STATEMENT

CONSOLIDATED AND PARENT COMPANY INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Operating income					
Net sales of oil and gas	1	3,995,477	2,344,005	–	–
Other operating income	1	194,707	124,281	18,776	11,547
		4,190,184	2,468,286	**18,776**	11,547
Cost of sales					
Production costs	2	-1,310,905	-1,074,491	–	–
Depletion of oil and gas properties	3	-753,428	-381,252	–	–
Write off of oil and gas properties	4	-208,135	-150,065	–	–
Gross profit		**1,917,716**	862,478	**18,776**	11,547
Sale of assets		192,122	98,192	–	–
Other income		6,438	17,710	–	213
General, administration and depreciation expenses	5	-103,118	-129,978	-52,141	-71,228
Operating profit		**2,013,158**	848,402	**-33,365**	-59,468
Result from financial investments					
Financial income	6	44,012	58,492	39,846	30,795
Financial expenses	7	-196,461	-60,033	-216	–
		-152,449	-1,541	**39,630**	30,795
Profit before tax		**1,860,709**	846,861	**6,265**	-28,673
Corporation tax	8	-887,784	-249,470	–	–
Petroleum tax	8	21,050	7,867	–	–
		-866,734	-241,603	–	–
Net result		**993,975**	605,258	**6,265**	-28,673
Net result attributable to :					
Shareholders of the parent company		993,507	598,245	6,265	-28,673
Minority interest		468	7,013	–	–
Net result		**993,975**	605,258	**6,265**	-28,673
Earnings per share – SEK [1]	33	**3.89**	2.37	**0.02**	-0.11
Diluted earnings per share – SEK [1]	33	**3.87**	2.34	**0.02**	-0.11

[1] Based on net result attributable to shareholders of the parent company.

BALANCE SHEET

CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS AT 31 DECEMBER

TSEK	Note	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
ASSETS					
Tangible fixed assets					
Oil and gas properties	9	5,732,871	4,296,024	–	–
Other tangible fixed assets	10	94,136	38,001	–	–
Total tangible fixed assets		**5,827,007**	4,334,025	**–**	–
Financial fixed assets					
Shares in subsidiaries	11	–	–	184,491	184,491
Shares in associated companies	12	–	–	–	–
Other shares and participations	13	151,928	21,153	–	–
Long term receivables	14	–	–	690,746	615,545
Restricted cash	15	23,827	35,722	–	–
Deferred financing fees	16	18,905	21,797	–	–
Deferred tax asset	17	297,788	396,347	–	–
Derivative instruments	18	1,825	–	–	–
Other financial fixed assets	19	8,201	6,022	–	–
Total financial fixed assets		**502,474**	481,041	**875,237**	800,036
Current assets					
Inventories	20	99,943	88,568	–	–
Trade receivables		523,315	366,105	–	2
Prepaid expenses and accrued income	21	27,276	11,790	37	158
Derivative instruments	18	13,430	–	–	–
Current receivables	22	379,513	302,407	11,099	3,294
Cash and bank		389,415	268,377	10,856	10,289
Total current assets		**1,432,892**	1,037,247	**21,992**	13,743
TOTAL ASSETS		**7,762,373**	5,852,313	**897,229**	813,779
EQUITY AND LIABILITIES					
Equity					
Share capital *		2,571	2,537	2,571	2,537
Additional paid in capital		1,121,029	1,055,213	–	–
Statutory reserve *		–	–	861,306	824,163
Other reserves		212,376	-126,389	–	–
Retained earnings		1,350,133	837,676	23,118	10,712
Net Profit		993,507	598,245	6,265	-28,673
Shareholders equity		3,679,616	2,367,282	893,260	808,739
Minority interest		3,050	2,931	–	–
Total equity		**3,682,666**	2,370,213	**893,260**	808,739
Non-current liabilities					
Site restoration	23	329,173	296,024	–	–
Pension	24	13,810	14,518	–	–
Deferred tax	8	1,735,058	1,166,132	–	–
Other provisions	25	9,209	19,628	–	–
Derivative instruments	18	–	1,390	–	–
Bank loans	26	736,151	1,343,021	–	–
Total non-current liabilities		**2,823,401**	2,840,713	**–**	–
Current liabilities					
Trade payables		135,394	72,701	988	643
Liabilities to Group companies		–	–	–	93
Current tax liability	8	117,691	35,350	–	–
Derivative instruments	18	193,777	10,563	–	–
Accrued expenses and prepaid income	29	298,124	215,329	2,543	3,733
Other current liabilities	30	511,320	307,444	438	571
Total current liabilities		**1,256,306**	641,387	**3,969**	5,040
TOTAL EQUITY AND LIABILITIES		**7,762,373**	5,852,313	**897,229**	813,779
Pledged assets	31	1,128,763	1,124,388	1,128,763	1,124,388
Contingent liabilities	32	–	–	–	–

* Share capital and statutory reserve are part of the Parent Company's Restricted Equity. The remaining equity items of the Parent Company are unrestricted equity.

STATEMENT OF CASH FLOW

CONSOLIDATED AND PARENT COMPANY STATEMENTS OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

TSEK	Note	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Cash flow from operations					
Net result		993,975	605,258	6,265	-28,673
Adjustments for					
Change in other provisions		-1,286	-4,326	–	–
Write off of oil and gas properties		208,135	150,065	–	–
Depletion, depreciation and amortisation		763,209	381,252	–	33
Amortisation of deferred financing fees		3,737	7,224	–	–
Other non-cash items	34	656,679	381,971	18,981	10,712
Unrealised exchange gains		-2,200	2,037	-2,200	-1,389
Gain on sale of assets/investments		-192,122	-101,769	–	–
Changes in working capital					
Increase/decrease in current assets		-92,639	-288,916	-7,683	663
Decrease/increase in current liabilities		203,856	37,367	-1,381	-1,660
Total cash flow from/used for operations		**2,541,344**	1,170,163	**13,982**	-20,314
Cash flow used for investments					
Investment in subsidiary assets	35	-236	-1,220,191	–	–
Sale of assets/investments		192,122	182,091	–	–
Investment/divestment of real estate		-40,190	44,640	–	–
Change in other financial fixed assets		16,850	2,092	-72,911	-99,492
Other payments		-13,419	-1,219	–	–
Investment in oil and gas properties		-1,852,415	-1,628,813	–	–
Investment in office equipment and other assets		-16,137	-30,423	-	62
Total cash flow used for investments		**-1,713,425**	-2,651,823	**-72,911**	-99,430
Cash flow from/used for financing					
Changes in long-term bank loan		-822,240	1,464,797	–	–
Paid financing fees		–	-28,260	–	–
Proceeds from share issues		59,275	16,035	59,275	16,035
Total cash flow from/used for financing		**-762,965**	1,452,572	**59,275**	16,035
Change in cash and bank		64,954	-29,088	346	-103,709
Cash and bank at the beginning of the period		268,377	301,589	10,289	112,609
Currency exchange difference in cash and bank		56,084	-4,124	221	1,389
Cash and bank at the end of the year		**389,415**	268,377	**10,856**	10,289

The effects of acquisitions and divestments of subsidiary companies have been excluded from the changes in the balance sheet items. The effects of currency exchange differences due to the translation of foreign group companies have also been excluded as these effects do not affect the cash flow. Cash and bank comprise cash and short-term deposits maturing within less than three months.

Interest income received amounted to TSEK 28,773 (TSEK 7,638) for the Group and TSEK 82 (TSEK 114) for the Parent Company. Paid interest expenses amounted to TSEK 64,875 (TSEK 40,673) for the Group and TSEK - (TSEK -) for the Parent Company. Taxes paid amounted to TSEK 160,023 (TSEK 2,793) for the Group and TSEK - (TSEK -) for the Parent Company.

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED AND PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Group						
Total Equity comprises:	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Net result	Minority interest	Total equity
Balance at 1 January 2004	2,515	1,039,200	-55,088	-103,265	930,229	20,036	1,833,627
Transfer of prior year net result	–	–	–	930,229	-930,229	–	–
Currency translation difference	–	–	-71,301	–	–	-136	-71,437
Net result	–	–	–	–	598,245	7,013	605,258
Total recognised income and expense for the period	**–**	**–**	**-71,301**	**–**	**598,245**	**6,877**	**533,821**
Issuance of shares	22	16,013	–	–	–	–	16,035
Share based payments	–	–	–	10,712	–	–	10,712
Disinvestment	–	–	–	–	–	-23,982	-23,982
Balance at 31 December 2004	**2,537**	**1,055,213**	**-126,389**	**837,676**	**598,245**	**2,931**	**2,370,213**
Change in accounting policy	–	–	-98,194	–	–	–	-98,194
Balance at 1 January 2005	**2,537**	**1,055,213**	**-224,583**	**837,676**	**598,245**	**2,931**	**2,272,019**
Transfer of prior year net result	–	–	–	598,245	-598,245	–	–
Transfer of hedge reserve	–	–	98,194	-98,194	–	–	–
Currency translation difference	–	–	301,587	–	–	531	302,118
Change in fair value	–	–	37,178	–	–	–	37,178
Income and expenses recognised directly in equity	**–**	**–**	**338,765**	**–**	**–**	**531**	**339,296**
Net result	–	–	–	–	993,507	468	993,975
Total recognised income and expense for the period	**–**	**–**	**338,765**	**–**	**993,507**	**999**	**1,333,271**
Issuance of shares	34	59,241	–	–	–	–	59,275
Transfer of share based payments	–	6,575	–	-6,575	–	–	–
Share based payments	–	–	–	18,981	–	–	18,981
Investments	–	–	–	–	–	-880	-880
Balance at 31 December 2005	**2,571**	**1,121,029**	**212,376**	**1,350,133**	**993,507**	**3,050**	**3,682,666**

Other reserves comprises:

	Group			
	Available-for-sale reserve	Hedge reserve	Currency translation reserve	Total other reserves
Balance at 31 December 2004	–	–	-126,389	-126,389
Change in accounting policy	–	-98,194	–	-98,194
Balance at 1 January 2005	**–**	**-98,194**	**-126,389**	**-224,583**
Change in fair value	99,109	-61,931	–	37,178
Transfer to retained earning	–	98,194	–	98,194
Currency translation difference	–	–	301,587	301,587
Balance at 31 December 2005	**99,109**	**-61,931**	**175,198**	**212,376**

	Parent Company				
	Restricted Equity		Unrestricted equity		Total equity
	Share Capital	Statutory reserve*	Retained earnings	Net result	
Balance at 1 January 2004	2,515	958,297	–	-150,147	810,665
Transfer of prior year net result	–	-150,147	–	150,147	–
New share issuance	22	16,013	–	–	16,035
Share based payments	–	–	10,712	–	10,712
Net result	–	–	–	-28,673	-28,673
Balance at 31 December 2004	**2,537**	**824,163**	**10,712**	**-28,673**	**808,739**
Transfer of prior year net result	–	-28,673	–	28,673	–
New share issuance	** 34	59,241	–	–	59,275
Transfer of share based payments	–	6,575	-6,575	–	–
Share based payments	–	–	18,981	–	18,981
Net result	–	–	–	6,265	6,265
Balance at 31 December 2005	***** 2,571**	**861,306**	**23,118**	**6,265**	**893,260**

* The share premium reserve as at 31 December 2004 has been reclassified to statutory reserve in line with the Swedish Company Act.

** Included in the amount of new shares issued at 31 December 2005 are 346,500 shares which had been issued but not registered.

*** Lundin Petroleum AB's share capital at 31 December 2005 amounts to SEK 2,571,402 represented by 257,140,166 shares with a quota value of SEK 0.01 each.

ACCOUNTING PRINCIPLES

Introduction
In June 2002 the European Union (EU) adopted International Financial Reporting Standards (IFRS) for all companies listed on a stock exchange within the European Union with effect from 1 January 2005, the adoption date. Lundin Petroleum's Annual Report for 2005 has been prepared in full compliance with IFRS, including one year of comparative figures in line with IFRS 1. As a result, Lundin Petroleum's date of transition is 1 January 2004. The financial statements of the group have been prepared in accordance with prevailing IFRS standards and International Financial Reporting Standards Committee (IFRIC) interpretations adopted by the EU Commission at the end of December 2005. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of held for sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed under the headline "Critical accounting estimates and judgements".

The financial statements of the Parent Company are prepared in accordance with accounting principles generally accepted in Sweden, applying RR 32 issued by the Swedish Financial Accounting Standards Council and the Annual Accounts Act. RR 32 requires the Parent Company to use similar accounting principles as for the Group, i.e. IFRS to the extent allowed by RR 32. The Parent Company's accounting principles deviate from the Group's in respect of Pensions where FAR 4 is applied and valuation of shares in subsidiaries, which are valued at cost.

IFRS Transition
IFRS 1 provides first time adopters of IFRS with exemptions from full retrospective application of the newly adopted standards. Lundin Petroleum has utilised the following exemptions:

IFRS 2 – Shared based payments. This standard will not be applied to the Group's incentive warrants programme granted before 7 November 2002. The 2004 programme granted after 7 November 2002 and not yet vested before 1 January 2005 will be recognised in line with this standard.

IFRS 3 – Business Combinations. This standard has not been applied to business combinations prior to 31 March 2004.

IFRS 5 – Non Current assets held-for-sale and discontinued operations. This standard has been adopted prospectively as from 1 January 2005 and therefore the comparative numbers have not been restated.

IAS 21 – The effect of changes in foreign exchange rates. At the date of transition to IFRS the cumulative historic translation differences are deemed to be zero. The gain or loss on a subsequent disposal of any foreign operation will exclude translation differences that arose before the date of transition to IFRS but will include translation differences arising after this date.

IAS 39 – Financial Instruments, as adopted by the EU, has been applied as from 1 January 2005 and therefore the comparative numbers have not been restated.

Changes in accounting principles on the adoption of IFRS
IFRS 2 – Shared based payments
Under Swedish GAAP Lundin Petroleum did not recognise employee incentive warrants issued as compensation cost when the exercise price was equal to or at a premium to the market price at the time of issue. IFRS 2 requires a charge to be recorded in the income statement to record the issue of employee incentive warrants as well as a liability in relation to the employee incentive warrants programme. As a result of the transition to IFRS, shareholders equity as at 31 December 2004 included a credit of MSEK 10.7. The result for the year 2004 included a charge of MSEK 10.7 in the personnel costs.

IFRS 3 – Business combinations
This statement deals with the business combinations and the treatment of any excess purchase price over the allocated asset values. Under IFRS 3 the excess purchase price is recorded as goodwill whereas under Swedish GAAP the excess value was allocated to the acquired assets. There was no change required to the treatment of assets currently recorded by Lundin Petroleum.

IAS 1 – Presentation of financial statements
In accordance with this standard some classification and layout changes have been implemented in the annual report 2005. Below the significant ones are disclosed:

Minority interests are included in shareholders' equity as a separate component and are included in the net result for the year in the income statement. The shares in Associated companies has been removed from Other shares and participations and are shown on a separate line in the Balance Sheet.

Changes in fair values and revaluation of assets have been specified in the statement of changes in equity and in the notes.

IAS 21 – The effect of changes in foreign exchange rates
This statement deals with the effects of foreign exchange rates. The effects of recording a change in functional currency of certain subsidiaries within the Lundin Petroleum Group are in line with the requirements of this standard, related to the oil and gas assets recognised in these companies. The negative effect on shareholders' equity net of deferred tax at 1 January 2004 amounted to MSEK 11.5 and MSEK 4.6 at 31 December 2004. The positive effect net of deferred tax on the result for the year ended 31 December 2004 amounted to MSEK 8.2.

At the date of transition to IFRS the cumulative historic translation differences are deemed to be zero. The gain or loss on a subsequent disposal of any foreign operation will exclude translation differences that arose before the date of transition to IFRS but will include translation differences arising after this date.

IAS 36 – Impairment of assets

Under GAAP used for the preparation of the 2004 financial statements, Lundin Petroleum has based their impairment testing on a country by country cost pool basis under the full cost method of accounting.

In accordance with IAS 36 impairment testing is carried out on a field by field basis. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Exploration costs can no longer be carried as capitalised costs within a cost pool unless the capitalised costs can be supported by future cash flows from that cost pool. If there is no decision to continue with a field specific exploration programme then the costs will be expensed at the time the decision is made.

Lundin Petroleum has incurred exploration costs in France and Indonesia which under the adoption of IFRS have been expensed in the financial statements for 2004.

The effect on shareholders' equity amounted to MSEK -16.1 net of deferred tax at 1 January 2004 and the impact on the result for the year ended 31 December 2004 amounted to MSEK -19.4 net of deferred tax.

IAS 32 and 39 – Derivative financial instruments

IAS 32 and 39 deal with the recognition, measurement, disclosure and presentation of financial instruments. In accordance with IAS 39 all derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are re-measured at their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether or not the derivative is designated as a hedging instrument. The Lundin Petroleum Groups' foreign exchange forward contracts are example of derivatives that do no qualify for hedge accounting.

Lundin Petroleum had in place in 2004 and 2005 cash flow hedges by means of interest rate hedging contracts and oil price hedging contracts. Under Swedish GAAP, Lundin Petroleum had treated the hedging contracts as off-balance sheet instruments, whereas IFRS requires these contracts to be recorded in the financial statements valuing these contracts at fair value. The impact on the opening balance of the hedging reserve within shareholders' equity at 1 January 2005 amounted to MSEK -98.2 net of deferred tax. The financial fixed assets increased with MSEK 64.5 mainly due to the related deferred tax assets, the current receivables increased with MSEK 1.9 relating to a short term hedge asset and the current liabilities increased with MSEK 162.3 in connection to short term hedge liabilities.

IFRS 6 Exploration for and Evaluation of Mineral Resources

This standard became effective at 1 January 2006. The group has elected to early adopt this Standard in 2005, with no effect on the net result or shareholders' equity. IFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. IFRS 6 also sets the disclosure demands on the assets, liabilities, income and expenses arising from the exploration and evaluation of mineral resources.

Reconciliation from Swedish GAAP to IFRS

Net result in TSEK	Group 2004	Parent Company 2004
Net result under Swedish GAAP	620,154	-17,961
Reclassification of minority interest	7,013	–
Share based payments	-10,712	-10,712
Effects of changes in functional currency	8,230	–
Impairment of assets	-22,359	–
Taxes	2,932	–
Net result under IFRS	605,258	-28,673

Group equity in TSEK	1 Jan 2004	31 Dec 2004	1 Jan 2005
Total equity under Swedish GAAP	1,841,195	2,407,375	2,407,375
Reclassification of minority interest	20,036	2,931	2,931
Change in functional currency	-11,547	-4,610	-4,610
Impairment of assets	-16,057	-35,483	-35,483
Adjustment for financial instruments	–	–	-98,194
Total equity under IFRS	1,833,627	2,370,213	2,272,019

Parent Company equity in TSEK	1 Jan 2004	31 Dec 2004	1 Jan 2005
Total equity under Swedish GAAP	810,665	808,739	808,739
Reclassification of minority interest	–	–	–
Change in functional currency	–	–	–
Impairment of assets	–	–	–
Adjustment for financial instruments	–	–	–
Total equity under IFRS	810,665	808,739	808,739

ACCOUNTING PRINCIPLES

ACCOUNTING PRINCIPLES ADOPTED BY THE GROUP

Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the sole right to exercise control over the operations and govern the financial policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the Group's control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The consolidated financial statements of the Lundin Petroleum Group have been prepared using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The minority interest in a subsidiary represents the portion of the subsidiary not owned by the Company. The equity of the subsidiary relating to the minority shareholders is shown as a separate item within equity for the Group.

All intercompany profits, transactions and balances are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associated companies

An investment in an associated company is an investment in an undertaking where the Group exercises significant influence but not control, generally accompanying a shareholding of at least 20% but not more than 50% of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method. The difference between the acquisition cost of shares in an associated company and the net fair value of the assets, liabilities and contingent liabilities of the associated company recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The Group's share in the post-acquisition results of the associated company is recognised in the income statement and the Group's share in post-acquisition movements in the equity of the associated company are recognised the Group's equity. When the Group's accumulated share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Other shares and participations

Investments where the shareholding is less than 20% of the voting rights are treated as financial instruments.

Jointly controlled entities

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

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in SEK, which is the currency the Group has elected to use as the presentation currency.

Functional currency

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

Presentation currency

The balance sheets and income statements of foreign subsidiary companies are translated for consolidation 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 year. The translation differences which arise are taken directly to the foreign currency translation reserve within shareholders' equity. On a disposal of a foreign operation the translation differences relating to that operation will be transferred from equity to the income statement and included in the result on sale. Translation differences on long term intercompany loans, used for financing exploration activities, are taken directly to shareholders' equity.

For the preparation of the annual financial statements, the following currency exchange rates have been used.

	Average	Period end
1 Euro equals SEK	9.2800	9.3885
1 USD equals SEK	7.4550	7.9584

Classification
Fixed assets, long-term liabilities and provisions consist for the most part solely of amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within twelve months after the balance sheet date.

General
Assets and liabilities are included at their acquisition cost and nominal amounts respectively unless stated otherwise. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Oil and gas properties
Oil and gas operations are recorded at historic cost less depletion. All costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests are capitalised on a field area cost centre basis.

Net capitalised costs to reporting date, together with anticipated future capital costs for the development of the proved and probable reserves determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proved and probable reserves of oil and gas in accordance with the unit of production method. Depletion of a field area is charged to the income statement once production commences.

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimates.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

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.

Impairment tests are carried out at least annually to determine that the net book value of capitalised cost within each field area 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 the related field areas. Capitalised costs can not be carried within a field cost pool unless those costs can be supported by future cash flows from that field. Provision is made for any impairment, where the net book value, 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 or fair value less costs to sell. If there is no decision to continue with a field specific exploration programme, the costs will be expensed at the time the decision is made.

Other tangible fixed assets
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 useful life.

The carrying amount is written down immediately to its recoverable amount when the carrying amount is higher. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Non-current assets held for sale
To classify as non-current asset held-for-sale the carrying amount needs to be assumed to be recovered through a sale transaction rather than through continuing use. It also must be available for immediate sale in its present condition and sale must be highly probable. If classified as non-current held-for-sale the assets will be valued at the lower of its carrying value and fair value less estimated cost of sale.

Financial instruments
Lundin Petroleum recognises the following financial instruments:

- Loans and receivables are valued at the amounts they are expected to realise. Translation differences are reported in the income statement except for the translation differences on long term intercompany loans, used for financing exploration activities, which are taken directly in shareholders' equity.

- Other shares and participations (available for sale financial assets) are valued at fair value and any change in fair value is recorded directly in shareholders' equity until realised. Where the other shares and participations do not have a quoted market price in an active market and whose fair value cannot be measured reliably, they are accounted for at cost less impairment if applicable.

- Derivative instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

ACCOUNTING PRINCIPLES

The Group categorises derivatives as follows:

1. Fair value hedge
   Changes in the fair value of derivatives that qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability.
2. Cash flow hedge
   The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in shareholders´ equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in shareholders´ equity are transferred to the income statement in the period when the hedged item will affect the income statement. When a hedging instrument no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in shareholders´ equity is transferred to the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss reported in equity is immediately transferred to the income statement.
3. Net investment hedge
   Hedges of net investments in foreign operations are accounted for in a similar manner as cash flow hedges. The gain or loss accumulated in equity is transferred to the income statement at the time the foreign operation is disposed of.
4. Derivatives that do no qualify for hedge accounting
   When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the income statement.

Restricted cash
Restricted cash represents cash amounts that have a conditional restriction on their withdrawal and are shown as a financial fixed asset in the balance sheet.

Inventories
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 (FIFO) basis. Inventories of hydrocarbons are stated at the lower of cost and net realisable value. Under- or overlifted positions of hydrocarbons are valued at market prices prevailing at the balance sheet date. An underlift of production from a field is included in the current receivables and valued at the reporting date spot price or prevailing contract price and an overlift of production from a field is included in the current liabilities and valued at the reporting date spot price or prevailing contract price.

Cash and Bank
Cash and bank includes cash at bank, cash in hand and highly liquid interest bearing securities with original maturities of three months or less.

Equity
Share capital consists of the registered share capital for the parent company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. Excess contribution in relation to the issuance of shares is accounted for in the item Additional paid-in-capital.

The change in fair value of shares and participations is accounted for in the fair value reserve. Upon the crystallisation of a change in value, the change in fair value recorded will be transferred to the income statement. The change in fair value of hedging instruments is accounted for in the hedge reserve. Upon settlement of the hedge instrument, the change in fair value is transferred to the income statement. The currency translation reserve contains unrealised translation differences due to the conversion of the functional currencies into the reporting currency.

Retained earnings contain the accumulated results attributable to the shareholders of the parent company.

Provisions
A provision is reported when the company has a formal or informal obligation as a consequence of an event and when it is more likely than not that an outflow of resources is required to settle the obligation and a reliable estimate can be made of the amount.

On fields where the Group is required to contribute to site restoration costs, a provision is created to recognise the future liability. At the date of acquisition of the field or at first production, an asset, as part of oil and gas properties, is created to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognises the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to financial expenses. Changes in site restoration costs and reserves are treated prospectively.

Revenue
Revenues from the sale of oil and gas are recognised in the income statement net of royalties taken in kind. Sales of oil and gas are recognised upon delivery of products and customer acceptance or on performance of services. 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, generated by providing technical and management services to joint ventures, is recognised as other income.

The fiscal regime in the area of operations defines whether royalties are payable in cash or in kind. Royalties payable in cash are accrued in the accounting period in which the liability arises. Royalties taken in kind are subtracted from production for the period to which they relate.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Qualifying assets are assets that necessarily

take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending to be used for the qualifying asset is deducted from the borrowing costs eligible for capitalisation. This applies on the interest on borrowings to finance fields under development which is capitalised within oil and gas properties until production commences. All other borrowing costs are recognised in profit or loss in the period in which they occur. Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred.

Leases

For a lease to qualify as a finance lease, substantially all of the risks and benefits of ownership must pass to the lessee. In all other cases the lease will be classified as an operating lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Employment benefits

Short term employee benefits

Short-term employment benefits such as salaries, social premiums and holiday pay, are expensed when incurred.

Pension obligations

Pensions are the most common long-term employee benefit. The pension schemes are funded through payments to insurance companies. The Group's pension obligations consist mainly of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

The Group has one obligation under a defined benefit plan. The relating liability recognised in the balance sheet is valued at the discounted estimated future cash outflows as calculated by an external actuarial expert. Actuarial gains and losses are charged to the income statement. The Group does not have any designated plan assets.

Share-based payments

Lundin Petroleum recognises cash-settled share-based payments in the income statement as expenses and as a liability in relation to the incentive warrants programme. The liability in relation to incentive warrants programmes is valued at fair value at grant date of the options using the Black & Scholes option pricing method. The fair value of the incentive warrant programme is charged to personnel costs over the vesting period. The fair value of the liability under the incentive warrant programme is remeasured at each reporting date recognising changes that affect the number of options expected to vest. At vesting date the liability is adjusted for the final number of options vested.

Income taxes

The main components of tax are current and deferred. Current tax is tax that is to be paid or received for the year in question and also includes adjustments of current tax attributable to previous periods.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Lundin Petroleum divides the tax accounts between corporation tax and petroleum tax. Petroleum Revenue Tax (PRT) is classified as Petroleum tax and charged as a tax expense on taxable field profits included in the income statement.

Segment reporting

The primary basis the Group uses for segmental reporting is at a country level due to the unique nature of each countries operations, commercial terms or fiscal environment. The secondary basis the Group uses for segmental reporting is oil and gas operations for which reference is made to the financial statements as a whole.

Related party transactions

Lundin Petroleum recognises the following related parties: associated companies, jointly controlled entities, members or the family of the key management personnel or other parties that are partly, direct or indirect, controlled by key management personnel or of its family.

Critical accounting estimates and judgements

The management of Lundin Petroleum has to make estimates and judgements when preparing the Financial Statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

Estimates in oil and gas reserves

The business of the Group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and site restoration. Changes in estimates in oil and gas reserves, resulting in different future production profiles, will affect the discounted cash flows used in impairment testing, the anticipated date of site decommissioning and restoration and the depletion charges in accordance with the unit of production method.

ACCOUNTING PRINCIPLES

Site restoration provision
Amounts used in recording a provision for site restoration are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to the site decommissioning and restoration can be different. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of site restoration provisions are reviewed on a regular basis.
The effects of changes in estimates 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 judgment, actual results could differ from these estimates.

Events after the balance sheet date
All events up to the date when the financial statements were authorised for issue and which have a material effect in the financial statements have been disclosed.

Coming IFRS accounting principles
The following new standards, amendments and interpretations to existing standards have been approved by the EU and are mandatory for the Group's accounting periods beginning on or after 1 January 2006.

- *IAS 1 Presentation of Financial Statements – Capital Disclosures*, effective from 1 January 2007. The IAS 1 amendment on capital requires that the following is disclosed: the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. The group will apply the amendment on Capital Disclosure on annual periods beginning 1 January 2007.
- *IAS 19 Employee Benefits - actuarial gains and losses,* amendment, effective from 1 January 2006. This standard introduces the option of an alternative recognition approach for actuarial gains and losses and adds new disclosure requirements. The group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and adoption of this amendment will only impact the disclosures. The Group will apply this amendment from annual periods beginning 1 January 2006.
- *IAS 39 Cash Flow Hedge Accounting of Forecast Intragroup Transactions,* amendment, effective from 1 January 2006. This amendment is not relevant to the Groups operations.
- *IAS 39 Financial instruments - The Fair Value Option,* amendment, effective from 1 January 2006. This amendment is not relevant to the Groups operations.
- *IFRS 4 Financial Guarantee Contracts,* amendment, effective from 1 January 2006. This amendment is not relevant to the Groups operations.
- *IFRS 7 Financial Instruments: Disclosures,* effective from 1 January 2007. IFRS 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The group will apply this standard from annual periods beginning 1 January 2007.
- *IFRIC 4 Determining whether an Arrangement contains a Lease,* effective from 1 January 2006. IFRIC 4 is not relevant to the Groups operations.
- *IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds,* effective from 1 January 2006. IFRIC 5 is not relevant to the Groups operations.
- *IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment,* effective from 1 December 2005. IFRIC 6 is not relevant to the Groups operations.

NOTE 1 – SEGMENTAL INFORMATION (TSEK)

	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Operating income				
Net sales of:				
Crude oil				
- United Kingdom	2,908,682	1,128,193	–	–
- France	629,842	426,457	–	–
- Norway	140,713	243,808	–	–
- Indonesia	179,673	149,645	–	–
- Tunisia	153,751	194,746	–	–
	4,012,661	2,142,849	**–**	–
Condensate				
- United Kingdom	36,527	20,007	–	–
- Norway	–	3,368	–	–
- Netherlands	3,467	10,143	–	–
- Indonesia	1,234	–	–	–
	41,228	33,518	**–**	–
Gas				
- Norway	1,746	2,851	–	–
- Netherlands	229,617	175,729	–	–
- Indonesia	1,328	4,129	–	–
- Ireland	5,776	23,372	–	–
	238,467	206,081	**–**	–
Service fee				
- Venezuela	127,408	114,797	–	–
Oil price hedging settlement	-424,287	-153,240	–	–
	3,995,477	2,344,005	**–**	–
Other income:				
- United Kingdom	146,931	74,624	–	–
- France	14,627	25,131	–	–
- Norway	14,276	7,074	–	–
- Netherlands	12,927	9,224	–	–
- Tunisia	–	7,179	–	–
- Other	5,946	1,049	18,776	11,547
	194,707	124,281	**18,776**	11,547
Total operating income	**4,190,184**	2,468,286	**18,776**	11,547
Operating profit contribution				
- United Kingdom	1,397,827	437,941	–	–
- France	277,100	151,547	–	–
- Norway	267,559	167,909	–	–
- Netherlands	62,206	81,487	–	–
- Venezuela	57,146	62,397	–	–
- Indonesia	119,655	58,168	–	–
- Tunisia	57,899	66,205	–	–
- Ireland	4,222	8,902	–	–
- Nigeria	-158,174	–	–	–
- Iran	-6,078	-132,051	–	–
- Other	-66,204	-54,103	-33,365	-59,468
Total operating profit contribution	**2,013,158**	848,402	**-33,365**	-59,468

Intercompany sales amounts to TSEK nil (TSEK nil) and intercompany purchases amounts to TSEK nil (TSEK nil).

	2005 SEK	2005 USD	2004 SEK	2004 USD
Average crude sales price, per barrel or boe				
- United Kingdom	406.74	54.56	306.42	41.75
- France	400.71	53.75	270.83	36.90
- Norway	383.56	51.45	278.31	37.92
- Netherlands	279.19	37.45	186.64	25.43
- Indonesia	364.55	48.90	255.34	34.79
- Tunisia	466.16	62.53	283.67	38.65
- Ireland	248.33	33.31	192.59	26.24
Combined	**394.59**	**52.93**	276.48	37.67

	2005 SEK	2005 USD	2004 SEK	2004 USD
Average depletion cost, per barrel or boe				
- United Kingdom	69.11	9.27	44.21	6.02
- France	44.13	5.92	35.65	4.86
- Norway	74.03	9.93	42.66	5.81
- Netherlands	82.83	11.11	65.01	8.86
- Indonesia	19.61	2.63	10.60	1.44
- Tunisia	53.08	7.12	21.46	2.92
- Venezuela	58.15	7.80	34.67	4.72
Combined	**62.32**	**8.36**	39.05	5.32

Total assets	2005 TSEK	2004 TSEK
United Kingdom	3,124,289	2,667,129
France	1,146,890	1,063,666
Norway	1,560,495	709,501
Netherlands	789,338	746,330
Indonesia	429,200	144,049
Tunisia	197,018	132,277
Ireland	2,850	37,872
Venezuela	277,733	237,974
Albania	46,912	4,085
Nigeria	34,770	–
Iran	117	17,030
Sudan	54,758	41,250
Other	98,003	51,150
Group total	**7,762,373**	5,852,313

Total equity and liabilities	2005 TSEK	2004 TSEK
United Kingdom	1,951,801	1,585,790
France	323,613	293,576
Norway	1,156,224	497,594
Netherlands	248,260	892,170
Indonesia	189,030	100,093
Tunisia	62,445	33,093
Ireland	–	13,900
Venezuela	61,413	22,627
Albania	33,738	–
Nigeria	25,721	–
Iran	438	13,057
Sudan	2,195	1,702
Other	24,829	28,498
Total liabilities	**4,079,707**	3,482,100
Shareholders' equity	3,679,616	2,367,282
Minority interest	3,050	2,931
Total equity	**3,682,666**	2,370,213
Group total	**7,762,373**	5,852,313

NOTE 2 – PRODUCTION COSTS (TSEK)

Production costs comprise:	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Cost of operations	1,107,591	910,141	–	–
Tariff and transportation expenses	133,492	118,702	–	–
Direct production taxes	35,805	28,045	–	–
Change in lifting position	39,481	12,873	–	–
Inventory movement – hydrocarbons	-4,935	5,962	–	–
Inventory movement – well supplies	-529	-1,232	–	–
	1,310,905	1,074,491	**–**	–

NOTE 3 – DEPLETION OF OIL AND GAS PROPERTIES (TSEK)

Depletion of oil and gas properties per country:	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
United Kingdom	508,519	175,680	–	–
France	67,651	55,665	–	–
Norway	26,663	38,328	–	–
Netherlands	70,834	61,669	–	–
Indonesia	16,192	8,903	–	–
Tunisia	18,831	12,319	–	–
Venezuela	44,738	28,688	–	–
	753,428	381,252	**–**	–

NOTE 4 – WRITE-OFF OF OIL AND GAS PROPERTIES (TSEK)

Oil and gas properties written off were as follows:	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Nigeria	158,174	–	–	–
Netherlands	30,162	–	–	–
Iran	6,040	123,820	–	–
Indonesia	855	22,360	–	–
Other – project appraisal	12,904	3,885	–	–
	208,135	150,065	**–**	–

Whilst Lundin Petroleum retains an interest in Block OML 113 in Nigeria and is reviewing the information that was obtained from drilling the Aje-3 well, it was decided to write off all of the costs amounting to MSEK 158.2 in 2005 following the disappointing well results. The other material cost written off in 2005 relates to the Luttelgeest exploration well that was drilled in the Netherlands in 2004. After testing of the well in August 2005 the decision was made to plug and abandon the well and the costs incurred of MSEK 30.2 were written off. During 2004 the decision was made to write off the costs incurred in Iran as well as other exploration project costs resulting in a charge to the income statement for the year ended 31 December 2004 of MSEK 150.1.

NOTE 5 – REMUNERATION TO THE GROUP'S AUDITORS (TSEK)

Remuneration to the Group's auditors for	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Audit fees				
- PricewaterhouseCoopers	4,289	5,152	1,023	1,114
- Other	52	741	–	–
	4,341	5,893	**1,023**	1,114
Other				
- PricewaterhouseCoopers	498	879	498	206
- KPMG	–	9	–	–
- Other	47	1,418	–	–
	545	2,306	**498**	206
Total	**4,886**	8,199	**1,521**	1,320

NOTE 6 – FINANCIAL INCOME (TSEK)

Financial income comprise:	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Interest income	31,195	11,468	37,243	30,005
Dividends received	12,817	10,899	–	–
Foreign exchange gain, net	–	36,125	2,603	523
Other financial income	–	–	–	267
	44,012	58,492	**39,846**	30,795

Included in the interest income for the Parent Company is an amount of TSEK 37,161 (TSEK 29,944) received from Group companies.

NOTE 7 –FINANCIAL EXPENSES (TSEK)

Financial expenses comprise:	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Loan interest expenses	45,003	53,092	–	–
Change in market value interest rate hedge	-7,949	-17,171	–	–
Unwind site restoration discount	17,082	14,503	–	–
Amortisation of deferred financing fees	15,182	7,224	–	–
Foreign exchange loss, net	104,575	–	216	–
Loss on currency rate hedge	17,396	–	–	–
Other financial expenses	5,172	2,385	–	–
	196,461	60,033	**216**	–

NOTE 8 – TAXES (TSEK)

The tax charge comprises:	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Corporation tax – current				
- United Kingdom	-209,135	–	–	–
- France	-9,296	-5,393	–	–
- Norway	54,295	-5,821	–	–
- Netherlands	-19,332	78,883	–	–
- Indonesia	-1,153	-7,513	–	–
- Venezuela	-54,996	-12,778	–	–
- Switzerland	-1,036	-1,292	–	–
	-240,653	46,086	**–**	–
Corporation tax - deferred				
- United Kingdom	-343,221	-147,645	–	–
- France	-82,805	23,935	–	–
- Norway	-210,766	-77,299	–	–
- Netherlands	7,666	-69,012	–	–
- Indonesia	-17,460	-25,144	–	–
- Venezuela	-545	-391	–	–
	-647,131	-295,556	**–**	–
Total corporation tax	**-887,784**	-249,470	**–**	–
Petroleum tax - current				
- United Kingdom	–	59,572	–	–
- Netherlands	-11,270	3,367	–	–
	-11,270	62,939	–	–
Petroleum tax – deferred				
- United Kingdom	42,799	-59,122	–	–
- Netherlands	-10,479	4,050	–	–
	32,320	-55,072	–	–
Total petroleum tax	**21,050**	7,867	**–**	–
Total tax charge	**-866,734**	-241,603	**–**	–

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of Sweden as follows:

	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Profit before tax	**1,860,709**	846,861	**6,265**	-28,673
Tax calculated at the corporate tax rate in Sweden (28%)	-521,001	-237,121	-1,754	8,028
Effect of foreign tax rates	-302,208	-159,738	–	–
Tax effect of expenses non-deductible for tax purposes	-5,759	948	–	–
Tax effect of deduction for petroleum tax	32,831	3,798	–	–
Tax effect of income not subject to tax	18,634	62,180	–	–
Tax effect of utilisation of unrecorded tax losses	–	82,379	1,754	–
Tax effect of creation of unrecorded tax losses	-78,898	-7,991	–	-8,028
Adjustments to prior year deferred taxes	-14,863	-4,726	–	–
Adjustments to prior year tax assessments	-16,520	10,801	–	–
	-887,784	-249,470	**–**	–

Current tax liability	Group 2005	Group 2004
Corporation tax		
United Kingdom	63,550	–
France	–	1,867
Netherlands	–	1,934
Indonesia	2,413	–
Venezuela	44,917	15,146
Total corporation tax liability, current	**110,880**	18,947
Petroleum tax		
Netherlands	6,811	16,403
Total petroleum tax liability, current	**6,811**	16,403
Total current tax liability	**117,691**	35,350

Deferred tax liability	Group 2005	Group 2004
Corporation tax		
United Kingdom	912,695	683,659
France	129,197	89,775
Norway	436,294	157,290
Netherlands	148,663	136,714
Indonesia	88,723	37,302
Venezuela	-3,565	-3,447
Total corporation tax liability, deferred	**1,712,007**	1,101,293
Petroleum tax		
United Kingdom	12,264	53,835
Netherlands	10,787	11,004
Total petroleum tax liability, deferred	**23,051**	64,839
Total deferred tax liability	**1,735,058**	1,166,132

The wholly owned French companies have been consolidated for tax purposes within France from 1 January 2003. The taxation liability of a French company can be reduced wholly or in part by the surrender of losses from another French company. Losses incurred by a company prior to tax consolidation can only be carried forward and utilised against that company's income indefinitely.

During 2005 the Swedish taxation authority (Skatteverket) conducted a tax audit of Lundin Petroleum AB for the financial years 2002 to 2003. The tax authorities have disallowed a portion of expenses recharged to Lundin Petroleum AB by Lundin Oil Services SA for costs associated with services performed by the management of the Lundin Petroleum Group. As Lundin Petroleum AB is in a tax loss position, this disallowance of the expenses reduces the tax losses carried forward but does not result in a current tax charge. The tax losses incurred have not been recorded as deferred tax assets due to the uncertainty as to the timing of their utilisation. The tax authorities have charged penalties on the value of the taxable effect of the disallowed costs amounting to TSEK 5,038.1. The company is challenging the assessment of the penalties and the disallowance of the management costs as the company believes that they are a valid charge to the Parent Company of the Lundin Petroleum Group and as such, Lundin Petroleum has not made a provision in the accounts for the penalties charged.

A deferred tax benefit for the amount of TSEK 42,028 has been accounted for directly in equity. The deferred tax liability arises on the excess of book value over the tax value of oil and gas properties and the fair value of the derivate instruments.

Specification of deferred tax assets and tax liabilities	Group 2005	Group 2004
Deferred tax assets		
Unused tax loss carry forwards	172,705	361,669
Site restoration provision	68,509	27,657
Royalties	5,060	4,862
Overlift	2,785	–
Fair value of derivative instruments	45,125	406
Other deductible temporary differences	3,603	1,753
	297,788	396,347
Deferred tax liabilities		
Accelerated allowances	1,723,501	1,129,549
Fair value of derivative instruments	3,097	–
Exchange gains and losses	–	30,246
Capitalised acquisition cost	8,360	6,262
Other taxable temporary differences	100	75
	1,735,058	1,166,132

Unrecognised tax losses
The Group has Swedish and Dutch tax loss carry forwards, including tax losses in the current financial year, of MSEK 420.8 which in part are not yet assessed. The tax losses can be utilised indefinitely. A deferred tax asset relating to the tax losses carry forward has not been recognised as at 31 December 2005 due to the uncertainty as to the timing and the extent of their utilisation. This treatment is consistent with the comparative year's accounts.

NOTE 9 – OIL AND GAS PROPERTIES (TSEK)

	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Production cost pools	5,541,704	4,246,283	–	–
Non-production cost pools	191,167	49,741	–	–
	5,732,871	4,296,024	**–**	–

2005 Production cost pools	Group UK	France	Netherlands	Tunisia	Indonesia	Norway	Venezuela	Ireland	Total
Cost									
1 January	2,193,340	985,066	624,948	76,555	107,707	564,521	233,829	31,419	4,817,385
Acquired on consolidation	–	–	–	–	–	-781	–	–	-781
Additions - production/ development	637,067	40,998	65,572	2	103,599	665,813	35,470	–	1,548,521
Disinvestments	–	-1,364	-1,980	–	–	–	–	-32,708	-36,052
Reclassifications	–	-993	–	–	195	–	–	–	-798
Currency translation difference	463,096	40,100	25,879	3,121	55,456	52,090	49,575	1,289	690,606
31 December	3,293,503	1,063,807	714,419	79,678	266,957	1,281,643	318,874	–	7,018,881
Depletion									
1 January	-158,520	-146,630	-138,326	-39,242	-29,362	-15,810	-43,212	–	-571,102
Depletion charge for the year	-508,519	-67,651	-70,834	-18,831	-16,192	-26,663	-44,738	–	-753,428
Write-offs	–	–	-30,162	–	–	–	–	–	-30,162
Disinvestments	–	1,364	1,978	–	–	–	–	–	3,342
Currency translation difference	-66,310	-6,152	-6,445	-1,819	-31,770	-1,590	-11,741	–	-125,827
31 December	-733,349	-219,069	-243,789	-59,892	-77,324	-44,063	-99,691	–	-1,477,177
Net book value	2,560,154	844,738	470,630	19,786	189,633	1,237,580	219,183	–	5,541,704

2004 Production cost pools	Group UK	France	Netherlands	Tunisia	Indonesia	Norway	Venezuela	Ireland	Total
Cost									
1 January	–	850,740	555,507	80,532	52,014	160,038	240,220	–	1,939,051
Acquired on acquisition	1,663,419	–	–	–	–	458,429	–	30,024	2,151,872
Additions - production/ development	704,350	126,202	68,994	–	72,565	111,739	12,734	2,622	1,099,206
Disinvestment	–	-858	–	-3,787	-2,801	-190,077	–	–	-197,523
Changes in estimates	–	16,170	4,928	301	–	19,117	–	–	40,516
Currency translation difference	-174,429	-7,188	-4,481	-491	-14,071	5,275	-19,125	-1,227	-215,737
31 December	2,193,340	985,066	624,948	76,555	107,707	564,521	233,829	31,419	4,817,385
Depletion									
1 January	–	-92,978	-77,873	-27,242	-11,410	-23,176	-22,382	–	-255,061
Depletion charge for the year	-175,680	-55,665	-61,669	-12,319	-8,903	-38,328	-28,688	–	-381,252
Write-offs	–	–	–	–	-13,861	–	–	–	-13,861
Disinvestment	–	858	–	–	2,801	47,204	–	–	50,863
Currency translation difference	17,160	1,155	1,216	319	2,011	-1,510	7,858	–	28,209
31 December	-158,520	-146,630	-138,326	-39,242	-29,362	-15,810	-43,212	–	-571,102
Net book value	2,034,820	838,436	486,622	37,313	78,345	548,711	190,617	31,419	4,246,283

2005 Non-production cost pools	Group 1 January	Additions	Write-offs	Currency translation difference	31 December
Indonesia	14,657	17,469	-855	11,543	42,814
Tunisia	3,760	74,493	–	1,045	79,298
Albania	4,085	24,476	–	1,708	30,269
Nigeria	–	158,174	-158,174	–	–
Iran	–	6,040	-6,040	–	–
Sudan	20,802	7,798	–	157	28,757
Other	6,437	15,444	-12,197	345	10,029
	49,741	303,894	-177,266	14,798	191,167

2004 Non-production cost pools					
Indonesia	14,199	13,972	-8,499	-5,015	14,657
Tunisia	–	3,805	–	-45	3,760
Albania	–	4,132	–	-47	4,085
Iran	70,965	51,717	-123,820	1,138	–
Sudan	17,261	5,576	–	-2,035	20,802
Other	1,265	9,232	-3,885	-175	6,437
	103,690	88,434	-136,204	-6,179	49,741

Acquired on acquisition includes the values assigned to the oil and gas properties acquired through the purchase of the shares in Lundin Britain Ltd (formerly DNO Britain Ltd) and Lundin Ireland Ltd (formerly Island Petroleum Developments Ltd) and certain Norwegian assets from DNO ASA during 2004. Acquired on consolidation relate to adjustments made in 2005 to the values assigned to the oil and gas assets acquired through this acquisition.

Capitalised interest

The capitalised interest costs included within the costs of oil and gas properties amounts to MSEK 13.7 (MSEK -) and relates to oil and gas assets in Norway.

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 programmes. The Directors estimate the present commitments to be no more than MSEK 216.9 of which third parties who are joint venture partners have contractually agreed to contribute approximately MSEK 79.2.

Risk and uncertainties

The Group faces a number of risks and uncertainties in the areas of operation which may have an adverse impact on its ability to successfully pursue its exploration, appraisal and development plans as well as on its production of oil and gas.

- *Nature of oil and gas exploration and production.* Oil and gas exploration, development and production involve high operational and financial risks, which even a combination of experience, knowledge and careful evaluation may not be able to fully eliminate or which are beyond the Company's control. In addition, there is no assurance that commercial quantities of oil and gas will be recovered.
- *Property and/or border disputes.* The exact location and jurisdictions within which the Group's concessions exist could become the subject of dispute.
- *Military and political disturbances.* Certain of the countries in which the Group is operating have experienced military or political difficulties in the recent past.
- *Political uncertainties.* Certain aspects of the Group's operations require the consent or favourable decisions of governmental bodies.
- *Environmental impacts.* Exploration, development and production of oil and gas could cause harm to the environment. Under applicable laws and regulations as well as exploration and production sharing agreements, the Company may be held liable.
- *Liabilities and obligations under exploration and production agreements.* The Company and its partners in joint ventures for oil and gas exploration and production, are joint and several liable for obligations and liabilities under relating agreements. In case joint venture partners are not able to meet their liabilities and obligations, the agreement may be terminated.

Venezuela
In November 2002, Lundin Petroleum commenced arbitration proceedings against one of its partners in the Colón Unit in Venezuela in respect of a dispute over pre-emptive rights under the Colón Unit joint operating agreement. The arbitration hearing was completed in 2004 and as a result Lundin Petroleum's working interest in the Colón Unit has remained at 12.5%.

In 2005 the Venezuelan government decided to restructure all operating services agreements in the country. Lundin Petroleum and its partners have signed a Transitional Agreement with Venezuelan national oil company PDVSA Petròleo SA. This agreement is relating to entering into good faith negotiations for conversion of the Operating Services Agreement into a joint venture company. The final effect of this transition on Lundin Petroleum's Venezuelan assets and values remains uncertain although Lundin Petroleum and its partners have been assured by the Venezuelan Ministry of Energy and Petroleum that the new regime will preserve our asset value under the Operating Services Agreement.

NOTE 10 – OTHER TANGIBLE ASSETS (TSEK)

	2005			2004		
Other tangible fixed assets:	Assets under construction (real estate)	Office equipment and other assets	Total	Assets under construction (real estate)	Office equipment and other assets	Total
Group						
Cost						
1 January	10,905	39,365	50,270	41,614	24,005	65,619
Acquired on acquisition	–	–	–	–	1,617	1,617
Disinvestments	–	–	–	-41,821	–	-41,821
Additions	40,190	16,453	56,643	12,088	19,518	31,606
Write-off	–	-9	-9	–	-2,286	-2,286
Reclassification	–	798	798	–	–	–
Currency translation difference	4,912	6,860	11,772	-976	-3,489	-4,465
31 December	56,007	63,467	119,474	10,905	39,365	50,270
Depreciation						
1 January	–	-12,269	-12,269	-754	-9,509	-10,263
Disinvestments	–	–	–	758	–	758
Depreciation charge for the year	–	-9,781	-9,781	–	-5,287	-5,287
Write-off	–	–	–	–	1,445	1,445
Currency translation difference	–	-3,288	-3,288	-4	1,082	1,078
31 December	–	-25,338	-25,338	–	-12,269	-12,269
Net book value	**56,007**	**38,129**	**94,136**	10,905	27,096	38,001
Parent Company						
Cost						
1 January	–	–	–	–	158	158
Additions	–	–	–	–	131	131
Write-offs	–	–	–	–	-289	-289
31 December	–	–	–	–	–	–
Depreciation						
1 January	–	–	–	–	-63	-63
Depreciation charge for the year	–	–	–	–	-33	-33
Write-offs	–	–	–	–	96	96
31 December	–	–	–	–	–	–
Net book value	**–**	**–**	**–**	–	–	–

Depreciation charge for the year reflects depreciation according to plan which is based on cost and an estimated useful life of 10 years for real estate and 3 to 5 years for office equipment and other assets. Depreciation is included within the general, administration and depreciation line in the income statement.

Acquired on acquisition includes the values assigned to the office equipment and other fixed assets acquired through the purchase of the shares in Lundin Britain Ltd (formerly DNO Britain Ltd) during 2004.

NOTE 11 – SHARES IN SUBSIDIARIES (TSEK)

	Registration number	Registered office	Number of shares	Percentage	Nominal value per share	Book amount 31 Dec 2005	Book amount 31 Dec 2004
Directly owned							
Lundin Energy AB	556619-2299	Stockholm, Sweden	10,000,000	100	SEK 0.01	100	100
Lundin Investment Ltd	EC-14476	Hamilton, Bermuda	12,000	100	USD 1.00	585	585
Lundin Petroleum B.V.	BV 1216140	The Hague, Netherlands	180	100	EUR 100.00	183,806	183,806
						184,491	184,491
Indirectly owned							
Lundin Britain Ltd	3628497	London, United Kingdom	24,265,203	100	GBP 1.00		
- Lundin Heather Ltd	2748866	London, United Kingdom	9,701,000	100	GBP 1.00		
- Lundin (Heather Oilfield) Ltd	1216554	London, United Kingdom	101	100	GBP 1.00		
- Lundin Thistle Ltd	4487223	London, United Kingdom	100	100	GBP 1.00		
- Lundin UK Ltd	1006812	London, United Kingdom	5,004	100	GBP 1.00		
- Lundin UK Exploration Ltd	999917	London, United Kingdom	502,501	100	GBP 1.00		
Lundin Sudan B.V.	BV 1225619	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Sudan Ltd	EC 15676	Hamilton, Bermuda	12,000	100	USD 1.00		
Lundin Block 5B B.V.	BV 1225618	The Hague, Netherlands	180	100	EUR 100.00		
- Lundin Sudan (Block 5B) Ltd	EC-30543	Hamilton, Bermuda	12,000	100	USD 1.00		
Lundin Norway AS	986 209 409	Oslo, Norway	1,320,000	100	NOK 100.00		
Lundin Nigeria Ltd	RC 615830	Lagos, Nigeria	10,000,000	100	N 1.00		
Lundin Oil Services SA	1731/1999	Geneva, Switzerland	1,000	100	CHF 100.00		
Lundin New Ventures B.V.	BV 1272860	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Exploration B.V.	BV 1303454	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Services B.V.	BV 1229867	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Sudan (Halaib) Ltd	EC-16775	Hamilton, Bermuda	12,000	100	USD 1.00		
Lundin Holdings SA	Nanterre B442423448	Montmirail, France	1,853,700	100	EUR 10.00		
- Lundin International SA	Nanterre B572199164	Montmirail, France	1,660,662	99.86	EUR 15.00		
- Lundin Latina de Petroleos SA	N 6 Volume 8-A-Qto	Caracas, Venezuela	8,047,951	100	Bs 1,000		
- Lundin Gascogne SNC	Nanterre B419619077	Montmirail, France	100	100	EUR 152.45		
- Lundin Netherlands Holding B.V.	BV 87466	The Hague, Netherlands	150	100	EUR 450.00		
- Lundin Netherlands B.V.	BV 86811	The Hague, Netherlands	30,000	100	EUR 450.00		
- Lundin Indonesia B.V.	BV 471132	The Hague, Netherlands	1,065	100	EUR 450.00		
- Lundin Munir B.V.	BV 1225617	The Hague, Netherlands	180	100	EUR 100.00		
- Lundin Lematang B.V.	BV 547158	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Oil & Gas B.V.	BV 547156	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Blora B.V.	BV 561660	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Sareba B.V.	BV 608284	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin South Sokang B.V.	BV 614572	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Behara B.V.	BV 1102917	The Hague, Netherlands	182	100	EUR 100.00		
- Lundin Banyumas B.V.	BV 1140222	The Hague, Netherlands	182	100	EUR 100.00		
- Lundin Marine B.V.	BV 1310579	The Hague, Netherlands	180	100	EUR 100.00		
- Lundin Albania B.V.	BV 1310581	The Hague, Netherlands	180	100	EUR 100.00		

The following companies were entered into liquidation during the year ending 31 December 2005:

- Lundin Petroleum Holdings Ltd
- Lundin Technical Services Ltd
- Lundin Ireland Ltd
- Lundin Munir Ltd

Lundin Ile-de-France SA was merged with Lundin International SA on 1 January 2005.

There were no movements in shares in subsidiaries of the Parent Company in the year ending 31 December 2005.

NOTE 12 – SHARES IN ASSOCIATED COMPANIES (TSEK)

	Group			
Associated companies comprise:	Number of shares	Share %	Book amount 31 December 2005	Book amount 31 December 2004
- Ikdam Production SA	1,600	40.00	–	–
			–	–

The net result of Ikdam Production SA for the year ended 31 December 2004 amounted to TSEK 151,159 and total equity amounted to TSEK -77,343. As Lundin Petroleum has no obligation to cover for its interest in the negative total equity, the investment has been written off to TSEK nil.

31 December 2005 Aggregated balance sheet information of associated companies	Total assets	Net result 2005	Equity, excl. net result 2005	Liabilities	Total equity and liabilities
- Ikdam Production SA	178,200	74,757	-54,508	157,951	178,200

NOTE 13 – OTHER SHARES AND PARTICIPATIONS (TSEK)

	Group			
Other shares and participation comprise:	Number of shares	Share %	Book amount 31 December 2005	Book amount 31 December 2004
- Noorderlijke Aardgas Transportmij B.V.	11,098,015	1.81	105,769	18,383
- Cofraland B.V.	31	7.75	2,841	2,728
- Aardgas Verkoopmij Leeuwarden	–	7.23	–	15
- Island Oil and Gas plc	4,000,000	6.76	43,286	–
- Maison de la géologie	2	1.25	32	27
			151,928	21,153

The fair value amounted to MSEK 88.3 as at 31 December 2004.

The fair value of Island Oil & Gas plc is calculated using the quoted share price at the London Stock Exchange and the fair value of the shares in NOGAT is based on the discounted expected cash flow.

As at 31 December 2005, the other shares and participations include MSEK 2.9 recognised at cost because their fair value can not be measured reliably since there is no quoted share price and due to the uncertainty of the timing of the future cash flows from these companies.

NOTE 14 – LONG TERM RECEIVABLES (TSEK)

Long term receivables comprises:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Long term receivables from subsidiaries	–	–	690,746	615,545
	–	–	**690,746**	615,545

Long term receivables due from subsidiaries represents funding of operations within the subsidiaries for which repayment is not foreseen within an agreed repayment schedule.

NOTE 15 – RESTRICTED CASH

Restricted cash includes cash amounts deposited to support letters of credit issued in support of exploration work commitments. The amount as at 31 December 2005 relates to the bank guarantee outstanding issued to the Minister of Energy and Mining, representing the Republic of Sudan, in relation to the first commitment period in Block 5B, Sudan. The bank guarantee has been supported by a cash deposit that can not be withdrawn whilst the guarantee remains outstanding. As at 31 December 2004 an additional bank guarantee was issued to Edison as operator of the Munir concession in Iran in relation to work commitments on this concession. The amount has been refunded during 2005 following the fulfillment of the work commitments.

NOTE 16 – DEFERRED FINANCING FEES (TSEK)
The deferred financing fees relate to the costs of the bank credit facility and are being amortised over the period of the loan. Amortisation expenses amounted to TSEK 15,182 (TSEK 7,224).

NOTE 17 – DEFERRED TAX ASSET (TSEK)
The deferred tax asset is primarily relating to loss carry forwards in Norway for an amount of TSEK 163,895 (TSEK 110,078), France for an amount of TSEK 37,691 (TSEK 28,235) and Tunisia for an amount of TSEK 15,917 (TSEK 15,867). As at 31 December 2004, a deferred tax asset was included for the United Kingdom amounting to TSEK 240,661. Deferred tax assets in relation to tax loss carry forwards are only recognised in so far that there is a reasonable certainty as to the timing and the extent of their realisation.

NOTE 18 – DERIVATIVE INSTRUMENTS (TSEK)
As an international oil and gas exploration and production company operating globally, Lundin Petroleum is exposed to financial risks such as fluctuations in currency rates, oil price, interest rates as well as credit financing. The Company shall seek to control these risks through sound management practice and the use of internationally accepted financial instruments, such as oil price hedges and interest rate hedges. Lundin Petroleum uses financial instruments solely for the purpose of minimising risks in the Company's business.

Currency risk
Lundin Petroleum's policy on currency rate hedging is, in case of currency exposure, to consider setting the rate of exchange for known costs in non-US dollar currencies to US dollars in advance so that future US dollar cost levels can be forecasted with a reasonable degree of certainty. The Company will take into account the current rates of exchange and market expectations in comparison to historic trends and volatility in making the decision to hedge.

Oil price risk
Lundin Petroleum's policy is to adopt a flexible approach towards oil price hedging, based on an assessment of the benefits of the hedge contract in specific circumstances. Based on analysis of the circumstances Lundin Petroleum will assess the benefits of forward hedging monthly sales contracts for the purpose of establishing cash flow. If it believes that the hedging contract will provide an enhanced cash flow then it may choose to enter into an oil price hedge.

Interest rate risk
Lundin Petroleum will assess the benefits of interest rate hedging on borrowings on a continuous basis. If the hedging contract provides a reduction in the interest rate risk at a price that is deemed acceptable to the Company, then Lundin Petroleum may choose to enter into an interest hedge.

Credit risk
Lundin Petroleum's policy is to limit credit risk by limiting the counter-parties to major banks and oil companies. Where it is determined that there is a credit risk for oil and gas sales, the policy is to require an irrevocable letter of credit for the full value of the sale. The policy on joint venture parties is to rely on the provisions of the underlying joint operating agreements to take back possession of the licence or the joint venture partner's share of production for non-payment of cash calls or other amounts due.

Liquidity risk
On 16 August 2004, the Group entered into a MUSD 385 loan facility to fund the DNO acquisition and to provide further funds for corporate purposes. The MUSD 385 loan facility has been used to provide Letters of Credit in the amount of MUSD 35 as security for the payment of future site restoration costs to former owners of the Heather field, offshore UK, and to provide funds for corporate purposes. The amount of cash drawings outstanding at 31 December 2005 amounted to MUSD 92.5. The Group has entered into oil price, interest rate and currency hedges to remove a portion of market risk from the future cash flows. It is expected that the Group's operating cash flows will be sufficient to meet the Group's current development and exploration expenditure requirements, but if the cash flow should be insufficient the Group can utilise the undrawn portion of the loan facility.

Fair value of outstanding derivative instruments in the balance sheet:	31 December 2005		31 December 2004	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	15,255	4,373	–	8,408
Oil hedge contracts	–	170,833	–	3,545
Foreign exchange forward contracts	–	18,571	–	–
Total	**15,255**	**193,777**	–	11,953
Non-current	1,825	–	–	1,390
Current	13,430	193,777	–	10,563
Total	15,255	193,777	–	11,953

As at 31 December 2004, the fair value of the derivative instruments amounted to MSEK 167.7. As IAS 39 has been applied as from 1 January 2005, this fair value has not been recorded at 31 December 2004.

The Group has entered into the following oil price hedges:

Contract date	USD per barrel Dated Brent	Barrels per day	Start date	End date
3/2004	28.40	3,000	1/1/2005	31/12/2005
4/2004	29.60	3,000	1/2/2005	31/12/2005
1/2005	45.00	5,000	1/2/2005	31/12/2005
3/2005	51.00	5,000	8/3/2005	31/12/2005
3/2005	53.19	5,000	1/1/2006	31/12/2006
12/2005	61.40	5,000	1/1/2006	31/12/2006

Under the criteria of IAS 39, the oil price hedges are effective and qualify for hedge accounting. Changes in fair value of these contracts are charged directly to the shareholders' equity. Upon settlement the relating part of the reserve is released to the income statement.

The Group has entered into the following interest rate hedging contracts to tie the LIBOR based floating rate part of the Company's USD borrowings to a fixed LIBOR rate of interest.

Contract date	USD Libor interest rate	Amount hedged	Start date	End date
10/2002	3.49%	85,000,000	4/1/2005	5/7/2005
10/2002	3.49%	75,000,000	5/7/2005	3/1/2006
10/2002	3.49%	65,000,000	3/1/2006	3/7/2006
10/2002	3.49%	55,000,000	3/7/2006	2/1/2007
3/2004	2.32%	40,000,000	1/4/2004	2/4/2007

The 3.49% interest rate contract had been entered into in relation to a previous credit facility, which was repaid and cancelled in 2003. As of 1 January 2004, this contract has been recorded at fair value with changes in fair value being recorded in the income statement.

The 2.32% interest rate contract relates to the current credit facility. As from 1 January 2005, the contract met the conditions of IAS 39 to qualify for hedge accounting with changes in fair value being charged directly to shareholders' equity. Following the repayment of the underlying portion of the loan in 2005, the 2.32% interest rate contract became ineffective in the fourth quarter of 2005 and hedge accounting could no longer be applied. As from this date, changes in fair value of this contract are therefore charged to the income statement.

The Group has entered into the following currency hedging contracts:

Buy	Sell	Average contractual exchange rate	Settlement period
MGBP 35.2	MUSD 66.2	1.8795	20 Jan 2005 – 20 Nov 2005
MEUR 13.2	MUSD 17.6	1.3330	20 Jan 2005 – 20 Nov 2005
MCHF 10.2	MUSD 8.8	0.8665	20 Jan 2005 – 20 Nov 2005
MNOK 35.0	MUSD 5.7	0.1628	15 Feb 2005 – 15 Nov 2005
MGBP 36.0	MUSD 63.3	1.7588	20 Dec 2005 – 20 Nov 2006
MEUR 14.4	MUSD 18.3	1.2716	20 Dec 2005 – 20 Nov 2006
MCHF 10.0	MUSD 7.7	0.7711	20 Dec 2005 – 20 Nov 2006

The currency hedging contracts are treated as being ineffective and therefore do not qualify for hedge accounting under IAS 39. Changes in fair value of these contracts are directly charged to the income statement.

NOTE 19 – OTHER FINANCIAL FIXED ASSETS (TSEK)

This item mainly relates to funds held by joint venture partners in anticipation of future expenditures for an amount of TSEK 8,201 (TSEK 5,924).

NOTE 20 – INVENTORIES (TSEK)

Inventories comprise:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Hydrocarbon stocks	62,485	53,557	–	–
Drilling equipment and consumable materials	37,458	35,011	–	–
	99,943	88,568	**–**	–

NOTE 21 – PREPAID EXPENSES AND ACCRUED INCOME (TSEK)

Prepaid expenses and accrued income comprises:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Prepaid rent	4,538	400	–	–
Joint venture balances	478	5,179	–	–
Prepaid insurances	1,902	2,517	–	–
Accrued income	14,883	1,279	–	–
Other	5,475	2,415	37	158
	27,276	11,790	**37**	158

NOTE 22 – CURRENT RECEIVABLES (TSEK)

Current receivables comprises:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Underlift	49,482	35,073	–	–
Current tax asset	117,283	117,587	–	–
Joint venture debtors	180,989	74,055	–	–
Due from Group companies	–	–	9,881	2,333
VAT recoverables	17,363	18,438	1,218	927
Other current assets	14,396	57,254	–	34
	379,513	302,407	**11,099**	3,294

NOTE 23– SITE RESTORATION (TSEK)

	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
1 January	296,024	110,643	–	–
Acquired on acquisition	–	195,403	–	–
Unwinding of discount (Note 7)	17,082	14,503	–	–
Payments	-254	–	–	–
Changes in estimates	–	40,516	–	–
Disinvestments	-11,187	-57,531	–	–
Currency translation difference	27,508	-7,510	–	–
31 December	**329,173**	296,024	**–**	–

NOTE 24 – PENSION (TSEK)

In May 2002 the Compensation Committee recommended to the Board of Directors, and the Board of Directors approved that a pension to be paid to Mr Adolf H. Lundin upon his resignation as Chairman of the Board of Directors and his appointment as Honorary Chairman. The pension amount agreed consists of monthly payments totalling an annual amount of TCHF 206 (TSEK 1,236) for the duration of his life. It was further agreed that upon the death of Mr Adolf H. Lundin, monthly payments totalling an annual amount of TCHF 138 (TSEK 827) would be paid to his wife, Mrs Eva Lundin for the duration of her life. The Company may, at its option, buy out the obligation to make the pension payments through a lump sum payment in the amount of TCHF 2,000 (TSEK 11,986). With the adoption of the Swedish recommendation RR29 a provision has been accounted for resulting in a reduction to the 2004 retained earnings brought forward of MSEK 15.7.

Pension provision	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
1 January	14,518	–	–	–
Adoption of RR 29	–	15,737	–	–
Instalments paid	-1,236	-1,219	–	–
Currency translation difference	528	–	–	–
31 December	**13,810**	14,518	**–**	–

NOTE 25 – OTHER PROVISIONS (TSEK)

	Group		
Other provisions comprises:	Termination indemnity provision	Other	Total
1 January 2005	4,865	14,763	19,628
Additions	1,111	–	1,111
Payments	–	-13,039	-13,039
Currency translation difference	981	528	1,509
31 December 2005	**6,957**	**2,252**	**9,209**

The termination indemnity provision represents Lundin Petroleum's share of the provision for employment termination costs within the Salawati joint ventures in Indonesia. This provision is supported in full by cash deposits held by the joint venture that are included within financial fixed assets.

As at 31 December 2004 an amount of MSEK 12.7 was accounted for in relation to transfer taxes on certain French assets originating before the time of acquisition of the Coparex group by Lundin Petroleum.

NOTE 26 – BANK LOANS (TSEK)

Bank loans comprises:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Current				
Repayment within one year	–	–	–	–
Long term				
Repayment within 2 – 5 years	736,151	629,147	–	–
Repayment after five years	–	713,874	–	–
	736,151	1,343,021	**–**	–

Loan repayments are made based upon a net present value calculation of the assets future cash flows. No loan repayments are currently forecasted under this calculation. The loan repayments as shown in the table are driven by the loan reduction schedule. The effective interest rate, after consideration taken to interest rate swaps, at the balance sheet date was 4.21% (4.85%). The fair value as at 31 December 2005 amounted to MSEK 746.5 (MSEK 1,352.0), based on the borrowing rate of 5.3%.

The Group's credit facility agreement provides that an "event of default" occurs where the Group does not comply with certain material covenants or where certain events occur as specified in the agreement, as are customary in financing agreements of this size and nature. If such an event of default occurs and subject to any applicable cure periods, the external lenders may take certain specified actions to enforce their security, including accelerating the repayment of outstanding amounts under the credit facility.

NOTE 27 – FINANCE LEASE (TSEK)
There are no finance leases within the Group.

NOTE 28 – OPERATING LEASE (TSEK)
Operating lease payments in the income statement amounts to MSEK 2.3 (MSEK -) and relates to the sale and leaseback transaction of a vessel in Norway. The payments for the coming years have been based on the assumption of a 7% interest in the vessel. The operating lease expires on 1 July 2010. Lundin Petroleum has an option to lease the vessel for a further 10 years.

Lease payments during 2006 and forward	Group 31 December 2005	Group 31 December 2004
Under 1 year	36,601	–
2 – 5 year	115,841	–
Total	**152,442**	–

NOTE 29 – ACCRUED EXPENSES AND PREPAID INCOME (TSEK)

Accrued expenses and prepaid income comprises:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Holiday pay	6,496	3,996	–	–
Operating costs	277,255	190,208	–	–
General and administrative costs	747	1,119	–	–
Social security charges	6,000	328	442	467
Salaries and wages	413	7,121	–	1,000
Other	7,213	12,557	2,101	2,266
	298,124	215,329	**2,543**	3,733

NOTE 30 – OTHER CURRENT LIABILITIES (TSEK)

Other current liabilities comprises:	Group 31 December 2005	Group 31 December 2004	Parent Company 31 December 2005	Parent Company 31 December 2004
Overlift	67,911	45,562	–	–
Acquisition liabilities	38,615	37,102	–	–
Joint venture creditors	389,896	203,819	–	–
VAT payable	5,201	4,942	–	–
Social charges payable	7,744	9,595	–	–
Other	1,953	6,424	438	571
	511,320	307,444	**438**	571

NOTE 31 – PLEDGED ASSETS
During 2004, the Group had entered into a MUSD 385 loan facility under which an amount of MUSD 92.5 was outstanding as at 31 December 2005. This facility was secured by a pledge over the shares of the asset holding companies of the Group and future cash flows generated from the pledged companies.

The amount stated for pledged assets of TSEK 1,128,763 as at 31 December 2005, represents the net asset book values of the pledged companies.

NOTE 32 – CONTINGENT LIABILITIES
During 2002 the Group completed the acquisition of 95.3% of the outstanding shares in Lundin International SA (formerly Coparex International SA) for a cash payment of MUSD 172.5 and a deferred consideration of up to MUSD 27.5 payable depending upon the performance of certain Tunisian assets. An amount of TSEK 38,615 has been recorded against the purchase price of the shares for Lundin Petroleum's estimate of the amount payable under the deferred consideration. The contingent liability to pay the deferred consideration continued up to 31 December 2005 and after that the deferred consideration has been fully accrued.

NOTE 33 – EARNINGS PER SHARE

Earnings per share is calculated by dividing the result of the Group attributable to the shareholders of the Parent Company by the weighted average number of shares for the year.

	2005	2004
The result of the Groups attributable to the shareholders of the Parent Company (in SEK)	993,506,862	598,244,995
Weighted average number of shares for the year	255,685,730	252,727,926
Earnings per share	**3.89**	2.37

Diluted earnings per share is calculated by adjusting the weighted average number of shares for the year with the dilution effect of outstanding warrants and to divide the result of the Group attributable to shareholders of the Parent Company by the diluted weighted shares.

	2005	2004
The result of the Groups attributable to the shareholders of the Parent Company (in SEK)	993,506,862	598,244,995
Weighted average number of shares for the year	255,685,730	252,727,926
Dilution effect of outstanding warrants	1,288,393	2,406,329
Weighted average number of shares for the year after considering the dilution effect of outstanding warrants.	256,974,123	255,134,255
Earnings per share (diluted)	**3.87**	2.34

NOTE 34 – CASH FLOW ANALYSIS – OTHER NON CASH ITEMS (TSEK)

	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Deferred tax	618,610	350,628	–	–
Site restoration discount	17,085	14,503	–	–
Share based payments	18,981	10,712	18,981	10,712
Other non-cash items	2,003	6,128	–	–
	656,679	381,971	**18,981**	10,712

NOTE 35 – CASH FLOW ANALYSIS - INVESTMENTS IN SUBSIDIARY ASSETS (TSEK)

	Group 2005	Group 2004	Parent Company 2005	Parent Company 2004
Oil and gas assets	–	1,734,720	–	–
Other fixed assets	–	1,791	–	–
Financial fixed assets	–	269,611	–	–
Other current assets	–	172,280	–	–
Provisions	–	-722,259	–	–
Long term liabilities	–	-	–	–
Current liabilities	–	-221,295	–	–
Minority interest	–	–	–	–
Shares in subsidiary	236	–	–	–
Purchase price	**236**	1,234,848	**–**	–
Cash in acquired company	–	-14,657	–	–
	236	1,220,191	**–**	–

2005

The amount recorded for 2005 relates to the purchase of shares in Lundin International SA. If this investment had been done in 2004 the effect on the Group's result for 2004 would not have been material.

2004

The values shown in the table represent the values assigned to the assets and liabilities of Lundin Britain Ltd (formerly DNO Britain Ltd) and Lundin Ireland Ltd (formerly Island Petroleum Developments Ltd) as at the date of acquisition by Lundin Petroleum for the purposes of consolidating into the Group accounts of Lundin Petroleum AB. If the acquisitions had occurred on 1 January 2004, the effect on net sales and net result would not have been material.

NOTE 36 – RELATED PARTY TRANSACTIONS

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

The Group paid TSEK 402 (TSEK 345) 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 outstanding payable amount at balance date amounts to TSEK 185.

The Group received TSEK 2,334 (TSEK 2,412) from Vostok Nafta Investment Ltd and related companies, for the provision of office and accounting services. Vostok Nafta is considered a related party because the Honorary Chairman of Lundin Petroleum AB, Mr Adolf H. Lundin has significant investment within this company. The outstanding receivable at balance date amounts to TSEK 80.

NOTE 37 – AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS (TSEK)

	2005		2004	
Average number of employees per country	Total employees	of which men	Total employees	of which men
Parent company				
Sweden	–	–	2	–
Total parent company	**–**	**–**	2	–
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
United Kingdom	62	55	149	132
France	50	40	51	41
Norway	16	12	25	20
Switzerland	35	23	31	20
Netherlands	6	3	5	3
Indonesia	16	11	16	11
Tunisia	12	9	10	6
Albania	–	–	1	1
Total subsidiary companies	**197**	**153**	288	234
Total Group	**197**	**153**	290	234

For the Group, a total of 20 persons held senior management and board positions (2004: 19 persons and 2003: 15 persons). Two women are included in these positions in 2005 (One woman during 2004, 2003 and 2002).

Salaries, other remuneration and social security costs per country	2005 Salaries and other remuneration	2005 Social security costs	2004 Salaries and other remuneration	2004 Social security costs
Parent company				
Sweden	5,268	1,243	4,923	1,687
Total parent company	**5,268**	**1,243**	4,923	1,687
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
United Kingdom	85,166	7,082	60,756	13,642
France	16,237	8,275	18,798	9,435
Norway	18,906	2,542	25,087	3,241
Switzerland	42,293	3,279	39,526	2,556
Netherlands	5,776	214	5,566	651
Indonesia	8,860	79	4,792	284
Tunisia	9,221	–	7,828	1,029
Albania	–	–	309	–
Total subsidiary companies	**186,459**	**21,471**	162,662	30,838
Total Group	**191,727**	**22,714**	167,585	32,525
of which defined contribution plan cost	8,450		11,321	
of which defined benefit plan cost	1,236		1,219	

Salaries, other remuneration per country split between the Board of Directors/MD and other employees	2005 Board of Directors and MD	2005 Other employees	2004 Board of Directors and MD	2004 Other employees
Parent company				
Sweden	5,268	–	4,151	772
Total parent company	**5,268**	**–**	4,151	772
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
United Kingdom	2,684	82,482	6,826	53,930
France	–	16,237	–	18,798
Norway	2,237	16,669	4,532	20,555
Switzerland	8,451	33,842	10,806	28,720
Netherlands	1,873	3,903	3,189	2,377
Indonesia	3,009	5,851	1,306	3,486
Tunisia	3,310	5,911	2,794	5,034
Albania	–	–	309	–
Total subsidiary companies	**21,564**	**164,895**	29,762	132,900
Total Group	**26,832**	**164,895**	33,913	133,672

NOTE 38 – REMUNERATION TO BOARD OF DIRECTORS' AND MANAGEMENT

The Board of Directors of Lundin Petroleum has established a Compensation Committee to administer the Company's executive compensation programme. The Committee is composed of four non-management directors and meets at least annually to receive information on and determine matters regarding executive compensation, in accordance with policies approved by the Board. The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating; will attract and retain qualified executives; and encourages and motivates performance. Performance includes achievement of the Company's strategic objective of growth and the enhancement of shareholder value through increases in the stock price resulting from advances in the Company's business, continued low cost operations and enhanced cash flow and earnings. In establishing compensation for executive officers, the Committee takes into consideration individual performance, responsibilities, length of service and levels of compensation provided by industry competitors. The committee can recommend bonus payments to executive management in respect of work related to individual projects or in special circumstances. There is no policy for the guaranteed payment of an annual bonus.

Please see the page 27 for further information on the compensation committee.

Salaries and other remuneration to non-executive directors (TSEK)	Fees	Other[1]	Benefits	Pension payments[2]	Total 2005	Total 2004
Ian H. Lundin	700	2,280	–	–	2,980	3,804
Adolf H. Lundin	20	–	–	1,236	1,256	1,239
Magnus Unger	438	–	–	–	438	904
Carl Bildt	350	–	–	–	350	293
Kai Hietarinta	375	–	–	–	375	303
Lukas Lundin	385	–	–	–	385	303
William Rand	525	–	–	–	525	313
Viveca Ax:son Johnson	195	–	–	–	195	–

1 Other remuneration paid during 2005 relates to fees paid for special projects undertaken on behalf of the Group. The payment of such fees was in accordance with fees approved at the 2004 AGM.
2 The pension payment to Adolf H. Lundin is described in more detail in Note 24 – Pensions.

There are no severance pay agreements in place for any of the Directors.

Salaries and other remuneration to Executive Management (TSEK)	Salary	Bonuses[4]	Benefits[1]	Total 2005	Total 2004	Pensions 2005[2]	Pensions 2004
C. Ashley Heppenstall	3,236	270	464	3,970	4,578	387	304
Other management[3]	8,622	765	757	10,144	10,995	1,142	932

1 Benefits paid include school fees and health insurance.
2 Pension contributions are payments to non-contributory pension funds of approximately five times above the minimum Swiss statutory levels.
3 Other management comprise the 6 Vice Presidents in office during the year.
4 In December 2005 the Compensation Committee awarded a bonus for 2005 of one month's salary to the CEO and to the Vice Presidents. In January 2006 the Compensation Committee met and reassessed the bonus payments made for 2005 considering the employee's contributions to the results of the Company and the achievement of personal targets. The committee awarded C. Ashley Heppenstall an additional bonus of TSEK 1,348 equal to five months salary and awarded bonuses to the 6 Vice Presidents of TSEK 1,744 equal to between one and three months salary. The additional bonuses are not included in the table above.

There are no severance pay agreements in place for any of the members of the executive management.

The following incentive warrants have been issued to the board of directors and executive management.

	Incentive warrants issued			Incentive warrants outstanding 31 December 2005		
Non-executive Directors	2003 programme	2004 programme	2005 programme	2003 programme	2004 programme	2005 programme
Ian H. Lundin	400,000	–	–	150,000	–	–

The non-executive directors received incentive warrants whilst employed in an executive management position.

	Incentive warrants issued			Incentive warrants outstanding 31 December 2005		
Executive Management	2003 programme	2004 programme	2005 programme	2003 programme	2004 programme	2005 programme
C. Ashley Heppenstall	600,000	350,000	400,000	–	150,000	400,000
Other management	795,000	500,000	650,000	50,000	380,000	650,000

For incentive warrants, see also note 39.

NOTES

NOTE 39 – INCENTIVE WARRANTS PROGRAMME

The Company runs an incentive programme for employees whereby warrants are issued to employees enabling them to buy shares in the company. The warrants were issued at a price equal to or at a premium to the average share price for the ten trading days following the AGM. The warrants are valid for three years but can not be exercised within the first year of issue. Issued warrants to employees leaving the Company within the first year of issue, are forfeited.

Movements in the number of incentive warrants outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average weighted exercise price in SEK per share	Incentive warrants outstanding	Average weighted exercise price in SEK per share	Incentive warrants outstanding
At 1 January	24.11	5,249,800	4.15	5,247,300
Granted	60.20	2,900,000	45.80	2,250,000
Forfeited	–	–	45.80	-65,000
Exercised	17.48	-3,391,800	7.16	-2,182,500
Lapsed	45.80	-80,000	–	–
At 31 December	50.93	4,678,000	24.11	5,249,800

The weighted average share price relating to the incentive warrants exercised during 2005 amounted to SEK 68.77 per share.

The fair value of incentive warrants granted during the period using Black & Scholes method valuation model amounted to TSEK 21,286 based on an assessed volatility of 27% and the continuously compounded Swedish government bond interest rate of 2.38%. The total expense accounted for during the period amounted to TSEK 18,981.

Incentive warrants outstanding at the end of the year have the following expiry date and exercise prices:

	Issued 2003	Issued 2004	Issued 2005
Exercise price (SEK)	10.10	45.80	60.20
Exercise period	31 May 2004– 31 May 2006	31 May 2005– 31 May 2007	15 June 2006– 31 May 2008
Valuation per warrant [1]	2.53	7.97	7.34

[1] The valuation has been calculated using the Black & Scholes method.

NOTE 40 – SUBSEQUENT EVENTS

In the UK Budget 2006 dated 22 March 2006 it was announced that the oil and gas supplemental tax will be increased from 10% to 20% in 2006. This will increase the effective tax rate for the UK oil and gas properties from 40% to 50%. The effects of this increase will be accounted for during the year ended 31 December 2006.

At 7 April 2006, the Board of Directors and the President of Lundin Petroleum AB have adopted this annual report for the financial year ended 31 December 2005.

Stockholm, 7 April 2006

Ian H. Lundin Chairman of the Board	C. Ashley Heppenstall President & CEO	Carl Bildt
Adolf H. Lundin Honorary Chairman	Lukas H. Lundin	Kai Hietarinta
Viveca Ax:son Johnson	William A. Rand	Magnus Unger

AUDITORS' REPORT

To the annual meeting of the shareholders of Lundin Petroleum AB (publ)
Corporate identity number 556610-8055

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Lundin Petroleum AB for the year 2005. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts 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 liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the Directors' report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, 7 April 2006

Carl-Eric Bohlin
Authorised Public Accountant
PricewaterhouseCoopers AB

Klas Brand
Authorised Public Accountant
PricewaterhouseCoopers AB

SUPPLEMENTAL INFORMATION – RESERVE QUANTITY INFORMATION

UNAUDITED

Proved and probable oil reserves	Total Mbbl	UK Mbbl	France Mbbl	Netherlands Mbbl	Tunisia Mbbl	Norway Mbbl	Venezuela Mbbl	Indonesia Mbbl	Ireland Mbbl
1 January 2004	56,616	–	26,006	42	6,218	4,768	8,180	11,402	–
Changes during the year									
- acquisitions	85,131	54,283	–	–	–	30,848	–	–	–
- sales	-4,509	–	–	–	-397	-4,112	–	–	–
- revisions	-5,875	–	-3,558	767	-95	–	-2,393	-596	–
- extensions and discoveries	3,055	–	2,287	–	–	–	–	768	–
- production	-8,566	-3,974	-1,561	-4	-574	-870	-753	-830	–
	69,236	50,309	-2,832	763	-1,066	25,866	-3,146	-658	–
31 December 2004	125,852	50,309	23,174	805	5,152	30,634	5,034	10,744	–
2005									
Changes during the year									
- acquisitions	–	–	–	–	–	–	–	–	–
- sales	–	–	–	–	–	–	–	–	–
- revisions	10,815	6,616	-1,590	-646	-68	4,395	-175	2,283	–
- extensions and discoveries	4,510	4,510	–	–	–	–	–	–	–
- production	-11,127	-7,361	-1,534	-13	-355	-337	-716	-811	–
	4,198	3,765	-3,124	-659	-423	4,058	-891	1,472	–
31 December 2005	130,050	54,074	20,050	146	4,729	34,692	4,143	12,216	–

Proved and probable gas reserves [1]	Total MMscf	UK MMscf	France MMscf	Netherlands MMscf	Tunisia MMscf	Norway MMscf	Venezuela MMscf	Indonesia MMscf	Ireland MMscf
1 January 2004	95,173	–	–	48,468	–	12,572	5,526	28,607	–
Changes during the year									
- acquisitions	68,907	–	–	–	–	34,107	–	–	34,800
- sales	-12,429	–	–	–	–	-12,429	–	–	–
- revisions	-43,854	–	–	-5,214	–	–	-3,089	-1,711	-33,840
- extensions and discoveries	–	–	–	–	–	–	–	–	–
- production	-7,127	–	–	-5,665	–	-169	-449	-64	-780
	5,497	–	–	-10,879	–	21,509	-3,538	-1,775	180
31 December 2004	100,670	–	–	37,589	–	34,081	1,988	26,832	180
2005									
Changes during the year									
- acquisitions	–	–	–	–	–	–	–	–	–
- sales	-35	–	–	–	–	–	–	–	-35
- revisions	1,187	–	–	2,145	–	3,877	-363	-4,472	–
- extensions and discoveries	–	–	–	–	–	–	–	–	–
- production	-5,740	–	–	-5,054	–	-140	-317	-84	-145
	-4,588	–	–	-2,909	–	3,737	-680	-4,556	-180
31 December 2005	96,082	–	–	34,680	–	37,818	1,308	22,276	–

[1] The Company has used a conversion factor of 6,000 scf equals one boe.

Of the total proved and probable oil and gas reserves at 31 December 2005, 58 Mbbl and 82 MMscf of gas are attributable to minority shareholders of certain subsidiaries of the Group.

Reserves as at 31 December 2005 of 146.1 MMboe have been certified by Gaffney, Cline & Associates.

FINANCIAL REPORT DATES

Lundin Petroleum will publish the following interim reports:

- 16 May 2006 Three month report 2006.
- 16 August 2006 Six month report 2006.
- 15 November 2006 Nine month report 2006.
- February 2007 Year End report 2006.

The reports are available on Lundin Petroleum's website, www.lundin-petroleum.com direct after public announcement in Swedish and English. The reports are sent automatically to shareholders who have requested the information.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is held within six months from the close of the financial year. All shareholders who are registered in the shareholders' registry and who have duly notified their intention to attend the AGM may do so and vote in accordance with their level of shareholding. Shareholders who cannot participate personally may be represented by proxy.

The AGM of the shareholders is to be held on Wednesday, 17 May 2006 at 13.00 (Swedish time). Location: China Teatern (for registration Berns main entrance, 1 floor down) Berzelii Park, in Stockholm.

Attendance at the meeting

Shareholders wishing to attend the meeting shall:

- be recorded in the share register maintained by the Swedish Central Securities Depository (VPC) on Thursday 11 May 2006; and
- notify Lundin Petroleum of their intention to attend the meeting no later than Friday 12 May 2006

Confirmation of attendance

- in writing to Lundin Petroleum AB, Hovslagargatan 5, SE-111 48 Stockholm, Sweden
- by telephone: +46-8-440 54 50
- by fax: +46-8-440 54 59
- by e-mail: bolagsstamma@lundin.ch

When registering please give your name, personal social security number/company registration no., address and daytime telephone number.

Shareholders whose shares are registered in the name of a nominee must temporarily register the shares in their own names in the shareholders' register. Such registration must be effected by 11 May 2006.

DEFINITIONS

An extensive list of definitions can be found on the Lundin Petroleum website www.lundin-petroleum.com under the heading "Definitions"

Abbreviations

SEK	Swedish krona
USD	US dollar
CHF	Swiss franc
NOK	Norwegian krona
GBP	British pound
TSEK	Thousand SEK
TUSD	Thousand USD
TCHF	Thousand CHF
MSEK	Million SEK
MUSD	Million USD

Oil related terms and measurements

bbl	Barrel (1 barrel = 159 litres)
bcf	Billion cubic feet (1 cubic foot = 0.028 m^3)
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
Mbbl	Thousand barrels (in Latin mille)
MMbo	Million barrels of oil
MMboe	Million barrels of oil equivalents
MMbopd	Million barrels of oil per day
Mcf	Thousand cubic feet
Mcfpd	Thousand cubic feet per day
MMscf	Million standard cubic feet

Probable reserves

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.In this context, when probablistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Proved reserves

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probablistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimates.

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