Lundin Petroleum
ANNUAL REPORT 2010

organic value creation

Lundin Petroleum explores for, develops and produces oil and gas in ten countries across the globe

LUNDIN PETROLEUM

2010 achievements / highlights 2
2011 outlook / forecast 3
Letter to shareholders – C. Ashley Heppenstall, CEO 4
Words from the Chairman – Ian H. Lundin 6
Our business model 8
Our people 16
Our market 18

OPERATIONS

Norway 20
South East Asia 24
Other areas 26
Reserves, resources and production 30

GOVERNANCE

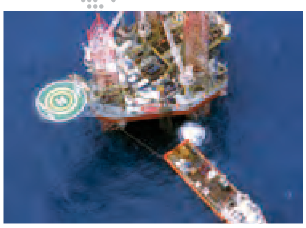
Corporate responsibility 34
Corporate governance report 2010 41
- Internal control and risk management 48
- Board of Directors 50
- Executive Management 52
The Lundin Petroleum share and shareholders 54
Risk factors 56

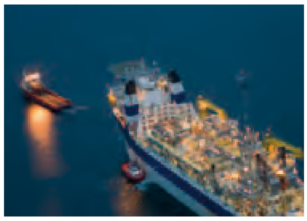
FINANCIALS

Directors' report 57
Financial tables 65
Accounting principles 70
Notes to the financial statements of the Group 77
Annual accounts of the Parent Company 93
Notes to the financial statements of the Parent Company 97
Board assurance 99
Auditors' report 100

ADDITIONAL INFORMATION

Five year financial data 101
Key financial data 102
Reserve quantity information 103
Shareholder information 104
Definitions 105





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

organic value creation

a successful business strategy

exploration

- organic growth through the drill bit

reserves and production

- converting discoveries into cash flow

opportunistic value realisation

- unlocking value in our asset portfolio

2010 achievements

OPERATING CASH FLOW*
MUSD 599

EBITDA*
MUSD 636

PRODUCTION*
32,700 boepd

RESERVES
187 MMboe up 18%
Reserves replacement ratio 237%

* includes UK for the first quarter

HIGHLIGHTS

- **Two major discoveries in Norway**
- **First oil from Volund field, Norway**
- **Strong production from Alvheim and Volund fields, Norway**
- **Increase in Luno reserves, Norway**
- **Spin-off of UK business with distribution of EnQuest shares**

2011 outlook

INVESTMENT CAPEX

MUSD 540

exploration and development budget

PROSPECTIVE RESOURCES

483 MMboe

targeted by 21 wells

FORECAST PRODUCTION

28,000 – 33,000 boepd

FORECAST

- **Gaupe first oil, Norway**
- **Luno Plan of Development submission, Norway**
- **Commence exploration drilling programme in Malaysia**
- **Commence exploration drilling programme in the Barents Sea, Norway**
- **Total of 21 exploration and appraisal wells**

"In my opinion our ability to grow our reserve base is the most important factor in increasing shareholder value.

C. ASHLEY HEPPENSTALL
PRESIDENT AND CEO

Dear fellow shareholders,

2010 was a very successful year for Lundin Petroleum. The fundamental cornerstone of our strategy is to create shareholder value through exploration and this delivered positive results in 2010 with the Avaldsnes and Apollo discoveries in the Greater Luno Area offshore Norway. We have already commenced in 2011 an additional five well drilling programme in the Greater Luno Area to appraise the Avaldsnes discovery as well as targeting additional exploration prospects. I believe that our Avaldsnes discovery has the potential to open up a new production hub on the Norwegian Continental Shelf and with Lundin Petroleum being one of the largest owners of acreage in this area which will be extremely positive for us.

We also crystallised the value of our United Kingdom business in 2010 through the spin-off of these assets into EnQuest plc, a new independent oil company with a particular focus on the United Kingdom Continental Shelf. This transaction has proved to be particularly successful resulting in a MUSD 358 profit for Lundin Petroleum and significant additional value for Lundin Petroleum shareholders who retained their shareholding in EnQuest.

I am pleased that we continue to increase our reserves and production. In 2010, our reserves increased by 18 percent and we achieved a reserve replacement ratio of close to 240 percent. In my opinion our ability to grow our reserve base is the most important factor in increasing shareholder value. Lundin Petroleum reserves are expected to increase further in 2011 as we book the reserves from our exploration discoveries such as Avaldsnes and Apollo. The increase to our reserve base will subsequently lead to increases in our production and operating cash flow as these reserves are developed and brought into production. Our production from non-divested assets is expected to increase in 2011 by approximately 10 percent and production is expected to double from current levels to over 60,000 boepd in the next five years from various development projects in Norway.

Financial Performance

Lundin Petroleum produced a net result for the financial year of 2010 of MUSD 498 which includes the gain of MUSD 358 reported on the spin-off of our UK business. Our remaining operations continue to produce strong operating cash flow, achieving MUSD 157 in the fourth quarter of 2010 to give a total operating cash flow for the reporting period of MUSD 599. The generation of strong operating cash flow is driven by our Norwegian production where the cost of operations is below USD 3.50 per barrel.

Production

Production for 2010 averaged 32,700 boepd or 28,400 boepd if we exclude the contribution from our United Kingdom and Indonesian assets sold during the year. Strong production from our Norwegian fields, Alvheim and Volund contributed positively to our production figures which were at the high end of our guidance range. Our forecast 2011 production is 28,000 - 33,000 boepd.

Development

Our production growth is expected to come from five development projects in Norway which are collectively forecast to double our current production to over 60,000 boepd within the next five years. I am confident that the net capital cost of these projects estimated at USD 2 billion can be funded from a combination of internally generated cash flow and bank borrowings without the requirement for further equity funding.

The largest project for Lundin Petroleum is the Luno field development where gross recoverable reserves increased in 2010 from 95 to 148 MMboe. Conceptual development planning for the Luno field is now complete and we are proceeding with front-end engineering prior to the submission of a plan of development in 2011.

We are making good progress with our other developments in Norway. The Gaupe field development is progressing well and first production, which is forecast to add an additional 5,000 boepd net to Lundin Petroleum, is still expected before year end 2011. We are finalising commercial terms with Shell for the tieback of the Nemo field to their Pierce production unit in the United Kingdom following which we will be ready to submit a plan of development. Conceptual studies for the development of the Krabbe and Bøyla fields are progressing satisfactorily.

Exploration

Our exploration led growth strategy has yielded positive results particularly in Norway where we have been one of the most successful exploration companies in recent years. Following the successes in discovering Luno, Avaldsnes and Apollo we believe that our continued exploration driven strategy will lead to further discoveries. Lundin Petroleum's 2011 work programme involves the drilling of a further ten appraisal and exploration wells in Norway including five wells in the Greater Luno Area. We also expect to commence drilling in 2011 in the Barents Sea with two exploration wells. Our historical exploration finding costs in Norway are less than USD 0.65 per barrel after tax. The current value of these discovered resources has created significant value for our shareholders

Our intention is to replicate the Norway success story in South East Asia. We have over the last few years built a local team of professionals, acquired licences and invested in 3D seismic acquisition. I have high hopes that our planned five well exploration drilling programme in Malaysia in 2011 will yield positive results and act as the springboard to create a new core development and production area for Lundin Petroleum.

Oil and gas industry

During 2010, the oil and gas industry has been prominent in the media. The unfortunate events of the Macondo oil spill in the Gulf of Mexico highlighted the increasing challenges facing our industry as we operate in ever harsher environments and drill deeper to produce the planet's oil resources. Lundin Petroleum and our industry have certainly made major advances in terms of safety and environmental focus over recent years. I believe that whilst we continually strive to improve our performance the negative portrayal by the media of the oil and gas industry has been unjustified and does not reflect the advances that have been made.

The availability of cheap energy has over recent decades been the primary catalyst for world economic growth which has improved the lives of the majority of the world's population. As many of the world's economies have come out of recession in recent months, focus has returned to the question of oil supply. Despite the investment in alternative forms of renewable energy, which we support, hydrocarbons will remain the primary provider of the world's energy for the foreseeable future. Our industry faces the challenge in an escalating cost and increasingly regulated market to meet this continually increasing demand for hydrocarbon resources whilst balancing the need for improved environmental and safety performance.

Corporate Responsibility

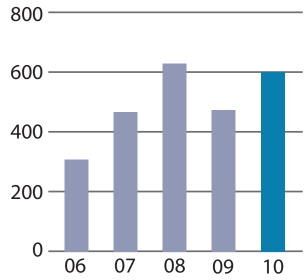
In 2010, we decided to join the Global Compact as a means to reconfirm our commitment to ethical business practice. In joining the Global Compact, we committed to make the ten principles on human rights, labour, environment and anti-corruption an integral part of our business strategy, day-to-day operations and organisational culture; to incorporate the principles in our decision making process; to contribute to broad development objectives through partnerships to advance the Global Compact and responsible business practices through active outreach to stakeholders and the public at large; and to publish a Communication on Progress (COP). A number of initiatives were undertaken in 2010 in furtherance of this commitment; they are detailed in the Corporate Responsibility section of our Annual Report. Lundin Petroleum is firmly committed to the Global Compact and intends to continue to honor its commitments thereto in 2011 and beyond.

I am very proud that we have grown our resource base and as a result created value for our loyal shareholders. The future will be more of the same and in this respect I believe we have the asset base and team to deliver.

Yours sincerely,

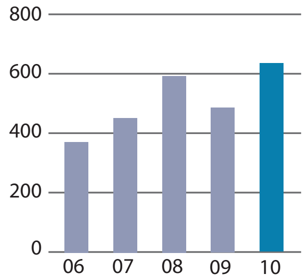
C. Ashley Heppenstall
President and CEO

CASH FLOW (MUSD)



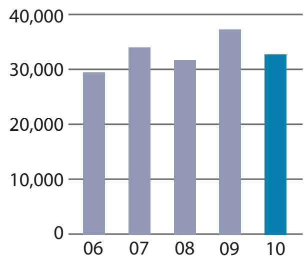
MUSD **599**

EBITDA (MUSD)



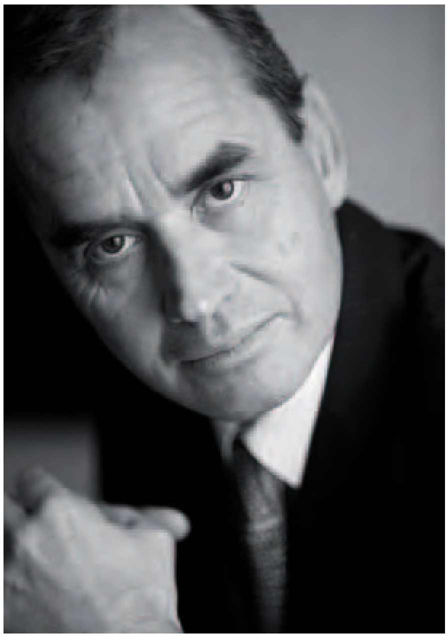
MUSD **636**

PRODUCTION (boepd)



32,700 boepd

Strong production performance from Alvheim and Volund fields.



> "Lundin Norway has achieved an average discovery rate of 39 percent resulting in seven discoveries on the NCS over the past five years.

IAN H. LUNDIN
CHAIRMAN

Dear fellow shareholders,

2010 was a monumental year for our Company and commodities in general. Global oil consumption increased by over 2.5 million barrels a day as supplies were restricted by aging giant oil fields and lack of investments in infrastructure around the world. Entry barriers in oil rich regions such as the Middle East and Russia continue to limit access to IOC's (international oil companies) while NOC's (national oil companies) are stretched to develop their huge existing resource base let alone explore for more.

Norway is one exception of a nation rich in natural resources making a daring political decision to open its oil and gas sector to the independent industry. The results speak for themselves: the Norwegian Petroleum Directorate has announced that in 2010 alone 16 new discoveries were made on the Norwegian Continental Shelf (NCS). A total of 32 exploration wells were completed in 2010. This means a discovery success rate of 50 percent. Ten of the discoveries were made in the North Sea and six in the Norwegian Sea. Of these 32 wells Lundin Petroleum participated in six and made two discoveries in the North Sea, one of which, well 16/2-6 (Avaldsnes) could prove to be significantly bigger than the large Luno discovery which the Company made in 2007. Avaldsnes is perhaps the largest oil discovery on the NCS since Snorre (discovered by Saga Petroleum in the late 80's).

Lundin Petroleum has achieved an average discovery rate of 39 percent resulting in seven discoveries on the NCS over the past five years. The average finding cost over that period is USD 2.9 per barrel pre tax (USD 0.6 per barrel post tax).

In 2011 Lundin Petroleum is expected to participate in ten wells on the NCS of which two are exploration wells in the Barents Sea.

We look forward to repeating the success achieved on the NCS in South East Asia where the Company has been very busy building another strategic portfolio of assets over the last five years. In 2011 we expect to start a drilling campaign consisting of five wells in Malaysia where Lundin Petroleum has long historical links and from where it is launching its South East Asian effort.

Having spun off the mature UK North Sea assets into EnQuest and thereby creating significant value for the shareholders, Lundin Petroleum is now much more agile and less encumbered in order to better tackle new challenges in its ongoing quest to find more oil and gas. I expect that the reserves and production that was transferred to EnQuest will be replaced in short order from the exploration successes and the strong production growth that Lundin Petroleum has achieved in Norway.

The oil industry suffered a major setback in 2010 with the Macondo oil spill. The accident occurred in April and while response measures were taken forthwith, the first relief well was successfully completed and the well was declared "effectively dead" in September. According to the technical group responsible for controlling the spill, the total leak amounted to about 4.9 million barrels of oil, thus overtaking the 1989 Exxon Valdez oil spill as the largest ever to originate in the United States. The long-term environmental impact of this blowout, which also caused the death of 11 rig workers, will not be known for several years but the fact that the spill occurred in very deep water and far away from the coast line certainly limited its impact. It was later concluded by an official inquiry that the root cause of this blowout was systemic management failures. Until the disaster occurred, the industry had a very good track record thanks to very strict safety and environmental controls that exist in most jurisdictions. So whilst these controls and safety measures failed on Macondo, the environmental relief and well control process that followed was exemplary in its sheer size and magnitude. As an approved and responsible operator, Lundin Petroleum is constantly reviewing and improving its health and safety procedures and environmental awareness.

A final note on the oil market: the price of oil increased by 15 percent in 2010 whilst copper increased more than 30 percent. In general, commodities outperformed both stocks and bonds. I would attribute this strong performance in commodity prices to global growth, especially in the emerging world. There is a risk that ultra high commodity prices will slow down growth and cause volatility in the market although short term volatility does not have a significant impact on the ever increasing demand for petroleum products.

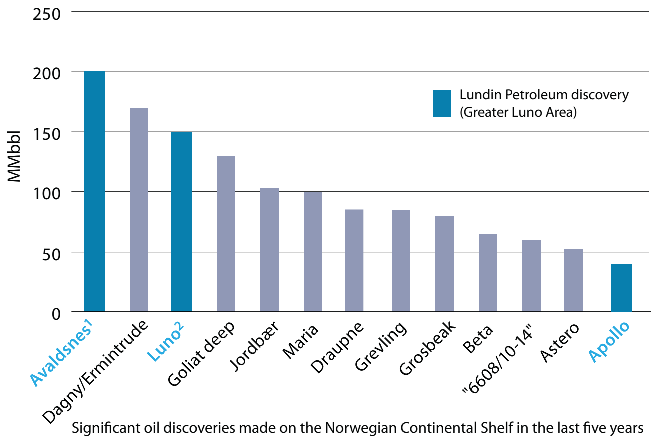
Our objective as long-term investors is to continue to build on our existing reserve base and maintain strong production growth. Our vision is to create value for our shareholders.

I thank you, our shareholders, for your continued support. A special thanks goes to all our highly skilled and competent employees for their loyalty and dedication. We have come a long way together and the future looks promising.

Yours sincerely,

Ian H. Lundin
Chairman of the Board

RECENT OIL DISCOVERIES IN NORWAY



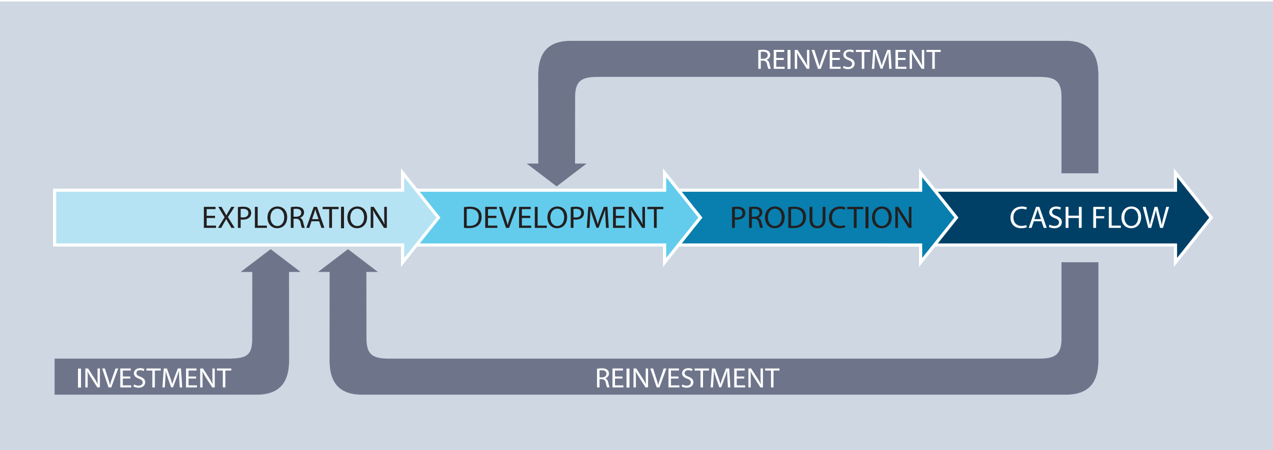
Significant oil discoveries made on the Norwegian Continental Shelf in the last five years

[1] Contingent resource estimate
[2] 2P reserves

> "Lundin Petroleum believes that it is the development of this business model that has achieved success in the past and will continue to deliver results in the future.

Our business model
organic value creation

Lundin Petroleum's business model is to generate shareholder value through the exploitation of hydrocarbons. Lundin Petroleum's strategy of organic growth involves identifying core areas of focus and then establishing a team of professional technical staff with experience in that area to use the latest technologies to explore for oil and gas. Commercial discoveries will be appraised and then, where they are deemed to be economic, progressed through to the production stage. The cashflow generated from production will be reinvested in the exploration and development stages. Lundin Petroleum believes that it is the development of this business model that has achieved success in the past and will continue to deliver results in the future.



VISION

As an international oil and gas exploration and production company operating globally, our 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-ventures.

Lundin Petroleum applies the same standards to all activities worldwide to satisfy both the commercial, ethical and local 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.

» Exploiting its existing asset base with a proactive subsurface strategy to enhance ultimate hydrocarbon recovery.

» Acquiring new hydrocarbon reserves, resources and exploration acreage where opportunities exist to enhance value.

value creation through EXPLORATION

- organic growth through the drill bit

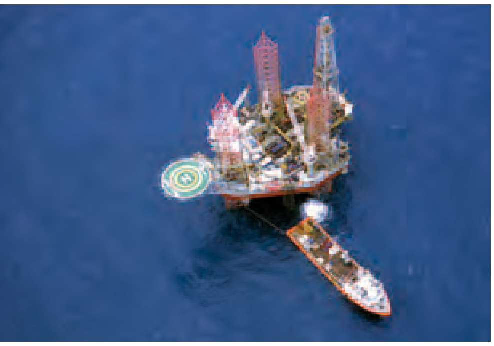
EXPLORATION HIGHLIGHTS

- Lundin Petroleum is committed to creating stakeholder value through exploration
- Utilising latest technology and proven regional experience to explore hydrocarbon potential
- To create a business model based on development of areal knowledge and competence
- Major exploration success in Norway
  - Avaldsnes
  - Apollo
  - Luno
- Replicating Norwegian business model in SE Asia
  - 5 well exploration programme in Malaysia in 2011
- 21 exploration and appraisal wells in 2011

Lundin Petroleum focuses on building core exploration areas in specific countries with a clear objective to grow organically. Our strategy is to improve our technical understanding and thereby to develop new play concepts. We achieve this by using the latest technology when acquiring and processing 3D seismic and by building teams of talented and experienced people.

Our objective is to continue to increase our resources through an exploration driven organic growth strategy. We will continue to allocate significant capital investment to our exploration activities and ultimately believe that this will lead to further value creation for Lundin Petroleum.

Our 2010 exploration drilling programme delivered excellent results, mainly driven by Norway where most of the exploration activities have taken place. In Norway we drilled seven exploration wells in 2010 resulting in two significant discoveries, Avaldsnes and Apollo, adding gross contingent resources of 115–465 MMboe. Avaldsnes, subject to further appraisal, could be the largest discovery made on the Norwegian Continental Shelf (NCS) in the last five years.



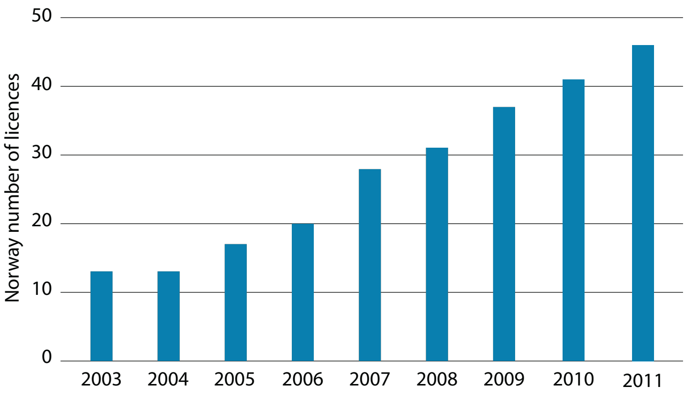
Since entering the NCS we have drilled a total of 18 exploration wells and made seven discoveries, adding over 200 MMboe of resources net to Lundin Petroleum. The exploration success rate for Norway is 39 percent and post tax finding costs of USD 0.65 per boe.

In Norway, our licence position has grown from just over ten licences in 2003, to over 40 licences by the end of 2010. This has resulted in the definition of three core areas for Lundin Petroleum in Norway: - the "Greater Luno area", the Barents Sea and the "Greater Alvheim area". Norway is leading the way for Lundin Petroleum with its exploration activities and we are now one of the most successful independent operators on the NCS.

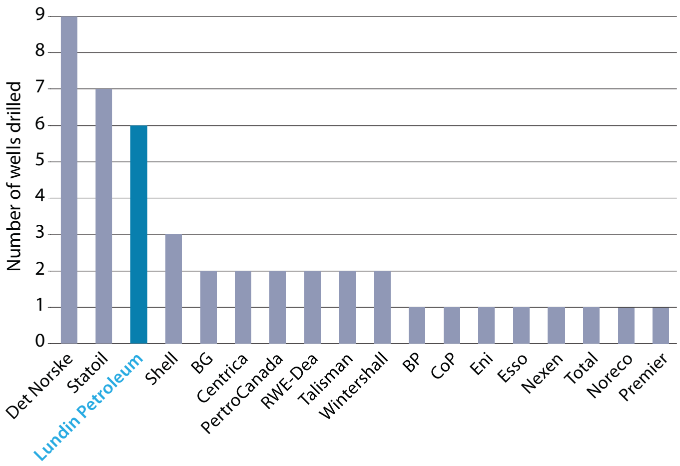
In South East Asia, where we are replicating the Norwegian model, six new licences have been awarded to Lundin Petroleum in the last two years and two new core areas have been defined with over 4,000 km^2 of new marine 3D seismic acquired. This has resulted in a forward exploration programme of at least 12 forecast wells to be drilled in the area over the next three years.

Norway and South East Asia will be our main exploration focus in the next few years. In 2011, a total of 21 exploration and appraisal wells will be drilled including ten in Norway and five in Malaysia targeting potential net un-risked resources of 483 MMboe.

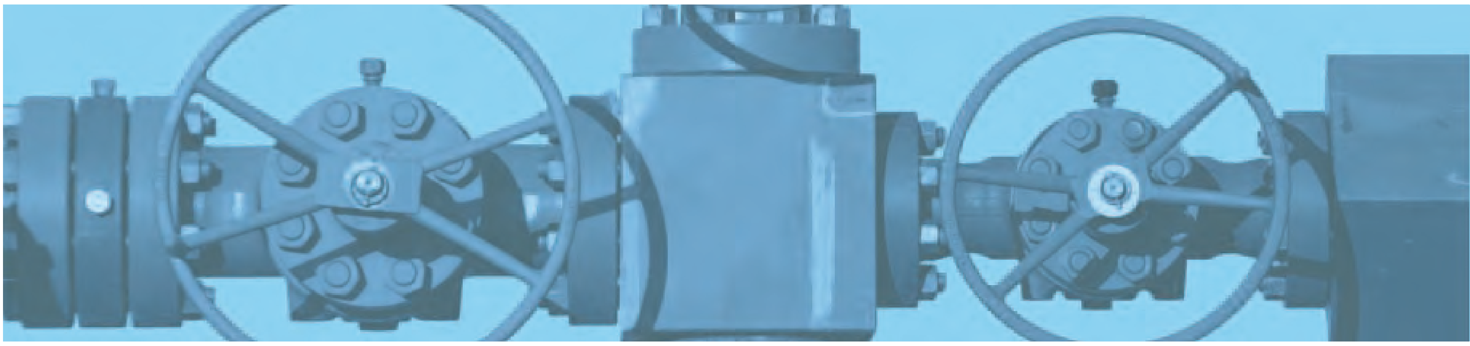
LUNDIN PETROLEUM'S ORGANIC GROWTH IN NORWAY



EXPLORATION DRILLING ACTIVITY IN NORWAY 2010



value creation through
RESERVES and PRODUCTION
- converting discoveries into cashflow



RESERVES & PRODUCTION HIGHLIGHTS

» Reserves growth to 187 MMboe
- 18% reserves increase
- reserves replacement of 237%

» Production growth
- 2010 production 32,700 boepd (28,400 boepd excluding divested assets)
- production forecast for 2011 28,000 - 33,000 boepd

» First oil from Volund

» Further appraisal of the Luno field resulted in reserves increase from 95 to 148 MMboe

» Avaldsnes appraisal wells to be drilled during 2011

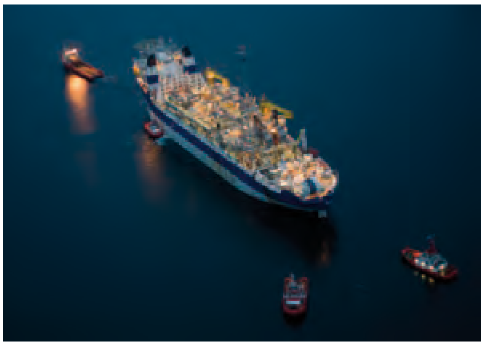
Lundin Petroleum focuses on increasing its reserves base organically. Following exploration, shareholder value is created through the conversion of discoveries into reserves and production. Our strategy is to continuously optimise the reserves and production throughout the asset life by utilising the latest technologies and, above all, talented people.

Our objective is to at least double our production by 2015 by formulating and executing development plans for our existing Proved plus Probable Reserves. Furthermore, recent exploration successes, currently classified as contingent resources, will be appraised and further matured with the aim to move them into reserves as soon as possible. Development of these reserves will result in continued production increases for Lundin Petroleum.

In 2010, Lundin Petroleum had a strong focus on turning discovered barrels into reserves, thus growing the reserves base, and turning reserves into production growth and continued strong cashflow.

In May 2010, first oil was produced from the Volund field in Norway. This field, which was discovered and appraised in 2004 is now producing from three production wells supported by a water injection well with a combined well capacity of over 42,000 bopd. Volund production above the contracted capacity is constrained by the availability on the Alvheim FPSO .

Further development drilling has taken place in the Alvheim field and the first of five phase II wells was brought on stream towards the end of 2010. Alvheim continues to have strong production performance and the average 2010 production was 8 percent above forecast. This strong



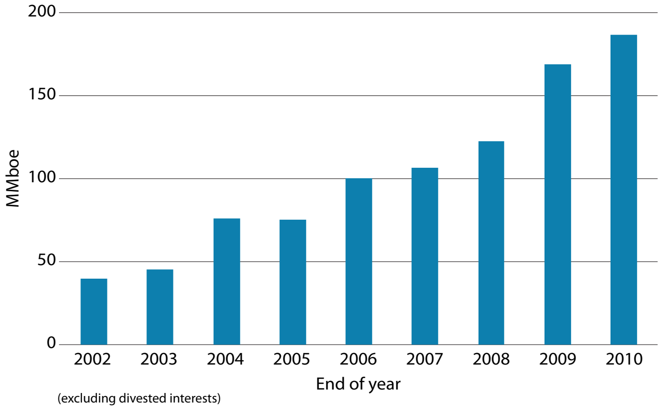
production performance has again lead to an update in reserves and the estimated gross ultimate recovery from Alvheim is now 276 MMboe, which is 65 percent higher than the initial reserves estimate in 2005 when the Plan of Development was submitted.

Total production in 2010 net to Lundin Petroleum was 32,700 boepd which was at the upper end of our production forecast. This production includes the divested United Kingdom assets for the first quarter of 2010 only. When the production from the United Kingdom and the divested Indonesian assets are excluded, the 2010 production was 28,400 boepd. Our 2011 production forecast is 28,000–33,000 boped, which on average represents an increase of close to 10 percent compared to 2010.

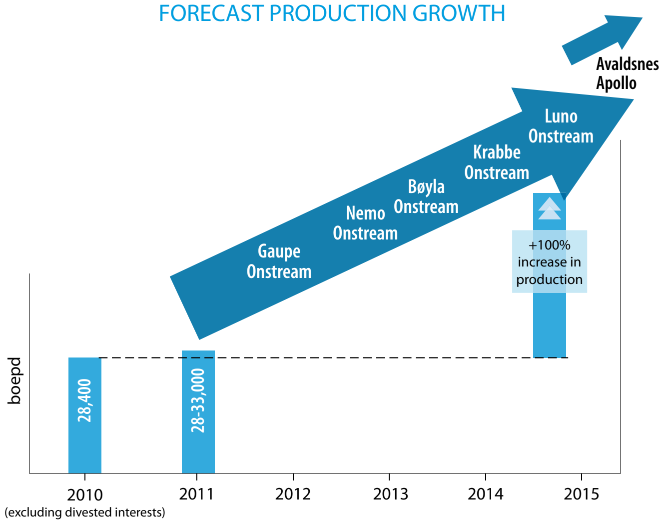
Part of the 2011 production increase is forecast to be from the Gaupe field in Norway. The northern extension of this field was discovered in 2008, the plan of development was approved mid 2010 and first oil is expected in the fourth quarter of 2011.

The main driver behind our future production growth is expected to be the Luno field in Norway. The field was discovered in 2007, appraised in 2009 and following a further appraisal well in early 2010, reserves net to Lundin increased from 47.4 MMboe to 74 MMboe, an increase of 55 percent. In 2010 a development concept was matured and we are ready to submit a plan of development in 2011 with a targeted first production towards the end of 2014. The development concept provides for enough capacity to tie back other discoveries in the area such as Apollo and Luno South.

2P RESERVES GROWTH



FORECAST PRODUCTION GROWTH



value creation through
OPPORTUNISTIC VALUE REALISATION
- unlocking value in our asset portfolio

Through out all stages of the business cycle, Lundin Petroleum seeks to generate shareholder value. All elements of the asset portfolio are constantly reviewed to determine that their value is fully reflected in the Lundin Petroleum share price. If it is determined that the value of an asset is not being fully reflected within the Lundin Petroleum share price, Lundin Petroleum will review all available options to determine how to realise the full value of that asset.

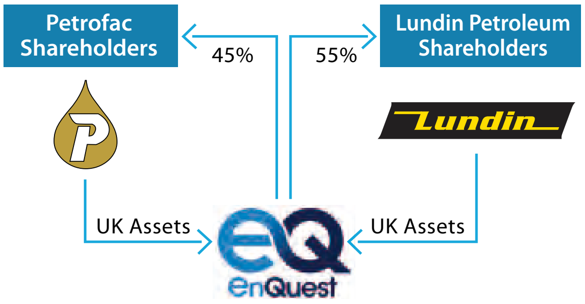
Lundin Petroleum has created innovative solutions to generate value from its assets for its shareholders. Where it is determined that the full value of an asset can be realised through a sale, or when an asset is deemed to be non-core to Lundin Petroleum, then the asset may be put up for sale. In certain circumstances, however, it may be that the full value realisation of an asset can only be made over a period of time and this future value increase will not be fully reflected within a sale price. In this instance Lundin Petroleum has packaged the asset under a separate, more focussed entity and distributed the shares in the entity to its shareholders in a tax efficient manner. This action has allowed the Lundin Petroleum shareholders to continue to hold the assets and participate in future value growth through a vehicle that will more effectively reflect the value generation.

VALUE REALISATION HIGHLIGHTS

» Spin-off of UK business into EnQuest

» Distribution of Etrion shares

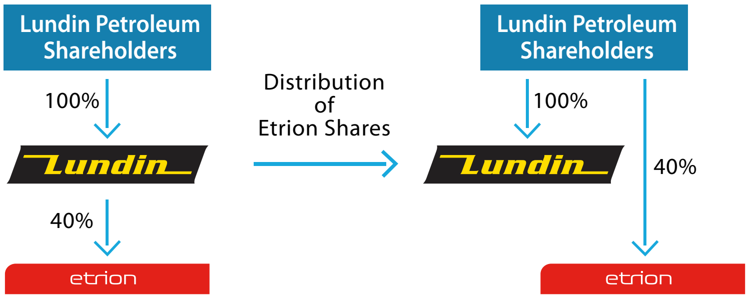
» Divestment of Salawati assets in Indonesia



ENQUEST – SPIN-OFF OF UK BUSINESS

In April 2010, Lundin Petroleum announced the completion of the spin-off its UK business into a newly formed company called EnQuest plc. EnQuest acquired the UK oil and gas production, development and exploration assets and operations of both Lundin Petroleum and Petrofac Limited, a London listed company.

Lundin Petroleum received 55 percent of the shares of EnQuest which were distributed to Lundin Petroleum shareholders. EnQuest is listed on both the London Stock Exchange and the NASDAQ OMX, Stockholm. The distribution was carried out under Sweden's Lex Asea rules under which the distribution is a non-taxable event for Swedish shareholders.



ETRION SHARE DISTRIBUTION

In November 2010, Lundin Petroleum completed the distribution of its shareholding in Etrion Corporation. Etrion Corporation is engaged in the development and operation of solar power generation which is deemed to be non core to Lundin Petroleum's business model.

The distribution was carried out under Sweden's Lex Asea rules under which the distribution is a non-taxable event for Swedish shareholders.

The talent and skills challenge facing the oil industry

Lundin Petroleum and the wider oil industry face many demanding challenges across 2011 with regards to people, capital, and technology in today's global oil and gas business. Changes in the supply and demand dynamics, social and environmental pressures, and ever changing demographic shifts, are transforming and reshaping our industry at an unprecedented rate.

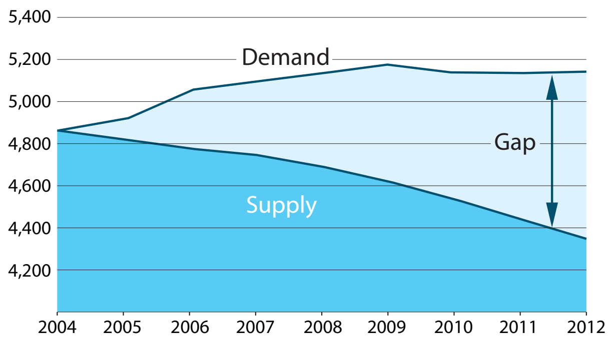
The intense demand for key specialist and professional people, with world class capabilities across all working areas with in the industry, will intensify as the oil price goes beyond USD 100 per barrel. Coming through the period of the recent economic downturn has not changed the acute competition to retain and attract the very best of the available skill, talent and expertise from an ever shrinking pool of industry qualified professionals.

With too few people entering the industry workforce during the past 25 years, an acute shortage now exists of employees with between 10 to 15 years of experience, capable of fulfilling the additional positions required by the current industry economic upswing. There are very limited opportunities to hire people with ten years plus experience across the areas of geo-science, drilling and reservoir and petroleum engineering. This shortage of experienced personnel is expected to intensify over the next ten years as the number of experienced technical professionals retiring from the industry is expected to exceed that of new graduates coming in.

The issue of the age profile of oil industry professionals has intensified. Many studies such as National Petroleum Council (NPC) study[1], acutely illustrate the problem where the average age of oil industry employees is 46 to 49 years and that the average retirement age in the oil and gas sector is 55 years. The 2007 NPC report predicts an ever growing supply and demand gap for mid career technical professionals aged 30-39 for the oil industry going forward.

MID CAREER SUPPLY AND DEMAND

North American and European demand for mid career technical professionals aged 30-39



[1] Source: NPC Global Oil and Gas Study, Paper 23, 2007

The three key people issues facing the oil industry today are:

- the ever aging workforce in the sector
- too few new entrants to the geo-science/ technical roles
- intense competition for all E&P employees of tomorrow

The anticipated skills gap will be profoundly felt by the industry during the next five years as senior, highly skilled geo-science and technical specialists retire from the industry. Only those companies that are wholly committed to employee retention and engagement will overcome this huge skills retention challenge. Lundin Petroleum recognises that people will remain its most integrally important asset.

In Norway, for example, the attraction and retention of seasoned and highly experienced industry professionals has been pivotal in acquiring the essential skill and experience base required to deliver on our exploration and production develop commitments to date. However, we need to ensure that our older employees have sufficient time and incentive to transfer their specialised industry knowledge and experience in mentoring our younger employees coming in.

Lundin Petroleum's approach

We are fully committed to further developing and improving our business and technical processes to allow greater collaboration, teamwork, and knowledge transfer from all of our business locations and activities. Higher productivity and greater time allotted to value-added work will continue to be achieved from all parts of the Lundin Petroleum business.

In achieving this, we will continue to offer;

- A working environment that is Health, Safety and Environment (HSE) focused, promoting a healthy work life balance for all.
- Lundin Petroleum encourages its employees to pursue and seek further responsibility, engagement and entrepreneurship in our business processes.
- Lundin Petroleum must remain competitive in an ever tighter and diminishing skills market regarding remuneration, with an ever greater emphasis on variable reward linked to pre-determined performance criteria for all and a Long-term Incentive Plan (LTIP) that aligns long-term reward aspirations of employees to the long-term value creation for shareholders alike.
- A leading and world class, medium-size exploration and production working environment that is continually seeking to expand and grow a portfolio of licences and exploration and production activities, that are organically grown, commercially viable and professionally challenging but rewarding for all who participate.

Our people... delivering value creation

Lundin Petroleum fully recognises that the quality of its employee base is the single greatest factor underpinning its future success. We will continue to invest in our talented and committed employee base. It is thanks to these committed employees whose industry experience, unsurpassed expertise and continued determination to achieve success for our shareholders and stakeholders that Lundin Petroleum will be able to deliver outstanding performance and success going forward.

Across the Lundin Petroleum group we directly employ 300 people with the engagement of a further 120 consultants and contractors who support our operations. Our reliance on this core team demands a skill base of highly qualified and experienced industry professionals.

Our primary people strategy is to deliver Value Creation for all stakeholders through the alignment of pre-determined business goals and objectives for each employee through our Performance Management Process. This framework will enable us to achieve and exceed our stated corporate goals and objectives going forward. This strategy will concentrate on three key elements:

» Remuneration and variable reward ensure that we continue to remain competitive by offering compensation and reward packages that attract and retain the very best skill, talent and leadership available, whilst enhancing shareholder value creation through the linking of fixed and variable rewards to pre-determined, business focused performance criteria.

» Reward for success to continue the ongoing commitment to our LTIP programmes, enabling Lundin Petroleum to share and recognise our ongoing success with the committed employees who make this success achievable through clearly defined business focused performance objectives.

» Career development to promote the evolving and exciting progression opportunities that the employee base enjoys in the fast growing, entrepreneurial environment that Lundin Petroleum continues to benefit from. As we evolve, so must and do our people. The creation of a clear professional career path for our employees, that promotes success, shares reward and aligns clear business goals and to those of individual career aspirations and personal attainment.

[2] Employees = staff + contractors

[3] Stability Index = $\frac{\text{Number of employees with service of one year or more x 100}}{\text{Total number of employees in post one year ago}}$

Lundin Petroleum's People Principles:

» Link reward and variable compensation to individual pre-determined performance objectives to encourage outstanding commitment and delivery thereby enhancing value creation across all parts of Lundin Petroleum.

» Drive engagement, participation and involvement through our Performance Management Process.

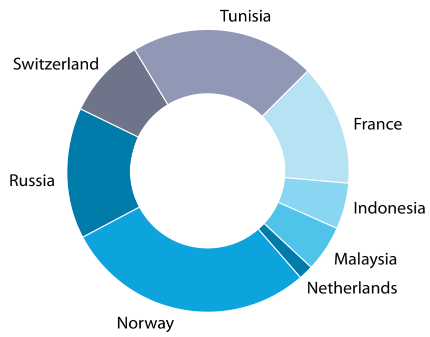
» Support and encourage ongoing training and professional development.

» Pursue innovative recruitment and retention strategies.

» Promote a safe and respectful working environment for all employees where Health, Safety and Environment (HSE), diversity and equal opportunities are paramount to all and are enshrined in our Code of Conduct and the Lundin Petroleum Green Book.

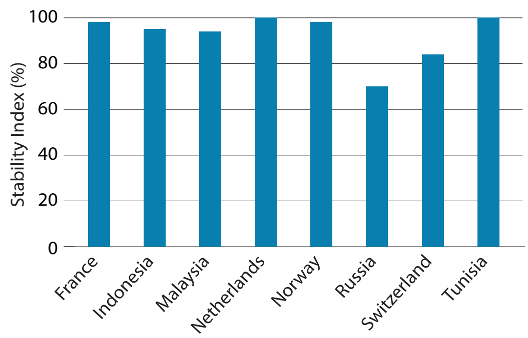
» Continue to maintain a strong stability index across our people.

EMPLOYEES[2] BY LOCATION 2010



TOTAL **417** EMPLOYEES

EMPLOYEE[2] STABILITY 2010



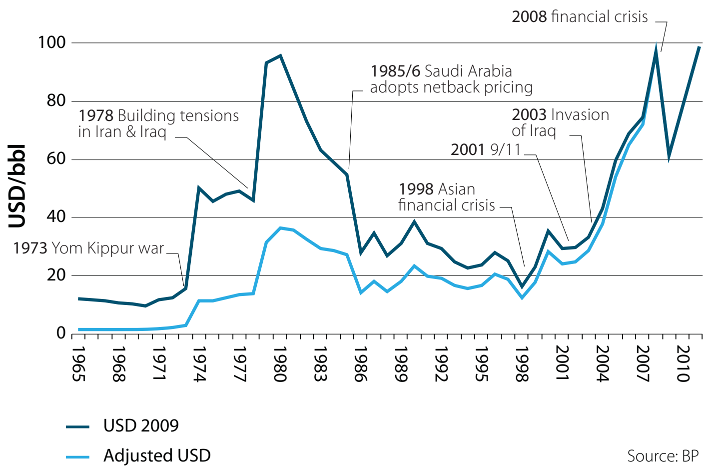
GROUP STABILITY INDEX[3] **90** %

> “Demand for oil and gas products has increased in 2010, past even 2007 levels and is forecast to grow again in 2011.

Whilst financial markets have recovered from the lows of 2009, the high levels of volatility currently being experienced shows that investors still lack confidence in the underlying principles of the recovery. This lack of confidence is due not only to the uncertainty around the pace of recovery and political instability, but the exposure of banks and investors to European debt, particularly in countries in risk of default such as Greece and Ireland.

The lending market showed a cautious recovery in 2010, although liquidity could tighten as banks are required to sustain higher levels of equity to support debt. European banks are taking a more long-term view to funding, accessing funding from the US market and fixing interest rates for long-term funds, attempting to avoid the reliance on short term funds which led to problems in the credit crunch of 2008.

OIL PRICE AND UNDERLYING DEMAND



Source: BP

The oil market continued to recover from the financial crisis, with prices moving past the USD100 per barrel mark in early 2011. Although part of this is due to short term disruption such as the unrest in the Middle East, the oil price has also undergone a sustained underlying increase post 9/11, driven by a narrowing gap between supply and demand for oil and oil products.

DEMAND DYNAMICS

Demand for oil and gas products increased in 2010, past even 2007 levels, and is forecast to grow again in 2011.

This demand increase has mainly been sustained by increasing demand from developing economies such as China. An indication of this growth phenomenon is that from 2008-2009, when western economies underwent a demand decrease of more than five percent, China showed an increase in demand for oil of six percent.

In long-term demand to 2035, the International Energy Agency Statistics database shows an increase in forecast consumption in all geopolitical areas. However, of most significance is the projected doubling of consumption from 17 MMboepd (2007) to 32 MMboepd in 2035 in the Non-OECD Asia region. This large increase in consumption must be filled by supply from hydrocarbon or non conventional sources, despite the increasing difficulty in finding conventional reserves, and the cost of developing non conventional sources.

Supply dynamics

The supply of oil has increased from the economic crisis of 2008, but the underlying dynamic is uncertainty in the quantity and the type of supply. Short term supply can be heavily influenced by current political and economic events, but long-term supply is dependent on the oil price and long-term infrastructure investment.

OIL STOCKS

The ability to absorb short term supply shocks is dependent on the availability of inventory and stocks. OPEC stated in 2010 that they were withholding 5-6 MMboepd of production, which can be used to relieve supply constrictions and hold the oil price within the range of USD 70–90 per barrel. However, as can be seen by the recent Libyan crisis, this ability does not relieve the situation where refineries are geared towards processing a particular type of oil (Libyan sweet oil – OPEC produces mainly a sourer crude), and critically there are no indications of how long it would take to get this additional production onstream.

Long-term supply mix

Much attention has been paid to the introduction of gas as an alternative in power generation and heating, however the infrastructure for gas is distinctly different to oil. As a consequence the gas market is increasingly 'delinking', or separating from the oil market particularly in relation to price.

One of the reasons for this is a significant number of discoveries of gas now coming onstream and a development in pipeline and LNG infrastructure, particularly from countries such as Russia into Europe. This has led to an adequate level of gas for the current infrastructure and a drop in the price. At the same time, the oil price has not experienced a drop – oil is particularly important and not easily substitutable in transportation, and has not experienced the same level of reserves replacement and infrastructure development.

REPLACING RESERVES

As reserves are less and less available in stable political areas with good economic terms, replacement of reserves can require development of more expensive assets in frontier areas (often with a high level of risk). Some alternatives to these frontier areas have been found through the advent of new technology which allows the development of alternative sources such as shale oil and gas, which has had notable success in the United States and has a growing focus in Europe.

Acquisition vs. Organic Growth

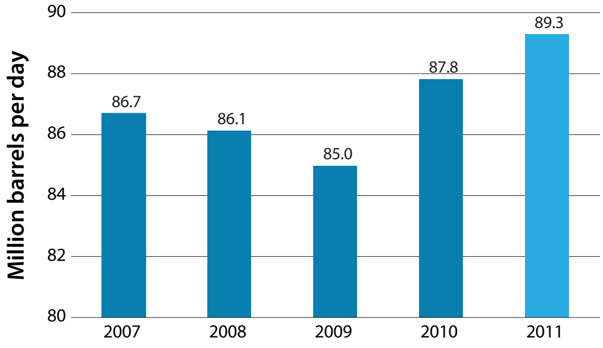
There are two main focuses for oil and gas companies trying to replace reserves or to increase their resource base. In high oil price regimes, the appetite for acquisitions tends to decrease as companies hesitate to pay high prices for assets and move towards organic growth as a methodology for reserve replacement – either through exploration drilling or reworking existing development assets.

A notable exception to this is the Chinese National Oil companies who appear strongly in the mergers and acquisitions market, where in 2010 they accounted for USD 26 billion of an estimated USD 183 billion of upstream deals, an 85 percent increase on the estimated figure of USD 14 billion in 2009 (Petroleum Economist/ Woodmac). Chinese dominance in the M&A market is expected to increase in 2011 as the Chinese budget surplus continues to grow and the national oil companies seek to secure long-term supply.

FURTHER GROWTH

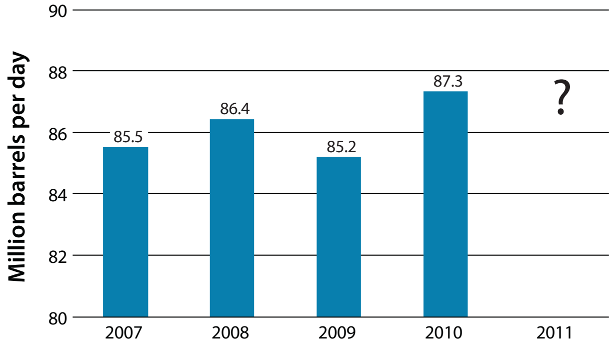
2010 has been an interesting year for petroleum companies, with a slowly recovering economy and short term political and economic events influencing a sharp increase in the oil price. The fundamentals of the oil markets remain the same however – there is an increasing disparity between increasing demand and the difficulty in replenishing long-term supply of oil and oil products, which will continue the upward pressure on the oil price.

WORLD OIL DEMAND



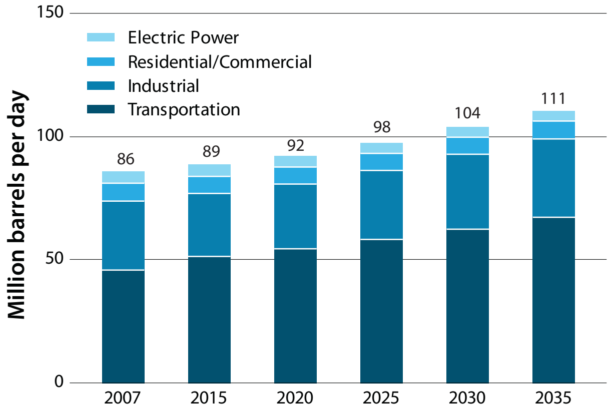
Source: IEA

WORLD OIL SUPPLY



Source: IEA

WORLD LIQUIDS CONSUMPTION BY SECTOR



Source: IEA

Norway forecast to double production in the next five years

NORWAY HIGHLIGHTS
» Volund comes on stream
» Significant oil discovery on Avaldsnes prospect
» Discovery on Apollo prospect
» Luno reseves increased to 148 MMboe
» PDO approval for Gaupe field

Norway is the principal area of operation for Lundin Petroleum having grown substantially since our entrance into Norway in 2003. Through the strategy of organic growth utilising the latest technology and a core team of experienced professionals the existing portfolio of licences comprises the full spectrum of exploration and appraisal, development and production assets.

PRODUCTION

Alvheim

The Alvheim field (Working Interest (WI) 15%) produced on average gross 86,000 boepd during 2010. Gross ultimate recoverable reserves increased to 276 MMboe. Phase II of the Alvheim project, which involves the drilling of four additional multi-lateral wells, is expected to be completed in 2012 to further increase the production. There is further growth potential in the greater Alvheim area from the development of existing discoveries and from further exploration.

Volund

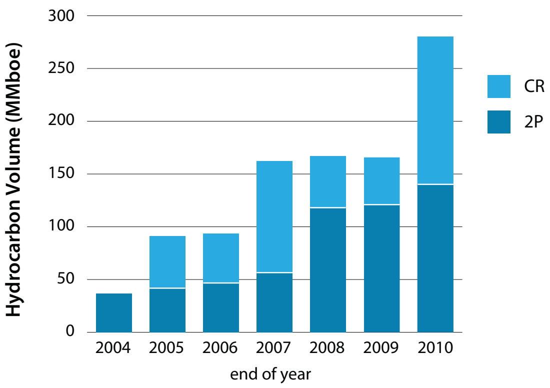
The Volund field (WI 35%) is located to the south of Alvheim and is a sub-sea tieback to the Alvheim FPSO. The field came on stream in May 2010 and by the end 2010 it was producing to its allocated capacity of 25,000 boepd.

PRODUCTION GROWTH – DEVELOPMENT PROJECTS

Luno

The Luno exploration well in licence PL338 (WI 50%), operated by Lundin Petroleum, was successfully drilled as an oil discovery in late 2007. The first appraisal well was completed in early 2009 and has confirmed the extension of the Luno field to the north east. A second appraisal well was completed in early 2010 which proved 50 metres of net pay with excellent reservoir characteristics. As a result, gross proven plus probable reserves have been increased from 95 MMboe to 148 MMboe. Lundin Petroleum has substantially completed the conceptual studies for a standalone development for the Luno field and expects to be ready to submit a Plan of Development in 2011. A further discovery was made during 2009 on the Luno South prospect. The discovery was made in fractured basement reservoir and is potentially connected to large volumes of oil in place but will require further work to determine resource potential and commerciality.

NORWAY RESOURCES



NORWAY DEVELOPMENT PROJECTS

Field	Net Resources MMboe	Forecast Production boepd	Forecast First Oil
Gaupe	11	5,000	2011
Nemo	11	6,000	2012/13
Bøyla	3	2,000	2013
Krabbe	9	4,800	2013/14
Luno	74	>30,000	2014/15
Total	108	47,800	



GREATER ALVHEIM AREA

Alvheim field (WI 15%)
» Gross ultimate recovery 276 MMboe.
» Phase II drilling to expected be completed in 2012.
» FPSO - 140,000 bopd capacity currently full.

Volund field (WI 35%)
» Gross ultimate recovery 43 MMboe.
» End 2010 gross production level 25,000. boepd (limited by Alvheim capacity).

PL340 (WI 15%)
» Bøyla (formerly Marihøne) discovery in 2009, delineated with two sidetracks (20 MMboe gross).
» Likely tieback to Alvheim FPSO.
» Other prospectivity in block.
» One discovery on the Caterpillar prospect (January 2011).

BARENTS SEA AREA

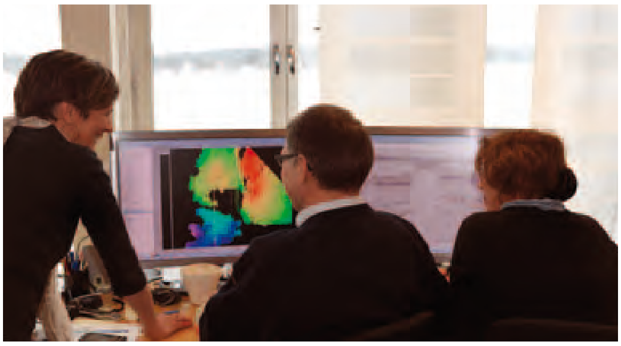
» Two exploration wells expected to be drilled in 2011.
- PL438 Skalle prospect (operated WI 25%).
- PL533 Pulk prospect (non-operated WI 20%).

GREATER LUNO AREA

Luno PL338 (WI 50%)
» Luno discovery in 2007.
» Successfully appraised in 2009 and 2010.
» Luno gross 2P reserves 148 MMboe.
» Luno South discovery in 2009.
» Apollo discovery in 2010 with estimated contingent resources of 15 to 65 MMboe gross on–block.

Avaldsnes PL501 (WI 40%)
» Avaldsnes discovery in 2010 with estimated contingent resources of 100 to 400 MMboe gross on-block.
» Two appraisal wells expected to be drilled on Avaldsnes in 2011.

PL265 (WI 10%)
» Acquired10% in PL265 in 2009 which contains Ragnarrock discovery and Aldous Major South and Aldous Major North prospects.
» Aldous Major South (160–360 MMboe) and Aldous Major North (110–260 MMboe) exploration wells planned to be drilled in 2011.

NORWAY KEY DATA	2010	2009
Reserves (MMboe)	139	121
Contingent resources (MMboe)	87[1]	45[1]
Average production per day (Mboepd)	18	14
Net turnover (MUSD)	523	314
Sales price achieved (USD/boe)	78	60
Cost of operations (USD/boe)	3	3
Operating cash flow contribution (USD/boe)	70	57

[1] Excludes Ragnarrock and Luno South discoveries

Major exploration success in 2010

In 2010, two new oil finds were made in the Greater Luno area. First, the Avaldsnes prospect exploration well found and tested good quality oil bearing sandstones in PL501. Initial estimates are that the discovery contains gross resources of between 100 to 400 MMboe on block. A 2011 exploration and appraisal programme is expected to take place to both appraise the existing discovery and assess the possible extension of the accumulation onto PL265 (10% Lundin Petroleum) to the west. The second well targeted the Apollo prospect, which was considered to be a southerly extension of the Draupne field accumulation onto PL338. Although the main target was deep to prognosis and water bearing, oil was encountered in good quality sandstones at Palaeocene and Lower Cretaceous levels. The discovery is likely to be appraised in 2012. Initial gross resource estimates are 15 to 65 MMboe on licence PL338.

Lundin Petroleum has a major exploration acreage position in the Greater Luno Area covering licences PL359 (WI 40%), PL409 (WI 70%), PL410 (WI 70%), PL501 (WI 40%) and PL265 (WI 10%).

Gaupe

The Gaupe field (WI 40%) on PL292 is being developed by BG as a tie-back to the Armada complex in the United Kingdom. The field obtained development approval in June 2010, with first oil expected in late 2011. Gross reserves are estimated at 31.3 MMboe, with net peak production of some 5,000 boepd expected in early 2012.

Lundin Petroleum also has a number of discoveries that are potential subsea tiebacks to existing production facilities offshore, in the coming years. Nemo (PL148) is included in 2P reserves, whereas Peik (PL088), Krabbe (PL301), Viper (Alvheim area), Gekko (Alvheim area) and Bøyla (Alvheim area) are classified as contingent resources. Together with the Avaldsnes (PL501) and SE Tor (PL066) discoveries, these give some 87 MMboe net contingent resources.

Exploration potential – securing future growth

Lundin Petroleum has an active exploration and appraisal programme during 2011 with up to ten wells planned to be drilled in Norway. The key areas of activity are exploration and appraisal wells on the Avaldsnes discovery and neighbouring PL265 potential (four wells), and the start of drilling activity in the Barents Sea (two wells). The net unrisked resource exposure associated with the Norway exploration programme is approximately 350 MMboe.

Our people in Norway... experienced industry professionals

TORSTEIN SANNESS
Managing Director
Torstein has 40 years of international experience in the oil and gas industry. He has successfully lead Lundin Petroleum in Norway since 2004.

HANS CHRISTEN RØNNEVIK
Exploration Manager
Hans Christen has 40 years of exploration experience in Norway. Hans Christen joined Lundin Petroleum in 2004 and has been instrumental in the Company's exploration successes in Norway.

ELSE MARGRETHE GRANDAL
Senior Exploration Geologist
Else has over 20 years experience as exploration geologist in Norway. She has worked for Lundin Petroleum since 2008 and is responsible for field evaluation.

TROND KRISTENSEN
Senior Geophysicist
Trond has 20 years of experience in Norway and has been responsible for building Lundin Petroleum's Norwegian portfolio of licences. He joined Lundin Petroleum in 2004.

MONA KJØLSETH
Senior Geophysicist
Mona has over 25 years experience as a geophysicist in Norway. She has worked for Lundin Petroleum since 2006.

BJØRN SUND
Project Director
Bjørn has over 30 years experience as a senior manager in major development projects in Norway. He joined Lundin Petroleum in 2008 to lead the Luno field development.

KRISTINE GJESSING
Senior Reservoir Engineer
Kristine has 20 years of international experience as a reservoir engineer. She has worked on Lundin Petroleum projects since 2008.

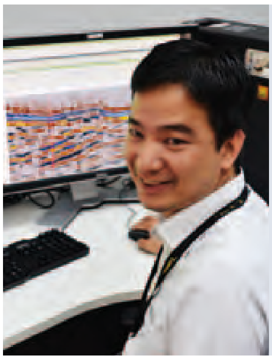
JOHAN BYSVEEN
Drilling Manager
Johan has 20 years of experience in offshore drilling projects. He has managed the Lundin Petroleum's drilling activities in Norway since 2005.

OPERATIONS – SOUTH EAST ASIA

SOUTH EAST ASIA HIGHLIGHTS

- » Malaysia drilling programme commences
- » Singa gas field comes on stream
- » Salawati assets divested
- » 4 new exploration blocks awarded in region

OUR PEOPLE



YEE AH CHIM
Geophysicist
Kuala Lumpur, Malaysia

Yee joined Lundin Petroleum in 2008 as a geophysicist working on the upcoming exploration programme in Malaysia.

OUR PEOPLE

AHMAD ZULYUSRI BIN ZAINAL ABIDIN (Zul)
Procurement Executive
Kuala Lumpur, Malaysia

Zul has worked for Lundin Petroleum since 2008 and has been involved with oil and gas project work in South East Asia since 2001.

MALAYSIA

Lundin Petroleum has built an exciting portfolio of exploration assets in Malaysia with the definition of two core areas offshore Sabah and Peninsular Malaysia. Over 4,000 km^2 of new 3D offshore seismic was acquired between 2009 and 2010 and interpretation and prospect generation on licences PM308A (WI 35%), PM308B (WI 75%) and SB303 (WI 75%) is now completed.

During 2010, an additional PSC was signed covering the 6,230 km^2 of Blocks SB307 and SB308.

Exploration drilling is expected to commence in 2011. A five back-to-back well programme is planned using the Offshore Courageous drilling rig in licences SB303 (two wells), PM308A (two wells) and PM308B (one well). Total net unrisked potential resources associated with the 2011 exploration programme are 136 MMboe.

In parallel, the Company is evaluating new development opportunities. The Tiga Papan discovery located in licence SB307 is being assessed as a future development. Ongoing reprocessing of existing 3D seismic and feasibility studies will determine an appraisal drilling strategy.

VIETNAM

Lundin Petroleum has a 33.33 percent working interest in Block 06/94 in the Nam Con Son Basin, offshore southern Vietnam. There are a number of oil and gas discoveries in the basin.

During 2010, two wells were drilled. However, with the exception of very thin uncommercial gas pay, the wells were unsuccessful and were plugged and abandoned.

The partnership is currently negotiating the possibility of an extension to the licence period for further technical evaluations.

INDONESIA

Lematang Block

The Singa gas field was brought on stream in May 2010. Initial production difficulties led to low production rates, but as of fourth quarter 2010 the field has been producing steadily at approximately 30 MMscfd of gross gas. This production level is below initial forecasts due to wellhead temperature and produced liquids constraints. Work is ongoing to increase production levels. Net reserves are estimated at 4.3 MMboe (26 bscf).

A gas sales agreement has been signed that will supply gas to customers in West Java. Lundin Petroleum working interest in the Lematang Block of 25.88 percent.

Salawati Basin and Island

In 2010, Lundin Petroleum completed the sale of its interests in the Salawati Island and Basin blocks to RH Petrogas for a consideration of MUSD 37.1 effective 1 January 2010 with additional payments due in the event of further field development of up to MUSD 3.9.

Further exploration potential

A significant new 3D offshore seismic was completed in 2010 on the Baronang and Cakalang blocks. On the onshore Rangkas Block, 2D seismic acquisition is ongoing and will be completed during 2011 with exploration drilling planned to commence in 2012. In December 2010, Lundin Petroleum was awarded a new production sharing contract (PSC) for the offshore South Sokang Block (60% operated interest) which carries a seismic commitment. In March 2011 Lundin Petroleum was awarded a PSC for the Gurita Block (WI 100%).

INDONESIA – KEY DATA[1]	2010	2009
Reserves (MMboe)	4	14
Contingent resources (MMboe)	2	4
Average production per day (Mboepd)	2	2
Net turnover (MUSD)	40	37
Sales price achieved (USD/boe)	65	61
Cost of operations (USD/boe)	24	23
Operating cash flow contribution (USD/boe)	11	14

[1] Includes Salawati Basin and Island up to the date of disposal. Reserves and Contingent resources as at 31 December 2010 excludes Salawati Basin and Island reserves.

OUR PEOPLE

JONI ERWOKO

Senior Geophysicist

Jakarta, Indonesia

Joni has worked for Lundin Petroleum since 2008 and has been working on prospect generation on our Indonesian assets. He has over 15 years of experience and has held various geological and geophysical positions.

OPERATIONS – OTHER AREAS

OTHER AREAS HIGHLIGHTS

- Increased production through Grandville development, France
- Two exploration wells planned in Congo (Brazzaville) in 2011
- Four exploration wells in the Netherlands in 2011

FRANCE

The French fields are mature production assets which have been on stream for many years. In the Paris Basin (WI 43.3-100%) and Aquitaine Basin (WI 50%), cost effective drilling intervention and work over activities are ongoing to maintain production levels. With successful water injection techniques, improved performance has been achieved in several fields in the Paris Basin, leading to increases in production rates and reserves.

Facilities and infrastructure are in place with excess capacity to enable a rapid development of new reserves. The French assets generate low decline and predictable long-term production for Lundin Petroleum.

Further exploration opportunities and exploitation of contingent resources are being pursued to increase French production. Lundin Petroleum embarked on studies to understand the shale oil potential of the Paris Basin with the aim to start a concept work plan as soon as the French authorities allow further shale oil activities.

Paris Basin

Following the successful exploration of the Villeseneux field in 2009, the exploration well was brought on stream in 2010. The drilling of a second Villeseneux well is planned in the first half of 2011.

After drilling of the Villeseneux well an eight well drilling program will start in the Grandville field, of which five are planned to be drilled in 2011. The Grandville development plan was approved in 2010 and comprises drilling, a new gathering system and a new production centre. If successful a further four wells can be drilled, which are currently carried in contingent resources.

Aquitaine Basin

The Les Mimosas field was discovered in 2004 and started production from one producer. A water injector was drilled in 2010 and water injection started in June. Oil is currently being trucked but it is planned to install a pipeline in 2011 to export oil from Les Mimosas to the Les Arbousiers facilities.

One of the largest fields in Aquitaine is the Courbey field with a current recovery factor of less than ten percent. Seismic reprocessing is ongoing and this will be followed in 2011 by a field development study.

FRANCE KEY DATA	2010	2009
Reserves (MMboe)	22	22
Contingent resources (MMboe)	7	10
Average production per day (Mboepd)	3	3
Net turnover (MUSD)	94	79
Sales price achieved (USD/boe)	79	61
Cost of operations (USD/boe)	17	15
Operating cash flow contribution (USD/boe)	42	35

OUR PEOPLE

PASCAL VANDERBISTE

Maintenance technician

Montmirail, France

Pascal joined Lundin Petroleum in 2006 and is working with maintenance and workover of production wells in the Paris Basin.

OUR PEOPLE

SVETLANA BENKO

Head of Geophysical operations

Moscow, Russia

Svetlana has more than 20 years of industry experience in geology and geophysics. She joined Lundin Petroleum in 2006.



RUSSIA

Lagansky Block

Russia is one of Lundin Petroleum's core areas with major focus on the Lagansky Block in the Caspian where Lundin Petroleum has a 70 percent interest (WI 70%).

The Lagansky Block is 2,000 square kilometres in size and is located offshore in the north Caspian area, close to major, world class hydrocarbon discoveries. The Morskaya discovery was made in 2008 and contains contingent resources of 110 MMboe net to Lundin Petroleum.

Further exploration potential

A new 3D seismic acquisition programme was conducted in 2010. Processing is ongoing and will be followed by interpretation to provide a better understanding of the nature of the remaining potential in the block. Several additional structures have been identified and their resource potential will be assessed.

Komi

Lundin Petroleum has a 50 percent licence interest in three producing fields in Komi. Production comes from Devonian carbonate reservoirs. Infill drilling had successfully increased production to around 9,000 boepd in 2009, but decline continues, and in 2010 production was 7,200 boepd gross. Infill drilling is expected to continue in 2011. Oil is exported via the nearby Transneft pipeline system and about 60-65 percent is sold domestically.

RUSSIA – KEY DATA	2010	2009
Reserves (MMboe)	17	17
Contingent resources (MMboe)	110	163
Average production per day (Mboepd)	4	5
Net turnover (MUSD)	67	74
Sales price achieved (USD/boe)	52	38
Cost of operations (USD/boe)	9	9
Operating cash flow contribution (USD/boe)	8	7

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 produced gas is sold to Gasterra under a long-term contract in accordance with the Dutch government's small gas field policy.

In early 2010, a successful well, De Hoeve-1, was completed and together with the successful Vinkega-1 gas well onshore Gorredijk licence completed in 2009, these discoveries are planned to be brought on-stream in the early part of 2011. Further drilling possibilities are being reviewed, and four onshore exploration wells are planned for 2011.

NETHERLANDS KEY DATA	2010	2009
Reserves (MMboe)	4	3
Average production per day (Mboepd)	2	2
Net turnover (MUSD)	35	40
Sales price achieved (USD/boe)	44	50
Cost of operations (USD/boe)	11	12
Operating cash flow contribution (USD/boe)	26	30

IRELAND

Lundin Petroleum has one non-operated exploration licence offshore Ireland in the Slyne Basin (Inishmore licence 50%). A one year licence extension was granted in late 2010. A 3D seismic survey was acquired in 2010, and will be interpreted during 2011. This will allow the partnership to decide whether to enter Phase II in late 2011, which will carry a drilling commitment.



TUNISIA

The Oudna field (WI 40%) came on stream in November 2006. The field is producing at stable rates of over 2,000 bopd, gross. In 2010 the field has produced above expectations. The Oudna field consists of a single production well supported by a single water injection well, both tied back to the Ikdam FPSO. Reservoir pressure is maintained by water injection and artificial lift is provided by a crude oil powered jet-pump. The Oudna field is now expected to continue producing into 2012.

The Ikdam FPSO is owned by Ikdam Production S.A. and the shareholders are Lundin Petroleum (40%), Teekay-Petrojarl Production AS (40%) and Gezina AS (20%).

Contingent resources have been removed given the impending sale of the Birsa licence and the very small volumes associated with the Zelfa licence.

TUNISIA – KEY DATA	2010	2009
Reserves (MMboe)	0.5	0.3
Contingent resources (MMboe)	–	8
Average production per day (Mboepd)	1	1
Net turnover (MUSD)	30	26
Sales price achieved (USD/boe)	77	55
Cost of operations (USD/boe)	39	27
Operating cash flow contribution (USD/boe)	26	13

CONGO (Brazzaville)

Lundin Petroleum has an 18.75 percent interest in Block Marine XI and a 21.55 percent working interest in the adjoining Block Marine XIV, offshore Congo (Brazzaville). Previous exploration activity on the Block Marine XI has resulted in four small oil discoveries. All discoveries are situated near existing facilities and in shallow water.

One year licence extensions were requested and granted for both blocks during 2010. The decision to enter phase II and commit to a additional well was made on Block Marine XI based on latest technical studies. Marine XIV decision to enter the next phase is subject to the 2011 drilling results. Work is ongoing to define a two well exploration programme for 2011 – one well on each licence.

Reserve and resource increases

PRODUCTION

2P RESERVES

2009	2010
177 MMboe[1]	187 MMboe

DEVELOPMENT

CONTINGENT RESOURCES

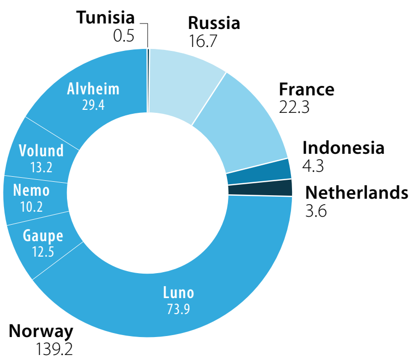
2009	2010
231 MMboe[1]	259 MMboe

EXPLORATION

TARGETED PROSPECTIVE RESOURCES

2009	2010
332 MMboe	483 MMboe

Note: Reserves and resources are published as per end of year.
[1] excluding United Kingdom



2P RESERVES **187** MMboe

RESERVES REPLACEMENT RATIO **237**%

INCREASE IN RESERVES **18**%

RESERVES

As of end 2010, Lundin Petroleum had 186.7 million barrels of oil equivalent (MMboe) of proven and probable (2P) oil and gas reserves. This is an increase of 18 percent when compared to last year, taking into account production of 11.9 MMboe in 2009 and the sales of 85.5 MMboe of reserves related to UK assets which were spun off into EnQuest PLC and the Salawati assets in Indonesia which were sold to RH Petrogas. The reserves replacement ratio, which is calculated by dividing the increase in reserves during 2010 by the production in 2010 is 237 percent. Of the 186.7 MMboe of 2P reserves, 84 percent is related to oil reserves and 98 percent of the total 2P reserves are situated in tax-royalty regimes. Lundin Petroleum is quoting all of its reserves in working interest barrels of oil equivalent. All reserves are externally audited by Gaffney, Cline and Associates.

Following two years of reporting a reserves replacement ratio of close to 400 percent, Lundin Petroleum has had another year with a strong reserves replacement of 237 percent. In other words, every barrel produced in 2010 has been replaced by almost 2.4 barrels of 2P reserves, giving a strong reserves base for future production growth.

In Norway, Lundin Petroleum's reserves increased from 120.9 MMboe to 139.2 MMboe, despite production of 6.6 MMboe. This is mainly as a result of the appraisal well drilled in the Luno field early 2010, which resulted in an increase in the Luno reserves from 47.5 MMboe to 74 MMboe. Furthermore, reserves increases were achieved for the Alvheim, Gaupe and Nemo fields. This was offset by moving 8.7 MMboe of Peik reserves to contingent resources pending the decision to develop this field.

Small reserves increases were booked in Tunisia, Netherlands and France, all more than replacing the 2010 production.

2P Reserves Summary	MMboe
End 2009	**255.9**
- Produced	11.9
+ New reserves (excluding sales/acquisitions)	28.3
- Sales	85.5
End 2010	**186.7**

Oil price (Brent) USD 85/bbl flat + 2 % escalation on oil price and costs

RESERVES DEFINED

Reserves

Lundin Petroleum calculates reserves and resources according to 2007 Petroleum Resources Management System (PRMS) Guidelines of the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE). Lundin Petroleum's reserves are certified by Gaffney, Cline and Associates (GCA), an independent reserves auditor. 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 (2P) 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 percent probability that the quantities actually recovered will equal or exceed the estimates.

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 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

RESOURCES DEFINED

Contingent resources

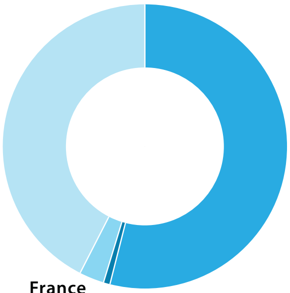
According to the SPE/WPC contingent resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

Prospective resources

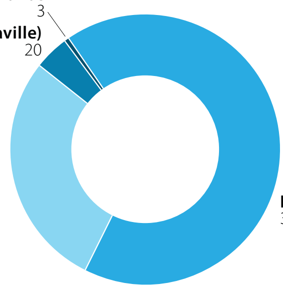
Under the SPE/WPC definitions exploration resources are classified as prospective resources. Prospective resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

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.



CONTINGENT RESOURCES **259** MMboe



(1) Prospective numbers exclude upside in Avaldsnes

TARGETED PROSPECTIVE RESOURCES DURING 2011 **483** MMboe

CONTINGENT RESOURCES

In addition to its certified reserves, Lundin Petroleum has a number of discovered oil and gas resources which classify as contingent resources. All contingent resource estimates have been audited by Gaffney, Cline and Associates.

At end 2010 Lundin Petroleum has 259.2 MMboe of contingent resources. This compares to 285 MMboe at end 2009. Major changes are related to the removal of 54.3 MMboe of UK related contingent resources and a 53.2 MMboe downgrade of the contingent resources in the Morskaya field following the results of the interpretation of 3D seismic. This reduction was offset by the inclusion of 97.6 MMboe contingent resources for the Avaldsnes and Apollo fields in Norway, which were discovered in 2010.

Morskaya contingent resources net to Lundin Petroleum are based on the current working interest of 70 percent. To comply with Russia's foreign strategic investment law, Lundin Petroleum is in discussions with Russian state owned entities to participate with a 51 percent interest in Morskaya.

Lundin Petroleum has an active work programme to mature contingent resources into reserves. Two appraisal wells are scheduled for 2011 to apprise the Avaldsnes discovery following which conceptual field development work will start. Conceptual development studies for the Krabbe field are progressing with the aim to choose a concept in 2011. The Apollo discovery will likely be appraised in 2012.

PROSPECTIVE RESOURCES

Lundin Petroleum has a substantial portfolio of exploration licences. In 2011 Lundin Petroleum is planning to drill (operated and non-operated) 21 exploration and appraisal wells targeting in total 483 MMboe of net unrisked prospective resources. Ten of these exploration and appraisal wells are expected to be drilled in Norway and five are planned to be drilled as part of a new drilling campaign in Malaysia. The other wells are planned to be drilled in the Netherlands and Congo (Brazzaville).

Strong production performance during 2010

PRODUCTION

Lundin Petroleum produced a total of 11.9 MMboe in 2010 from fields in Norway, France, Netherlands, Russia, Tunisia and Indonesia and from the United Kingdom for the first quarter only. Production throughout the year has been at the upper end of the production guidance.

The main contributor to the strong production has been the continued good performance of the Alvheim field in Norway. Both field production and FPSO uptime have been above forecast. Furthermore, the Volund field started production in April 2010 and produces over the Alvheim FPSO with a minimum contracted capacity of 25,000 bopd. However, well capacity is such that Volund can and has been producing more when there is additional capacity available on the Alvheim FPSO.

The development of the Volund field is now complete. A further three multi-lateral development wells will be drilled on the Alvheim field in 2011 and one well in 2012. Further development options are being investigated in both Volund and Alvheim fields.

Sales

Lundin Petroleum sold a total of 11.7 MMboe at an average oil price achieved of USD 72.26 per boe. The average Dated Brent price for 2010 was USD 79.50 per barrel.

The oil produced in Russia which is 11 percent of Lundin Petroleum's total production is sold either on the Russian domestic market or exported into the international market. 40 percent of the Russian sales in 2010 were on the international market at an average price of USD 76.17 per barrel and the remaining 60 percent of Russian sales being sold on the domestic market at an average price of USD 34.98 per barrel.

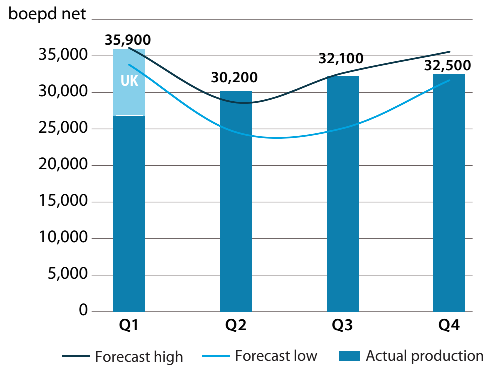
Variations

Production quantities in a period can differ from sales quantities for a number of reasons. Timing differences can arise due to inventory, storage and pipeline balances effects. Several of Lundin Petroleum's fields are producing into storage tanks onboard FPSOs, such as the Alvheim/Volund fields in Norway and the Oudna field in Tunisia or into onshore storage tanks such as the fields in the Aquitaine basin in France. These storage tanks are offloaded on a regular basis depending on the production volume and it is only at the point of having offloaded these tanks that the sale of this crude is recorded in the income statement and this can sometimes lead to a misalignment between what is reported as produced crude oil volume versus sold crude oil volumes. However, over time these differences between reported production and sales volumes will balance out.

In certain fiscal regimes part of the production volume has to be transferred to the government as a tax and/or royalty payment in kind which results in lower sales volumes than production volumes. In 2010, production from Lundin Petroleum's Oudna field in Tunisia and from the Indonesian fields (including the divested Salwati assets) were liable for such "in-kind" payments.

Production forecast

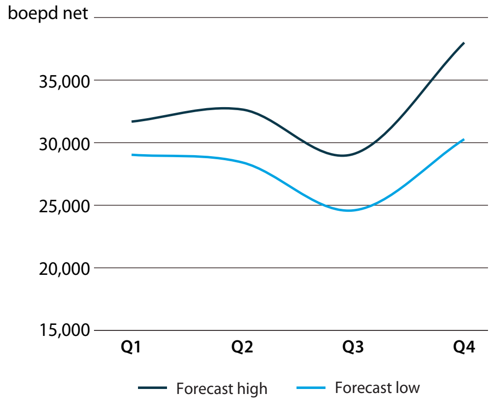
Lundin Petroleum's production forecast for 2011 is in the range of 28,000 to 33,000 boepd. This compares to 28,400 boepd in 2010, excluding the production from the divested UK and Indonesian assets.



2010 PRODUCTION PERFORMANCE

28,400 boepd

excluding production from divested assets



2011 PRODUCTION FORECAST

28,000–33,000 boepd

"In 2010, we decided to join the Global Compact as a means to reconfirm our commitment to ethical business practice

10 PRINCIPLES OF THE UN GLOBAL COMPACT

HUMAN RIGHTS

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure that they are not complicit in human rights abuses.

LABOUR STANDARDS

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** the elimination of all forms of forced and compulsory labour;
- **Principle 5:** the effective abolition of child labour; and
- **Principle 6:** the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

Corporate Responsibility (CR) is Lundin Petroleum's way of integrating sustainable social, environmental and economic development in its exploration and production activities. Over the years Lundin Petroleum's CR department has, in consultation with Operations, Finance & Administration put in place systems, processes and procedures to carry out activities in accordance with good oilfield practice and with due regard for the health and safety of its staff and contractors, for the preservation of the environment, and for the socio-economic development of areas of operations.

In May 2010, Lundin Petroleum confirmed its CR commitment by formally joining the United Nations Global Compact (UNGC). The UNGC is a voluntary initiative that aims to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation[1].

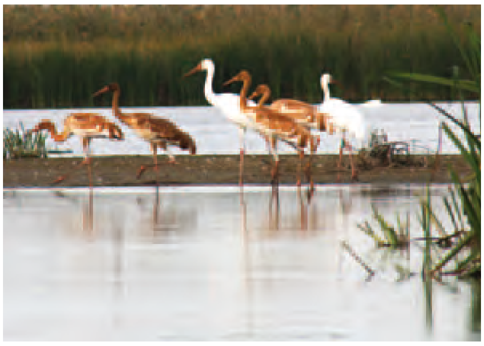
Specifically, the UNGC asks companies to embrace, support and enact, within their sphere of influence, the ten principles of the UNGC.

By joining the UNGC, Lundin Petroleum pledged to make the ten principles an integral part of the Company's business strategy, day-to-day operations and organizational culture, to incorporate the principles in the decision making process of the Board of Directors, to contribute to broad development objectives through partnerships, to advance the Global Compact and responsible business practices through active outreach to stakeholders and the public at large and to publish a Communication on Progress (COP).

Below is a review of the current CR framework documents and management structure, as well as a report on the CR/HSE actions undertaken in 2010. This report is also submitted as Lundin Petroleum's UNGC COP.

[1] For further information on the UNGC, please refer to www.unglobalcompact.org.





THE CR FRAMEWORK

The Code of Conduct

Lundin Petroleum's Code of Conduct, which is at the core of its Corporate Responsibility commitment details the Vision, Values and Principles by which the Company is guided, as well as the Responsibilities it has towards its stakeholders: shareholders, staff, host countries, host communities and the environment. The Company commits, inter alia, to uphold generally accepted principles on the protection of human rights and the environment, to refrain from engaging in bribery or corrupt business practices and to respect and promote employees rights, as per the UNGC principles.

The Code of Conduct has remained unchanged since its adoption in 2001 as it continues to reflect the views of Lundin Petroleum's directors, management and staff. A formal review of the Code of Conduct and Global Compact implementation will take place at Board level in the spring of 2011 to mark Lundin Petroleum's first year of membership in the UNGC.

THE POLICIES

Health & Safety

Lundin Petroleum's Health & Safety Policy sets the aim to conduct all operations in a manner that protects people and property and complies with applicable legislation. The principal health and safety objective is to provide a safe working environment for employees, contract personnel and members of the general public.

Environment

Lundin Petroleum's Environmental Policy sets the aim to protect the environment and to ensure that exploration and production operations are conducted in compliance with applicable environmental laws and regulations and meet company-specified environmental procedures and programmes.

Community Relations

Lundin Petroleum's Community Relations Policy sets the aim to enhance the living standards and well being of the people in the areas it operates by, for example, hiring local staff and/or participating in community projects.

These Policies have remained unchanged, as they continue to represent Lundin Petroleum's high level commitment to Health, Safety, Environment (HSE) and Communities.

THE HSE MANAGEMENT SYSTEM

The Green Book

Lundin Petroleum's HSE Management System, the Green Book, sets corporate requirements for the systematic and comprehensive integration of HSE issues in the management of the Company's worldwide operations. It aims to achieve continuous improvement of HSE performance through a pro-active management process covering planning, implementation, monitoring and review activities.

No changes were made to the Green Book in 2010, as the document was revised in 2009; it has, however, been strengthened through the adoption of three corporate HSE Guidelines (see below The Corporate Guidelines).

The HSE goals

In order to reinforce the commitments made in Lundin Petroleum's Code of Conduct, HSE Policies and the Green Book and to avoid potential negative impacts on people, assets and the environment, the Company promotes the following high level HSE goals throughout its operations:

» Zero fatalities
» Zero incidents
» Zero harm to the environment

These goals have been communicated to General and HSE managers in the Group, together with suggested "Promote, Prevent & Reduce" actions from the Health, Safety and Environment perspectives.

The Corporate HSE Plan

Lundin Petroleum elaborates a corporate HSE Plan on a yearly basis. The purpose of this Plan is to have a systematic approach to HSE management, to increase HSE awareness among staff and involve them in planned activities, to promote a sound HSE culture at corporate management level as well as reinforce the Company's corporate HSE goals. The corporate HSE Plan describes the Company's main operations and the HSE activities which will be undertaken to ensure that operations are carried out in accordance with HSE best practice. The Plan is developed by the VP Corporate Responsibility (VPCR) in consultation with the CEO and Chief Operating Officer (COO), and is checked for progress at minimum on a quarterly basis. The Plan covers general, management system, audit and verification, as well as office activities.

In 2010 most activities were carried out per, or above, the corporate HSE Plan, except for the frequency of HSE Quarterly Management Meetings, and for the corporate reviews of the HSE Management Systems Requirements, which were carried out as follows:

- France: a revised HSE Management System was in the process of introduction and the subject of an informal review; an audit is planned for 2011.
- Indonesia: a new HSE Management System is planned and will be reviewed in 2011.
- Malaysia: a new HSE Management System was in the process of development and was the subject of an informal review; an audit is planned for 2011.
- Norway: HSE management practice rather than system was reviewed; an audit is planned for 2011.
- Russia: the formal review was postponed to 2011 in view of the level of activity in 2010.
- Tunisia: a formal corporate audit was undertaken.

The Country HSE Plans

Country management are required under the Green Book to have their own country and/or asset HSE Plans as a means to manage HSE issues on a pro-active basis, setting HSE goals and objectives and ensuring that HSE issues are addressed by line management.

A new corporate reporting requirement has been set for 2011 whereby country operations will report monthly on progress against their HSE Plan in order for corporate to have regular and auditable information regarding every country's HSE management activities.

The Corporate Guidelines

A new feature in Lundin Petroleum's CR framework in 2010 has been the development of corporate Guidelines. The purpose of the Guidelines is to assist country operations in focussing on specific CR & HSE issues which corporate has identified as requiring special attention in view of developments within the Company or industry. In 2010, the following Guidelines were issued:

- Guidelines for HSE Managers for the Budgeting Process.
- Guidelines on Oil Spill Preparedness.
- Guidelines on Sustainable Investments.

The Guidelines for HSE Managers for the Budgeting Process assists HSE managers, through a series of questions, to ensure that HSE issues have been properly addressed and integrated in operational budgets. HSE managers are required to report to corporate that they are satisfied with the operational budgets.

The Guidelines on Oil Spill Preparedness were issued following the Deepwater Horizon accident as an additional control mechanism to ensure that Group companies have the proper response equipment, plans, capability and third party arrangements in place. Emergency preparedness is part of the Green Book and since 2004 all offshore operated drilling and production activities are covered under corporate contract with Oil Spill Response Ltd, the Guidelines are thus a reinforcement of existing practice.

The Guidelines on Sustainable Investments replace the former Corporate Donations Policy; the document was revised to reflect Lundin Petroleum's management of stakeholder issues such as community relations and environmental protection, in view of its new focus areas, i.e. Europe and South East Asia (see below under Sustainable Investments).

The Corporate HSE Procedures

Lundin Petroleum has corporate requirements and procedures that aim to ensure that operations are conducted in a safe and respectful manner throughout the Group; these include the HSE Management System Requirements (MSR), which provide guidance on the specific requirements on operations under the Green Book. In 2010 the HSE MSR Self-Assessment Form was used as a basis for formal HSE MS audits (Tunisia) and reviews (France, Indonesia and Malaysia). In 2011 the same document will be relied upon to carry out formal audits of all operated assets.

The corporate HSE Reporting Requirements, modified in 2009 to align with the Occupational Safety and Health Administration standards (OSHA 1904), remained unchanged in 2010. The Company is thus building a track record of HSE performance to carry out multi-year comparisons of HSE performance (see below under Comparison 2009-2010 HSE KPIs).

Crisis management procedures are also in place to ensure business continuity in the event of a problem either at operations or corporate. Operated country operations are required to carry out at least one emergency drill involving corporate, in order to test the effectiveness of the emergency response procedure and communications between corporate and operations during emergency situations. The requirement was fulfilled by all operated assets in 2010.

Lundin Petroleum's whistleblowing procedure, adopted in 2008 to provide an avenue for all the employees in the Group to raise concerns about improper, unethical or illegal conduct in the workplace and to obtain reassurance that they will be protected from reprisals or victimisation for whistleblowing in good faith has not resulted in any allegation of misconduct.

The Country HSE Procedures

There are operational HSE procedures in every country of operations covering the full spectrum of exploration and production activities, from environmental, security and risk studies and assessments, to permit-to-work systems, Job Safe Analyses, oil spill and emergency response preparedness as well as HSE and business continuity plans. All procedures are tested and verified on an ongoing basis, through drills as well as internal, external and/or regulatory audits.

THE HSE STRUCTURE

The HSE Board Representative

Lundin Petroleum's Board of Directors has a supervisory role regarding HSE issues. In 2009, it was decided that the Board would have a member acting as focal point for HSE issues. In 2010 a dialogue has taken place between management and the Board member to review HSE management and performance issues on an ongoing basis.

The HSE Quarterly Management Meeting

Lundin Petroleum HSE Quarterly Management Meeting, initiated end 2009, convenes senior and operational management to review HSE performance in the Group, progress against HSE Plan and discuss HSE implications of planned operational activities and other matters of interest. In 2010 only one of the four scheduled meetings was held, although HSE management and performance issues were addressed in individual meetings between the VPCR and the CEO, COO, the Senior VP Operations (SVPO) and/or the Group Human Resources Manager (HR Manager). The topics covered at the quarterly meeting were:

» Review of Group's HSE performance.
» Comparison of Group's HSE Key Performance Indicators relative to peers.
» Contribution of Lundin Petroleum's to the Climate Change Disclosure Project.
» Implication of Lundin Petroleum accession to the Global Compact.
» Presentation on the two first principles on human rights of the Global Compact.

OUR PEOPLE

BERNT RUDFJORD
HSE Manager
Oslo, Norway

Bernt has 25 years experience as a petroleum engineer. He joined Lundin Petroleum in 2006 and is responsible for health, safety and environment regarding drilling and development projects.

The HSE Committee

Lundin Petroleum's corporate HSE Committee, consisting of the SVPO, VPCR and HR Manager, is tasked with addressing HSE matters on a needs basis. Meetings focus on a single issue or review a number of issues such as KPIs, the HSE implications of planned or current operations, the implication of the Deepwater Horizon accident, and potential problem areas, etc. In 2010 the Committee met informally on a monthly basis and held four formal meetings.

The HSE Network

Lundin Petroleum gathers on a bi-monthly basis Group HSE and General Managers in a conference call. Each HSE Teleconference includes a review of main concerns/issues of the month, a status and discussion of HSE Key Performance Indicators (KPIs), lessons learned, and a presentation by one of the assets about a specific HSE issue. Five teleconferences were held in 2010. The topics of the presentations were:

» HSE Management (Aberdeen, UK).
» Oil Spill Preparedness (Astrakhan, Russia).
» Contractor Management (Indonesia).
» Sustainable Investments (Moscow, Russia).
» Risk Management (Oslo, Norway).

All HSE corporate, operational and industry documents as well as teleconference materials including presentations are posted on a dedicated HSE web forum, accessible by GMs, Operations and HSE managers throughout the Group.

LUNDIN PETROLEUM 2010 HSE PERFORMANCE

The HSE KPIs

The Company tracks a number of HSE Key Performance Indicators (KPIs) for its operated assets as a means to monitor the status of performance throughout the Group. In doing so it also fulfils its UNGC commitments regarding labour and the environment.

Health & Safety KPIs

The Health & Safety indicators tracked on an ongoing basis throughout the Group and reported on a monthly basis to corporate are Fatalities, Lost Time Incidents, Restricted Work Incidents (RWI) and Medical Treatment Incidents (MTI) among staff and contractors. Coupled with the number of hours worked, these indicators enable the Company to determine its Total Recordable Incident Rate (TRIR) per 200'000 hours worked. In addition to these lagging indicators (reporting incidents that have occurred), the Company also tracks leading indicators such as Near Misses with High Potential. The importance of leading indicators is that they throw a light on potential problems areas and enable the Company to take pro-active measures to avoid them from developing into incidents.

Environmental KPIs

The environmental indicators that have been reported on a monthly basis since 2004 are oil spills beyond 1 barrel and, since 2009, chemical and hydrocarbon leaks over 1m^3. In addition, operated assets report greenhouse gas emissions (CO_2, NO_X, SO_X, CO, N_2O, CH_4, nmVOC) on a yearly basis.

HSE 2010 Key Performance Indicators (KPIs)

Lundin Petroleum had an ambitious work programme in 2010 with sustained exploration and production activities throughout the Group. In accordance with Lundin Petroleum's HSE Reporting Requirements, accidents and incidents involving people or the environment were noted, investigated and reported to corporate, both on an ad hoc basis, for cases requiring immediate attention, and on a monthly basis. The severity of the incidents was limited insofar as none had a permanent impact on the injured party or on the environment, however, their number has given rise to concern and action by corporate and country management in the relevant areas, as per below.

Group HSE KPIs were as follows:

Zero fatality among operated and non-operated assets

There have been no fatalities among staff or contractions in Lundin Petroleum's operated and non-operated assets since the Company's creation in 2001.

Four Lost Time Incidents (LTI, two staff, two contractors)

» France (2 LTIs): a recently hired staff injured his hand while trying to recover tubing; he was granted five days off. The second LTI involved the driver of a trucking contractor who injured his ankle while stepping out of the truck; he was off work for 32 days.
» Russia (1 LTI): a company driver was involved in a car accident through no fault of his own and was granted 5 days off.
» Indonesia (1 LTI): twelve contractor staff in the Rangkas seismic camp suffered from abdominal pain.One was held overnight at the hospital (LTI), while eleven were given medical treatment at the camp clinic (MTIs). The investigation showed that the water well in the field camp was contaminated with e-coli. Further incidents occurred in relation to the seismic acquisition in the Rangkas Block which prompted a full review and field trip by corporate and country management in order to redress the campaign's poor HSE practice and performance (see below under Comparison 2009-2010 HSE KPIs).

Seven Restricted Work Incidents (RWI, all contractors)

» France (1 RWI): an operator injured his hand during the cleaning of tubing. Medical assistance was provided and the operator was able to perform other tasks on the following day.
» Indonesia (6 RWI): three contractor staff used the wrong tool to repair a piece of equipment; they received medical treatment and were given alternative tasks, though the wounds were minor. The second incident involved water contamination in a camp in the Rangkas Block.

Seventeen Medical Treatment Incidents (MTI, all contractors)

» UK (2 MTIs): one was a knee injury (on the Thistle platform) and the second an ankle injury (on the Heather platform); both staff were able to resume their normal activities after medical treatment.
» Indonesia (15 MTIs): fourteen cases were due to the water contamination events described above while one was due to the improper handling of tools.

One oil spill (10 m^3)

» France (1 oil spill): the cause of the spill in the Soudron production site was a disconnected 4" fiber pipe at the elbow level. The spill was fully contained on the production site by the intervention of the personnel on call, and was fully cleaned up with the help of Company and contracted personnel within the week. Several controls conducted in the following months confirmed the absence of hydrocarbons.

One chemical spill (7.7 m^3)

» UK (1 chemical spill): the case involved an ongoing leak on the Broom pipeline system that resulted in discussions with the regulator to find an appropriate solution.

Three Near Misses with High Potential

» Tunisia (1 NMHP): a person took a sip from a half-litre water bottle filled with anti-freeze that had been left unlabeled. No liquid was swallowed and thus no injury sustained.
» France (2 NMHPs): flexible tubing detached from the pipe installation during the start-up of a new water injection system. A thorough investigation took place which identified three causes, all of which were related to the malfunction of equipment. A security cable prevented this NMHP from resulting in a personal injury. The second case involved the partial disconnection of a trailer vehicle, which was retained by the security cable. All trailer vehicles were later inspected for fitness.

Six Non-Compliance with Permits (all UK)

» UK (6 NCwP): the first was in relation to the use of a chemical whose permit had expired the other five were in relation to the oil in water concentration which slightly exceeded the permit level (i.e. 118 mg versus 110 permitted). These non-compliances were the subject of communications with the regulator.

Comparison 2009–2010 HSE KPIs

Despite the various actions taken at corporate and country level to track and improve HSE performance throughout the Group, the record is mixed. There are reasons for concern in some areas and there are clear improvements in others.

The following 2010 KPIs compare unfavourably with 2009:

- Two Lost Time Incidents among contractors compared to one in 2009.
- Seven Restricted Work Incidents among contractors compared to none in 2009.
- Seventeen Medical Treatment Incidents among contractors compared to seven in 2009.
- A Lost Time Incident Rate of 0.55 for staff compared to 0.44 in 2009 and 0.17 for contractors compared to 0.06 in 2009.
- A Total Recordable Incident Rate of 2.23 for contractors compared to 0.46 in 2009.

The following 2010 KPIs compare favourably with 2009:

- No Restricted Work Incidents among staff compared to one in 2009.
- No Medical Treatment Incidents among staff compared to two in 2009.
- A Total Recordable Incident Rate for staff of 0.55 compared to 1.10 in 2009.
- An oil spill of $10m^3$ compared to one of 40 m^3 in 2009.
- A chemical spill of 7.7 m^3 compared to one of 129.775 in 2009 (represents a decrease notwithstanding sale of asset).
- No hydrocarbon leaks compared to one in 2009.
- Three Near-Misses with High Potential compared to 24 in 2009.
- Six Non-Compliances with Permits compared to 19 in 2009.

The figures above and in the Table below indicate that there have been clear improvements in staff HSE performance, but a deterioration in contractor performance. This is mainly attributable to the onshore seismic campaign which was carried out in the second half of 2010 in Indonesia. While the HSE track record and management system of the main contactor was assessed and reviewed prior to contract allocation, the capacity of subcontractors was not sufficiently taken into consideration. This coupled with the fact that the campaign involved approximately 1200 mostly unskilled personnel operating in unfavourable weather conditions resulted in an overall unsatisfactory HSE performance. Lundin Petroleum corporate and country management carried out a number of field inspections which resulted in a series of recommendations and demands, which the main contractor started to address forthwith. These involved HSE management system measures, such as timely reporting and investigation of incidents, equipment upgrades, improvement to the number and capacity of field personnel, etc. As a result there was an improved HSE performance towards the end of the year; however, as the campaign is ongoing in 2011, additional management time and resources have been dedicated to this project to ensure the positive trend continues.

On a positive note, despite Norway's extensive exploration and production activity, there were no reportable incidents in 2010.

HSE INDICATOR DATA		2010	2009
Exposure Hours	Employees	731,793	905,166
	Contractors	2,336,409	3,454,980
Fatalities	Employees	0	0
	Contractors	0	0
Lost Time Incidents [1]	Employees	2	2
	Contractors	2	1
Restricted Work Incidents [2]	Employees	0	1
	Contractors	7	0
Medical Treatment Incidents [3]	Employees	0	2
	Contractors	17	7
Lost Time Incident Rate [4]	Employees	0.55	0.44
	Contractors	0.17	0.06
Total Recordable Incident Rate [4]	Employees	0.55	1.10
	Contractors	2.23	0.46
Oil Spills	No.	1	1
	Vol. (m^3)	10	40
Chemical Spills	No.	1	2
	Vol. (m^3)	7.7	129.775
Hydrocarbon Leaks	No.	0	1
	Mass (kg)	0	4
Near Misses with High Potential	No.	3	24
Non-compliance with Permits/Consents	No.	6	19

[1] Lost Time Incident (LTI) is an incident which results in a person having at least one day away from work.
[2] Restricted Work Incident (RWI) is an incident which results in keeping a person from performing one or more routine functions.
[3] Medical Treatment Incident (MTI) is a work related injury or illness that does not result in a job restriction or days away from work.
[4] Lost Time Incident Rate and Total Recordable Incident Rate are calculated on the basis of 200'000 hours.

Figures include UK to end April 2010.

SUSTAINABLE INVESTMENTS

Lundin Petroleum's mission is to find and produce oil and gas, a valuable source of energy required for global economic development, in an efficient and responsible way. It fulfils this mission by having in place the CR framework and structure described above, providing staff and contractors with the necessary support and guidance in terms of training, procedures, equipment and tools, etc. to carry out activities competently and with minimal disturbance to people and the environment. Lundin Petroleum has set the additional goal of having a positive impact on people and the environment by initiating or participating in projects which promote social welfare, environmental protection and good governance.

After joining the UN Global Compact in 2010, Lundin Petroleum issued new Guidelines on Sustainable Investments to encourage and assist country management within the Group to reflect upon the types of activities they are engaged in and determine ways in which they could positively impact the people and the environment in their areas of operations. The Guidelines were presented within the Group in an HSE Teleconference and discussed with GMs and/or HSE officers of each country individually.

There are two mechanisms for contributions under the Guidelines: community development projects and corporate donations. Community development projects are elaborated as part of Lundin Petroleum's and/or operating partners' licence commitments in economically challenged areas; they are part and parcel of the operations and are done on a scale that reflects the extent and nature of the operational activities. Corporate donations take place in areas where Lundin Petroleum has limited interface with local communities, either because the activities are offshore or because they are partner-operated.

Sustainable investments have taken place in fields which both the United Nations' Global Compact and the Millennium Development Goals promote namely social welfare, environment and governance. Below is a sample of the projects which Lundin Petroleum funded in 2010.

Social Welfare Projects

Poverty is a social plague which affects children in a disproportionate way. Since 2006, Lundin Petroleum has been a partner of SOS Children's Village, Sweden and has supported a number of children's villages in operated (Indonesia, Tunisia) and non-operated (Vietnam, Cambodia) areas. This support has continued in 2010 through direct contributions from Indonesian and Tunisian offices to their respective Villages and a corporate contribution via Sweden to Vietnam, a non-operated area.

Improving access to basic health is another goal which Lundin Petroleum promotes. In 2010, it organised a fundraiser among its staff and matched raised amounts to fund health projects carried out by Partners in Health further to the earthquake that took place in Haiti on January 12, 2010. In Indonesia, as part of its onshore 472 km 2D seismic campaign, the Company funded a medical campaign for children carried out by the Hope Foundation.

Lundin Petroleum continued to support the Southern Sudan's Older People's Organization's (SSOPO) Project of Vocational Training in Food Processing, which helps women from the Juba area to acquire vocational skills. The Company decided to maintain its support to this project even though it no longer has operational interests in Sudan, as its contribution enables SSOPO to get co-funding from other organisations.

Environment Projects

Preservation of the environment is included in Lundin Petroleum's day-to-day operations and was also the subject of sustainable investments in 2010. The Company sponsored an environmental protection initiative in the Volga Delta area whereby volunteers collected rubbish from river banks and camping sites, and sensitised local residents and tourists to the principles of preservation of the environment and eco-tourism. The initiative was recognised by the Governor of Astrakhan as having great value to the area and was reported in multiple local media.

Biodiversity was another aspect covered by Lundin Petroleum's sustainable investments. The Company supported a research project in relation to the artificial breeding of sturgeons, whose population in the Volga Delta area is decreasing due to poaching activities. It also facilitated the nesting of Siberian cranes, a critically threatened species according to the International Union for Conservation of Nature (IUCN). In France, the Company sponsored posters identifying rare fauna and flora species in the swamps areas and the need to preserve them.

Climate Change remains an important consideration for Lundin Petroleum, which tracks green house gas emissions in the course of its operations. In 2010 it participated again in the Carbon Disclosure Project and for the second consecutive year featured in the Nordic 200 Carbon Disclosure Leadership Index (CDLI). The Company ranked first among Nordic oil and gas companies and third among all Swedish companies rated by the Carbon Disclosure Project. Lundin Petroleum was commended for its approach to corporate governance in respect of climate change disclosure practice, its good internal data management and understanding of climate change issues.

Governance Projects

Lundin Petroleum addressed the issue of governance both internally and externally. Internally the Company prepared a presentation on the UNGC's two first principles on human rights (i.e. support and respect the protection of human rights and avoid complicity in human rights abuses). The presentation was made to senior corporate management at the HSE Quarterly Meeting in 2010 and at the HSE Teleconference with Group General and HSE Managers in Q1 2011. A copy of the presentation as well as Lundin Petroleum's Human Rights Primer are posted on Lundin Petroleum's internal HSE web forum.

In addition, Lundin Petroleum has sponsored research and a workshop at the Institute of Graduate Studies, Geneva, Switzerland on "Global and local governance in the energy sector". The workshop, held over two days in February 2010, gathered academics and representatives from the non-governmental and private sectors, who presented and discussed the issue of governance from a macro societal level to a micro company level. Every participant, including Lundin Petroleum, contributed an article which will be published by the Journal of Global Governance in the second half of 2011.

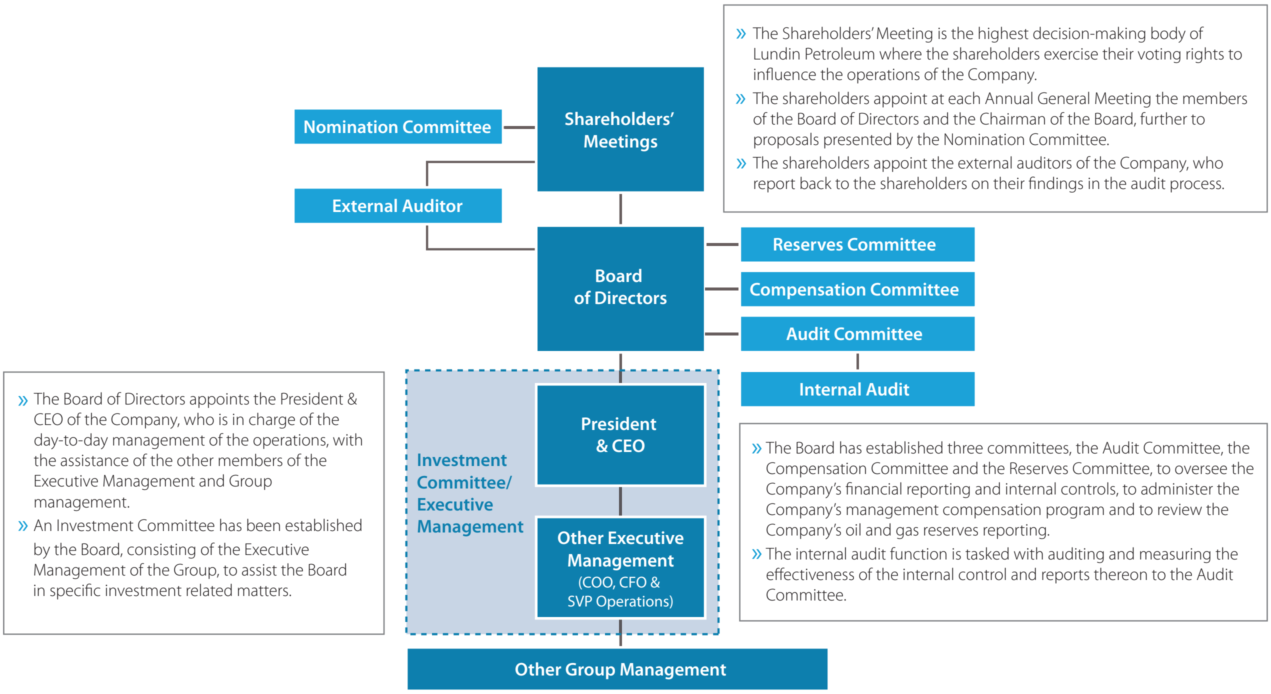
INTRODUCTION - GOVERNANCE STRUCTURE

The object of Lundin Petroleum's business is to explore, develop and produce oil and gas and to develop other energy resources, as laid down in its Articles of Association. The Company aims to create value for its shareholders through exploration and organic growth. To achieve this value creation, Lundin Petroleum applies a governance structure that favours straightforward decision making processes, with easy access to the relevant decision makers, while nonetheless providing the necessary checks and balances for the control of the activities, both operationally and financially.

The governance structure of Lundin Petroleum can be summarised in the following chart and will be described in further detail in this corporate governance report.

This corporate governance report has been subject to a review by the Company's auditors.

Lundin Petroleum - Governance Structure



LUNDIN PETROLEUM'S GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

Since its creation, Lundin Petroleum has been guided by general principles of corporate governance to:

- Protect shareholder rights
- Provide a safe and rewarding working environment to all employees
- Abide by applicable laws and best industry practice
- Carry out its activities competently and sustainably
- Sustain the well-being of local communities in its areas of operations

Lundin Petroleum adheres to principles of corporate governance found in both internal and external rules and regulations. As a Swedish public limited company listed on the NASDAQ OMX Stockholm, Lundin Petroleum is subject to the Swedish Companies Act (SFS 2005:551) and the Annual Accounts Act (1995:1554), as well as the Rule Book for Issuers of the NASDAQ OMX Stockholm (which rules can be found on the website www.nasdaqomx.com).

In addition, the Company abides by principles of corporate governance found in a number of internal and external documents.

The Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (Code of Governance) is based on the tradition of self-regulation and acts as a complement to the corporate governance rules contained in the Companies Act, the Annual Accounts Act and other regulations such as the Rule Book for Issuers and generally acceptable behaviour in the securities market. The Code of Governance can be found on the website www.bolagsstyrning.se. A revised Code of Governance entered into force on 1 February 2010 and certain rules became applicable in stages during the course of 2010. Lundin Petroleum has applied the new rules introduced in 2010 when such new rules entered into force.

The Code of Governance is based on the "comply or explain principle", which entails that a company may choose to apply another solution than the one provided by the Code of Governance if it finds an alternative solution to be more appropriate in a particular case. The company must however explain why it did not comply with the rule in question and describe the company's preferred solution, as well as the reasons for it. Lundin Petroleum complied in all major aspects with the Code of Governance in 2010, other than in a few instances as mentioned in this report.

Main external rules & regulations affecting Lundin Petroleum's corporate governance:

- Swedish Companies Act
- Swedish Annual Accounts Act
- The NASDAQ OMX Stockholm Rule Book for Issuers
- Swedish Code of Corporate Governance

Main internal rules & regulations affecting Lundin Petroleum's corporate governance:

- The Articles of Association
- The Code of Conduct
- Policies, Guidelines & Procedures
- The Green Book Management System
- The Rules of Procedure of the Board, instructions to the CEO and for the financial reporting and the terms of reference of Board committees

Lundin Petroleum's Articles of Association

Lundin Petroleum's Articles of Association, which form the basis of the governance of the Company's operations, set forth the Company's name, the seat of the Board, the object of the business activities, the shares and share capital of the Company and contain rules with respect to the Shareholders' Meetings. The Articles of Association can be found on the Company's website www.lundin-petroleum.com.

Lundin Petroleum's Code of Conduct

Lundin Petroleum's Code of Conduct 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 its activities. As an international oil and gas exploration, development and production company operating globally, the aim of the Company is to explore for and produce oil and gas in the most economically efficient, socially responsible and environmentally acceptable way, for the benefit of its shareholders, employees and co-venturers. The Company applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements.

The Code of Conduct was adopted at the formation of Lundin Petroleum in 2001 when no external rules or regulations regarding corporate governance, which the Company had to follow, existed. The Company decided to make its values, principles and commitment explicit in order to set the necessary framework for its ethical conduct, against which the Company could be assessed and evaluated. Compliance with the Code of Conduct is reviewed on an annual basis by the Board. The Code of Conduct can be found on the Company's website www.lundin-petroleum.com.

Lundin Petroleum's Policies, Guidelines and Procedures & Management System

While the Code of Conduct provides the Company's ethical framework, dedicated policies, guidelines and procedures have been developed to outline specific rules and controls applicable in the different business areas. The Company has policies, guidelines and procedures covering for example Operations, Accounting and Finance, Corporate Responsibility including HSE (Health, Safety and Environment), Legal, Information Systems, Human Resources and Corporate Communications. The policies, guidelines and procedures, which are available internally, are reviewed on a continuous basis and are adjusted as and when required.

In addition, Lundin Petroleum has a dedicated HSE Management System (Green Book), modelled after the ISO 14001 standard, which gives guidance to management, employees and contractors regarding the Company's intentions and expectations in HSE matters. The Green Book serves to ensure that all operations meet Lundin Petroleum's legal and ethical obligations, responsibilities and commitments within the HSE field. A more detailed description of the Green Book is available on the Company's website www.lundin-petroleum.com.

Lundin Petroleum's Rules of Procedure of the Board

The Rules of Procedure of the Board contain the fundamental rules regarding the division of duties between the Board, the committees, the Chairman of the Board and the Chief Executive Officer (CEO). The Rules of Procedure also include instructions to the CEO, instructions for the financial reporting to the Board and the terms of reference of the Board committees. The Rules of Procedure, which are adopted annually by the Board, are in the process of being up-dated in view of the modified Code of Governance and will be considered by the Board during the first half of 2011.

LUNDIN PETROLEUM'S SHARE CAPITAL AND SHAREHOLDERS

The shares of Lundin Petroleum are listed on the Large Cap list of the NASDAQ OMX Stockholm. At the end of 2010, the issued share capital of Lundin Petroleum amounted to SEK 3,179,105.80 divided into 317,910,580 shares with a quota value of SEK 0.01 each. All shares carry the same voting rights and the same rights to a share of the Company's assets.

Lundin Petroleum had at the end of 2010 a total of 39,303 shareholders listed with Euroclear Sweden. Lundin Petroleum AB itself held 6,882,638 of its own shares representing 2.2 percent of the share capital. As per 31 December 2010, the major shareholders of the Company, which held more than ten percent of the shares (and votes), were Lorito Holdings (Guernsey) Ltd and Zebra Holdings and Investment (Guernsey) Ltd, two investment companies wholly owned by Lundin family trusts, which together held 27.4 percent of the shares. In addition, Landor Participations Inc, an investment company wholly owned by a trust whose settler is Ian H. Lundin, held 3.8 percent of the shares. More detailed information regarding the shares and shareholders of Lundin Petroleum in 2010 can be found on pages 54–55.

NOMINATION COMMITTEE

The shareholders of the Company decide how the Nomination Committee is to be formed at each Annual General Meeting (AGM). The tasks of the Nomination Committee include making recommendations to the AGM regarding the election of the Chairman and other Board members, fees for the Chairman and the other Board members, including fees for Board committee work, election of auditors, fees for the auditors, election of the Chairman at the AGM and principles for appointment of the Nomination Committee for the AGM of the following year. The Nomination Committee members are, regardless of how they are appointed, required to promote the interests of all shareholders of the Company.

Further to the Nomination Committee's responsibility to propose members to the Board to the AGM, the Chairman of the Board undertakes each year an evaluation of the work of the Board and its members and presents the results and conclusions to the Nomination Committee. No remuneration is paid to the Chairman or any other member of the Nomination Committee for their work on the Nomination Committee.

The Nomination Committee for the 2011 AGM

In accordance with the principles resolved by the 2010 AGM, the Nomination Committee for the 2011 AGM consists of the following members, representing four of the larger shareholders of the Company.

Committee Member	Representing	Shares represented
KG Lindvall	Swedbank Robur Fonder	4.1 percent
Ossian Ekdahl	Första AP-fonden	1.8 percent
Anders Algotsson	AFA Försäkring	1.8 percent
Ian H. Lundin	Lorito Holdings (Guernsey) Ltd., Landor Participations Inc. and Zebra Holdings and Investment (Guernsey) Ltd., also non-executive Chairman of the Board of Lundin Petroleum	31.2 percent
Magnus Unger	Non-executive Board member of Lundin Petroleum who acts as the Chairman of the Nomination Committee	

Magnus Unger was again unanimously elected as Chairman, a function that he has held since the Nomination Committee formed for the 2006 AGM. The fact that he is a Board member constitutes a deviation from the Code of Governance, however, he was considered by the Nomination Committee to be best suited for the task. Further, Magnus Unger and Ian H. Lundin are not deemed to be independent of the Company's major shareholders, as explained in the schedule on pages 50–51 which also constitutes a deviation from the Code of Governance. The Nomination Committee however considered their appointment justified.

The names of the members of the Nomination Committee were announced and posted on the Company's website on 15 October 2010. The Nomination Committee held three meetings during the year and informal contacts took place between such meetings. The report of the Nomination Committee regarding its work and proposals for the 2011 AGM will be published on the Company's website together with the notice of the AGM. The Nomination Committee for the 2011 AGM represents approximately 39 percent of the share capital of the Company.

SHAREHOLDERS' MEETINGS

The Shareholders' Meeting is the highest decision-making body of Lundin Petroleum where the shareholders exercise their voting rights and influence the operations of the Company. Shareholders may request that a specific issue be included in the agenda provided such request reaches the Board of the Company in due time. The AGM is to be held each year before the end of June at the seat of the Board in Stockholm. The notice of the AGM, which is to be given no more than six and no less than four weeks prior to the meeting, is to be announced in the Post- och Inrikes Tidningar (the Swedish Gazette) and on the Company's website. The documentation for the AGM is provided on the Company's website in Swedish and in English at the latest three weeks before the AGM.

At the AGM, the shareholders decide on a number of key issues regarding the governance of the Company, such as election of the members of the Board and the auditors, the remuneration of the Board, management and the auditors, including approval of the Policy on Remuneration, discharge of the Board members and the CEO from liability and the adoption of the annual accounts and appropriation of the Company's result. Extraordinary General Meetings (EGM's) are held as and when required for the operations of the Company.

2010 AGM

The 2010 AGM was held on 6 May 2010 at the Skandia movie theatre in Stockholm. The AGM was attended by 331 shareholders, personally or by proxy, representing 51.6 percent of the share capital. The Chairman of the Board, all Board members and the CEO were present, as well as the Company's auditors and all Nomination Committee members, with the exception of one member.

The resolutions passed by the 2010 AGM include:

- Re-election of Ian H. Lundin, Magnus Unger, William A. Rand, Lukas H. Lundin, C. Ashley Heppenstall, Asbjørn Larsen and Dambisa F. Moyo as Board members.
- Re-election of Ian H. Lundin as Chairman of the Board.
- Discharge of the Board and the CEO from liability for the administration of the Company's business for 2009.
- Adoption of the Company's and the Group's income statements and balance sheets and deciding that no dividend was to be declared for 2009.
- Approval of the remuneration of the Board members and the auditors.
- Approval of the Company's Policy on Remuneration.
- Authorisation for the Board to issue new shares and/or convertible debentures corresponding to in total not more than 35,000,000 new shares, with or without the application of the shareholders pre-emption rights, in order to enable the Company to raise capital for the Company's business operations and business acquisitions.
- Authorisation for the Board to decide on repurchases and sales of the Company's own shares on the NASDAQ OMX Stockholm, where the number of shares held in treasury from time to time shall not exceed five percent of all outstanding shares of the Company.

The minutes of the 2010 AGM are available in Swedish and in English on the Company's website.

Since the CEO does not speak fluent Swedish, his presentation during the 2010 AGM was delivered in English, and not in Swedish as required by the Code of Governance. However, Swedish subtitles were provided concurrently.

EGM in respect of the spin-off of the Company's UK business

An EGM was held on 22 March 2010 at Näringslivets hus in Stockholm. The EGM was attended by 149 shareholders, personally or by proxy, representing 46.8 percent of the share capital. The Chairman of the Board and two other Board members, including the CEO, as well as the Company's auditors, were present. However, four out of seven Board members were unable to attend due to previous commitments, which thus led to a deviation from the Code of Governance. Prior to the EGM, the Board had considered the matter and had unanimously approved the transaction.

The EGM resolved to approve the sale of Lundin North Sea B.V. to a newly formed UK company called EnQuest plc (EnQuest) in exchange for such number of shares of EnQuest as would be equal to 55 percent of the total outstanding shares of EnQuest, and resolved on a dividend to the effect that all of Lundin Petroleum's shares in EnQuest, corresponding to approximately 55 percent of the total number of shares in EnQuest, were distributed to the shareholders of Lundin Petroleum, including authorisation to the Board to decide upon the record date for the right to receive shares in EnQuest. The minutes of the EGM are available in Swedish and in English on the Company's website. Since the CEO does not speak fluent Swedish, his presentation during the EGM was delivered in English, and not in Swedish as required by the Code of Governance.

EGM in respect of the distribution of the Company's shares in Etrion Corporation

An EGM was held on 4 November 2010 at Näringslivets hus in Stockholm. The EGM was attended by 167 shareholders, personally or by proxy, representing 44.4 percent of the share capital. Two Board members, including the CEO, were present. However, five out of seven Board members were unable to attend due to previous commitments, which thus led to a deviation from the Code of Governance. Prior to the EGM, the Board had considered the matter and had unanimously approved the transaction.

The EGM resolved on a dividend to the effect that all of Lundin Petroleum's shares in Etrion Corporation (Etrion), corresponding to approximately 40 percent of the total number of shares in Etrion, were distributed to the shareholders of Lundin Petroleum, including authorisation to the Board to decide upon the record date for the right to receive shares in Etrion. The minutes of the EGM are available in Swedish and in English on the Company's website. Since the CEO does not speak fluent Swedish, his presentation during the EGM was delivered in English, and not in Swedish as required by the Code of Governance.

External Auditor of the Company

The Company's external auditor is elected for a period of four years to provide for continuity in the audit process. At the 2010 AGM, no election of auditor took place as the audit firm PricewaterhouseCoopers AB was elected at the 2009 AGM as the auditor of the Company for the period until the 2013 AGM. The auditor in charge is the authorised public accountant Bo Hjalmarsson. The auditors' fees are described in the notes to the financial statements – see Note 8 on page 78.

BOARD OF DIRECTORS

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 with a maximum of three deputies. As mentioned above, Ian H. Lundin, also Chairman of the Board, Magnus Unger, William A.

Rand, Lukas H. Lundin, C. Ashley Heppenstall, also CEO of the Company, Asbjørn Larsen and Dambisa F. Moyo were re-elected at the 2010 AGM for the period until the next AGM. There are no deputy members and no members appointed by employee organisations.

The Chairman of the Board, Ian H. Lundin, is not employed by the Company, does not receive any salary from the Company and is not eligible for participation in the Company's incentive programmes. The Chairman is responsible for ensuring that the Board's work is well organised and conducted in an efficient manner. He further upholds the reporting instructions for management, as drawn up by the CEO and as approved by the Board of Directors, however, he does not take part in the day-to-day decision-making concerning the operations of the Company.

All Board members elected at the 2010 AGM have extensive experience from the world of business and several members are also highly experienced within the oil and gas field. The Nomination Committee considered, taking into account the business operations of Lundin Petroleum and its current phase of development, that the Board is composed of multi-faceted individuals who are well-suited for the job with breadth in expertise, experience and background. Further, in preparation of the elections at the 2010 AGM, the Nomination Committee considered the independence of each (proposed) Board member and determined that the composition of the Board met the independence requirements of the Code of Governance both in respect of independence towards the Company and the Group management and towards the Company's major shareholders. For further details hereon, please refer to the schedule on pages 50–51.

Functions of the Board

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

- » Decisions regarding the focus of the business and adoption of Company policies
- » Decisions regarding supply of capital
- » Appointment and regular evaluation of the work of the CEO and the management
- » Approval of the reporting instructions for the 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 established goals
- » Monitoring that operations are carried out within established limits in compliance with laws, regulations, stock exchange rules and generally acceptable behaviour in the securities market
- » Ensuring that the necessary guidelines governing the Company's ethical conduct are established
- » Ensuring 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

Board Meetings and Work

In its work, the Board is guided by the Rules of Procedure, which set out how the Board is to conduct its work. The Board of Directors generally holds at least five ordinary meetings per calendar year. At the meetings, the following matters are addressed:

- » Review and approval of the minutes from the preceding meeting
- » Report of the CEO 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 assets, loans and guarantees and structural and organisational matters)
- » Miscellaneous issues of material importance to the Company

During 2010, seven board meetings took place, including the statutory meeting, and a field trip to Norway was carried out. In addition, one executive session was held in Malaysia, in connection with a Board meeting, whereby the Board was given the opportunity to interact directly with management, as well as with local staff. At the executive session, an operational up-date and a financial overview for the entire Group were presented and a detailed review of the South East Asian assets and operations was given. Members of management further attended a number of Board meetings to present and report on specific questions, as and when required.

The Board's work in 2010 included strategic discussions on proposed asset disposals and acquisitions, including in respect of the EnQuest and Etrion transactions. The Board considered several management proposals, regarding for example, significant drilling rig commitments and development plans to be submitted, and reviewed and discussed the auditors' report regarding the auditors' work. The Board continuously monitored the Company's operations and financial position and reviewed and approved the Company's six month and year end reports. The Board further regularly received updates from management on the 2010 operations and financial status and reviewed and approved the 2011 budget and work programme.

The Board is also responsible for evaluating the work of the CEO on a continuous basis and shall at least once a year, without management present at the meeting, specifically consider this issue. In 2010, the Compensation Committee, on behalf of the Board, undertook a review of the work and performance of management, including the CEO, and presented the results thereof at a Board meeting, including proposals regarding the compensation of the CEO and management. Neither the CEO nor other management were present at the Board meetings when such discussions took place.

Evaluation of the Board's Work

A formal review of the work of the Board was conducted in November 2010 through a questionnaire submitted to all Board members. Several aspects of the Board's work were considered and individual feedback from all of the Board members was received. The overall conclusions were the following:

- » Board structure
  The Board as a whole possesses the right skills and background for addressing issues facing the Company; the composition of the Board and the Board committees is appropriate; the Board committees have clear scopes of responsibilities and charges; there should be no term limits or a fixed retirement policy.
- » Board meetings
  The number of Board meetings is appropriate; the meetings are well planned with clear agendas and the Board generally receives adequate materials in advance of the meetings; the meetings are chaired effectively and the time at the meetings is used efficiently; the members prepare for meetings and participate constructively; the Board focuses properly on competitive, financial and other challenges that the Company faces and is adequately involved in determination of the Company's strategy; the Board efficiently monitors the Company's operating performance and implementation of the strategy.
- » Other
  Information provided between meetings is adequate and timely and the staff and related support to the Board and the committees functions adequately; there is generally sufficient time for committee meetings and the committee reports give appropriate information to the Board; new members are oriented and briefed before joining the Board; the CEO performance review is adequate; the Board is well organised to handle a crisis situation; holding Board meetings in various regions in conjunction with site visits is beneficial; the Board focuses on activities that help maximise shareholder value; the Board members are appropriately compensated for their work.

The results and conclusions of the review were presented to the Nomination Committee.

Remuneration of Board Members

The remuneration of the Chairman and other Board members follows the resolution adopted by the AGM. The 2010 AGM decided that the Board shall receive a total compensation equal to SEK 3,500,000. The Chairman was awarded an amount of SEK 800,000 and each other Board member, with the exception of the CEO, an amount of SEK 400,000. The AGM further decided to award SEK 100,000 for each Board committee assignment, however, limited to a total of SEK 700,000 for committee work. In addition, the 2010 AGM approved an amount of SEK 2,500,000 to be paid to Board members for special assignments outside the directorship.

The remuneration of the Board of Directors is detailed further in the schedule on pages 50–51 and in the notes to the financial statements – see Note 45 on page 89.

BOARD COMMITTEES

The Board has established a Compensation Committee, an Audit Committee and a Reserves Committee. The terms of reference of each committee are included in the Rules of Procedure of the Board.

Compensation Committee

The function of the Compensation Committee is to receive information and prepare the Board's and the AGM's decisions on issues concerning the Policy on Remuneration and compensation of the CEO and the management of the Company. The objective of the Committee in determining compensation for management is to provide a compensation package that is competitive and motivating, will attract and retain qualified individuals and will encourage and promote performance. The Committee regularly evaluates the terms of employment of management, taking into account individual performance, responsibilities, length of service and levels of compensation provided by industry companies.

The Compensation Committee shall according to the terms of reference be composed of four non-executive Directors and the members during 2010 were William A. Rand, Chairman of the Committee, Lukas H. Lundin, Magnus Unger and Dambisa F. Moyo. All Committee members were independent of the Company and the Group management. William A. Rand has presided the Compensation Committee since its inception in 2002 and thus possesses extensive experience in compensation matters. In addition, considering the varied backgrounds and experience of the Committee members in general, the Compensation Committee has ample knowledge and experience of management remuneration issues. The Compensation Committee held four meetings in 2010.

Audit Committee

The function of the Audit Committee is to assist the Board in ensuring that the Company's financial reports are prepared in accordance with the Swedish Annual Accounts Act and accounting practices applicable to a company incorporated in Sweden and listed on the NASDAQ OMX Stockholm. The Audit Committee supervises the Company's financial reporting and the efficiency of the Company's internal controls, internal audit and risk management. The Audit Committee reviews, on behalf of the Board, the Company's quarterly (Quarter 1 and Quarter 3) interim financial statements, reviews and makes recommendations to the Board in relation to the Company's six month and yearly financial statements and ensures maintenance of, and compliance with, the Company's internal control systems. The Audit Committee regularly liaises with the Group's external auditors as part of the annual audit process and also reviews the audit fees and the auditors' independence and impartiality. In addition, the Board of Directors meets at least once a year with the auditors without management, including the CEO, present at the meeting.

The Audit Committee shall according to the terms of reference be composed of three non-executive Directors and the members during 2010 were William A. Rand, Chairman of the Committee, Magnus Unger and Asbjørn Larsen. All members were independent of the Company and the Group management and Asbjørn Larsen was also independent of the Company's major shareholders. Asbjørn Larsen's previous assignments include the position of Chief Financial Officer and Chief Executive Officer of a Norwegian listed upstream petroleum company and he therefore has extensive experience in accounting and audit matters. The Audit Committee held six meetings in 2010.

Further details regarding the work of the Audit Committee can also be found in the section regarding internal control on pages 48–49.

Reserves Committee

In connection with the listing of the Lundin Petroleum shares on the Toronto Stock Exchange on 24 March 2011, a Reserves Committee of the Board was created in 2011 in accordance with applicable Canadian securities regulation.

The function of the Reserves Committee is to review and report to the Board on matters relating to the Company's policies and procedures for reporting oil and gas reserves and related information. National Instrument 51-101 (NI 51-101) issued under applicable Canadian securities regulation prescribes standards of disclosure for oil and gas companies, and assigns certain responsibilities to the Board in respect of the Company's compliance with NI 51-101. The Board is entitled to delegate certain of its responsibilities under NI 51-101 to the Reserves Committee. In particular, the Reserves Committee is to report to the Board on the Company's procedures for disclosing oil and gas reserves and other related information, on the appointment of the independent qualified reserves auditor and on the Company's procedures for providing information to the independent qualified reserves auditor. The Reserves Committee is also to meet with management and the independent qualified reserves auditor to review, and determine whether to recommend that the Board approve, the statement of reserves and other oil and gas information required to be submitted annually under NI 51-101.

The Reserves Committee shall according to the terms of reference be composed of Directors, the majority of which are independent as defined in NI 51-101. The members appointed in February 2011 were Ian H. Lundin, Chairman of the Committee, and Asbjørn Larsen.

MANAGEMENT

Management structure

The President and CEO of the Company, C. Ashley Heppenstall, who is also a member of the Board of Directors, is responsible for the management of the day-to-day operations of Lundin Petroleum. The CEO is appointed by, and reports to, the Board and is also responsible for ensuring that the Board receives, in accordance with the Board's instructions to the CEO, all relevant information to ensure that the Board's decisions are well-founded. The CEO is assisted in his functions by the other members of Executive Management and other Group management.

The main responsibility for the operations of subsidiaries, and for ensuring that all of Lundin Petroleum's internal rules and principles are followed by all Group companies and employees, rests with the manager of each subsidiary (General Manager/ Managing Director), as well as with Group management. General Managers/Managing Directors regularly report on all commercial, technical, HSE, financial and legal issues to the Group's Executive Management.

The remuneration of management in 2010 and the Company's Policy on Remuneration are described in the notes to the financial statements – see Note 45 on pages 89–91.

Investment Committee

The Board of Directors established an Investment Committee in 2009 to assist the Board in investment related decisions. The Investment Committee's tasks include reviewing and evaluating investment proposals, annual budgets, supplementary budget approvals, commitments, relinquishment of licences etc, as well as reviewing and approving the Group's five year Asset Business Plan. The Investment Committee reports to the Board and is composed of the Company's Executive Management being the CEO, the Chief Operating Officer (COO), Senior Vice President Operations (SVP Operations) and Chief Financial Officer (CFO).

INTERNAL CONTROL AND RISK MANAGEMENT FOR THE FINANCIAL REPORTING

The responsibility of the Board of Directors for internal control is regulated by the Swedish Companies Act, the Swedish Annual Accounts Act and the Code of Governance. This report on internal control is submitted by Lundin Petroleum's Board of Directors and has been prepared in compliance with the Swedish Annual Accounts Act and is accordingly limited to internal control and risk management regarding financial reporting. It describes how internal control over the financial reporting is organised, but does not comment on its effectiveness.

Lundin Petroleum's Financial Reporting Internal Control System consists of five key components, as described below and is based upon the Committee of Sponsoring Organisations of the Treadway Commission (COSO) model.

Internal control system for financial reporting

The internal control system for financial reporting has been created to ensure the Group's objective for financial reporting will be fulfilled.

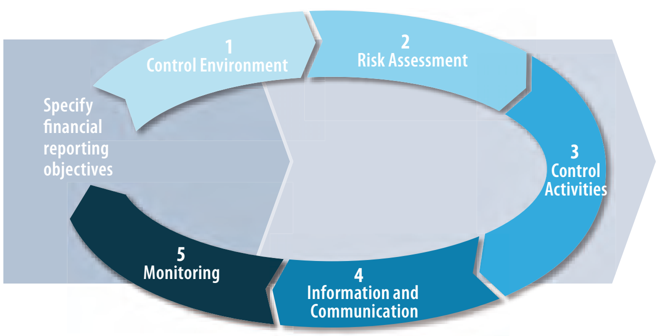
Lundin Petroleum's objective for financial reporting is:
"The financial reporting objective of Lundin Petroleum is to provide reliable and relevant information for internal and external purposes, in compliance with existing laws and regulations, in a timely and accurate manner."

An internal control 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.

Improving on a continuous basis

The internal control of financial reporting is a continuous evaluation of the risks and control activities within the Group. The evaluation work involves internal as well as external benchmarking. This evaluation process and the work that follows is an ongoing process involving enhancement of control activities such as procedures and processes and information and communication within the Group.

Internal control – a continuous process



1. Control Environment

Lundin Petroleum's Board of Directors has the overall responsibility for establishing an effective internal control system. The Audit Committee assists the Board and prepares matters relating to financial reporting, internal control and the reporting of financial risks. The Committee also supervises the efficiency of the internal auditing, internal control and financial reporting and reviews all interim and annual financial reports before release.

Lundin Petroleum has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function reports to the Group's CFO and to the Audit Committee of the Board of Directors. The Board of Directors also receives on a regular basis financial reports and matters regarding the Group's financial position and development are discussed at every meeting.

The operational responsibility for maintaining an effective control environment and for operating the system of internal control and risk management is delegated to the CEO and the responsibility is exercised in cooperation with Group management at varying levels. The development and implementation of a Group-wide framework of consistent policies, guidelines and procedures, as part of a strengthening of the management and control function of the Group, is an ongoing process. Together with laws and external regulations, these internal policies, guidelines and procedures form the control environment which is the foundation of the internal control and risk-management process. All employees are accountable for compliance with these policies, guidelines, procedures within their areas of control and risk management.

2. Risk Assessment

A risk assessment is conducted annually at Lundin Petroleum. The risk assessment includes identifying, sourcing and measuring the risk of material error in the financial reporting and accounting systems in the Group. For further details on the different risks, see the Risk Factors section on page 56.

As part of the risk assessment for 2010, 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. The risks have been assessed through a standardised methodology based on likelihood and impact. The following main categories have been assessed; revenue and receivables, procurement and payables, production and inventory, capitalised expenditure and fixed assets, tax, treasury and cash management, financial reporting and information systems. When a risk is identified and evaluated, a control activity is implemented to minimise the risks in the financial reporting process. Those risks are documented in a Group-wide risk map. Conclusions of the risk assessment are reported to management and the Board through the Audit Committee.

Significant internal policies that form the control environment:

- The Code of Conduct was adopted by the Board in 2001. 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 shall operate.
- The anti-fraud policy was approved by the Board in 2005. The policy outlines 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.
- The whistleblowing policy was adopted by the Board in 2008 to complement the anti-fraud policy and is intended to cover serious concerns that could have a significant impact on the Group.

3. Control Activities

The finance department is responsible for the consolidated accounts, consolidated reports and for financial and administrative control systems. Various control activities are incorporated in the financial reporting process to ensure that the financial reporting gives a true and fair view at any reporting date and that business is conducted efficiently. Control activities range from review of results by management to specific reconciliation of accounts and analysis of the processes for financial reporting. The ultimate responsibility for ensuring that control activities are appropriate and in accordance with the Group's policies, lies with the General Managers/Managing Directors of the Group companies.

The choice of control activities depends on the nature of the risk identified and the results of a cost-benefit analysis. Developed control activities within Lundin Petroleum include processes for approval of business transactions, reconciliations, reviews of operating performance, security of assets, segregation of duties, policies, guidelines and procedures and information systems.

As part of the control activities the following documents have been issued:

- The Lundin Petroleum Group Accounting Principles Manual outlines the Group's accounting principles and explains how transactions are to be accounted for and requirements for disclosure. The manual focuses upon the accounting policies to be applied in accordance with International Financial Reporting Standards (IFRS).
- The Lundin Petroleum Authorisation Guidelines have been established to define the limits of authority that are applicable within the Group.
- The Lundin Petroleum Finance and Administration Manual describes the day-to-day financial procedures within the Group.

Further, the Investment Committee was established by the Board to assist the Board in overseeing the Group's investment decisions and to make recommendations to the Board as required. The Investment Committee meets at least twice per month.

The internal audit function performs on a regular basis risk assessments and audits and coordinates the joint venture audits within the Group. The oil and gas industry is based upon companies sharing costs and risks through joint venture arrangements. Joint venture partners have audit rights over the operating partner. To ensure that accounting procedures are followed and costs are incurred in accordance with the joint operating agreement, for non-operated assets, Lundin Petroleum undertakes regularly audits of joint ventures.

4. Information and Communication

Communicating relevant information throughout all levels of the Group and to external parties is an important part of internal control. The communications policy that has been approved by the Board of Directors defines how external information is to be issued, by whom and the way in which the information should be given.

Financial information is published in the following forms:

- Lundin Petroleum's annual report.
- Quarterly reports.
- Press releases for news and events that may have an impact on the share price.
- Presentations, webcasts and audiocasts for analysts, investors and media.
- Lundin Petroleum's website.

Policies, guidelines and procedures, such as the Group Accounting Principles Manual, Authorisation Guidelines and Finance and Administration Manual are communicated on a regular basis to all employees and are accessible through the information system network.

5. Monitoring

Monitoring of the financial reporting of Lundin Petroleum is carried out by the Board of Directors, Group management, the internal audit function and by other employees holding various functions within the Group. Operational monitoring includes monthly and quarterly follow-up of results against budget and forecast and is carried out by the finance department at Group and at local level. Monitoring and reporting is also done by the internal audit function, which provides objective support to the Board on matters relating to the internal control by investigating major areas of risk and by doing reviews in defined areas. An important role of the internal audit function is to follow up that the results from previous years' reviews have been implemented.

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 the financial reporting, as well as changes to these principles. Minutes are taken at all meetings of the Audit Committee and are provided to all Board members and the external auditors. The Rules of Procedures of the Board include detailed instructions regarding the type of internal financial reports that shall be submitted to the Board.

Name	Ian H. Lundin	C. Ashley Heppenstall	Asbjørn Larsen	Lukas H. Lundin
Function	Chairman (since 2002)	President and CEO, Director	Director	Director
Elected	2001	2001	2008	2001
Born	1960	1962	1936	1958
Education	Bachelor of science degree in Petroleum Engineering from the University of Tulsa.	Bachelor of Science degree in Mathematics from the University of Durham.	Norwegian School of Economics and Business Administration (NHH).	Graduate from the New Mexico Institute of Mining, Technology and Engineering.
Experience	Ian H. Lundin was previously CEO of International Petroleum Corp during 1989–1998, of Lundin Oil during 1998–2001 and of Lundin Petroleum during 2001–2002.	C. Ashley Heppenstall was previously CFO of Lundin Oil during 1998–2001 and of Lundin Petroleum during 2001–2002.	Asbjørn Larsen was CFO of Saga Petroleum during 1978–1979 and President and CEO during 1979–1998.	Lukas H. Lundin has held several key positions within companies where the family Lundin has a major shareholding.
Current board duties	Chairman of the board of Etrion Corporation and Bukowski Auktioner AB	Member of the board of Etrion Corporation, Vostok Nafta Investment Ltd and Gateway Storage Company Limited	Chairman of the board of Belships ASA, vice chairman of the board of Saga Fjordbase AS, member of the board of Selvaag Gruppen AS, GreenStream Network Oyj, The Montebello Cancer Rehabilitation Foundation and The Tom Wilhelmsen Foundation	Chairman of the Board of Lundin Mining Corp, Vostok Nafta Investment Ltd, Denison Mines Corp., Lucara Diamond Corp, NGEx Resources Inc., Atacama Minerals Corp and Lundin for Africa, member of the board of Kinross Gold Corp, Fortress Minerals Corp and Bukowski Auktioner AB
Shares in Lundin Petroleum (as at 31 December 2010)	Nil[1]	1,391,283	12,000	788,331[4]
Incentive schemes	None	See schedule on page 52	None	None
Attendance Board meetings	7/7	7/7	7/7	7/7
Attendance Audit Committee			6/6	
Attendance Compensation Committee				3/4
Remuneration for Board and Committee work	SEK 800,000 (USD 111,182)	Nil	SEK 500,000 (USD 69,489)	SEK 500,000 (USD 69,489)
Remuneration for special assignments outside the directorship [7]	SEK 1,685,059 (USD 234,186)	Nil	Nil	Nil
Independent of the Company and the Group management [8]	Yes[1]	No[3]	Yes	Yes
Independent of the Company's major shareholders [8]	No[2]	No[3]	Yes	No[4]

1 Ian H. Lundin has been regularly retained by management to perform remunerated work duties which fall outside the scope of the regular work of the Board, e.g. in connection with the Company's major transactions. It is the Nomination Committee's opinion that despite his work, he remains independent of the Company and the Group management.

2 Ian H. Lundin is the settler of a trust that owns Landor Participations Inc., an investment company that holds 12,038,956 shares in the Company, and he is a member of the Lundin family that holds, through a family trust, Lorito Holdings (Guernsey) Ltd. which holds 76,342,895 shares in the Company and Zebra Holdings and Investment (Guernsey) Ltd which holds 10,844,643 shares in the Company.

3 C. Ashley Heppenstall is the President & CEO of Lundin Petroleum.

4 Lukas H. Lundin is a member of the Lundin family that holds, through a family trust, Lorito Holdings (Guernsey) Ltd. which holds 76,342,895 shares in the Company and Zebra Holdings and Investment (Guernsey) Ltd which holds 10,844,643 shares in the Company.



Dambisa F. Moyo	William A. Rand	Magnus Unger	Name
Director	Director	Director	Function
2009	2001	2001	Elected
1969	1942	1942	Born
Doctorate in Economics at Oxford University, Masters from Harvard University's Kennedy School of Government, MBA in Finance and Bachelors in Chemistry from the American University in Washington D.C.	Commerce degree (Honours Economics) from McGill University and a law degree from Dalhousie University, Master of Laws degree in International Law from the London School of Economics.	MBA from the Stockholm School of Economics.	Education
Dambisa F. Moyo worked as a consultant for the World Bank during 1993–1995 and at Goldman Sachs during 2001–2008.	William A. Rand practised law in Canada until 1972, after which he co-founded an investment company and pursued private business interests.	Magnus Unger was an Executive Vice President within the Atlas Copco group during 1988–1992.	Experience
Member of the board of SABMiller, Barclays plc, Barclays Bank plc and Room to Read	Member of the board of Lundin Mining Corp., Vostok Nafta Investment Ltd, Denison Mines Corporation, New West Energy Services Inc. and NGEx Resources Inc.	Member of the board of Black Earth Farming Ltd. and CAL-Konsult AB	Current board duties
Nil	120,441	50,000	Shares in Lundin Petroleum (as at 31 December 2010)
None	None	None	Incentive schemes
6/7	7/7	6/7	Attendance Board meetings
	6/6	6/6	Attendance Audit Committee
4/4	4/4	4/4	Attendance Compensation Committee
SEK 500,000 (USD 69,489)	SEK 600, 000 (USD 83,387)	SEK 600, 000 (USD 83,387)	Remuneration for Board and Committee work
Nil	Nil	SEK 100,000 (USD 13,898)	Remuneration for special assignments outside the directorship [7]
Yes	Yes	Yes	Independent of the Company and the Group management [8]
Yes	No[5]	No[6]	Independent of the Company's major shareholders [8]

5 William A. Rand is in the Nomination Committee's opinion not deemed independent of the Company's major shareholders since he holds directorships in companies in which the Lundin family, through a family trust, holds ten percent or more of the share capital and voting rights.

6 Magnus Unger is in the Nomination Committee's opinion not deemed independent of the Company's major shareholders since he held directorships in companies in which the Lundin family, through a family trust, holds ten percent or more of the share capital and voting rights.

7 The remuneration paid during 2010 relates to fees paid for special assignments undertaken on behalf of the Group. The payment of such fees was in accordance with fees approved by the 2010 AGM.

8 New rules regarding the independence of Board members were introduced in 2010 and the Nomination Committee will take into account the new rules in the proposals to be submitted to the 2011 AGM and in the separate report that will be published on the Company's website together with the notice of the 2011 AGM.




Name	C. Ashley Heppenstall	Alexandre Schneiter	Geoffrey Turbott	Chris Bruijnzeels
Function	President and Chief Executive Officer, Director	Executive Vice President and Chief Operating Officer	Vice President Finance and Chief Financial Officer	Senior Vice President Operations
With Lundin Petroleum since	2001	2001	2001	2003
Born	1962	1962	1963	1959
Education	Bachelor of Science degree in Mathematics from the University of Durham.	Graduate from the University of Geneva with a degree in geology and a masters degree in Geophysics.	Member of the Institute of Chartered Accountants of New Zealand.	Graduate from the University of Delft with a degree in Mining Engineering.
Experience	C. Ashley Heppenstall was previously CFO of Lundin Oil during 1998– 2001 and of Lundin Petroleum during 2001–2002.	Alexandre Schneiter has worked with public companies where the family Lundin has a major shareholding since 1993.	Geoffrey Turbott has worked with public companies where the family Lundin has a major shareholding since 1995.	Chris Bruijnzeels worked with Shell International during 1985-1998 in several reservoir engineering functions and with PGS Reservoir Consultants during 1998-2003 as Principle Reservoir Engineer and Director Evaluations.
Board duties	Member of the board of Etrion Corporation, Vostok Nafta Investment Ltd and Gateway Storage Company Limited	Member of the board of ShaMaran Petroleum Corp, EnQuest plc and Swiss Sailing Team AG	None	None
Shares in Lundin Petroleum (as at 31 December 2010)	1,391,283[1]	223,133	60,000	21,333
Incentive warrants outstanding	–	–	–	–
Phantom options (as recalculated following the EnQuest plc and Etrion Corporation distributions)	2,062,848	1,512,755	962,662	962,662

1 Shareholdings and part ownerships in enterprises with which Lundin Petroleum has significant business relations; Etrion Corporation: 3,317,629 shares

Stockholm, 7 April 2011

The Board of Directors of Lundin Petroleum AB (publ)

AUDITOR´S REPORT ON THE CORPORATE GOVERNANCE REPORT

It is the board of directors who is responsible for the corporate governance report for the year 2010 on pages 41–53 and that it has been prepared in accordance with the Annual Accounts Act. As a basis for our opinion that the corporate governance report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the corporate governance report and assessed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 7 April 2011

Bo Hjalmarsson
Lead Auditor
Authorised Public Accountant
PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
PricewaterhouseCoopers AB

THE LUNDIN PETROLEUM SHARE AND SHAREHOLDERS

Lundin Petroleum share

Lundin Petroleum's shares are listed on the Large Cap list of the Nasdaq OMX ("OMX") Stockholm in Sweden. Lundin Petroleum's share is part of the OMX 30 index, at the OMX in Stockholm, Sweden. On 24 March 2011, Lundin Petroleum's shares were listed on the Toronto Stock Exchange (TSX).

Trading and market capitalisation

Trading of Lundin Petroleum shares takes place on the OMX. Lundin Petroleum's market capitalisation as at 31 December 2010 was MSEK 26,017.

Liquidity

During the year a total of 543,156 million shares were traded on the OMX to a value of approximately MSEK 27,421. A daily average of 2,146,859 Lundin Petroleum shares were traded on the OMX in Stockholm.

Share capital and voting rights

The registered share capital at 31 December 2010 amounts to SEK 3,179,106 represented by 317,910,580 shares of quota value 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.

Long-term Incentive Plan

As part of the remuneration package to employees, the Group operate a Long-term Incentive Plan (LTIP). The LTIP up to and including 2007 included the granting of incentive warrants and are detailed in Note 46 on pages 91–92. There were no outstanding incentive warrants as at 31 December 2010.

Own purchased shares

The Annual General Meeting (AGM) of Lundin Petroleum held on 6 May 2010 resolved to authorise the Board of Directors to decide on the repurchase and sale of Lundin Petroleum shares on the OMX during the period until the next AGM. The maximum number of shares that can be repurchased and held in treasury from time to time cannot exceed five percent of all shares of Lundin Petroleum. The purpose of the authorisation is to provide the Board of Directors with an instrument to optimise Lundin Petroleum's capital structure and to secure Lundin Petroleum's costs in relation to the LTIP.

On 24 May 2010 the Board of Directors resolved to mandate the management to execute repurchases of Lundin Petroleum shares on OMX. Under this mandate Lundin Petroleum acquired 2,417,926 of its own shares during June and July 2010.

The total number of repurchased shares held by Lundin Petroleum at 31 December 2010 amounted to 6,882,638.

AGM resolution

During the AGM in 2010 it was resolved that the Board of Directors is authorised to issue no more than 35,000,000 new shares, without the application of the shareholders pre-emption rights, in order to enable the Company to raise capital for the Company's business operations and business acquisitions. If the authorisation is fully utilised the dilution effect on the share capital will amount to ten percent.

Dividend policy

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

The size of any dividend would have 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 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 priority to the funding of ongoing projects, and satisfy the immediate capital requirements of Lundin Petroleum.

Share data

Since Lundin Petroleum was incorporated in May 2001 and up to 31 December 2010 the Parent Company share capital has developed as shown below.

Share data	Month and year	Quota value (SEK)	Change in number of shares	Total number of shares	Total share capital (SEK)
Formation of the Company	May 2001	100.00	1,000	1,000	100,000
Share split 10,000:1	June 2001	0.01	9,999,000	10,000,000	100,000
New share issue	June 2001	0.01	92,861,283	102,861,283	1,028,613
New share issue	July 2001	0.01	3,342,501	106,203,784	1,062,038
New share issue	November 2001	0.01	106,203,784	212,407,568	2,124,076
Warrants	June 2002	0.01	35,609,748	248,017,316	2,480,173
Incentive warrants	2002	0.01	667,700	248,685,016	2,486,850
Incentive warrants	2003	0.01	2,840,450	251,525,466	2,515,255
Incentive warrants	2004	0.01	2,222,900	253,748,366	2,537,484
Incentive warrants	2005	0.01	3,391,800	257,140,166	2,571,402
Incentive warrants	2006	0.01	1,219,500	258,359,666	2,583,597
Valkyries acquisition	2006	0.01	55,855,414	314,215,080	3,142,151
Incentive warrants	2007	0.01	1,335,500	315,550,580	3,155,506
Incentive warrants	2008	0.01	2,360,000	317,910,580	3,179,106
Total			**317,910,580**	**317,910,580**	**3,179,106**

Distribution of shareholdings

Distribution of shareholdings in Lundin Petroleum as provided by Euroclear Sweden as at 31 December 2010.

Size categories as at 31 Dec 2010	Numbers of shareholders	Percentage of shares,%
1-500	25,842	1.47
501-1,000	6,017	1.61
1,001-10,000	6,451	6.10
10,001-50,000	669	4.50
50,001-100,000	102	2.29
100,001- 500,000	134	9.54
500,001 -	88	74.49
Total	**39,303**	**100.00**

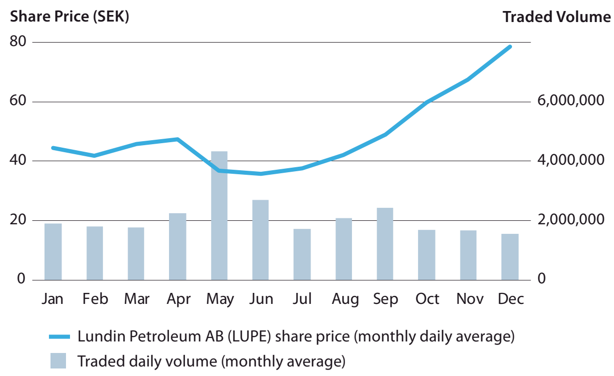
Share ownership structure

Lundin Petroleum had 39,303 shareholders as at 31 December 2010. The proportion of shares held by institutional investors amounted to 85.0 percent. Foreign investors held 56.8 percent of the shares.

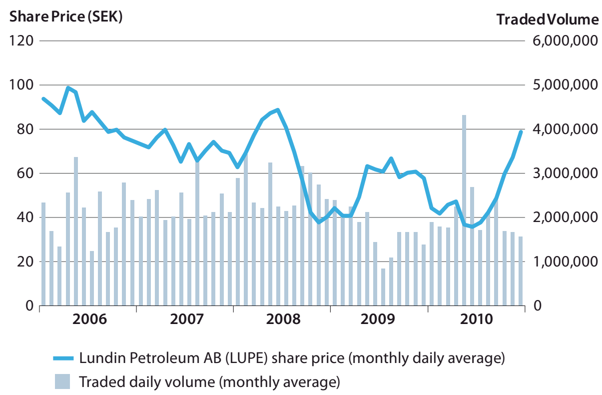
The 15 largest shareholders provided by VPC, as at 31 Dec 2010	Numbers of shares	Subscription capital/votes,%
Lorito Holdings Ltd	76,342,895	24.01
Swedbank Robur	13,163,483	4.14
Landor Participations Inc.	12,038,956	3.79
Zebra Holdings Ltd.	10,844,643	3.41
Handelsbanken fonder	8,342,829	2.62
Lundin Petroleum AB	6,882,638	2.16
LGT Bank in Liechtenstein Ltd	6,030,083	1.90
SEB Investment Management	5,833,426	1.83
AFA Försäkring	5,649,074	1.78
Första AP-fonden	5,623,212	1.77
Andra AP-fonden	5,540,335	1.74
Fjärde AP-fonden	4,464,270	1.40
Nordea Investment funds	3,755,492	1.18
Lannebo fonder	3,663,800	1.15
Skandia	3,652,418	1.15
Other shareholders	146,083,026	45.95
Total	**317,910,580**	**100.00**

- The 15 largest shareholders are registered with the Euroclear Sweden, the Swedish Securities Register Center.
- Lorito Holdings (Guernsey) Ltd. is an investment company wholly owned by a Lundin family trust.
- Landor Participations Inc. is an investment company wholly owned by a trust whose settler is Ian H. Lundin.
- Zebra Holdings and Investment (Guernsey) Ltd. is an investment company wholly owned by a Lundin family trust.

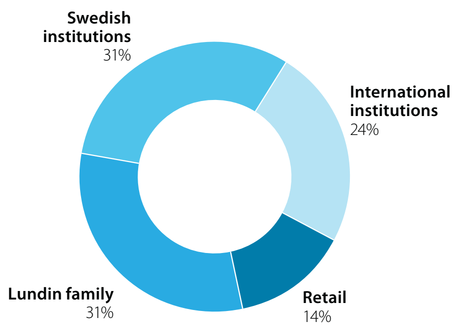
Share Price 2010



Share Price 2006-2010



Lundin Petroleum Shareholders



The major risk the Lundin Petroleum Group faces is the nature of oil and gas exploration and production itself. 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. Lundin Petroleum's long-term commercial success depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. A future increase in Lundin Petroleum's reserves will depend not only on its ability to explore and develop any properties Lundin Petroleum may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. In addition, there is no assurance that commercial quantities of oil and gas will be discovered or acquired by Lundin Petroleum. Other risks have been categorised to either Operational Risks or Financial Risks.

Operational risk

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.

Production costs

Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximising production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Availability of drilling equipment and access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Lundin Petroleum and may delay exploration and development activities.

Reliance on key personnel

Lundin Petroleum's success depends in large measure on certain key personnel. The competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Lundin Petroleum will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Reserve estimates

In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

Health, safety and environment (HSE)

Extensive national, state, and local environmental laws and regulations in foreign jurisdictions affect nearly all of the operations of Lundin Petroleum. These laws and regulations set various standards regulating certain aspects of health and safety, and environmental quality, provide for civil and criminal penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. See also pages 34–40 Corporate Responsibility for more information.

Legal risks

The Company could be the target of legal complaints raised by customers, employees and other third parties in the areas of health, environmental, safety or business related issues or the failure to comply with applicable legislation and regulations. Even if such disputes were to be resolved successfully, without financial consequences they could negatively impact the Group's reputation and take up resources that could be used for other purposes.

Competition

The petroleum industry is competitive in all its phases. Lundin Petroleum's competitors will include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Lundin Petroleum. Lundin Petroleum's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

Geopolitical risk

Lundin Petroleum is, and will be, actively engaged in oil and gas operations in various countries. Risks may arise in changes in laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange and exchange control. Further, certain aspects of Lundin Petroleum's exploration and production programmes require the consent or favourable decisions of governmental bodies. In addition, Lundin Petroleum's exploration, development and production activities may be subject to political and economic uncertainties, expropriation of property and cancellation or modification of contract rights, taxation, royalties, duties, foreign exchange restrictions and other risks arising out of foreign governmental sovereignty over the areas in which Lundin Petroleum's operations are conducted, as well as risks of loss in some countries due to civil strife, acts of war, guerrilla activities and insurrection. Oil installations are known to be likely objects, and even targets, of military operations and terrorism. Given their vulnerability and the considerable economic interests involved, this adds to the risk profile of Lundin Petroleum's interests.

Financial risk

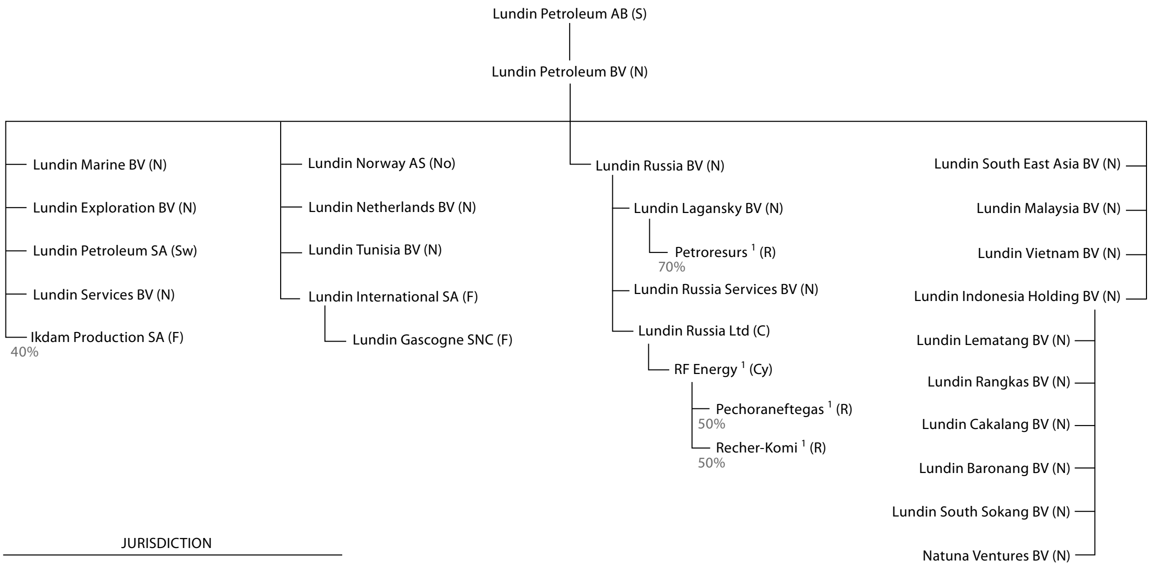
Financial risks such as fluctuations in currency rates, oil price, interest rates, liquidity risk and credit risk as well as derivative instruments used has been described in Note 21 on pages 84–86 in the Financial Report.

Risks in the financial reporting are described in the Internal Control Report on pages 48–49, and in Our Market on pages 18–19.

Directors' Report

LUNDIN PETROLEUM AB (PUBL) REG NO. 556610-8055

Group Structure as at 31 December 2010



JURISDICTION

(C)	Canada	(No)	Norway
(Cy)	Cyprus	(R)	Russia
(F)	France	(S)	Sweden
(N)	Netherlands	(Sw)	Switzerland

[1] See Group Financial Statements Note 19 and Parent Company Financial Statements Note 14 for full legal names and all subsidiaries

Note: The Group structure shows significant subsidiaries only

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

The main business of Lundin Petroleum is the exploration for, the development of, and the production of oil and natural gas. Lundin Petroleum maintains a portfolio of oil and gas production assets and development projects in various countries with exposure to exploration opportunities.

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

CHANGES IN THE GROUP

During the first quarter of 2010, Lundin Petroleum announced its intention to spin-off the United Kingdom (UK) business. The spin-off was completed on 6 April 2010 with the sale of the UK business in exchange for shares in the newly incorporated company, EnQuest plc, and the subsequent distribution of the EnQuest shares received to Lundin Petroleum shareholders on 9 April 2010. The results of the UK business are included in the Lundin Petroleum accounts up until the end of the first quarter of 2010 and are shown as discontinued operations. For more detail refer to Note 13.

On 12 November 2010, Lundin Petroleum completed the distribution of its shares in Etrion Corporation to Lundin Petroleum's shareholders, in connection with the listing of the shares of Etrion on the NASDAQ OMX Stockholm exchange. The result from Etrion is included in the consolidated accounts up to the date of the distribution.

On 29 December 2010, Lundin Petroleum completed the sale of its non-operated interests in Salawati Basin and Salawati Island assets in Indonesia to RH Petrogas.

OPERATIONAL REVIEW

EUROPE

Norway

The net production to Lundin Petroleum for the twelve month period ended 31 December 2010 (reporting period) from the Alvheim field (Lundin Petroleum working interest (WI) 15%), offshore Norway, was 12,900 barrels oil equivalent per day (boepd). The Alvheim field has been on production since June 2008 and continues to perform above expectations. This excellent reservoir performance has resulted in increased gross ultimate recoverable reserves during 2010 to 276 million of barrels of oil equivalent (MMboe). Phase 2 of Alvheim development drilling commenced in the second quarter of 2010 and involves the drilling of five multilateral wells. The first Phase 2 well came on production in late 2010, with three wells to be drilled in 2011 and a further well to be drilled in 2012. The cost of operations for the Alvheim field averaged below USD 3.50 per barrel for the reporting period.

The net production to Lundin Petroleum from the Volund field (WI 35%) amounted to 5,300 boepd for the reporting period. The first two development wells (one producer and one water injector) on the Volund field were successfully completed in 2009 but due to limitations in production capacity on the Alvheim FPSO the first Volund production well did not commence production until April 2010. Phase 2 of Volund development drilling which involved a further two multilateral production wells was successfully completed in the third quarter of 2010. As a result, Volund field production increased to 9,700 boepd net in the fourth quarter of 2010 which was above the 8,700 boepd net Volund field firm capacity booked on the Alvheim FPSO.

In October 2009, a new oil discovery, estimated to contain gross recoverable resources of 20 MMboe on the Marihøne prospect in PL340

(WI 15%) was announced. This discovery has been renamed Bøyla and plans are currently being developed for a subsea tieback to the Alvheim FPSO.

On 15 February 2011, Lundin Petroleum announced that it had successfully concluded the drilling of the Caterpillar exploration well (24/9-10S) and its sidetrack (24/9-10A) located in production licence PL340 (WI 15%) approximately 31 kilometres south of the Alvheim FPSO. A comprehensive data acquisition programme was undertaken with a preliminary gross resource range for the Caterpillar discovery estimated at between 5 to 12 MMboe. Development studies are progressing for the Bøyla field tieback to the Alvheim FPSO. The Caterpillar discovery located 8 kilometres to the southeast of Bøyla is likely to be developed as part of the Bøyla development concept.

The Luno field located in PL338 (WI 50%) was discovered in 2007 and has subsequently been appraised by two further wells. The results of these appraisal wells have been incorporated into the reservoir model being used for development planning and has resulted in an upgrade of gross proven and probable (2P) reserves from 95 MMboe to 148 MMboe for the Luno field. The reserves have been estimated by third party reserves auditors Gaffney Cline & Associates. Conceptual development studies for a Luno field standalone development are complete.

In December 2010, a further discovery was made in PL338 on the Apollo prospect. Apollo, located only 5 km from the Luno field, contains estimated gross recoverable reserves of between 15 and 65 MMboe within PL338 in both Paleocene and Cretaceous reservoirs. The discovery will be appraised in 2012 and then most likely be developed through the Luno facilities.

An exploration well in PL501 (WI 40%) targeting the Avaldsnes prospect was successfully completed in the third quarter of 2010 as an oil discovery. Production tests confirmed excellent reservoir characteristics with the well flowing at a restricted production rate of approximately 5,000 bopd. It is estimated that the Avaldsnes discovery contains gross recoverable resources of 100 to 400 MMboe within licence PL501 and that the fault controlled structure extends to the west into PL265 (WI 10%). Appraisal of the Avaldsnes discovery will commence in the first half of 2011 with the drilling of two appraisal wells in PL501. A further well will be drilled in 2011 by Statoil, operator of PL265, to test the extension of the Avaldsnes structure into PL265. The element of the Avaldsnes structure in PL265 has been named Aldous Major South. The Avaldsnes discovery has successfully proven the migration of hydrocarbons to the eastern side of the Utsira High. This has a positive impact upon the exploration potential of the Greater Luno Area and as a result further exploration wells will be drilled in 2011 on the Tellus prospect in PL338 (WI 50%) (drilled in the first quarter of 2011) and the Aldous Major North prospect (formerly called Torvestad) in PL265/PL501 followed by likely wells in PL359 (WI 40%) and PL410 (WI 70%) in 2012.

The plan of development was approved in June 2010 for the Gaupe field in PL292 (WI 40%), where first production is expected in late 2011. The Gaupe field operated by BG Group has estimated gross reserves of approximately 31 MMboe and is estimated to produce at a plateau production rate net to Lundin Petroleum of 5,000 boepd.

Development planning is ongoing on the Nemo field in PL148 (WI 50%) and the Krabbe field in PL301 (WI 40%). A concept selection has been completed for the Nemo field and, subject to finalisation of commercial negotiations, it is expected that a plan of development will be submitted in 2011.

In January 2011, Lundin Petroleum was awarded ten exploration licences in the 2010 APA Licensing Round of which six licences will be operated by Lundin Petroleum.

In 2010, exploration wells on the Frusalen prospect in PL476 (WI 30%), Barchan prospect in PL400 (WI 50%) and Norall prospect in PL409 (WI 70%) were completed as dry holes and a well on the Luno High prospect in PL359 (WI 40%) was completed as non-commercial.

France

The net production to Lundin Petroleum in the Paris Basin (WI 100%) averaged 2,450 boepd and in the Aquitaine Basin (WI 50%) averaged 750 boepd for the reporting period. The redevelopment of the Grandville field in the Paris Basin involving the drilling of eight new development wells and the installation of new production facilities has commenced.

The Netherlands

The net gas production to Lundin Petroleum from the Netherlands averaged 2,050 boepd for the reporting period which was ahead of forecast.

The exploration well De Hoeve-1 in the onshore Gorredijk concession (WI 7.75%) was successfully completed in the first quarter 2010 as a gas discovery.

Ireland

A 3D seismic acquisition programme in the Slyne Basin licence 04/06 (WI 50%) was completed in the third quarter of 2010.

United Kingdom

On 6 April 2010, Lundin Petroleum completed the spin-off of its operations in the United Kingdom into EnQuest plc, a newly formed company focusing on the UK North Sea.

The net production to Lundin Petroleum from the United Kingdom is included for the first quarter of 2010 only and averaged 2,250 boepd during the reporting period.

SOUTH EAST ASIA

Indonesia

Salawati Island and Basin (Papua)

The net production to Lundin Petroleum from Salawati (Salawati Island WI 14.5%, Salawati Basin WI 25.9%) was 2,000 boepd for the reporting period.

In December 2010, Lundin Petroleum completed the sale of its Salawati interests to RH Petrogas (RHP). The consideration for the sale was MUSD 37.1 plus an additional MUSD 3.9 in the event of certain future field developments.

Lematang (South Sumatra)

The net production to Lundin Petroleum from the Singa gas field (WI 25.9%) during the reporting period amounted to 400 boepd. Production from the Singa field commenced during the second quarter of 2010. Current gross production from the first production well was approximately 20 million standard cubic feet per day (MMscfd) of sales gas and was restricted by surface facility limitations resulting from higher hydrocarbon liquid production than expected.

Additional liquid removal facilities are planned to be installed and until such time production will remain constrained. Production is expected to increase to a gross plateau rate of 50 MMscfd following further development drilling. The original Singa gas sales agreement with PT PLN (Persero), an Indonesian state owned electricity company, was amended in February 2010 incorporating an increased gas price and to allow PT PGN (Persero), an Indonesian state owned gas distributor, to buy initial production from the Singa field. The gas sales contract with PT PGN (Persero) was signed in April 2010. The average gas price for both contracts is in excess of USD 5 per million British thermal units (MMbtu).

Rangkas (Java)
A 474 km 2D seismic acquisition programme on the Rangkas block (WI 51%) commenced in 2010 and was completed in the first quarter of 2011.

Baronang/Cakalang (Natuna Sea)
A 975 km^2 3D seismic acquisition programme on the Baronang and Cakalang blocks (WI 100%) was completed in April 2010 and interpretation is ongoing. In addition, a 1,500 km 2D seismic acquisition programme is planned to be completed on Cakalang in 2011.

South Sokang (Natuna Sea)
A new Production Sharing Contract for the South Sokang block was signed in December 2010 (WI 60%).

Malaysia
A total of 2,150 km^2 of 3D seismic acquisition on Blocks PM308A (WI 35%), PM308B (WI 75%) and SB303 (WI 75%) was completed in 2009. The seismic data processing and interpretation work has identified numerous drilling targets for the 2011/2012 drilling campaign. Five exploration wells are expected to be drilled this year commencing in April 2011 and a jack up rig has been secured for this programme.

In 2010, Lundin Petroleum signed a new Production Sharing Contract encompassing blocks SB307 and SB308 (WI 42.5%) offshore Sabah. A 330 km^2 3D acquisition programme on blocks SB307 and SB308 was completed during the second quarter of 2010.

Vietnam
Exploration wells on the Hoa-Hong-X1 and Hoa Dao High prospects in Block 06/94 (WI 33.33%) were completed in 2010. Both wells were plugged and abandoned after either being dry or encountering uncommercial quantities of gas.

RUSSIA
The net production to Lundin Petroleum from Russia for the period was 3,600 boepd.

In the Lagansky Block (WI 70%) in the northern Caspian a major oil discovery was made on the Morskaya field in 2008. The discovery due to its offshore location is deemed to be strategic by the Russian Government under the Foreign Strategic Investment Law. As a result a 50 percent ownership by a state owned company is required prior to development. During 2010, 103 km^2 of new 3D seismic was acquired on the Lagansky block which will target new exploration drilling locations.

AFRICA
Tunisia
The net production to Lundin Petroleum from the Oudna field (WI 40%) was 1,000 boepd for the reporting period. The Oudna field production continues to outperform expectations.

Congo (Brazzaville)
Exploration drilling is expected to resume in 2011 with one well on Block Marine XIV (WI 21.55%) and a further well on Block Marine XI (WI 18.75%).

FINANCIAL REVIEW

FINANCIAL RESULT
Result
The net result including discontinued operations for the financial year ended 31 December 2010 (reporting period) amounted to MUSD 498.5 (MUSD -537.1). The net result attributable to shareholders of the Parent Company including discontinued operations for the reporting period amounted to MUSD 511.9 (MUSD -411.3) representing earnings per share on a fully diluted basis of USD 1.64 (USD -1.31).

Lundin Petroleum reports a net result from continuing operations for the reporting period of MUSD 129.5 (MUSD -545.8). The net result attributable to shareholders of the Parent Company from continuing operations amounted to MUSD 142.9 (MUSD -420.0) representing earnings per share on a fully diluted basis of USD 0.46 (USD -1.34).

Operating cash flow including discontinued operations for the reporting period amounted to MUSD 598.6 (MUSD 471.9) representing operating cash flow per share on a fully diluted basis of USD 1.92 (USD 1.51). Earnings before interest, tax, depletion and amortisation (EBITDA) including discontinued operations for the reporting period amounted to MUSD 635.6 (MUSD 486.2) representing EBITDA per share on a fully diluted basis of USD 2.04 (USD 1.55).

Production
Production including discontinued operations for the reporting period amounted to 11,940.0 (13,931.7) thousand barrels of oil equivalent (Mboe) representing 32.7 Mboe per day (Mboepd) (38.2 Mboepd) and was comprised as follows:

Production	2010	2009
Norway		
- Quantity in Mboe	6,629.8	5,060.9
- Quantity in Mboepd	18.2	13.9
France		
- Quantity in Mboe	1,160.8	1,249.2
- Quantity in Mboepd	3.2	3.4
Netherlands		
- Quantity in Mboe	756.7	759.3
- Quantity in Mboepd	2.1	2.1
Indonesia		
- Quantity in Mboe	887.1	896.3
- Quantity in Mboepd	2.4	2.4
Russia		
- Quantity in Mboe	1,321.2	1,890.0
- Quantity in Mboepd	3.6	5.2
Tunisia		
- Quantity in Mboe	372.2	494.9
- Quantity in Mboepd	1.0	1.4
Total from continuing operations		
- Quantity in Mboe	**11,127.8**	10,350.6
- Quantity in Mboepd	**30.5**	28.4
Non-controlling interest in Russia		
- Quantity in Mboe	–	162.2
- Quantity in Mboepd	–	0.4
Total from continuing operations excluding non-controlling interest		
- Quantity in Mboe	**11,127.8**	10,188.4
- Quantity in Mboepd	**30.5**	28.0
Discontinued operations - United Kingdom		
- Quantity in Mboe	**812.2**	3,743.3
- Quantity in Mboepd	**2.2**	10.2
Total excluding non-controlling interest		
- Quantity in Mboe	**11,940.0**	13,931.7
- Quantity in Mboepd	**32.7**	38.2

In 2009, Lundin Petroleum fully consolidated two subsidiaries in Russia over which it had control, with the portion not owned by Lundin Petroleum shown as a non-controlling interest. The average production for Russia for the financial year ended 31 December 2009 adjusted to Lundin Petroleum's share of ownership was 4.8 Mboepd. Lundin Petroleum sold the two controlled Russian subsidiaries during the second half of 2009.

Production quantities in a period can differ from sales quantities for a number of reasons. Timing differences can arise due to inventory, storage and pipeline balances effects. Other differences arise as a result of paying royalties in kind as well as the effects from production sharing agreements.

Operating income

Net sales of oil and gas for the reporting period amounted to MUSD 785.2 (MUSD 567.5) and are detailed in Note 1. The average price achieved by Lundin Petroleum for a barrel of oil equivalent amounted to USD 72.26 (USD 57.16) and is detailed in the following table. The average Dated Brent price for the reporting period amounted to USD 79.50 (USD 61.67) per barrel.

Sales for the reporting period were comprised as follows:

Sales **Average price per boe expressed in USD**	**2010**	**2009**
Norway		
- Quantity in Mboe	6,712.5	5,200.1
- Average price per boe	77.93	60.48
France		
- Quantity in Mboe	1,168.0	1,277.9
- Average price per boe	79.35	60.94
Netherlands		
- Quantity in Mboe	756.7	759.3
- Average price per boe	44.37	50.49
Indonesia		
- Quantity in Mboe	607.7	609.4
- Average price per boe	65.31	60.58
Russia		
- Quantity in Mboe	1,290.0	1,976.4
- Average price per boe	51.65	37.64
Tunisia		
- Quantity in Mboe	382.6	465.5
- Average price per boe	77.15	54.72
Total from continuing operations		
- Quantity in Mboe	**10,917.5**	10,288.6
- Average price per boe	**71.92**	55.16
Discontinued operations - United Kingdom		
- Quantity in Mboe	**814.4**	3,630.8
- Average price per boe	**76.82**	62.83
Total		
- Quantity in Mboe	**11,731.9**	13,919.4
- Average price per boe	**72.26**	57.16

The oil produced in Russia is sold on either the Russian domestic market or exported into the international market. 40 percent (40 percent) of Russian sales for the reporting period were on the international market at an average price of USD 76.17 per barrel (USD 57.23 per barrel) with the remaining 60 percent (60 percent) of Russian sales being sold on the domestic market at an average price of USD 34.98 per barrel (USD 24.67 per barrel).

Other operating income amounted to MUSD 13.4 (MUSD 4.3) for the reporting period and includes MUSD 9.3 (MUSD –) of income relating to Etrion's solar business. Also included in other operating income is tariff income from France and the Netherlands and income for maintaining strategic inventory levels in France.

Production costs

Production costs for the reporting period amounted to MUSD 157.1 (MUSD 155.3) and are detailed in Note 2. The production and depletion costs per barrel of oil equivalent produced from continuing oil and gas operations are detailed in the table below:

Production cost and depletion **USD per boe**	**2010**	**2009**
Cost of operations	8.63	9.22
Tariff and transportation expenses	1.57	1.52
Royalty and direct taxes	3.74	3.96
Changes in inventory/overlift	-0.31	0.01
Other	0.38	0.30
Total production costs	**14.01**	15.01
Depletion	12.85	11.41
Total cost per boe	**26.86**	26.42

Actual cost of operations for oil and gas operations for the reporting period was MUSD 96.1 and was in line with the comparative period of MUSD 95.4. Production volumes were 8 percent higher than 2009 resulting in the lower cost of operations per barrel compared to the comparative reporting period. The cost of operations per barrel for the reporting period of USD 8.63 per barrel was also significantly below the original market guidance of USD 10.35 per barrel for continuing operations for 2010 due to the higher production and lower costs. The average cost of operations per barrel for 2011 is expected to remain at this lower level.

The tariff and transportation expenses for 2010 is 11 percent higher at MUSD 17.4 compared to the comparative reporting period at MUSD 15.7. This increase is mainly due to the increased production contribution from the Volund field, Norway. The operating cost of the Volund field consists of an operating expense share and a tariff element payable to the Alvheim field consortium. The operating expense of the Alvheim production facilities is shared between the Alvheim (WI 15%), Volund (WI 35%) and Vilje (WI -%) fields based on volume throughput. Lundin Petroleum has a 15 percent working interest in the Alvheim field and a 35 percent interest in the Volund field and the tariff self-to-self element is eliminated for accounting purposes leaving a net 20 percent cost for Volund in tariff and transportation expenses.

Royalty and direct taxes includes Russian Mineral Resource Extraction Tax ("MRET") and Russian Export Duties. The rate of MRET is levied on the volume of Russian production and varies in relation to the international market price of Urals blend and the Rouble exchange rate. MRET averaged USD 13.83 (USD 10.23) per barrel of Russian production for the reporting period. The rate of export duty on Russian oil is revised by the Russian Federation monthly and is dependent on the average price obtained for Urals Blend for the preceding one month period. The export duty is levied on the volume of oil exported from Russia and averaged USD 37.59 (USD 21.42) per barrel for the reporting period. The royalty and direct taxes have increased compared to the comparative period following the rise in crude prices impacting the cost of Russian MRET and export duty.

There are both permanent and timing differences that result in sales volumes not being equal to production volumes during a period. Changes to the hydrocarbon inventory and under or overlift positions result from these timing differences and an amount of MUSD 3.4 (MUSD 0.1) was credited to the income statement for the reporting period.

Depletion costs

Depletion costs amounted to MUSD 145.3 (MUSD 118.1) and are detailed in Note 3. Depletion per barrel is in line with forecast for the year. Norway contributed approximately 70 percent of the total depletion charge for the year at a rate of USD 15.33 per barrel. The depletion charge for the comparative period includes MUSD 11.3 in respect of the Oudna field, Tunisia, which was fully depleted by the end of 2009.

Exploration costs

Exploration costs for the reporting period amounted to MUSD 127.5 (MUSD 134.8) and are detailed in Note 4. Exploration and appraisal costs are capitalised as they are incurred. When exploration drilling is unsuccessful the costs are immediately charged to the income statement as exploration costs. All capitalised exploration costs are reviewed on a regular basis and are expensed where there is uncertainty regarding their recoverability.

During 2010, Lundin Petroleum expensed MUSD 94.5 (MUSD 69.5) of exploration costs relating to Norway. In the first quarter of 2010, Lundin Petroleum announced that the wells drilled in Blocks PL359 and PL476 in Norway were not commercial successes and as such, the costs associated with these wells of MUSD 22.6 were expensed. During the fourth quarter of 2010, Lundin Petroleum drilled two unsuccessful wells in Blocks PL400 and PL409 in Norway, the Barchan and the Norall prospects respectively, and expensed MUSD 58.0 relating to these two wells. Other Norwegian exploration costs of MUSD 13.9 were expensed relating mainly to licence relinquishments.

During 2010, Lundin Petroleum drilled two unsuccessful wells in Block 06/94, Vietnam and expensed MUSD 31.9 (MUSD 7.2) being the costs of the wells and the associated seismic, study and licence costs.

Gain on sale of assets

Gain on sale of assets amounted to MUSD 66.1 (MUSD 4.6) for the reporting period.

On 12 November 2010, Lundin Petroleum distributed its shares held in Etrion. The value of the distribution was based upon the market price of the Etrion share on the date of distribution resulting in a gain being reported in the consolidated financial results of MUSD 57.7.

On 29 December 2010, Lundin Petroleum completed the sale of the Salawati assets in Indonesia to RH Petrogas which resulted in a gain on disposal of MUSD 8.4.

General, administrative and depreciation expenses

General, administrative and depreciation expenses for the reporting period amounted to MUSD 42.0 (MUSD 28.8) and includes an amount of MUSD 11.7 (MUSD 9.9) relating to Etrion and MUSD 10.3 (MUSD 1.4) to non-cash charges in relation to the Group's Long-term Incentive Plan (LTIP) scheme.

Awards to employees under the Group's LTIP scheme are valued using the Black & Scholes pricing model using the share price as at the balance sheet date. The cost is accrued over the vesting period of the awards in accordance with accounting rules. During 2010, the Lundin Petroleum share price increased by over 45 percent compared to the share price at the end of 2009 and accordingly, the cost associated with the LTIP was reflected during the reporting period. The value of the LTIP award as calculated using the Black & Scholes valuation is applied to the vested portion of all outstanding LTIP awards including that of prior periods and therefore the charge to the income statement in 2010 reflects the change in the provision.

Financial income

Financial income for the reporting period amounted to MUSD 21.0 (MUSD 82.0) and is detailed in Note 9.

Foreign exchange gains amounted to MUSD 13.4 (MUSD 66.0) in the reporting period. The Euro weakened against both the US Dollar and the Norwegian Kroner during the reporting period giving rise to exchange gain movements on the intercompany loans receivable by a subsidiary using a functional currency of the Euro partially offset by foreign exchange losses on the US Dollar external debt borrowed by a subsidiary using a functional currency of the Euro.

Interest income for the reporting period amounted to MUSD 3.4 (MUSD 4.6). The interest income includes an amount of MUSD 0.5 relating to a loan to Etrion Corporation which was no longer eliminated on consolidation from November 2010 following the distribution of the shares held in Etrion and a further amount of MUSD 0.6 interest on a tax refund. Included in the prior reporting period is accrued interest on the Norwegian tax refund in respect of the 2008 exploration expenditure amounting to MUSD 2.3.

Included in the comparative reporting period in gain on sale of shares was an amount of MUSD 10.2 relating to the sale of the shareholding in a company owning an interest in Dutch gas processing and transportation infrastructure.

Guarantee fees for the reporting period amounted to MUSD 2.3 (MUSD 0.1) and includes a MUSD 2.0 (MUSD –) fee for supporting certain financial obligations for ShaMaran Petroleum.

Financial expenses

Financial expenses for the reporting period amounted to MUSD 33.5 (MUSD 52.5) and are detailed in Note 10.

Interest expenses for the reporting period amounted to MUSD 10.0 (MUSD 8.9) and relates mainly to interest on the Group's bank loan facility and a charge of MUSD 3.6 (MUSD 0.1) relating to Etrion's loan facilities. In accordance with the Group's accounting policy, a part of the interest expense associated with the development of the Volund field has been capitalised and following the commencement of production in 2010 from the field, the interest is now charged to the income statement.

In January 2008, the Group entered into an interest rate hedging contract to fix the LIBOR rate of interest at 3.75 percent p.a. on MUSD 200 of the Group's USD borrowings for the period from January 2008 until January 2012. An amount of MUSD 7.0 (MUSD 5.7) was charged to the income statement for the reporting period for settlements under the hedging contract.

In November 2009, Etrion entered into various interest rate swap arrangements as part of external loan agreements. A change in the market value of these swap arrangements amounted to an expense of MUSD 3.9 (MUSD 0.5) for the reporting period.

A provision for the costs of site restoration is recorded in the balance sheet at the discounted value of the estimated future cost. The effect of the discount is unwound each year and charged to the income statement. An amount of MUSD 4.0 (MUSD 2.5) has been charged to the income statement for the reporting period. The increase versus the comparative period is due to increased liabilities following the inclusion of the Volund field, Norway and other cost revisions reflected at the end of 2009.

Included in other financial expenses in the comparative period is an amount of MUSD 29.8 relating to the write down of the investment in Etrion following Etrion's write down of its Venezuelan oil and gas assets.

Result from share in associated company

The result from share in associated company for the comparative reporting period amounted to MUSD -25.5 and consisted of the 44.81 percent equity share of the result of Etrion owned by Lundin Petroleum. The results of Etrion have been fully consolidated into the Lundin Petroleum consolidated accounts from 30 September 2009 and up until the distribution, and as such, there is no amount recorded for 2010 in the result from share in associated company.

Included in the expense of MUSD 25.5 for the comparative period is an amount of MUSD 22.8 relating to the write down of Etrion's Venezuelan oil and gas assets.

Tax

The tax charge for the reporting period amounted to MUSD 251.9 (MUSD 45.7) and is detailed in Note 12.

The current tax charge on continuing operations for the reporting period amounted to MUSD 68.2 (MUSD 32.0). In the reporting period, there is a MUSD 36.1 (MUSD 2.2) current tax charge relating to Norway in respect of the 28 percent onshore tax regime where the losses brought forward have been utilised. The tax charge in Norway consists of both the 28 percent onshore regime and the 50 percent offshore regime. Certain tax allowances earned on development expenditure are currently offsetting the 50 percent Norway offshore tax regime

The deferred tax charge amounted to MUSD 183.7 (MUSD 13.7) for the reporting period. The deferred tax charge for 2009 includes a MUSD 86.9 deferred tax release on the Lagansky block impairment taken in 2009.

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 20 percent and 78 percent. The effective tax rate for the Group for the reporting period amounted to 66 percent including the gain on sales of assets. Excluding the gain on sales of assets, the effective tax rate for the Group for the reporting period amounted to 80 percent. These effective rates are calculated from the face of the income statement and do not reflect the effective rate of tax paid within each country of operation. The main contributor to the tax charge is Norway with an effective tax rate of 74 percent. Reported losses in non-operating entities, with zero or low tax credits recorded, increase the effective rate. The effective rate of cash tax payable in the reporting period is 22 percent excluding the gain on sale of assets, because tax loss carry forwards and exploration expenditure provided a tax deduction in Norway during the year.

Non-controlling interest

The net result attributable to non-controlling interest for the reporting period amounted to MUSD -13.4 (MUSD -125.8) and mainly relates to the non-controlling interest's share in Etrion which was fully consolidated until the date of the distribution of the Etrion shares. The net result attributable to non-controlling interest for the comparative period primarily consisted of the non-controlling interest's share in the Lagansky Block impairment.

Discontinued operations

The net result from discontinued operations for the reporting period amounted to MUSD 369.0 (MUSD 8.7) and relates to the net result of MUSD 10.9 (MUSD 8.7) for the United Kingdom up to 6 April 2010, the date of the UK spin-off, and the subsequent gain on the sale of the UK assets of MUSD 358.1 (MUSD –). For more detail refer to Note 13.

BALANCE SHEET

Non-current assets

Oil and gas properties amounted to MUSD 1,999.0 (MUSD 2,540.3) and are detailed in Note 14.

Development and exploration expenditure incurred for the reporting period was as follows:

Development expenditures in MUSD	**2010**	**2009**
Norway	106.3	88.1
France	13.2	6.3
Netherlands	4.5	5.3
Indonesia	10.2	34.9
Russia	6.6	10.1
Development expenditures from continuing operations	**140.8**	144.7
Discontinued operations - United Kingdom	17.1	63.5
Development expenditures	**157.9**	208.2

Exploration expenditure in MUSD	**2010**	**2009**
Norway	160.8	198.5
France	1.0	3.1
Indonesia	13.5	9.7
Russia	18.3	45.2
Vietnam	15.3	9.2
Congo (Brazzaville)	2.5	13.8
Malaysia	10.6	23.9
Other	4.4	4.7
Exploration expenditures from continuing operations	**226.4**	308.1
Discontinued operations - United Kingdom	0.2	2.3
Exploration expenditures	**226.6**	310.4

Other tangible assets amounted to MUSD 15.3 (MUSD 15.3) and represents office fixed assets and real estate. See Note 16.

Financial assets amounted to MUSD 114.9 (MUSD 85.4) and are detailed in Notes 19 to 23. Other shares and participations amounted to MUSD 68.6 (MUSD 32.4) and primarily relate to the shares held in ShaMaran Petroleum. Long-term receivables amounted to MUSD 23.8 (MUSD 24.2) and relates to the convertible loan provided to Africa Oil Corporation for MUSD 23.8 (MUSD 23.8). Other financial assets amounted to MUSD 22.5 (MUSD 28.6) and mainly represents VAT paid on costs in Russia that is expected to be recovered amounting to MUSD 16.5 (MUSD 17.5) and capitalised financing fees of MUSD 4.7 (MUSD 7.5).

The deferred tax asset amounted to MUSD 15.1 (MUSD 27.9) and mainly relates to unutilised tax losses in the Netherlands.

Current assets

Receivables and inventories amounted to MUSD 236.2 (MUSD 198.0) and are detailed in Notes 24 to 27. Inventories include hydrocarbons and consumable well supplies and amounted to MUSD 20.0 (MUSD 27.4). The main reduction in value is due to the sale of the Indonesian Salawati assets which carried inventories of hydrocarbons and well supplies. Trade receivables amounted to MUSD 94.2 (MUSD 80.7). Higher levels of production from Norway following the start up of the Volund field have offset the receivables due from the UK and Salawati fields that were sold during 2010 but were included in the comparative period. The short-term loan receivable of MUSD 74.5 (MUSD 33.9) mainly relates to the loan outstanding to Etrion. The comparative period includes a MUSD 30.0 advance in relation to the acquisition of the 30 percent interest in the Lagansky Block to the non-controlling partner. This transaction was successfully completed during the third quarter of 2010.

Cash and cash equivalents amounted to MUSD 48.7 (MUSD 77.3). Included in cash and cash equivalents at 31 December 2009 is an amount of MUSD 23.4 held by Etrion. Cash balances are held to meet operational and investment requirements.

Non-current liabilities

Provisions amounted to MUSD 769.7 (MUSD 897.6) and are detailed in Note 12 and Notes 30 to 32. This amount includes a provision for site restoration of MUSD 93.8 (MUSD 132.7). The decrease of the site restoration provision from the comparative period is mainly due to the UK business spin-off and consequent removal of the United Kingdom provision amount of MUSD 53.7.

The provision for deferred taxes amounted to MUSD 650.7 (MUSD 743.6) and is arising on the excess of book value over the tax value of oil and gas properties net of deferred tax assets which are netted off against deferred tax liabilities in accordance with International Financial Reporting Standards (IFRS) where they relate to the same jurisdiction. The deferred tax provision has decreased from the comparative period due to the UK business spin-off and consequent removal of the United Kingdom provision amount of MUSD 251.6.

The liability for derivative instruments amounted to MUSD – (MUSD 3.1) and relates to the long-term portion of the fair value of the interest rate swap entered into in January 2008 in relation to the Company's MUSD 850 credit facility.

Other provisions amounted to MUSD 23.8 (MUSD 16.8) and include a provision for Lundin Petroleum's LTIP scheme of MUSD 18.8 (MUSD 4.6) and termination indemnity provisions in Tunisia of MUSD 2.9 (MUSD 2.5). The comparative period includes an exchange obligation of Etrion amounting to MUSD 5.7.

Long-term interest bearing debt amounted to MUSD 458.8 (MUSD 545.7) and relates to the amount drawn under the Group's MUSD 850 revolving borrowing base and letter of credit financing facility.

Current liabilities

Total current liabilities amounted to MUSD 185.0 (MUSD 257.5). Included in this amount are joint venture creditors of MUSD 100.9 (MUSD 140.0) and trade payables of MUSD 16.0 (MUSD 20.5) and relate to ongoing operational costs.

Tax payables amounted to MUSD 39.7 (MUSD 20.9) and are detailed in Note 12. The short term portion of the fair value of the interest rate swap entered into in January 2008 is included in current liabilities and amounted to MUSD 6.9 (MUSD 7.1).

Accrued expenses and prepaid income of MUSD 7.7 (MUSD 16.5) and other liabilities of MUSD 13.4 (MUSD 20.1) are detailed in Notes 36 and 37.

Short-term loans amounted to MUSD 0.5 (MUSD 32.4). The amount for the comparative period related mainly to the advance received in relation to the agreement with a subsidiary of Gunvor International BV to acquire a 30 percent interest in the Lagansky Block for an amount of MUSD 30.0. This transaction was successfully completed during the third quarter of 2010.

Equity

On 9 April 2010, Lundin Petroleum made a distribution of the EnQuest shares received in consideration for the sale of the UK business in a ratio of 1.3473 shares in EnQuest for each Lundin Petroleum share held. The distribution was valued at the market price of the shares at the time of the distribution and amounted to MUSD 656.3.

On 12 November 2010, Lundin Petroleum made a distribution of the shares it held in Etrion to its shareholders in a ratio of 0.2283 shares in Etrion for each Lundin Petroleum share held. The distribution was valued at the market price of the shares at the time of distribution and amounted to MUSD 61.3.

The value of these distributions has been charged against shareholders equity.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Stockholm on 5 May 2011.

REMUNERATION TO MANAGEMENT

Remuneration

In 2008, Lundin Petroleum implemented a LTIP scheme consisting of a Unit Bonus Plan which provides for an annual grant of units that will lead to a cash payment at vesting. The LTIP will be payable over a period of three years from award. The cash payment will be determined at the end of each vesting period by multiplying the number of units then vested by the share price. The share price for determining the cash payment at the end of each vesting period will be the five trading day average closing Lundin Petroleum share price prior to and following the actual vesting date.

The AGM held on 13 May 2009 approved the 2009 LTIPs, being one Phantom Option Plan for Executive Management (being the President and Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Senior Vice President Operations) and one Unit Bonus Plan for certain other employees.

On 9 April 2010, Lundin Petroleum distributed the shares of EnQuest that it had received in consideration for the sale of the UK business. On 12 November 2010, Lundin Petroleum distributed the shares of Etrion. These events triggered a recalculation of the number of units and phantom options allocated and the strike price at which the phantom options are exercisable.

The LTIP for Executive Management includes 5,500,928 phantom options with an exercise price of SEK 52.91 (rebased from 4,000,000 phantom options and SEK 72.76 respectively following the distribution of the EnQuest and Etrion shares). The phantom options will vest in May 2014 being the fifth anniversary of the date of grant. The recipients will be entitled to receive a cash payment equal to the average closing price of the Company's shares during the fifth year following grant, less the exercise price, multiplied by the number of phantom options.

The number of units relating to the 2008 and 2009 Unit Bonus Plans outstanding as 31 December 2010 were 211,807 and 435,498 respectively. In addition, a further 723,950 units were awarded to employees under the 2010 Unit Bonus Plan and 701,250 remain outstanding as at 31 December 2010.

BOARD'S PROPOSAL FOR REMUNERATION TO THE EXECUTIVE MANAGEMENT

During 2010, new rules regarding management remuneration were introduced in Sweden following the introduction of a revised Code of Corporate Governance (Code of Governance). In light of these changes, the Company's Compensation Committee considered the implications of the new rules on the content and scope of the Company's Policy on Remuneration. Based on its review, the Compensation Committee concluded that the Policy remains in compliance with the rules of the Code of Governance and that no changes to the content of the Policy, as a result of the new rules, are required.

In connection with this review, the Compensation Committee also considered the Company's internal decision-making processes. Since 2009, when Lundin Petroleum's Investment Committee was established, all major management decisions regarding the worldwide operations and the financial position of the Company are submitted for consideration and approval to the Investment Committee, which consists of the Company's President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Vice President Operations. Considering this development, the Compensation Committee determined that the Executive Management of the Company, to which the Company's Policy on Remuneration shall be applicable, shall be the members of the Investment Committee.

As a result, it is the intention of the Board of Directors to propose to the 2011 AGM the adoption of a Policy on Remuneration for 2011 that follows the same principles as applied in 2010 and that contains similar elements of remuneration for the Executive Management as the 2010 Policy on Remuneration being basic salary, yearly variable salary, Long-term Incentive Plan (LTIP) and other benefits. An LTIP for the Executive Management consisting of a Phantom Option Plan was approved by the 2009 AGM. No new LTIP for the Executive Management for 2011 will be included in the Board's proposal. In addition, as in previous years, the Board of Directors will further seek authorisation to deviate from the Policy on Remuneration in case of special circumstances in a specific case.

For a detailed description of the Policy on Remuneration applied in 2010 and the Board and Management remunerations for the year ended 31 December 2010, refer to Note 45

SHARE INFORMATION

For the AGM resolution on issuance of new share capital see page 54, The Lundin Petroleum Share and Shareholders.

DIVIDEND

The Directors propose that no dividend be paid for the year. For details of the dividend policy refer to the share information, page 54.

PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS

The Board of Directors propose that the unrestricted equity of the Parent Company of TSEK 6,487,891, including the net result for the year of TSEK 3,936,086 be brought forward.

CHANGES IN BOARD

At the AGM held on 6 May 2010 the current Board of Directors of Lundin Petroleum were re-elected. It is proposed that Kristin Færøvik be elected as a new member of the Board of Directors at the 2011 AGM.

FINANCIAL STATEMENTS

The result of the Group's operations and financial position at the end of the financial year are shown in the following income statement, statement of comprehensive income, balance sheet, statement of cash flow, statement of changes in equity and related notes, which are presented in US Dollars.

The Parent Company's income statement, balance sheet, statement of cash flow, statement of changes in equity and related notes presented in Swedish Kroner can be found on pages 93–98.

Expressed in TUSD	Note	2010	2009
Continuing operations			
Operating income			
Net sales of oil and gas	1	785,162	567,488
Other operating income	1	13,437	4,347
		798,599	571,835
Cost of sales			
Production costs	2	-157,065	-155,311
Depletion costs	3	-145,316	-118,128
Exploration costs	4	-127,534	-134,792
Impairment costs for oil and gas properties	5	–	-525,719
Impairment costs for goodwill	6	–	-119,047
Gross profit		**368,684**	-481,162
Gain on sale of assets	7	66,126	4,589
Other income		1,044	1,222
General, administration and depreciation expenses	8	-42,004	-28,841
Operating profit		**393,850**	-504,192
Result from financial investments			
Financial income	9	20,956	82,031
Financial expenses	10	-33,463	-52,472
		-12,507	29,559
Result from share in associated company	11	–	-25,504
Profit before tax		**381,343**	-500,137
Corporation tax	12	-251,865	-45,669
Petroleum tax	12	–	–
		-251,865	-45,669
Net result from continuing operations		**129,478**	-545,806
Discontinued operations			
Net result from discontinued operations	13	368,992	8,737
Net result		**498,470**	-537,069
Net result attributable to the shareholders of the Parent Company:			
From continuing operations		142,883	-420,005
From discontinued operations		368,992	8,737
		511,875	-411,268
Net result attributable to non-controlling interest:			
From continuing operations		-13,405	-125,801
From discontinued operations		–	–
		-13,405	-125,801
Net result		**498,470**	-537,069
Earnings per share – USD [1]			
From continuing operations		0.46	-1.34
From discontinued operations		1.18	0.03
Earnings per share – USD[1]	40	1.64	-1.31
Diluted earning per share – USD [1]			
From continuing operations		0.46	-1.34
From discontinued operations		1.18	0.03
Diluted earnings per share – USD [1]	40	1.64	-1.31

[1] Based on net result attributable to shareholders of the Parent Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2010	2009
Net result		**498,470**	-537,069
Other comprehensive income			
Exchange differences foreign operations		-43,972	74,763
Cash flow hedges		-378	47,583
Available-for-sale financial assets		53,128	-19,158
Income tax relating to other comprehensive income	12	-1,771	-19,064
Other comprehensive income, net of tax		7,007	84,124
Total comprehensive income		**505,477**	-452,945
Total comprehensive income attributable to:			
Shareholders of the Parent Company		510,165	-317,291
Non-controlling interest		-4,688	-135,654
		505,477	-452,945

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

Expressed in TUSD	Note	2010	2009	2008[1]
ASSETS				
Non-current assets				
Oil and gas properties	14	1,998,971	2,540,348	2,688,166
Solar power properties	15	–	644	–
Other tangible assets	16	15,271	15,283	16,390
Goodwill	17	–	674	119,047
Other intangible assets	18	–	5,132	–
Shares in jointly controlled entities and associated companies	19	–	–	64,748
Other shares and participations	20	68,613	32,369	15,573
Long-term receivables		23,791	24,239	2,849
Deferred tax	12	15,066	27,850	25,842
Derivative instruments	21	–	231	–
Other financial assets	22–23	22,474	28,598	31,456
Total non-current assets		**2,144,186**	2,675,368	2,964,071
Current assets				
Inventories	24	20,039	27,373	26,395
Trade receivables	25	94,190	80,721	74,511
Prepaid expenses and accrued income	26	6,351	9,833	9,954
Short-term loan receivables		74,527	33,907	6,900
Derivative instruments	21	–	–	440
Tax receivables		–	2,241	59,060
Joint venture debtors		21,389	28,930	26,684
Other receivables	27	19,751	14,947	11,230
Cash and cash equivalents	28	48,703	77,338	57,445
Total current assets		**284,950**	275,290	272,619
TOTAL ASSETS		**2,429,136**	2,950,658	3,236,690
EQUITY AND LIABILITIES				
Equity				
Share capital		463	463	463
Additional paid in capital		483,565	909,214	904,873
Other reserves	29	-66,135	-68,836	-150,769
Retained earnings		-9,352	712,085	613,917
Net result		511,875	-411,268	93,958
Shareholders' equity		**920,416**	1,141,658	1,462,442
Non-controlling interest		77,365	95,555	179,793
Total equity		**997,781**	1,237,213	1,642,235
Non-current liabilities				
Provision for site restoration	30	93,766	132,698	89,648
Pension provision	31	1,421	1,354	1,298
Provision for deferred tax	12	650,695	743,646	674,283
Derivative instruments	21	–	3,122	7,028
Other provisions	32	23,805	16,802	7,113
Bank loans	33	458,835	545,729	555,626
Other non-current liabilities		17,836	12,598	–
Total non-current liabilities		**1,246,358**	1,455,949	1,334,996
Current liabilities				
Trade payables		16,031	20,487	35,393
Tax liabilities	12	39,679	20,870	15,803
Derivative instruments	21	6,866	7,074	38,980
Accrued expenses and prepaid income	36	7,667	16,472	13,166
Short-term debt	33	450	32,400	6,900
Joint venture creditors		100,931	140,046	122,211
Other liabilities	37	13,373	20,147	27,006
Total current liabilities		**184,997**	257,496	259,459
TOTAL EQUITY AND LIABILITIES		**2,429,136**	2,950,658	3,236,690
Pledged assets	38	459,220	699,506	589,686
Contingent liabilities	39	–	–	23,500

[1] Following the change in presentation currency in 2010, an additional comparative period is presented (which is the same as the beginning of the previous comparative period) in accordance with IAS 1.

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2010	2009
Cash flow from operations			
Net result		498,470	-537,069
Gain on sale of assets		-424,196	–
Adjustments for non-cash related items	41–42	575,955	1,005,388
Interest received		589	3,381
Interest paid		-2,937	-6,309
Income taxes paid		-25,029	-26,305
Changes in working capital:			
Decrease/Increase in inventories		2,611	-1,900
Increase in underlift position		-12,068	-4,522
Decrease in receivables		52,885	25,635
Increase/decrease in overlift position		712	-12,392
Decrease/increase in liabilities		-109,874	43,691
Total cash flow from operations		**557,118**	489,598
Cash flow used for investments			
Investment in subsidiary assets		-22,553	26,489
Investment in associated company		235	–
Proceeds from sale of other shares and participations		446	12,285
Change in other financial fixed assets		39	-194
Other payments		-3,085	-2,050
Divestments		-65,808	–
Investment in intangible assets		-200	-2,161
Investment in oil and gas properties		-348,819	-514,313
Investment in solar power properties		-21,210	-644
Investment in office equipment and other assets		-4,853	-2,391
Total cash flow used for investments		**-465,808**	-482,979
Cash flow used for/from financing			
Loans provided [1]		-75,324	–
Proceeds from borrowings		369,308	601,831
Repayments of borrowings		-418,917	-597,081
Paid financing fees		-51	-97
Purchase of own shares		-10,712	–
Proceeds from share issuance subsidiary company		15,191	–
Dividend paid to non-controlling interest		–	-46
Total cash flow used for/from financing		**-120,505**	4,607
Change in cash and cash equivalents		**-29,195**	11,226
Cash and cash equivalents at the beginning of the year		77,338	57,445
Currency exchange difference in cash and cash equivalents		560	8,667
Cash and cash equivalents at the end of the year		**48,703**	77,338
Cash flow from operations			
From continuing operations		880,394	433,227
Used for/from discontinued operations		-323,276	56,371
		557,118	489,598
Cash flow used for investments			
Used for continuing operations		-423,422	-416,853
Used for discontinued operations		-42,386	-66,126
		-465,808	-482,979
Cash flow used for/from financing			
Used for/from continuing operations		-120,505	19,607
Used for discontinued operations		–	-15,000
		-120,505	4,607

[1] Loan provided to Etrion

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 cash equivalents comprise cash and short-term deposits maturing within less than three months.

Total Equity comprises: Expressed in TUSD	Share capital [1]	Additional paid-in-capital	Other reserves [2]	Retained earnings	Net result	Non-controlling interest	Total equity
Balance at 1 January 2009	**463**	**904,873**	**-150,769**	**613,917**	**93,958**	**179,793**	**1,642,235**
Transfer of prior year net result	–	–	–	93,958	-93,958	–	–
Net result	–	–	–	–	-411,268	-125,801	-537,069
Currency translation difference	–	–	83,868	748	–	-9,853	74,763
Cash flow hedges	–	–	47,583	–	–	–	47,583
Available for sale financial assets	–	–	-19,158	–	–	–	-19,158
Income tax relating to other comprehensive income	–	–	-19,064	–	–	–	-19,064
Total comprehensive income	**–**	**–**	**93,229**	**748**	**-411,268**	**-135,654**	**-452,945**
Transactions with owners							
Acquired on consolidation	–	–	14,899	6,225	–	18,770	39,894
Divestments	–	–	-26,195	–	–	32,692	6,497
Transfer of share based payments	–	4,341	–	-4,341	–	–	–
Share based payments	–	–	–	1,578	–	–	1,578
Total transactions with owners	**–**	**4,341**	**-11,296**	**3,462**	**–**	**51,462**	**47,969**
Non-controlling share in dividend	–	–	–	–	–	-46	-46
Balance at 31 December 2009	**463**	**909,214**	**-68,836**	**712,085**	**-411,268**	**95,555**	**1,237,213**
Transfer of prior year net result	–	–	–	-411,268	411,268	–	–
Net result	–	–	–	–	511,875	-13,405	498,470
Currency translation difference	–	–	-52,938	249	–	8,717	-43,972
Cash flow hedges	–	–	-378	–	–	–	-378
Available for sale financial assets	–	–	53,128	–	–	–	53,128
Income tax relating to other comprehensive income	–	–	-1,771	–	–	–	-1,771
Total comprehensive income	**–**	**–**	**-1,959**	**249**	**511,875**	**-4,688**	**505,477**
Transactions with owners							
Acquired on consolidation	–	–	–	–	–	94	94
Divestments	–	–	4,660	-10,520	–	-13,596	-19,456
Distributions	–	-419,316	–	-298,288	–	–	-717,604
Purchase of own shares	–	-10,712	–	–	–	–	-10,712
Transfer of share based payments	–	4,379	–	-4,379	–	–	–
Share based payments	–	–	–	2,769	–	–	2,769
Total transactions with owners	**–**	**-425,649**	**4,660**	**-310,418**	**–**	**-13,502**	**-744,909**
Balance at 31 December 2010	**463**	**483,565**	**-66,135**	**-9,352**	**511,875**	**77,365**	**997,781**

[1] Lundin Petroleum AB's issued share capital at 31 December 2010 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each, the USD equivalent of the issued share capital is TUSD 463. Included in the number of shares issued at 31 December 2010 are 6,882,638 shares which Lundin Petroleum holds in its own name.

[2] Other reserves are described in detail in Note 29.

Introduction

Lundin Petroleum's annual report for 2010 has been prepared in compliance with International Financial Reporting Standards (IFRS). 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 and the Swedish Annual Accounts Act (1995:1554). In addition RFR 1 "Supplementary Rules for Groups" has been applied as issued by the Swedish Financial Reporting Board. The Parent Company applies the same accounting principles as the Group, except as specified in the Parent Company accounting principles on page 93.

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 principles. 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".

A description of the Company's operations and registered office is made in the Directors' report on page 57.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through the profit or loss.

During the first quarter of 2010, Lundin Petroleum announced its intention to spin-off the United Kingdom (UK) business. The spin-off was completed on 6 April 2010 with the sale of the UK business in exchange for shares in the newly incorporated company, EnQuest and the subsequent distribution of the EnQuest shares received to Lundin Petroleum shareholders on 9 April 2010. The results of the UK business are included in the Lundin Petroleum accounts up until the end of the first quarter of 2010 and are shown as discontinued operations.

On 12 November 2010, Lundin Petroleum completed the distribution of its shares in Etrion Corporation to Lundin Petroleum's shareholders, in connection with the listing of the shares of Etrion on the NASDAQ OMX Stockholm exchange. On 29 December 2010, Lundin Petroleum completed the sale of its non-operated interests in Salawati Basin and Salawati Island assets in Indonesia to RH Petrogas. The results from Etrion, Salawati Basin and Salawati Island are included in the consolidated accounts up to the date of the distribution/sale and have not been considered as discontinued operations as the operations are not significant to the presentation of the Group accounts.

Accounting standards, amendments and interpretations effective in 2010 and impact on the Group's financial statements.

IFRIC 9, 'Reassessment of embedded derivatives and' IAS 39, 'financial instruments, recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value though profit or loss category. IFRIC 9 is not relevant to the Group's operations.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective on or after 1 July 2009). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. IFRIC 16 is not relevant to the Group's operations.

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This interpretation was applied during the year.

IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. The interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property plant and equipment that the entity must then use either or connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. This interpretation was applied during the year.

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. (effective on or after 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. This interpretation does not have any impact on the Group's financial statements.

IFRS 3 (Revised), 'Business combinations' (effective on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This revision has had an impact on the Group accounts as Etrion's acquisitions have been treated in line with IFRS 3 revised.

IFRS 5 (amendment), 'non-current assets held-for-sale and discontinued operations'. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal Groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group applies IFRS 5 (amendment) from 1 January 2010. The amendment does not have a material impact on the Group's financial statements.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group applies IAS 1 (amendment) from 1 January 2010. The amendment does not have a material impact on the Group's financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) does not have a material impact on the Group's financial statements).

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2010). The amendment clarifies that the largest cash generating unit to which goodwill should be allocated for the purposes of impairment testing is an operating segment. The amendment does not result in a material impact on the Group's financial statements.

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 purchase method of accounting is used to account for the acquisition of subsidiaries. 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. 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 non-controlling interest. The accounting for the excess of the cost of an acquisition over the fair value of the assets acquired refer to "Goodwill".

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

All intercompany profits, transactions and balances are eliminated. 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.

Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Jointly controlled entities

As stated above, a subsidiary that is controlled by the Group will be fully consolidated within the results of Lundin Petroleum. Joint control exists when the Group does not have the control to determine the strategic operating, investing and financing policies of a partially owned entity without the co-operation of others. When this is the case the entity is proportionally consolidated in accordance with the IFRS definition of joint control in an entity.

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 percent but not more than 50 percent of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method and are initially recognised at cost. 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 directly in other comprehensive income of the Group. 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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's percentage in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Other shares and participations

Investments where the shareholding is less than 20 percent of the voting rights are treated as available for sale financial assets. If the value of these assets has declined significantly or has lasted for a longer period, an impairment charge is recognised in the income statement. If the event causing the impairment no longer exists, the impairment charge can be reversed in the income statement unless it involves an equity instrument. Dividend received attributable to these assets is recognised in the income statement as part of net financial items.

Jointly controlled assets

Oil and gas operations are conducted by the Group as co-licencees 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 United States Dollars, which is the currency the Group has elected to use as the presentation currency.

IAS 21 states that a company may present its financial statements in any currency. The generally accepted currency of the oil industry is United States Dollars and as such the Board of Directors of Lundin Petroleum has resolved that Lundin Petroleum will present its financial statements in United States Dollars with effect from 1 January 2010. The Board believes that presenting the financial statements in this currency will further assist readers in understanding the underlying financial position of the Company and its results. As a consequence the comparative figures are translated into United States Dollars whereby assets and liabilities are translated at the closing rate at the date of that balance sheet and income and expenses are translated at the exchange rates at the dates of the transactions. Equity is translated against historical rates.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and foreign exchange currency differences are recognised in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in financial income/expenses in the income statement except deferred exchange differences on qualifying cash flow hedges which are recorded in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the balance sheet rate of exchange.

Presentation currency

The balance sheets and income statements of foreign Group companies are translated for consolidation purposes 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 average rates of exchange for the year, except for transactions where it is more relevant to use the rate of the day of the transaction. The translation differences which arise are recorded directly in the foreign currency translation reserve within other comprehensive income. Upon 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 arising from net investments in subsidiaries, used for financing exploration activities, are recorded directly in other comprehensive income.

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

	2010 Average	2010 Period end	2009 Average	2009 Period end
1 USD equals NOK	6.0345	5.8564	6.2650	5.7767
1 USD equals Euro	0.7537	0.7484	0.7177	0.6942
1 USD equals Rouble	30.3570	30.5493	31.6803	29.9556
1 USD equals SEK	7.1954	6.7097	7.6223	7.1165

Classification of assets and liabilities

Non-current 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.

Oil and gas properties

Oil and gas operations are recorded at historical 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.

Costs directly associated with an exploration well are capitalised until the determination of reserves is evaluated. If it is determined that a commercial discovery has not been achieved, these exploration costs are charged to the income statement. During the exploration and development phases, no depletion is charged. The field will be transferred from the non-production cost pool to the production cost pool within oil and gas properties once production commences, and accounted for as a producing asset. Routine maintenance and repair costs for producing assets are expensed to the income statement when they occur.

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 percent 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 percent 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 in the exploration stage are offset against the related capitalised costs of each cost centre with any excess of net proceeds over all costs capitalised included in the income statement. In the event of a sale in the exploration stage any deficit is included in the income statement.

Impairment tests are performed annually or when there are facts and circumstances that suggest that the net book value of capitalised costs within each field area cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is higher than 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 unless those costs can be supported by future cash flows from that asset. Provision is made for any impairment, where the net carrying value, according to the above, exceeds the recoverable amount, which is the higher of value in use and fair value less costs to sell, determined through estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting. 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 economic life of 20 years for real estate and 3 to 5 years for office equipment and other assets.

Additional costs to existing assets are included in the assets' net book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The net book value of any replaced parts is written off. Other additional expenses are deemed to be repair and maintenance costs and are charged to the income statement when they are incurred.

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

Goodwill

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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units from which the benefits of the business combination originates. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. If the carrying value exceeds its recoverable amount the impairment loss is allocated first to reduce the goodwill on the unit and thereafter to the other assets of the unit. Impairment losses on goodwill are subsequently not reversed.

Upon disposal of a subsidiary or a jointly controlled entity the amount of goodwill is included in the profit or loss on disposal.

Other intangible assets

Permitted projects and licences acquired in a business combination are recognised at fair value at the acquisition date. Permitted projects and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate costs of permitted projects and licences over their estimated useful lives which are usually determined according to the term of the energy supply contract signed with the local grid operator for the solar power projects.

Non-current assets held-for-sale

In order to classify an asset as a non-current asset held-for-sale the carrying value needs to be assumed to be recovered through a sale transaction rather than through continuing use. It must also be available for immediate sale in its present condition and a sale must be highly probable. If the asset is classified as a non-current asset held-for-sale it will be recorded at the lower of its carrying value and fair value less estimated cost of sale. There are no non-current assets held-for-sale at the balance sheet date.

Impairment of assets excluding goodwill and oil and gas properties

At each balance sheet date the Group assesses whether there is an indication that an asset may be impaired. Where an indicator of impairment exists or when impairment testing for an asset is required, the Group makes a formal assessment of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is calculated by discounting estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the income statement. If indications exist that previously recognised impairment losses no longer exist or are decreased, the recoverable amount is estimated. When a previously recognised impairment loss is reversed the carrying amount of the asset is increased to the estimated recoverable amount but the increased carrying amount may not exceed the carrying amount after depreciation that would have been determined had no impairment loss been recognised for the asset in prior years.

Financial instruments

Assets and liabilities are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost unless stated otherwise. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Lundin Petroleum recognises the following financial instruments:

» Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment. Translation differences are reported in the income statement except for the translation differences arising from long-term loans to subsidiaries, used for financing exploration activities and for which no fixed terms of repayment exists, which are recorded directly in other comprehensive income.

» Other shares and participations (available for sale financial assets) are valued at fair value and any change in fair value is recorded directly in other comprehensive income until realised. Where 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. A gain or a loss on available-for-sale financial assets shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognised.

» 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. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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. If a hedging does no longer fulfil the criteria for the hedge accounting, the value of the hedged asset of liability for which the effective interest rate method has been used will be amortised in the income statement over the remaining life. There are no fair value hedges at the balance sheet date.
2. Cash flow hedge
   The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income 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 other comprehensive income remains in shareholders' equity until the forecast transaction no longer is expected to occur, at which point it is being 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 other comprehensive income is transferred to the income statement at the time the foreign operation is disposed of. There are no net investment hedges at the balance sheet date.
4. Derivatives that do not qualify for hedge accounting
   When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the income statement.

Inventories

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. 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 cash equivalents

Cash and cash equivalents includes cash at bank, cash in hand and 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.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until these shares are cancelled or sold. Where these shares are subsequently sold, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the Company's equity holders.

The change in fair value of other shares and participations is accounted for in the fair value reserve. Upon the realisation 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 remains in other comprehensive income until the hedged item effects the income statement. The currency translation reserve contains unrealised translation differences due to the conversion of the functional currencies into the presentation 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 legal or constructive 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as financial expense.

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognise the future commitment. An asset is created, as part of the oil and gas property, 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 and consistent with the treatment applied upon initial recognition.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period where appropriate.

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 take a substantial period of time to complete 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.

Employee benefits

Short-term employee benefits

Short-term employee 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 during the vesting period and as a liability in relation to the long-term incentive plan. The liability is measured at fair value and revalued using the Black & Sholes pricing model at each balance sheet date and at the date of settlement, with any change in fair value recognised in the income statement for the period.

Income taxes

The main components of tax are current and deferred. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is matched.

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 a non-cash charge provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values 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 provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date 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.

Deferred tax assets are offset against deferred tax liabilities in the balance sheet where they relate to the same jurisdiction in accordance with IAS 12.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to Executive Management, which, due to the unique nature of each country's operations, commercial terms or fiscal environment, is at a country level. Information for segments is only disclosed when applicable.

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, directly or indirectly, controlled by key management personnel or of its family or of any individual that controls, or has joint control or significant influence over the entity.

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.

Investments in associated companies

The Group determines if the carrying value for investments in associated companies has suffered any impairment where any objective evidence of impairment exists. This assessment is performed to identify where the carrying value exceeds its recoverable amount. The recoverable amounts have been determined based on value in use calculations. Assessments used in these calculations include judgement of the future cash flows, discount rates and exchange rates.

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 treated prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

Estimates in impairment of goodwill
Determination of whether goodwill has suffered any impairment requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The net present value calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

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 both relating to approved and not yet approved developments by the EU and are not mandatory for the 2010 financial statements and have not been adopted early. They related to the Group's accounting periods beginning on or after 1 January 2011 or later periods:

IFRIC 14, (Amendment), "IAS 19 – The limit on a defined benefit assets minimum funding requirements and their interaction" (Effective 1 January 2013). The amendment removes unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. Results in prepayments of contributions are in certain circumstances recognised as an asset rather than an expense. The amendment is not expected to have a material impact on the Group's financial statements.

IFRIC 19 "Extinguishing financial liabilities with equity instruments" (Effective from 1 July 2010). The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's share or other equity instruments to settle the financial liability fully or partially. The interpretation is not expected to have a material impact on the Group's financial statements.

IFRS 9, "Financial instruments" (Effective from 1 January 2013). The standard replaces the multiple classification and measurement models for financial assets in IAS 39. The classification model is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The amendment is not expected to have a material impact on the Group's financial statements.

IAS 24 (revised 2009) "Related party disclosures" (Effective from 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. The revision is not expected to have a material impact on the Group's financial statements.

IAS 32 (Amendment), "Financial Instruments: Presentation – classification of rights issues", (Effective from 1 February 2010). IAS 32 is amended to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is not expected to have a material impact on the Group's financial statements.

NOTE 1 – SEGMENTAL INFORMATION (TUSD)

	2010	2009
Operating income		
Net sales of:		
Crude oil		
- Norway	490,390	296,231
- France	92,681	77,871
- Indonesia	34,994	36,617
- Russia	66,624	74,398
- Tunisia	29,517	25,469
- Netherlands	128	139
	714,334	510,725
Condensate		
- Netherlands	1,088	848
- Indonesia	200	124
	1,288	972
Gas		
- Norway	32,687	18,257
- Netherlands	32,357	37,354
- Indonesia	4,496	180
	69,540	55,791
Net sales from continuing operations	**785,162**	567,488
Net sales from discontinued operations – United Kingdom	62,567	228,111
Net sales	**847,729**	795,599
Other income:		
- France	1,423	1,492
- Netherlands	1,315	1,228
- Other	10,699	1,627
Other income from continuing operations	**13,437**	4,347
Other income from discontinued operations – United Kingdom	1,983	5,906
Total other income	**15,420**	10,253
Total operating income from continuing operations	**798,599**	571,835
Total operating income from discontinued operations – United Kingdom	64,550	234,017
Total operating income	**863,149**	805,852
Operating profit contribution		
- Norway	303,892	153,045
- France	52,309	36,230
- Indonesia	18,203	3,638
- Russia	4,734	-700,677
- Tunisia	11,500	3,159
- Netherlands	7,273	15,125
- Vietnam	-31,906	-7,203
- Other	27,845	-7,509
Operating profit contribution from continuing operations	**393,850**	-504,192
Total operating profit contribution from discontinued operations – United Kingdom	20,774	35,919
Total operating profit contribution	**414,624**	-468,273

Revenues are derived from various external customers. Intercompany sales amounts to TUSD nil (TUSD nil) and intercompany purchases amounts to TUSD nil (TUSD nil) and therefore there are no reconciling items towards the amounts stated in the income statement.

	2010	2009
Average crude sales price, USD per boe		
- Norway	77.93	60.48
- France	79.35	60.94
- Netherlands	44.37	50.49
- Indonesia	65.31	60.58
- Russia	51.65	37.64
- Tunisia	77.15	54.72
Consolidated from continuing operations	**71.92**	55.16
Total from discontinued operations - United Kingdom	76.82	62.83
Total consolidated	**72.26**	57.16

	2010	2009
Average depletion cost, USD per boe		
- Norway	15.33	12.90
- France	12.60	10.26
- Netherlands	21.79	16.76
- Indonesia	4.75	8.18
- Russia	4.54	4.56
- Tunisia	0.02	22.87
Consolidated from continued operations	**12.85**	11.41
Total from discontinued operations - United Kingdom	13.99	13.83
Total consolidated	**12.93**	12.06

	Assets		Equity and Liabilities	
	2010	2009	2010	2009
France	187,991	243,130	73,749	91,958
Norway	1,145,846	1,004,753	675,995	454,319
Netherlands	203,941	163,710	511,118	437,953
Russia	644,913	661,875	106,761	135,425
Indonesia	93,795	90,465	10,883	28,258
Tunisia	11,065	17,020	19,471	26,070
Congo (Brazzaville)	34,093	30,646	672	6,649
Vietnam	2,179	17,626	1,047	4,847
Malaysia	45,105	33,621	12,613	9,089
Venezuela	–	11,802	–	2,066
United Kingdom	–	635,321	–	495,685
Other	60,208	40,689	19,046	21,126
Assets/Liabilities per country	**2,429,136**	2,950,658	**1,431,355**	1,713,445
Shareholders' equity	N/A	N/A	920,416	1,141,658
Non-controlling interest	N/A	N/A	77,365	95,555
Total equity for the Group	**N/A**	N/A	**997,781**	1,237,213
Group total	**2,429,136**	2,950,658	**2,429,136**	2,950,658

See also Note 14 for detailed information of the oil and gas properties including depletion per country. There are no reconciling items towards the balance sheet totals.

NOTE 2 – PRODUCTION COSTS (TUSD)

	2010	2009
Cost of operations [1]	97,179	95,415
Tariff and transportation expenses	17,438	15,738
Direct production taxes	41,624	40,987
Change in lifting position	-6,717	5,108
Inventory movement - hydrocarbons	3,317	-5,160
Inventory movement - well supplies	-9	141
Other	4,233	3,082
Production costs from continuing operations	**157,065**	155,311
Production costs from discontinued operations – United Kingdom	32,030	140,036
Total production costs	**189,095**	295,347

[1] Cost of operations includes TUSD 1,108 (TUSD –) relating to solar properties.

NOTE 3 – DEPLETION COSTS (TUSD)

	2010	2009
Norway	101,643	65,301
France	14,623	12,821
Netherlands	16,490	12,727
Indonesia	4,218	7,334
Russia	6,002	8,627
Tunisia	6	11,318
Depletion of oil and gas properties	142,982	118,128
Depletion of solar properties – Italy	2,334	–
Depletion from continuing operations	**145,316**	118,128
Depletion from discontinued operations – United Kingdom	11,362	51,778
Total depletion costs	**156,678**	169,906

NOTE 4 – EXPLORATION COSTS (TUSD)

	2010	2009
Norway	94,526	69,544
France	214	3,128
Russia	–	35,000
Sudan	–	-1,580
Congo (Brazzaville)	–	2,522
Vietnam	31,906	7,203
Indonesia	604	7,300
Cambodia	29	10,989
Other	255	686
Exploration costs from continuing operations	**127,534**	134,792
Exploration costs from discontinued operations – United Kingdom	61	6,149
Total exploration costs	**127,595**	140,941

During the year exploration and appraisal project costs are capitalised as they are incurred and then reviewed on a regular basis to assess their future recoverability. When a decision is made not to proceed with a project the relevant costs are expensed.

Four unsuccessful exploration wells were drilled on licences PL359, PL400, PL409 and PL476 in Norway during 2010. The exploration costs in Norway include costs associated with these wells amounting to a total of MUSD 80.6. Other Norwegian exploration costs expensed in 2010 amounted to MUSD 13.9.

In Block 06/94, Vietnam a total of MUSD 31.9 was expensed in the reporting period relating to two unsuccessful wells and the associated seismic, study and licence costs.

Other includes exploration costs of new venture projects.

NOTE 5 – IMPAIRMENT COSTS FOR OIL AND GAS PROPERTIES (TUSD)

	2010	2009
Russia	–	525,719
Total impairment costs for oil and gas properties	–	525,719

There were no impairment costs in the reporting period.

In 2009, Lundin Petroleum assessed the value of discoveries to date on the Lagansky Block, Russia and impaired the carrying value which resulted in an impairment charge to the income statement for the comparative reporting period of MUSD 525.7.

NOTE 6 – IMPAIRMENT COSTS FOR GOODWILL (TUSD)

Lundin Petroleum carried no goodwill in the balance sheet as at 31 December 2010, the amount of goodwill relating to Russia being fully written off at the end of 2009. In the comparative reporting period, Lundin Petroleum expensed MUSD 119.0 relating to impairment of goodwill which was recognised on the Valkyries acquisition in 2006.

NOTE 7 – GAIN ON SALE OF ASSETS (TUSD)

	2010	2009
Etrion Corporation	57,760	–
Salawati assets	8,366	–
Lundin International B.V.	–	29,975
Russian onshore fields	–	-25,386
Total gain of sale of assets	**66,126**	4,589

For further detail regarding the sale of assets, reference is made to the paragraph "Gain on sale of assets" in the Directors' report on page 61. The gain on sale from the spin-off of the UK business is shown under discontinued operations - see Note 13.

NOTE 8 – REMUNERATION TO THE GROUP'S AUDITORS (TUSD)

	2010	2009
PricewaterhouseCoopers		
Audit fees	912	927
Audit related	165	166
Tax advisory services	–	52
Other fees	36	–
Total	**1,113**	1,145
Remuneration to other auditors than PricewaterhouseCoopers	213	268
Total	**1,326**	1,413

Audit related costs include the review of the half year report.

NOTE 9 – FINANCIAL INCOME (TUSD)

	2010	2009
Interest income	3,409	4,595
Foreign currency exchange gain, net	13,360	66,019
Insurance proceeds	377	–
Gain on sale of shares	–	10,244
Guarantee fees	2,348	114
Other financial income	1,462	1,059
Financial income from continuing operations	**20,956**	82,031
Financial income from discontinued operations – United Kingdom	360	32
Total financial income	**21,316**	82,063

Exchange rate variations result primarily from fluctuations in the value of the USD currency against a pool of currencies which includes, amongst others, EUR, NOK and the Russian Rouble (RUR). Lundin Petroleum has USD denominated debt recorded in subsidiaries using a functional currency other than USD.

The gain on sale of shares in 2009 amounting to TUSD 10,244 relates to the sale of the investment in a company owning an interest in Dutch gas processing and transportation infrastructure.

NOTE 10 – FINANCIAL EXPENSES (TUSD)

	2010	2009
Loan interest expenses	10,047	8,895
Result on interest rate hedge settlement	6,990	5,669
Change in market value of interest rate hedge	3,872	452
Unwinding of site restoration discount	3,989	2,490
Amortisation of deferred financing fees	2,360	2,539
Loss on sale of shares	3,879	–
Other financial expenses	2,326	32,427
Financial expenses from continuing operations	**33,463**	52,472
Financial expenses from discontinued operations – United Kingdom	1,224	24,398
Total financial expenses	**34,687**	76,870

Included in other financial expenses in the comparative period is an amount of MUSD 29.8 relating to the write down of the investment in Etrion following Etrion's write down of its Venezuelan oil and gas assets.

NOTE 11 – RESULT FROM SHARE IN ASSOCIATED COMPANY (TUSD)

	2010	2009
Group's share of net result	–	-25,504
Total result from share in associated company	**–**	-25,504

The result from share in associated company for the comparative reporting period amounted to MUSD -25.5 and consisted of the 44.8% equity share of the result of Etrion owned by Lundin Petroleum. The results of Etrion have been fully consolidated into the Lundin Petroleum consolidated accounts from 30 September 2009 and as such, there is no amount recorded for 2010 in the result from share in associated company.

Included in the expense of MUSD 25.5 for the comparative period is an amount of MUSD 22.8 relating to the write down of Etrion's Venezuelan oil and gas assets.

NOTE 12 – TAXES (TUSD)

Tax charge	Corporation tax		Petroleum tax	
	2010	2009	2010	2009
Current				
- France	19,116	8,987	–	–
- Norway	36,115	2,188	–	–
- Netherlands	5,211	5,528	–	–
- Indonesia	3,661	2,505	–	–
- Russia	1,469	2,158	–	–
- Tunisia	2,178	7,928	–	–
- Singapore	13	18	–	–
- Sweden	-1,018	2,309	–	–
- Switzerland	648	393	–	–
- Italy (solar properties)	759	–	–	–
Continuing operations	**68,152**	32,014	**–**	–
Discontinued operations	7,315	6,546	–	–
Total current tax	**75,467**	38,560	**–**	–
Deferred				
- France	1,254	1,008	–	–
- Norway	183,309	111,238	–	–
- Netherlands	-382	3,555	–	–
- Indonesia	3,739	97	–	–
- Russia	520	-100,457	–	–
- Tunisia	1,576	-3,437	–	–
- Congo (Brazzaville)	-4,232	1,569	–	–
- Ireland	800	–	–	–
- Malaysia	2,545	6,188	–	–
- Singapore	175	-447	–	–
- Vietnam	-4,043	884	–	–
- Cambodia	–	-2,106	–	–
- Kenya	–	-2,106	–	–
- Ethiopia	–	-2,331	–	–
- Italy (solar properties)	-1,548	–	–	–
Continuing operations	**183,713**	13,655	**–**	–
Discontinued operations	4,014	2,237	-2,341	-5,967
Total deferred tax	**187,727**	15,892	**-2,341**	-5,967
Total tax	**263,194**	54,452	**-2,341**	-5,967

Included in the comparative period is a deferred tax release on the Lagansky Block, Russia impairment, amounting to TUSD 86,896.

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:

	2010	2009
Profit before tax	381,343	-500,137
Tax calculated at the corporate tax rate in Sweden (26.3%)	-100,293	131,536
Effect of foreign tax rates	-163,218	-139,242
Tax effect of expenses non-deductible for tax purposes	-15,063	-66,148
Tax effect of deduction for petroleum tax	12,394	14,347
Tax effect of income not subject to tax	20,605	17,596
Tax effect of utilisation of unrecorded tax losses	2,700	5,555
Tax effect of creation of unrecorded tax losses	-7,896	-2,705
Adjustments to prior year tax assessments	-1,094	-6,608
Tax charge	**-251,865**	-45,669

continued – NOTE 12

The tax charge relating to components of other comprehensive income is as follows:

	2010			2009		
	Before tax	Tax charge/credit	After tax	Before tax	Tax charge/credit	After tax
Exchange differences on foreign operations	-43,972	–	-43,972	74,763	–	74,763
Cash flow hedges	-378	238	-140	47,583	-21,073	26,510
Available for sale financial assets	53,128	-2,009	51,119	-19,158	2,009	-17,149
Other comprehensive income	**8,778**	**-1,771**	**7,007**	103,188	-19,064	84,124
Current tax		–			–	
Deferred tax		-1,771			-19,064	
		-1,771			-19,064	

The deferred tax charge amounting to TUSD 1,771 (TUSD 19,064) has been recorded directly in other comprehensive income.

Tax liability - current and deferred	Current tax liability		Deferred tax liability	
	2010	**2009**	**2010**	**2009**
Corporation tax				
- France	9,049	1,008	32,594	39,012
- Norway	20,856	1,780	517,962	333,637
- Netherlands	6,042	5,373	4,512	7,566
- Indonesia	260	1,939	4,698	14,034
- Russia	7	-896	78,317	78,060
- Tunisia	1,934	7,496	658	2,189
- Sweden	1,531	2,473	–	–
- United Kingdom	–	1,605	–	195,298
- Switzerland	–	92	–	–
- Congo (Brazzaville)	–	–	–	4,232
- Malaysia	–	–	10,708	8,163
- Vietnam	–	–	–	4,043
- Other	–	–	1,246	1,092
Total corporation tax liability	**39,679**	20,870	**650,695**	687,326
Petroleum tax				
- United Kingdom	–	–	–	56,320
Total petroleum tax liability	**–**	–	**–**	56,320
Total tax liability	**39,679**	20,870	**650,695**	743,646

Specification of deferred tax assets and tax liabilities [1]	31 December 2010	31 December 2009
Deferred tax assets		
Unused tax loss carry forwards	29,183	217,757
Fair value of financial instruments	1,716	4,671
Other deductible temporary differences	2,790	3,662
	33,689	226,090
Deferred tax liabilities		
Accelerated allowances	581,788	859,485
Capitalised acquisition cost	1,088	1,173
Deferred tax on excess values	77,936	78,675
Other taxable temporary differences	8,506	2,553
	669,318	941,886

[1] The specification of deferred tax assets and tax liabilities agree to the face of the balance sheet due to the netting off of balances in the balance sheet when they relate to the same jurisdiction.

The deferred tax asset is primarily relating to tax loss carried forwards in Norway for an amount of TUSD 15,828 (TUSD 142,220) and the Netherlands for an amount of TUSD 12,732 (TUSD 15,209). The balance for the comparative period also includes unused tax loss carry forwards in the United Kingdom for an amount of TUSD 56,476. Deferred tax assets in relation to tax loss carried forwards are only recognised in so far that there is a reasonable certainty as to the timing and the extent of their realisation.

The deferred tax liability arises mainly on accelerated allowances, being the difference between the book and the tax value of oil and gas properties and tax on the excess value of the acquired assets in Russia.

Unrecognised tax losses
The Group has Dutch tax loss carry forwards, including tax losses in the current financial year, of MUSD 38.5 which in part are not yet assessed. The majority of the tax losses can be utilised up to 9 years. A deferred tax asset relating to the tax loss carry forwards has not been recognised as at 31 December 2010 due to the uncertainty as to the timing and the extent of their utilisation. This treatment is consistent with the comparative year's accounts.

Other
During 2005 the Swedish tax authorities (Skatteverket) conducted a tax audit of Lundin Petroleum AB for the financial years 2002 to 2003. The tax authorities disallowed a portion of expenses recharged to Lundin Petroleum AB by Group companies for costs associated with management services and certain other fees. 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 decision was appealed to the County Administrative Court in Stockholm and an extension for the payment of the penalty tax was obtained. In its decision of 15 December 2008, the County Administrative Court partly overruled the decision of the tax authorities. However, the full deduction of management fees and certain other fees was rejected. The decision was appealed to the Administrative Court of Appeal with regard to the deduction of management fees and the penalty tax as the Company believes that the management costs are a valid charge to the Parent Company of the Lundin Petroleum Group and that penalty tax should not be levied. In 2010 the Administrative Court of appeal maintained the ruling of the County Administrative Court. Following the decision of the court the penalty tax of TUSD 681 has been paid during 2010. Lundin Petroleum has requested permission to appeal to the Supreme Administrative Court and is now awaiting a response to such request.

NOTE 13 – DISCONTINUED OPERATIONS (TUSD)

Discontinued operations – United Kingdom	2010	2009
Net sales	62,567	228,111
Other operating income	1,983	5,906
Operating income	**64,550**	234,017
Production costs	-32,030	-140,036
Depletion costs	-11,362	-51,778
Exploration costs	-61	-6,149
General, administration and depreciation expenses	-323	-135
Operating profit	**20,774**	35,919
Financial income	360	32
Financial expense	-1,224	-24,398
Profit before tax	**19,910**	11,553
Tax	-8,988	-2,816
Net result from discontinued operations	**10,922**	8,737
Gain on sale of assets	358,070	–
Net result from discontinued operations	**368,992**	8,737

During the first quarter of 2010, Lundin Petroleum announced its intention to spin-off the United Kingdom (UK) business. The spin-off was completed on 6 April 2010 with the sale of the UK business in exchange for shares in the newly incorporated company, EnQuest, and the subsequent distribution of the EnQuest shares received to Lundin Petroleum shareholders on 9 April 2010. The results of the UK business are included in the Lundin Petroleum accounts up until the end of the first quarter of 2010 and are shown as discontinued operations.

NOTE 14 – OIL AND GAS PROPERTIES (TUSD)

	31 December 2010	31 December 2009
Production cost pools	879,921	1,223,538
Non-production cost pools	1,119,050	1,316,810
	1,998,971	2,540,348

2010 production cost pools	UK	France	Norway	Netherlands	Indonesia	Russia	Tunisia	Total
Cost								
1 January	845,424	245,136	499,741	101,634	63,455	89,482	105,870	1,950,742
Additions	17,125	13,189	79,755	4,458	10,246	6,633	6	131,412
Disposals	-862,549	–	–	–	-68,003	–	–	-930,552
Change in estimates	–	3,162	6,790	3,683	–	–	–	13,635
Reclassifications	–	–	188,378	–	55,216	–	–	243,594
Currency translation difference	–	-17,526	-7,477	-6,995	1,378	-550	–	-31,170
31 December	–	243,961	767,187	102,780	62,292	95,565	105,876	1,377,661
Depletion								
1 January	-328,179	-83,050	-106,554	-40,985	-37,616	-24,950	-105,870	-727,204
Depletion charge for the year	-11,362	-14,623	-101,643	-16,490	-4,218	-6,002	-6	-154,344
Disposals	339,541	–	–	–	39,658	–	–	379,199
Currency translation difference	–	5,770	-1,710	2,514	-1,965	–	–	4,609
31 December	–	-91,903	-209,907	-54,961	-4,141	-30,952	-105,876	-497,740
Net book value	**–**	**152,058**	**557,280**	**47,819**	**58,151**	**64,613**	**–**	**879,921**

2009 production cost pools	UK	France	Norway	Netherlands	Indonesia	Russia	Tunisia	Total
Cost								
1 January	767,914	230,630	384,018	86,844	60,964	140,745	103,759	1,774,874
Additions	63,524	6,323	15,609	5,316	1,592	10,074	15	102,453
Disposals	–	–	–	–	–	-60,679	–	-60,679
Change in estimates	3,387	-66	15,499	6,403	–	–	2,242	27,465
Reclassifications	10,599	–	–	–	1,215	–	–	11,814
Currency translation difference	–	8,249	84,615	3,071	-316	-658	-146	94,815
31 December	845,424	245,136	499,741	101,634	63,455	89,482	105,870	1,950,742
Depletion								
1 January	-276,401	-67,493	-29,239	-27,037	-30,731	-76,123	-94,705	-601,729
Depletion charge for the year	-51,778	-12,821	-65,301	-12,727	-7,334	-8,627	-11,318	-169,906
Disposals	–	–	–	–	–	59,340	–	59,340
Currency translation difference		-2,736	-12,014	-1,221	449	460	153	-14,909
31 December	-328,179	-83,050	-106,554	-40,985	-37,616	-24,950	-105,870	-727,204
Net book value	**517,245**	**162,086**	**393,187**	**60,649**	**25,839**	**64,532**	**–**	**1,223,538**

2010 non-production cost pools	1 January	Additions	Disposals	Write-offs	Changes in estimate	Reclassification	Currency translation difference	31 December
Norway	558,599	188,058	–	-94,526	–	-188,378	-2,504	461,249
United Kingdom	71,641	249	-71,829	-61	–	–	–	–
France	6,821	997	–	-214	–	–	-491	7,113
Netherlands	1,021	948	–	–	–	–	-67	1,902
Indonesia	65,727	13,486	-3,115	-604	–	-55,216	-23	20,255
Russia	534,186	18,252	–	–	–	–	-2,319	550,119
Tunisia	217	38	–	-255	–	–	–	–
Ireland	761	3,369	–	–	–	–	-31	4,099
Congo (Brazzaville)	29,800	2,456	–	–	–	–	–	32,256
Cambodia	–	29	–	-29	–	–	–	–
Malaysia	31,474	10,627	–	–	–	–	-44	42,057
Vietnam	16,563	15,343	–	-31,906	–	–	–	–
Net book value	**1,316,810**	**253,852**	**-74,944**	**-127,595**	**–**	**-243,594**	**-5,479**	**1,119,050**

continued – NOTE 14

2009 non-production cost pools	1 January	Additions	Disposals	Write-offs	Changes in estimate	Reclassification	Currency translation difference	31 December
Norway	271,818	270,733	–	-69,544	8,887	–	76,705	558,599
United Kingdom	86,047	2,342	–	-6,149	–	-10,599	–	71,641
France	6,617	3,100	–	-3,128	–	–	232	6,821
Netherlands	163	865	–	-41	–	–	34	1,021
Indonesia	29,436	44,848	–	-7,300	–	-1,215	-42	65,727
Russia	1,048,217	45,243	-75	-560,719	–	–	1,520	534,186
Tunisia	203	14	–	–	–	–	–	217
Sudan	–	-1,580	–	1,580	–	–	–	–
Congo (Brazzaville)	18,481	13,841	–	-2,522	–	–	–	29,800
Kenya	9,881	858	-10,736	–	–	–	-3	–
Cambodia	9,741	1,248	–	-10,989	–	–	–	–
Ethiopia	11,218	974	-12,186	–	–	–	-6	–
Malaysia	7,639	23,873	–	–	–	–	-38	31,474
Vietnam	14,517	9,249	–	-7,203	–	–	–	16,563
Other	1,043	473	–	-645	–	–	-110	761
Net book value	**1,515,021**	**416,081**	**-22,997**	**-666,660**	**8,887**	**-11,814**	**78,292**	**1,316,810**

In 2010 the reclassification from Non-Production cost pools to Production cost pools related to the production startup on the Volund field, Norway and Singa field, Indonesia.

Impairment testing
Lundin Petroleum carried out its annual impairment tests at 31 December 2010 in conjunction with the annual reserves certification process. Lundin Petroleum used an oil price deck of USD 85 per barrel inflating at 2% per annum, a future cost inflation factor of 2% per annum and a discount rate of 10% to calculate the future pre-tax cash flows. There were no impairment of assets required for the financial year ended 31 December 2010.

Capitalised interest
During 2010, MUSD 1.9 (MUSD 2.9) of capitalised interest costs were added to oil and gas properties and relate 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 commitments as at 31 December 2010 are estimated to be MUSD 588.0 (MUSD 253.2) of which third parties who are joint venture partners will contribute approximately MUSD 220.3 (MUSD 82.6).

NOTE 15 – SOLAR POWER PROPERTIES (TUSD)

	2010	2009
Cost		
1 January	644	–
Acquired on consolidation	313,421	121
Additions	21,210	523
Disposals	-337,329	–
Reclassification	2,102	–
Currency translation difference	-48	–
31 December	–	644
Depletion		
1 January	–	–
Depletion charge for the year	-2,334	–
Disposals	2,350	–
Currency translation difference	-16	–
31 December	–	–
Net book value	**–**	644

The solar power properties were held by Etrion. Etrion was distributed during 2010.

NOTE 16 – OTHER TANGIBLE ASSETS (TUSD)

	2010			2009		
	Real estate	Office equipment and other assets	Total	Real estate	Office equipment and other assets	Total
Cost						
1 January	10,491	17,302	27,793	10,537	14,751	25,288
Acquired on consolidation	–	–	–	–	1,099	1,099
Disposals	–	-5,405	-5,405	-71	-425	-496
Additions	708	4,145	4,853	32	2,407	2,439
Write-off	–	-1,352	-1,352	–	-1,224	-1,224
Reclassification	–	–	–	–	–	–
Currency translation difference	-17	484	467	-7	694	687
31 December	11,182	15,174	26,356	10,491	17,302	27,793
Depreciation						
1 January	-1,262	-11,248	-12,510	-992	-7,906	-8,898
Acquired on consolidation	–	–	–	–	-610	-610
Disposals	–	4,838	4,838	7	907	914
Depreciation charge for the year	-92	-2,785	-2,877	-280	-3,137	-3,417
Currency translation difference	17	-553	-536	3	-502	-499
31 December	-1,337	-9,748	-11,085	-1,262	-11,248	-12,510
Net book value	**9,845**	**5,426**	**15,271**	9,229	6,054	15,283

Disposals includes the values of other tangible fixed assets of companies disposed of during the year ended 31 December 2010.

The depreciation charge for the year is based on cost and an estimated useful life of 3 to 5 years for office equipment and other assets. Real estate is depreciated using an estimated useful life of 20 years. Depreciation is included within the general, administration and depreciation line in the income statement.

NOTE 17 – GOODWILL (TUSD)

	2010	2009
1 January	674	119,047
Acquired on consolidation	398	674
Impairment	–	-119,047
Disposal	-1,072	–
31 December	**–**	674

Acquired on consolidation in 2009 represents the values assigned to goodwill upon first consolidation of Etrion at 30 September 2009. This goodwill reflects the excess of purchase consideration over the fair value of an acquired solar power project. Goodwill of TUSD 398.0 relates to Etrion acquisitions in 2010. Etrion was distributed during 2010.

The book amount for goodwill recorded at 1 January 2009 is in relation to the acquisition of Valkyries in 2006 and was fully written off in 2009.

NOTE 18 – OTHER INTANGIBLE ASSETS (TUSD)

	2010	2009
	Licences	Licences
Cost		
1 January	5,132	–
Acquired on consolidation	334	3,023
Investments	200	2,115
Reclassification	-2,102	–
Disposal	-3,344	–
Currency translation difference	-220	-6
31 December	**–**	5,132

The licences relate to solar power projects held by Etrion. Etrion was distributed during 2010.

NOTE 19 – SHARES IN JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (TUSD)

	Consolidation method	Number of shares	Share %	Book amount 31 December 2010	Book amount 31 December 2009
Ikdam Production SA	Equity	1,600	40.00	0	0
RF Energy Investments Ltd.	Proportional consolidation	11,540	50.00	–	–
- CJSC Pechoraneftegas [1]		20,000	Direct 100.00, indirect 50.00	–	–
- LLC Zapolyarneftegas [1]		1	Direct 100.00, indirect 50.00	–	–
- LLC NK Recher-Komi [1]		1	Direct 100.00, indirect 50.00	–	–
- Geotundra BV [1]		20,000	Direct 100.00, indirect 50.00	–	–
				0	0

[1] Through the proportional consolidation of RF Energy Investments Ltd. the subsidiaries of RF Energy Investments Ltd. are also proportionally consolidated in the Lundin Petroleum accounts. "Direct" refers to RF Energy's ownership percentage, "indirect" refers to the Group's ultimate ownership percentage.

The amounts included below for the jointly controlled entities and associated companies represent 100% of the reported accounts.

Income statement per 31 December 2010	Ikdam Production SA	RF Energy consolidated
Revenue	2,737	133,248
Operating cost	-4,971	-126,622
Net result	-2,234	6,626

Balance Sheet per 31 December 2010	Ikdam Production SA	RF Energy consolidated
Non-current assets	3,497	127,696
Current assets	881	24,116
Total assets	4,378	151,812
Equity	-11,547	89,022
Non-current liabilities	15,373	48,569
Current liabilities	552	14,221
Total liabilities	4,378	151,812

NOTE 20 – OTHER SHARES AND PARTICIPATIONS (TUSD)

	31 December 2010			31 December 2009
Other shares and participation comprise:	Number of shares	Share %	Book amount	Book amount
ShaMaran Petroleum Corp.	50,000,000	8.02	68,205	21,426
Cofraland B.V.	31	7.75	404	436
Maison de la géologie	2	1.25	4	4
Baripetrol SA	–	–	–	8,100
PetroCumarebo SA	–	–	–	1,900
Island Oil and Gas plc	–	–	–	503
			68,613	32,369

In October 2009, Lundin Petroleum received 50 million shares of ShaMaran Petroleum Corp. (ShaMaran) in consideration for the sale of Lundin International BV (LIBV), a 100% owned subsidiary, which had commenced negotiations for Production Sharing Contracts (PSCs) for three separate exploration and development blocks in Kurdistan. Lundin Petroleum will receive an additional 50 million shares of ShaMaran if ShaMaran receives the approval of a development plan for the PSC covering the Pulkhana Block, Kurdistan. There can be no assurance that this condition will be satisfied.

The fair value of ShaMaran is calculated using the quoted share price at the Toronto Stock Exchange.

During 2010, Lundin Petroleum sold its shareholding in Island Oil and Gas and also distributed Etrion which held shares in Baripetrol SA and PetroCumarebo SA.

As at 31 December 2010, the other shares and participations include TUSD 408.0 recognised at cost because their fair value cannot 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 21 – FINANCIAL RISKS, SENSITIVITY ANALYSIS AND DERIVATIVE INSTRUMENTS (TUSD)

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 Group 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 Group's business.

Currency fluctuations

Lundin Petroleum is a Swedish company which is operating globally and therefore attracts substantial foreign exchange exposure, both transactional as well as conversion from functional currency to presentation currency. The functional currency of Lundin Petroleum's subsidiaries are Norwegian Kroner (NOK), Euro (EUR) and Russian Rouble (RUR), as well as US Dollar, making Lundin Petroleum sensitive for fluctuation of these currencies against the US Dollar, the presentation currency.

As at 31 December 2010 and 2009, no foreign exchange forward contracts were entered into.

Conversion exposure

The following table summarises the effect a shift of these currencies against the US Dollar would have on operating result through the conversion of the income statements of the Group's subsidiaries from functional currency to the presentation currency US Dollar for the year ended at 31 December 2010.

Operating result in the financial statements (MUSD)	**393.9**	**393.9**
Shift of currency exchange rates to:		
USD/EUR	1.4595	1.2062
SEK/USD	6.5413	7.9149
NOK/USD	5.4859	6.6380
RUR/USD	27.5973	33.3927
Total effect on operating result (MUSD)	**37.5**	**-37.5**

The foreign currency risk to the Group's income and equity from conversion exposure is not hedged.

Transaction exposure
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 Group 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.

Price of oil and natural gas
Price of oil and natural gas are affected by the normal economic drivers of supply and demand as well as the financial investors and market uncertainty. Factors that influence these include operational decisions, natural disasters, economic conditions, political instability or conflicts or actions by major oil exporting countries. Price fluctuations can affect Lundin Petroleums financial position.

The table below summarises the effect a shift in the oil price would have had on the net result at 31 December 2010:

Net result in the financial statements (MUSD)	498.5	498.5
Possible shift (USD/boe)	-5	5
Total effect on net result (MUSD)	**-20.0**	**20.0**

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.

For the year ended 31 December 2010, the Group did not enter into oil price hedging contracts. There are no oil price hedging contracts outstanding as at 31 December 2010.

Interest rate risk
Interest rate risk is risk to the earnings due to uncertain future interest rates. Lundin Petroleum is exposed to interest rate risk through the credit facility (see also liquidity risk below). 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 Group, then Lundin Petroleum may choose to enter into an interest hedge.

The table below summarises the effect an increase/decrease in the interest rate for the credit facility would have had on the net result for the year ended 31 December 2010:

Net result in the financial statements (MUSD)	498.5	498.5
Possible shift (%)	-10	10
Total effect on net result (MUSD)	**0.9**	**-0.9**

In January 2008, the Group entered into an interest hedging contract fixing the LIBOR rate of interest at 3.75% p.a. on MUSD 200 of the Group's USD borrowings for the period January 2008 to January 2012.

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 possession of the licence or the joint venture partner's share of production for non-payment of cash calls or other amounts due.

As at 31 December 2010 the Group's trade receivables amounted to MUSD 94.2 (MUSD 80.7). There is no recent history of default. Other long-term and short-term receivables are considered recoverable. The provision for bad debt as at 31 December 2010 amounted to MUSD – (MUSD –). Cash and cash equivalents are maintained with banks having strong long-term credit ratings.

Liquidity risk
Liquidity risk is defined as the risk that the Group could not be able to settle or meet its obligations on time or at a reasonable price. Group treasury is responsible for liquidity, funding as well as settlement management. In addition, liquidity and funding risks and related processes and policies are overseen by management.

Lundin Petroleum has a secured revolving borrowing base facility of MUSD 850, of which MUSD 459 had been drawn in cash as at 31 December 2010. The MUSD 850 facility is a revolving borrowing base facility secured against certain cash flows generated by the Company. The amount available under the facility is recalculated every six months based upon the calculated cash flow generated by certain producing fields at an oil price and economic assumptions agreed with the banking syndicate providing the facility. As part of the semi-annual redetermination process under the facility, a new borrowing base amount of approximately MUSD 867 was calculated effective 1 January 2011. See also Note 33.

Lundin Petroleum has, through its subsidiary Lundin Malaysia BV, entered into four Production Sharing Contracts (PSC) with Petroliam Nasional Berhad, the oil and gas company of the Government of Malaysia ("Petronas"), in respect of the licences PM308A, PM308B, SB307 and SB308, and SB303 in Malaysia. BNP Paribas, on behalf of Lundin Malaysia BV has issued bank guarantees in support of the work commitments in relation to these PSCs amounting to MUSD 86.3. In addition, BNP Paribas have issued additional bank guarantees to cover work commitments in Indonesia amounting to MUSD 15.9.

It is expected that the Group's ongoing development and exploration expenditure requirements will be funded by the Group's operating cash flows and loan facility. No loan repayments are required for the credit facility in 2011.

Financial instruments by category
The accounting principles for financial instruments have been applied to the line items below:

31 December 2010 TUSD	Loan receivables and other receivables	Available-for-sale	Derivatives used for hedging	Financial liabilities valued at amortised cost
Assets				
Other shares and participations	–	68,613	–	–
Long-term receivables	23,791	–	–	–
Trade receivables	94,190	–	–	–
Short-term loan receivable	74,527	–	–	–
Cash and cash equivalents	48,703	–	–	–
	241,211	**68,613**	**–**	**–**
Liabilities				
Trade Payables	–	–	–	16,031
Bank loans	–	–	–	458,835
Other non-current liabilities	–	–	–	17,836
Derivative instruments	–	–	6,866	–
Short-term debt	–	–	–	450
	–	**–**	**6,866**	**493,152**

31 December 2009 TUSD	Loan receivables and other receivables	Available-for-sale	Derivatives used for hedging	Financial liabilities valued at amortised cost
Assets				
Other shares and participations	–	32,369	–	–
Long-term receivables	24,239	–	–	–
Trade receivables	80,721	–	–	–
Short-term loan receivable	33,907	–	–	–
Derivative instruments	–	–	231	–
Cash and cash equivalents	77,338	–	–	–
	216,205	**32,369**	**231**	**–**
Liabilities				
Trade Payables	–	–	–	20,487
Bank loans	–	–	–	545,729
Other non-current liabilities	–	–	–	12,598
Derivative instruments	–	–	10,196	–
Short-term debt	–	–	–	32,400
	–	**–**	**10,196**	**611,214**

For financial instruments measured at fair value in the balance sheet, the following fair value measurement hierarchy is used:

- Level 1: based on quoted prices in active markets;
- Level 2: based on inputs other than quoted prices as within level 1, that are either directly or indirectly observable;
- Level 3: based on inputs which are not based on observable market data.

continued – NOTE 21

Based on this hierarchy, financial instruments measured at fair value can be detailed as follows:

31 December 2010 TUSD	Level 1	Level 2	Level 3
Assets			
Available for sale financial assets			
- Equity securities	68,205		408
	68,205		**408**
Liabilities			
Derivatives used for hedging		6,866	
		6,866	

The outstanding derivative instruments can be specified as follows:

Fair value of outstanding derivative instruments in the balance sheet:	31 December 2010 Assets	31 December 2010 Liabilities	31 December 2009 Assets	31 December 2009 Liabilities
Interest rate swaps	–	6,866	231	10,196
Total	**–**	**6,866**	231	10,196
Non-current	–	–	231	3,122
Current	–	6,866	–	7,074
Total	**–**	**6,866**	231	10,196

The fair value of the interest rate swap is calculated using the forward interest rate curve applied to the outstanding portion of the swap transaction. The effective proportion of the interest rate swap as at 31 December 2010 amounted to TUSD 6,866 (TUSD 9,498).

For risks in the financial reporting see the section Internal Control and Risk Management for the Financial Reporting in the Corporate Governance report on pages 48–49 and for operational risk factors see page 56 for more information.

NOTE 22 – DEFERRED FINANCING FEES

The deferred financing fees amount to TUSD 4,650 (TUSD 7,514) and related to the costs incurred for establishing the bank credit facility and are being amortised over the estimated usage of the facility. In 2010 amortisation expenses amounted to TUSD 2,360 (TUSD 2,539). See also Note 10.

NOTE 23 – OTHER FINANCIAL ASSETS

Other financial assets excluding deferred financing fees amount to TUSD 17,824 (TUSD 21,084) and mainly represent VAT paid on exploration and development costs in Russia that is expected to be recovered from VAT received on future project revenues.

NOTE 24 – INVENTORIES (TUSD)

	31 December 2010	31 December 2009
Hydrocarbon stocks	11,128	15,917
Drilling equipment and consumable materials	8,911	11,456
	20,039	27,373

Drilling equipment and consumable material comprise:	2010	2009
1 January	11,456	13,114
Disposals	-2,417	-431
Purchase	5,538	5,597
Used in production	-5,375	-6,744
Currency translation difference	-417	248
	8,785	11,784
Provisions	126	-328
31 December	**8,911**	11,456

NOTE 25 – TRADE RECEIVABLES (TUSD)

The trade receivables relate to a number of independent customers from whom there is no recent history of default. The provisions for bad debt is therefore nil.

NOTE 26 – PREPAID EXPENSES AND ACCRUED INCOME (TUSD)

	31 December 2010	31 December 2009
Prepaid rent	791	311
Joint venture balances	–	1,733
Prepaid insurances	1,925	376
Accrued income	–	116
Other	3,635	7,297
	6,351	9,833

Joint venture balances included in prepaid expenses and accrued income relate only to unincorporated joint ventures.

NOTE 27 – OTHER RECEIVABLES (TUSD)

	31 December 2010	31 December 2009
Underlift	13,452	8,649
VAT receivable	2,951	3,000
Other current assets	3,348	3,298
	19,751	14,947

NOTE 28 – CASH AND CASH EQUIVALENTS (TUSD)

Cash and cash equivalents include only cash at hand or on bank. No short term deposits are held as at 31 December 2010.

NOTE 29 – OTHER RESERVES (TUSD)

	Available-for-sale reserve	Hedge reserve	Currency translation reserve	Total Other reserves
Balance at 1 January 2009	7,054	-32,798	-125,025	-150,769
Total comprehensive income	-17,150	25,722	84,657	93,229
Aquired on consolidation	–	–	14,899	14,899
Divestments	–	–	-26,195	-26,195
Balance at 31 Dec 2009	-10,096	-7,076	-51,664	-68,836
Total comprehensive income	51,119	373	-53,451	-1,959
Divestments	–	1,554	3,106	4,660
Balance at 31 Dec 2010	**41,023**	**-5,149**	**-102,009**	**-66,135**

NOTE 30 – PROVISION FOR SITE RESTORATION (TUSD)

	2010	2009
1 January	132,698	89,648
Acquired on consolidation	162	–
Disposals	-53,827	-764
Unwinding of site restoration discount	4,717	5,406
Payments	-930	-215
Changes in estimates	13,635	36,352
Currency translation difference	-2,689	2,271
31 December	**93,766**	132,698

Included in the unwinding of site restoration discount of TUSD 4,717 (TUSD 4,406) is an amount of TUSD 728 (TUSD 2,916) relating to discontinued activities. In calculating the present value of the site restoration provision, a pre-tax discount rate of 5.5% (5.5%) was used. Based on the estimates used in calculating the site restoration provision as at 31 December 2010, 90% of the total amount is expected to settle after more than 20 years.

NOTE 31 – PENSION PROVISION (TUSD)

	2010	2009
1 January	1,354	1,298
Fair value adjustment	85	136
Instalments paid	-138	-121
Currency translation difference	120	41
31 December	**1,421**	1,354

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. It was further agreed that upon the death of Mr Adolf H. Lundin, the monthly payments would be paid to his wife, Mrs Eva Lundin for the duration of her life.

Up to October 2006 the pension amount agreed consisted of monthly payments totalling an annual amount of TCHF 206 (TUSD 164) and thereafter of monthly payments totalling an annual amount of TCHF 138 (TUSD 132) payable to the widow of Adolf H. Lundin, Mrs Eva Lundin, which will continue 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 1,800 (TUSD 1,728).

NOTE 32 – OTHER PROVISIONS (TUSD)

	LTIP	Termination indemnity provision	Other	Total
1 January 2010	4,581	4,063	8,158	16,802
Disposals	–	-1,606	-7,285	-8,891
Additions	16,315	445	1,602	18,362
Release	–	–	–	–
Payments	-2,139	–	-15	-2,155
Currency translation difference	64	–	-378	-313
31 December 2010	**18,821**	**2,902**	**2,082**	**23,805**

For details of the LTIP see Note 46.

The termination indemnity provision represents Lundin Petroleum's share of the provision for employment termination costs for the Oudna joint venture in Tunisia, and Salawatis in Indonesia. The Salawatis were disposed of in December 2010. Disposals of TUSD 6,455 included in other relates to Etrion following the distribution in November 2010.

NOTE 33 – BANK LOANS AND SHORT-TERM DEBT (TUSD)

In relation to bank loans, the following amounts were outstanding:

	31 December 2010	31 December 2009
Current		
Repayment within 6 months	450	1,950
Repayment between 6–12 months	–	450
Long term		
Repayment within 2–5 years	458,835	544,626
Repayment after 5 years	–	1,103
	459,285	548,129

The table above analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. 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 interest rate on Lundin Petroleum's credit facility is floating, and is currently LIBOR + 0.9%.

Fair value on bank loans as at 31 December 2010 has been estimated to book value as the loans had floating interest rate.

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. The Group is not in breach of the debt covenants.

As at 31 December 2009 an amount of MUSD 30.0 was outstanding as short-term debt regarding the advance in relation to the agreement with a subsidiary of Gunvor International BV.

NOTE 34 – FINANCE LEASE (TUSD)

There are no finance leases within the Group.

NOTE 35 – OPERATING LEASE (TUSD)

There are no operating leases within the Group.

NOTE 36 – ACCRUED EXPENSES AND PREPAID INCOME (TUSD)

	31 December 2010	31 December 2009
Holiday pay	2,721	2,164
Operating costs	235	7,392
Social security charges	1,554	1,554
Salaries and wages	159	589
Other	2,998	4,773
	7,667	16,472

NOTE 37 – OTHER LIABILITIES (TUSD)

	31 December 2010	31 December 2009
Overlift	1,761	1,287
Acquisition liabilities	5,680	5,925
Joint venture partners	–	6,300
VAT payable	1,075	1,221
Social charges payable	610	1,246
Other liabilities	4,247	4,168
	13,373	20,147

NOTE 38 – PLEDGED ASSETS

On 26 October 2007, the Group entered into a credit facility under which an amount of MUSD 458.8 was outstanding as at 31 December 2010. The financing facilities consist of a MUSD 850 revolving borrowing base and letter of credit facility. 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 MUSD 459 (MUSD 699) as at 31 December 2010 represents the net asset book values of the pledged companies.

NOTE 39 – CONTINGENT LIABILITIES & ASSETS

Contingent Liabilities
In connection with the acquisition by Lundin Petroleum of the additional 30% interest in the Lagansky Block in 2009, Lundin Petroleum has agreed to pay to the former owner of the Lagansky Block a fee to be based on USD 0.30 per barrel of oil in respect of 30% of the proven and probable reserves in the Lagansky Block as at the date a decision is made to proceed to a development.

Contingent Assets
In connection with the acquisition of a 30% interest in the Lagansky Block by a subsidiary of Gunvor International BV in 2009, Gunvor has agreed to pay to Lundin Petroleum a fee to be based on USD 0.15 per barrel of oil (up to gross 150 MMbbls) and USD 0.30 per barrel of oil (over gross 150 MMbbls) of the proven and probable reserves in the Lagansky Block as at the date a decision is made to proceed to a development.

The amounts of the contingent asset and liability related to the Lagansky Block are dependent on the outcome of future exploration and production activities. Due to the uncertainties related to these activities, estimates of the cash inflow and outflow can not be calculated with certainty.

In connection with the sale by Lundin Petroleum of its Salawati (Indonesia) interests to RH Petrogas in 2010, RH Petrogas has agreed to pay to Lundin Petroleum up to MUSD 3.9 as deferred consideration. The amount and timing of such payment will be determined based on certain future field developments within the Salawati Island block.

In connection with the sale by Lundin Petroleum of Lundin International BV to ShaMaran in October 2009, ShaMaran has agreed to issue an additional 50 million shares of ShaMaran to Lundin Petroleum if ShaMaran receives the approval of a development plan for the PSC covering the Pulkhana Block, Kurdistan. See Note 20.

NOTE 40 – EARNINGS PER SHARE

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

	2010	2009
Net result attributable to shareholders of the Parent Company (in USD)	511,875,000	-411,268,000
Weighted average number of shares for the year	312,096,990	313,420,280
Earnings per share (in USD)	**1.64**	-1.31

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 net result attributable to shareholders of the Parent Company by the diluted weighted shares.

	2010	2009
Net result attributable to shareholders of the Parent Company (in USD)	511,875,000	-411,268,000
Weighted average number of shares for the year	312,096,990	313,420,280
Dilution effect of outstanding warrants	–	–
Weighted average number of shares for the year after considering the dilution effect of outstanding warrants.	312,096,990	313,420,280
Earnings per share (diluted) (in USD)	**1.64**	-1.31

NOTE 41 – ADJUSTMENT TO CASH FLOW FROM OPERATIONS (TUSD)

	Note	2010	2009
Other provisions		1,719	187
Impairment cost for goodwill	6	–	119,047
Impairment of oil and gas properties	5	–	525,719
Exploration costs	4	127,595	140,941
Depletion, depreciation and amortisation	14/15/16	159,555	173,323
Amortisation of deferred financing fees	10	2,360	2,539
Interest income		-3,416	-4,626
Current tax	12	75,467	38,560
Interest expense		10,495	11,996
Unrealised exchange gains		-13,712	-48,496
Gain on sale of assets		3,879	-35,996
Other non-cash items	42	212,013	82,196
Adjustment to cash flow from operations		**575,955**	1,005,388

NOTE 42 – CASH FLOW ANALYSIS – OTHER NON CASH ITEMS (TUSD)

	2010	2009
Deferred tax	185,385	9,925
Site restoration discount	4,717	5,406
Share based payments	19,522	12,946
Result from associated company	–	53,466
Other non-cash items	2,389	453
	212,013	82,196

NOTE 43 – RELATED PARTY TRANSACTIONS

During the reporting period, the Group has entered into transactions with related parties on an arm's length basis as described below:

The Group received MUSD 0.3 (MUSD 0.1) from ShaMaran Petroleum for the provision of office and other services, MUSD 0.3 (MUSD 0.3) for the provision of technical services and MUSD 2.0 (MUSD –) for supporting certain financial obligations.

The Group received MUSD 0.9 (MUSD 0.6) from Africa Oil Corporation being interest on a loan of MUSD 23.8 (MUSD 23.8) and MUSD 0.2 (MUSD –) for supporting certain financial obligations.

The Group paid MUSD 0.4 (MUSD –) to other related parties in respect of aviation services received.

Furthermore, the Group provided a loan to Etrion which amounted to MUSD 74.0 (MUSD –) as at 31 December 2010. Interest is charged on the loan and in the reporting period following the distribution of the Etrion shares by the Group, amounted to MUSD 0.5. The loan is repayable in November 2011.

NOTE 44 – AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS (TUSD)

	2010		2009	
Average number of employees per country	Total employees	of which men	Total employees	of which men
Parent Company				
Sweden	–	–	–	–
Total Parent Company	**–**	**–**	–	–
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
France	58	46	55	44
Norway	70	49	56	38
Netherlands	7	3	7	4
Indonesia	21	15	20	14
Russia	60	38	182	143
Tunisia	10	7	9	6
Singapore	4	2	4	3
Malaysia	19	16	16	11
Ethiopia	–	–	4	3
Kenya	–	–	2	1
United Arab Emirates	3	2	3	2
Switzerland	53	36	43	30
Venezuela	11	6	4	2
Italy	11	8		
United Kingdom [1]	9	6	34	23
Total subsidiary companies	**336**	**236**	439	324
Total Group	**336**	**236**	439	324

[1] Weighted average following disposal in 2010.

For the Group, a total of 29 persons held board or senior management positions within the Group (2009: 26). Two women are included in these positions in 2010 (2009: two).

Salaries, other remuneration and social security costs per country	2010		2009	
	Salaries and other remuneration	Social security costs	Salaries and other remuneration	Social security costs
Parent Company				
Sweden	486	39	646	119
Total Parent Company	**486**	**39**	646	119
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
France	3,842	1,801	4,037	2,157
Norway	21,061	5,071	12,878	3,368
Netherlands	1,062	98	908	99
Indonesia	2,186	38	1,201	31
Russia	4,622	276	5,893	475
Tunisia	1,121	63	847	64
Singapore	1,434	2	1,519	3
Malaysia	5,852	107	2,934	2
Ethiopia	–	–	206	4
Kenya	–	–	105	5
United Arab Emirates	234	–	204	–
Switzerland	24,699	2,088	19,659	1,647
Venezuela	248	40	132	23
Italy	679	274	–	–
United Kingdom	1,218	223	5,628	995
Total subsidiary companies	**68,258**	**10,081**	56,151	8,873
Total Group	**68,744**	**10,120**	56,797	8,992
of which defined contribution plan cost		3,557		2,851
of which defined benefit plan cost		132		127

Salaries, other remuneration per country split between the Board of Directors/ MD and other employees	2010		2009	
	Board of Directors and MD	Other employees	Board of Directors and MD	Other employees
Parent Company				
Sweden	486	–	646	–
Total Parent Company	**486**	**–**	646	–
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
France	–	3,842	–	4,037
Norway	2,121	18,940	1,085	11,793
Netherlands	415	647	337	571
Indonesia	502	1,683	408	793
Russia	778	3,844	2,075	3,818
Tunisia	311	810	367	479
Singapore	803	632	492	1,027
Malaysia	816	5,036	538	2,395
Ethiopia	–	–	168	38
Kenya	–	–	46	59
United Arab Emirates	–	234	–	204
Switzerland	9,433	15,266	9,092	10,567
Venezuela	–	248	–	132
Italy	–	679	–	–
United Kingdom	437	781	2,131	3,497
Total subsidiary companies	**15,668**	**52,590**	16,739	39,412
Total Group	**16,155**	**52,590**	17,385	39,412

Amounts for Switzerland includes cost for personnel of Etrion SA up until deconsolidation.

NOTE 45 – REMUNERATION TO THE BOARD OF DIRECTORS AND MANAGEMENT

Salaries and other remuneration to non-executive directors (TSEK) [1]	Board Fees	Committee Fees	Total remuneration for Board and Committee work	Other [2]	Total 2010	Total 2009
Ian H. Lundin	800	–	800	1,685	2,485	2,270
Magnus Unger	400	200	600	100	700	757
Lukas H. Lundin	400	100	500	–	500	558
William A. Rand	400	200	600	–	600	600
Asbjørn Larsen	400	100	500	–	500	450
Dambisa F. Moyo	400	100	500	–	500	292
Total	**2,800**	**700**	**3,500**	**1,785**	**5,285**	4,927

[1] The amounts are presented in SEK as the Board remuneration is due in SEK as per the decisions of the 2010 AGM. The total remuneration for 2010 in USD is TUSD 735.
[2] Other remuneration paid during 2010 relates to fees paid for special assignments undertaken on behalf of the Group. The payment of such fees was in accordance with fees approved by the 2010 AGM.

There are no severance pay agreements in place for any non-executive directors and such directors are not eligible to participate in any of the Company's incentive programmes.

Remuneration to Management

During 2010, new rules regarding management remuneration were introduced in Sweden following the introduction of a revised Code of Corporate Governance (Code of Governance). In light of these changes, the Company's Compensation Committee considered the implications of the new rules on the content and scope of the Company's Policy on Remuneration. Based on its review, the Compensation Committee concluded that the Company's Policy on Remuneration remains in compliance with the rules of the Code of Governance and that no changes to the content of the Policy, as a result of the new rules, are required.

In connection with this review, the Compensation Committee also considered the Company's internal decision-making processes. Since 2009, when Lundin Petroleum's Investment Committee was established, all major management decisions regarding the worldwide operations and the financial position of the Company are submitted for consideration and approval to the Investment Committee, which consists of the Company's President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Vice President Operations. Considering this development, the Compensation Committee determined that the Executive Management of the Company, to which the Company's Policy on Remuneration shall be applicable, shall be the members of the Investment Committee.

Please see page 64 for further information on the Board of Directors' proposal regarding the Policy on Remuneration for 2011.

continued – NOTE 45

Lundin Petroleum AB's Policy on Remuneration approved by the 2010 AGM

Principles for remuneration and other terms of employment for management 2010
It is the aim of Lundin Petroleum 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 business strategy and a close alignment with shareholder interests and current best practice, and aims to ensure that executives are rewarded fairly for their contribution to the Group's performance.

The Company's Policy on Remuneration for executives, approved by the 2010 AGM, is described here below. The term 'executives' refers to the President and Chief Executive Officer (CEO), and other members of Group management that includes the Executive Vice President and Chief Operating Officer (COO), and other executive officers at Vice President level.

The Policy on Remuneration complies with the principles for compensation previously awarded to Group management and is based on individual agreements concluded between the Company and each executive.

Compensation Committee
The Compensation Committee is to receive information on, and to determine matters regarding the compensation of Group management. The Committee meets regularly and is responsible for reviewing the Policy on Remuneration and the compensation of executives and for making recommendations thereon to the Board of Directors. The Committee also has access to external advisors to ensure that salary and benefit packages are competitive and appropriate.

The proposed compensation level, criteria for variable salary and other employment terms for the CEO are submitted by the Compensation Committee to the Board for approval. For other executives, the CEO is responsible for proposing appropriate terms of compensation for approval to the Compensation Committee and for reporting to the Board.

Elements of Remuneration
There are five key elements to the remuneration package of executives in the Group:
a) basic salary;
b) yearly variable salary;
c) long-term incentive plan;
d) pension arrangements; and
e) non-financial benefits.

Basic Salary
The basic salary shall be based on market conditions, be competitive, and shall take into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the executive. The basic salary shall be reviewed annually to ensure that it remains competitive. In order to assess the competitiveness of the salary and benefit packages offered by the Group, comparisons may be made to those offered by similar companies. In such circumstances, the comparator group is chosen with regard to:
a) companies in the same industry;
b) the size of the company (turnover, profits and employee numbers);
c) the diversity and complexity of their businesses;
d) the geographical spread of their businesses; and
e) their growth, expansion and change profile.

Periodic benchmarking activities within the oil and gas sector shall also be undertaken to ensure that compensation packages remain in line with current market conditions.

Yearly Variable Salary
The Company considers that a yearly variable salary is an important part of the remuneration package where associated performance targets reflect the key drivers for value creation and growth in shareholder value.

At the end of each year, the CEO will make a recommendation to the Compensation Committee regarding the payment of the yearly variable salary to employees based upon their individual contribution to the Company's performance. This includes the achievement of the Company's strategic objective of growth and enhancement of shareholder value through increases in the stock price resulting from increased reserves, production, cash flow and profit.

After consideration of the CEO's recommendations, the Compensation Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the CEO, and of all other executives and employees, to the extent that such award is in excess of USD 10,000 per employee. The yearly variable salary shall normally be within the range of 1 - 10 monthly salaries, however, the Compensation Committee may recommend to the Board of Directors for approval yearly variable salary outside of this range in circumstances or in respect of performance which the Compensation Committee considers to be exceptional.

Long-term Incentive Plan 2010
a) Management other than senior executives
The 2010 Long-term Incentive Plan (LTIP) for management other than senior executives is designed to align management incentives with shareholder interests and entails a remuneration plan related to the Company's share price. Senior executives, being the CEO, the COO, the Chief Financial Officer and the Senior Vice President Operations, do not participate in the 2010 LTIP (for a description of the 2009 LTIP for senior executives approved by the 2009 AGM, please refer to b) below).

The 2010 LTIP for management other than senior executives includes the granting of units that are converted into a cash award related to the Company's share price. The LTIP will be payable over a period of three years from award in order to aid in the retention of staff. The LTIP consists of an annual grant of units that will be converted into a cash payment at vesting. The cash payment will be determined at the end of each vesting period by multiplying the number of units by the share price. The LTIP has a three year duration whereby the initial grant of units vests equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Lundin Petroleum Group at the time of the payment. The units may not be assigned to any third party.

The Compensation Committee recommends to the Board of Directors a total number of units to be allocated each year for the following three years, together with a recommendation for the individual allocations. The respective individual allocations shall be based on both the position within the Company and the achievement of the Company's strategic objective of growth and enhancement of shareholder value through increases in the stock price resulting from increased reserves, production, cash flow and profit. The total number of units granted in 2010 for the whole Group, including management other than senior executives, was approximately 720,000. In comparison to unit awards in previous years, the number of units granted for 2010 takes into account the effect of the spin-off of the Company's UK business into EnQuest plc and the subsequent distribution of the EnQuest plc shares to Lundin Petroleum's shareholders. Similarly, the number of units was adjusted following the distribution of the Company's shares in Etrion Corporation, see Note 46.

b) Senior Executives
The 2009 LTIP for senior executives approved by the 2009 AGM includes the issuance by Lundin Petroleum of phantom options exercisable after five years from the date of grant. The exercise of these options does not entitle the recipient to acquire shares of Lundin Petroleum, but to receive a cash payment based on the appreciation of the market value of such shares.

The senior executives were granted phantom options with an exercise price equal to 110 percent of the average of the closing prices of the Company's shares on the NASDAQ OMX Stockholm for the ten trading days immediately following the 2009 AGM. In accordance with the terms of the 2009 LTIP, the exercise price was adjusted in connection with the distribution by Lundin Petroleum to its shareholders of shares of EnQuest plc and Etrion Corporation and such adjusted exercise price is equal to SEK 52.91. Such options will vest on the fifth anniversary of the date of grant. The recipient will be entitled to receive a cash payment equal to the average closing price of Lundin Petroleum's shares during the fifth year following grant, less the exercise price. Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant, and (ii) second on the date which is one year following the date of the first payment.

The total number of phantom options granted to senior executives is 5,500,928, following adjustments in connection with the distribution by Lundin Petroleum to its shareholders of EnQuest plc and Etrion Corporation. No senior executive who receives an award of phantom options is eligible for a grant of awards under the LTIP for management other than senior executives described in a) above during the five year vesting period of the phantom options.

If the recipient of an award of phantom options resigns from the Group or if the recipient's employment is terminated for cause or similar during the five year vesting period, the award of phantom options will immediately terminate. If the recipient's employment is terminated for any other reason during such period, the award of phantom options will vest and become immediately payable, based on the average closing price of Lundin Petroleum's shares during the 90 day period prior to such termination. If a third party acquires more than 50% of the then outstanding Lundin Petroleum shares, the award of phantom options will vest and become immediately payable based on the value per Lundin Petroleum share paid by such third party.

c) General
From an accounting perspective the 2009 LTIP for senior executives and the 2010 LTIP for management other than senior executives are regarded as compensation for services provided and will, under IFRS 2, result in accounting costs which will be distributed over the three or five year vesting period. Lundin Petroleum's liability under the LTIP will be measured at fair market value and will be revalued at each reporting period (quarterly). The changes in value will be recognised in the income statement over the three or five year period so that the accumulated cost over the period corresponds to the value of the LTIP on the final date.

Lundin Petroleum's Board of Directors received an authorization by the 2010 AGM to repurchase shares on the NASDAQ OMX Stockholm. The purpose with the share repurchase is, inter alia, to fix the undertaking under the LTIP, including any applicable social charges. The repurchased shares could be sold in the market in conjunction with the payments under the LTIP, meaning that the actual cash payment by Lundin Petroleum under the LTIP would correspond to the total price paid for the repurchased shares. An increase of the undertaking under the LTIP due to a rise of the stock price would thus be secured by the corresponding increase of the value of the repurchased shares. 2,392,338 shares were repurchased during the financial year ended 31 December 2010 such that Lundin Petroleum held 6,882,638 of its own shares as at 31 December 2010.

The LTIP has previously included share and option based plans where, among other features, certain performance conditions were attached to the vesting of the options or shares. For further information regarding these plans, please see Note 46.

Pension Arrangements
The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions in relation to the basic salary are dependent upon the age of the executive.

Non-Financial Benefits
Non-financial benefits shall be based on market terms and shall facilitate the discharge of each executive's duties.

Severance Arrangements
A mutual termination period of between one month and six months applies between the Company and executives, depending on the duration of the employment with the Company. In addition, severance terms are incorporated into the employment contracts for executives that give rise to compensation in the event of termination of employment due to a change of control of the Company.

The Compensation Committee shall approve termination packages that exceed USD 150,000 in value per individual.

Authorisation for the Board of Directors
The Board of Directors is, following the decision of the 2010 AGM, authorised to deviate from the Policy on Remuneration in accordance with Chapter 8, section 53 of the Swedish Companies Act in case of special circumstances in a specific case. No such deviations were made in 2010.

Salaries and other remuneration to Executive Management (TUSD)	Salary	Bonuses [1]	2008 Unit Bonus Plan (second tranche)	2007 Performance Share Plan	Benefits [2]	Total 2010	Total 2009 [3]	Pensions 2010 [4]	Pensions 2009
C. Ashley Heppenstall	773	888	115	–	112	1,888	972	74	61
Alexandre Schneiter	530	601	92	–	24	1,247	637	47	38
Chris Bruijnzeels	426	389	57	19	38	929	450	37	25
Geoffrey Turbott	472	397	57	–	22	948	525	41	32
Total	**2,201**	**2,275**	**321**	**19**	**196**	**5,012**	**2,583**	**199**	156

[1] In December 2010 the Compensation Committee awarded a bonus for 2010 of one month's salary to Executive Management (included in the bonus expense for 2010). In January 2011 the Compensation Committee met and reassessed the bonus payments made for 2010 considering the employees' contributions to the results of the Group and the achievement of personal targets and awarded additional bonuses equal to 8 monthly salaries payable in January 2011. Included in the bonus expense for 2010 is also an amount of TUSD 988 (TUSD 483) relating to bonuses awarded in January 2010 relating to 2009. The Compensation Committee recommended to the Board of Directors and the Board of Directors approved an exceptional performance bonus of TUSD 1,104 following the EnQuest plc transaction as the Compensation Committee considered such bonuses warranted.
[2] Benefits paid include school fees and health insurance.
[3] Total 2009 is including the payment of the first tranche under the 2008 Unit Bonus Plan.
[4] Pension contributions relate to payments to non-contributory pension funds in excess of the minimum Swiss statutory levels.

The normal retirement age for the CEO is 65 years. The pension contribution is 10% of the qualifying income for pension purposes, 40% of which is funded by the employee. Qualifying income is defined as annual basic salary.

Since December 2006 enhanced severance terms have been incorporated into the employment contracts for Executive Management. These provisions give rise to compensation in the event of termination of employment due to a company change of control. If the executive elects to resign or if the executive's employment is terminated without cause within one year following the change of control, then the executive shall be entitled to receive the stated compensation. The associated compensation is two years' basic salary for Executive Management.

The Executive Management has no outstanding incentive warrants, however, the third and last tranche under the 2008 Unit Bonus Plan is outstanding, which will vest and be payable in 2011, see Note 46.

NOTE 46 – LONG-TERM INCENTIVE PLANS

The Company maintains the Long-term Incentive Plans described below.

Share Option Plan and Performance Share Plan
At the AGM held on 16 May 2007, the shareholders of Lundin Petroleum approved the implementation of a Long-term Incentive Plan (LTIP) consisting of a Share Option Plan and a Performance Share Plan. Employees had the choice to select either the Share Option Plan or the Performance Share Plan or a 50/50 allocation of both.

The Share Option Plan included the conditional granting of options with a vesting period of 18 months and subject to the achievement of a performance condition measuring Total Shareholder Return (TSR) relative to a peer group of companies. The options were issued at a 10% premium to the average closing price of Lundin Petroleum shares for the ten days after the 2007 AGM. Employees could earn between 0 and 100% of the options depending upon the Company's performance measured using a relative TSR. The period for the performance condition expired on 30 November 2008 at which time 50% of the options awarded were issued as incentive warrants.

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

	2010		2009	
	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	78.05	1,410,750	90.87	4,921,750
Granted	–	–	–	–
Not vested	–	–	–	–
Exercised	–	–	–	–
Lapsed	78.05	-1,410,750	96.02	-3,511,000
At 31 December	**–**	**–**	78.05	1,410,750

continued – NOTE 46

No incentive warrants were exercised during 2009 or 2010. The 1,410,750 incentive warrants that were exercisable at 31 December 2009 lapsed on 29 May 2010. There were no incentive warrants outstanding at 31 December 2010.

The Performance Share Plan included a conditional award of Lundin Petroleum shares with a vesting period of three years and subject to the achievement of a performance condition relative to TSR. The number of shares awarded under the Performance Share Plan was based on the value of the options granted under the Share Option Plan. The employees could earn between 50 and 100% of the award of shares depending upon the Company's performance measured using a relative TSR. Under the Performance Share Plan, Lundin Petroleum made a conditional award of 67,751 shares subject to the achievement of performance criteria. In June 2007, Lundin Petroleum acquired 68,000 of its own shares to fully hedge its potential obligation under the Performance Share Plan. On 29 May 2010, the 67,751 performance shares were delivered to employees.

The related total expense accounted for during the period amounted to TUSD 7,814 (TUSD 4,281).

Unit Bonus Plan

At the AGM on 13 May 2008, the shareholders of Lundin Petroleum approved the implementation of a new LTIP which related to the Company's share price and consisted of an annual grant of units that would be converted into a cash payment at vesting. The cash payment would be determined at the end of each vesting period by multiplying the number of units by the share price at the relevant time. The 2008 LTIP had a three year duration whereby the initial grant of units vested equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Lundin Petroleum Group at the time of payment. At the AGMs on 13 May 2009 and 6 May 2010, the shareholders of Lundin Petroleum approved the implementation of LTIPs for employees other than Executive Management (being the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Senior Vice President Operations) that follow the same principles as the 2008 LTIP.

The following table shows the number of units issued under LTIP, the amount outstanding as at 31 December 2010 and the year in which the units will vest.

			Year of vesting [1]				
Unit Bonus Plan	Total units	Outstanding 31 Dec 2010	2009	2010	2011	2012	2013
2008	723,239	211,807	205,821	222,855	213,940	–	–
2009	670,400	435,498	–	232,437	219,980	219,980	–
2010	723,950	701,250	–	–	236,299	236,299	236,300

[1] The numbers provided for the year of vesting have been recalculated from the number outstanding at 31 December 2010 to reflect the Etrion distribution.

On 9 April 2010, Lundin Petroleum distributed the shares of EnQuest that it had received in consideration for the sale of the UK business. Under the rules of the LTIPs, the distribution triggered a recalculation of the number of units allocated.

On 12 November 2010, Lundin Petroleum distributed the shares of Etrion. This event triggered a recalculation of the number of units allocated. This recalculation of the units was approved by the Compensation Committee in February 2011.

The total number of units vesting do not necessarily equal the units awarded due to the recalculation following distributions by Lundin Petroleum offsetting units that have lapsed following employees leaving the Group.

The costs associated with the unit bonus plans are as given in the following table.

Unit Bonus Plan (TUSD)	2010	2009
2008	1,625	1,696
2009	2,901	2,585
2010	3,070	–
	7,596	4,281

The costs for 2010 also included an amount of TUSD 218 relating to employees of the UK operations that were shown as discontinued items.

Phantom Option Plan

At the AGM on 13 May 2009, the shareholders of Lundin Petroleum approved the implementation of a new LTIP for Executive Management consisting of a grant of phantom options exercisable after five years from the date of grant. The exercise of these options entitles the recipient to receive a cash payment based on the appreciation of the market value of such shares. Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant, and (ii) second on the date which is one year following the date of the first payment.

The total costs related to the 2009 LTIP for Executive Management amounted to TUSD 8,894 (TUSD 657) for the financial year ended 31 December 2010.

On 9 April 2010, Lundin Petroleum distributed the shares of EnQuest that it had received in consideration for the sale of the UK business. Under the rules of the LTIP the distribution triggered a recalculation of the number of phantom options allocated and the strike price at which the phantom options are exercisable.

On 12 November 2010, Lundin Petroleum distributed the shares of Etrion. This event triggered a recalculation of the number of phantom options allocated and the exercise price at which the phantom options are exercisable. This recalculation of the units was approved in February 2011. The number of phantom options outstanding at 31 December 2010 amounted to 5,500,928 (4,000,000) with an exercise price of SEK 52.91 (SEK 72.76).

For further details regarding these LTIPs, please see Note 45.

The results of Etrion were consolidated during 2010 until 12 November 2010 when the shares in Etrion held by Lundin Petroleum were distributed to its shareholders. Included within the consolidated general and administration costs was an amount of MUSD 2.7 representing costs under Etrion's stock option plan.

NOTE 47 – SUBSEQUENT EVENTS

In March 2011, Lundin Petroleum converted MUSD 13.0 of a MUSD 23.8 convertible loan receivable from Africa Oil Corporation (AOC) into 14 million shares in AOC at a conversion price of Canadian Dollars (CAD) 0.90 per share. The shares were subsequently sold on the open market for CAD 2.00 per share realising MCAD 28.0 in proceeds.

In addition to the primary listing on the NASDAQ OMX, Stockholm the Lundin Petroleum share has started trading on 24 March 2011 on the Toronto Stock Exchange. No additional shares were issued in connection to the secondary listing.

In March 2011, Lundin Petroleum was awarded a PSC for the Gurita Block (WI 100%), 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 MSEK 3,936.1 (MSEK -32.3) for the reporting period.

The result includes a dividend received from a subsidiary of MSEK 3,995.2 (MSEK –), financial income of MSEK 15.3 (MSEK –) for supporting certain financial obligations for ShaMaran Petroleum and interest expense of MSEK 28.0 (MSEK –) on a MSEK 3,951.0 promissory note made to a subsidiary in relation to the UK business spin-off to EnQuest. The promissory note was cancelled on 1 July 2010 following the dividend distribution by a subsidiary. There is a tax credit of MSEK 7.3 resulting from an adjustment to the prior year tax accrual.

The distributions of the shares in EnQuest and Etrion, as detailed above, were recorded at the book value of the shares in Lundin Petroleum AB and amounted to MSEK 3,949.7 for the distribution of the EnQuest shares and MSEK 391.7 for the distribution of the Etrion shares.

Accounting Principles

The financial statements of the Parent Company are prepared in accordance with accounting principles generally accepted in Sweden, applying RFR 2 issued by the Swedish Financial Reporting Board and the Annual Accounts Act (1995: 1554). RFR 2 requires the Parent Company to use similar accounting principles as for the Group, i.e. IFRS to the extent allowed by RFR 2. The Parent Company's accounting principles do not in any material respect deviate from the Group principles, see pages 70–76.

PARENT COMPANY INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2010	2009
Operating income			
Other operating income	1	25,822	33,154
Gross profit		**25,822**	33,154
General, administration and depreciation expenses	2	-72,222	-49,281
Operating profit		**-46,400**	-16,127
Result from financial investments			
Financial income	3	4,012,086	8,589
Financial expenses	4	-36,928	-7,133
		3,975,158	1,456
Profit before tax		**3,928,758**	-14,671
Corporation tax	5	7,328	-17,600
Net result		**3,936,086**	-32,271

PARENT COMPANY COMPREHENSIVE INCOME STATEMENT IN SUMMARY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2010	2009
Net result		3,936,086	-32,271
Other comprehensive income		–	–
Total comprehensive income		**3,936,086**	-32,271
Total comprehensive income attributable to:			
Shareholders of the Parent Company		**3,936,086**	-32,271
		3,936,086	-32,271

PARENT COMPANY BALANCE SHEET AT 31 DECEMBER

Expressed in TSEK	Note	2010	2009
ASSETS			
Non-current assets			
Shares in subsidiaries	14	7,871,947	7,871,812
Receivables from Group companies	6/12	–	19,950
Total non-current assets		**7,871,947**	7,891,762
Current assets			
Prepaid expenses and accrued income		456	448
Other receivables	7	6,719	4,917
Cash and cash equivalents		6,735	532
Total current assets		**13,910**	5,897
TOTAL ASSETS		**7,885,857**	7,897,659
EQUITY AND LIABILITIES			
Restricted equity			
Share capital		3,179	3,179
Statutory reserve		861,306	861,306
Total restricted equity		**864,485**	864,485
Unrestricted equity			
Other reserves		2,551,805	5,120,750
Retained earnings		–	1,887,788
Net profit		3,936,086	-32,271
Total unrestricted equity		**6,487,891**	6,976,267
Total equity		**7,352,376**	7,840,752
Non-current liabilities			
Other provisions	8	36,403	36,403
Payables to Group companies	9/12	482,281	–
Total non-current liabilities		**518,684**	36,403
Current liabilities			
Trade payables		993	87
Tax liability	10/12	10,272	17,600
Accrued expenses and prepaid income	11	3,125	2,484
Other liabilities		407	333
Total current liabilities		**14,797**	20,504
TOTAL EQUITY AND LIABILITIES		**7,885,857**	7,897,659
Pledged assets	13	3,081,228	4,978,037
Contingent liabilities	13	–	–

Expressed in TSEK	2010	2009
Cash flow used for operations		
Net result	3,936,086	-32,271
Tax per income statement	-7,328	17,600
Dividend	-3,995,158	–
Other non-cash items	82,514	5,132
Interest expenses paid	542	3
Unrealised exchange losses	623	1,356
Changes in working capital:		
Increase/decrease in current assets	-1,876	6,970
Increase/decrease in current liabilities	1,078	-359
Total cash flow from/used for operations	**16,481**	-1,569
Cash flow from investments		
Long-term receivables granted	–	-34,100
Repayments received on long-term receivables	1,661	34,838
Proceeds from sale of associated company	1,590	–
Proceeds from sale of other shares and participations	70,209	–
Total cash flow from investments	**73,460**	738
Cash flow used for financing		
Purchase of own shares	-83,157	–
Total cash flow used for financing	**-83,157**	–
Change in cash and cash equivalents	**6,784**	-831
Cash and cash equivalents at the beginning of the year	532	1,184
Currency exchange difference in cash and cash equivalents	-581	179
Cash and cash equivalents at the end of the year	**6,735**	532

PARENT COMPANY EQUITY STATEMENT AT 31 DECEMBER

	Restricted Equity		Unrestricted equity			
Expressed in TSEK	Share capital [1]	Statutory reserve	Other reserves [2]	Retained earnings	Net result	Total equity
Balance at 1 January 2009	3,179	861,306	5,089,856	1,855,683	62,778	7,872,802
Transfer of prior year net result	–	–	–	62,778	-62,778	–
Total comprehensive income	–	–	–	–	-32,271	-32,271
Transfer of share based payments	–	–	30,894	-30,894	–	–
Share based payments	–	–	–	221	–	221
Balance at 31 December 2009	**3,179**	**861,306**	**5,120,750**	**1,887,788**	**-32,271**	**7,840,752**
Transfer of prior year net result	–	–	–	-32,271	32,271	–
Total comprehensive income	–	–	–	–	3,936,086	3,936,086
Dividend	–	–	-2,515,168	-1,826,272	–	-4,341,440
Purchase of own shares	–	–	-83,157	–	–	-83,157
Transfer of share based payments	–	–	29,380	-29,380	–	–
Share based payments	–	–	–	135	–	135
Balance at 31 December 2010	**3,179**	**861,306**	**2,551,805**	**–**	**3,936,086**	**7,352,376**

[1] Lundin Petroleum AB's issued share capital at 31 December 2010 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each. Included in the number of shares issued at 31 December 2010 are 6,882,638 shares which Lundin Petroleum holds in its own name.
[2] From 1 January 2006 the additional paid in capital has been included in Other reserves as well as currency differences on loans to subsidiaries.

NOTE 1 – OTHER OPERATING INCOME PER COUNTRY (TSEK)

	2010	2009
Norway	14,642	12,937
United Kingdom	2,876	11,047
Tunisia	4,595	4,718
Malaysia	1,680	3,546
Indonesia	2,029	590
Ethiopia	–	1,063
Kenya	–	-747
	25,822	33,154

NOTE 2 – REMUNERATION TO THE AUDITORS (TSEK)

The auditors of the Parent Company are PricewaterhouseCoopers.

	2010	2009
Audit fees	1,376	1,260
Audit related	365	378
	1,741	1,638

NOTE 3 – FINANCIAL INCOME (TSEK)

	2010	2009
Dividend	3,995,158	–
Interest income Group	–	7,720
Other	16,928	869
	4,012,086	8,589

Included in the other financial income for the Parent Company is an amount of TSEK 15,271 (TSEK –) received for supporting certain financial obligations of ShaMaran Petroleum.

NOTE 4 – FINANCIAL EXPENSES (TSEK)

	2010	2009
Interest expenses Group	30,789	–
Interest expense non Group	542	–
Other financial expenses Group	9	5,717
Foreign exchange losses, net	624	1,356
Tax penalty	4,907	–
Other	57	60
	36,928	7,133

During 2005 the Swedish tax authorities (Skatteverket) conducted a tax audit of Lundin Petroleum AB for the financial years 2002 to 2003. The tax authorities disallowed a portion of expenses recharged to Lundin Petroleum AB by Group companies for costs associated with management services and certain other fees.

The decision has been appealed. In 2010 The Administrative Court of appeal maintained the ruling of the County Administrative Court. Following the decision of the court the penalty tax of TSEK 4,907 has been paid during 2010. Lundin Petroleum has appealed to the Supreme Administrative Court and is now awaiting a response to such request. For further details refer to Note 12 of the financial statements of the Group.

NOTE 5 – CORPORATE TAX (TSEK)

	2010	2009
Profit before tax	3,928,758	-14,671
Tax calculated at the corporate tax rate in Sweden (26.3%)	-1,033,263	3,858
Tax effect of received dividend	1,050,727	–
Tax effect of Controlled Foreign Companies	-3,705	-23,225
Tax effect of expenses non-deductible for tax purposes	-1,590	-1,623
Increase unrecorded tax losses	-12,169	–
Tax effect of utilisation of unrecorded tax losses	–	3,390
Tax effect on adjustment tax calculation 2008 and 2009	7,328	–
Tax credit/charge	**7,328**	-17,600

NOTE 6 – RECEIVABLES FROM GROUP COMPANY (TSEK)

	31 December 2010	31 December 2009
Receivables from Group companies	–	19,950
	–	19,950

Long-term receivables due from subsidiaries amounting to TSEK – (TSEK 19,950) represented funding of operations within the subsidiaries for which repayment is not foreseen within an agreed repayment schedule.

NOTE 7 – OTHER RECEIVABLES (TSEK)

	31 December 2010	31 December 2009
Due from Group companies	5,139	4,190
VAT receivable	504	727
Others	1,076	–
	6,719	4,917

NOTE 8 – OTHER PROVISIONS (TSEK)

Other provisions as at 31 December 2010 amounted to TSEK 36,403 (TSEK 36,403) and related to corporate income tax.

NOTE 9 – PAYABLES TO GROUP COMPANIES (TSEK)

Payables to Group companies as at 31 December 2010 amounted to TSEK 482,281 (TSEK –) and related mainly to the purchase of the Etrion shares prior to distribution.

NOTE 10 – TAX LIABILITY (TSEK)

Tax liability as at 31 December 2010 amounted to TSEK 10,272 (TSEK 17,600) and related to corporate income tax.

NOTE 11 – ACCRUED EXPENSES AND PREPAID INCOME (TSEK)

	31 December 2010	31 December 2009
Social security charges	276	442
Directors fees	1,069	68
Audit	1,212	960
Other	568	1,014
	3,125	2,484

NOTE 12 – FINANCIAL INSTRUMENTS BY CATEGORY (TSEK)

The accounting principles for financial instruments have been applied to the line items below:

	Loan receivables and other receivables	Financial liabilities valued at amortised cost
Assets		
Other receivables due from Group companies	5,139	
Cash and cash equivalents	6,735	
Liabilities		
Payables to Group companies		482,281
Trade Payables		993
Tax liability		10,272
	11,874	**493,546**

NOTE 13 – PLEDGED ASSETS AND CONTINGENT LIABILITIES

Please see Group Note 38 and 39 for details.

NOTE 14 – SHARES IN SUBSIDIARIES (TSEK)

	Registration number	Registered office	Number of shares	Percentage	Nominal value per share	Book amount 31 December 2010	Book amount 31 December 2009
Directly owned							
Lundin Energy AB	556619-2299	Stockholm, Sweden	10,000,000	100	SEK 0.01	100	100
Lundin Petroleum BV	BV 1216140	The Hague, Netherlands	180	100	EUR 100.00	7,871,847	7,871,712
						7,871,947	7,871,812

	Registration number	Registered office	Number of shares	Percentage	Nominal value per share
Indirectly owned					
Lundin Norway AS	986 209 409	Oslo, Norway	1,320,000	100	NOK 100.00
Lundin Netherlands Holding BV	BV 87466	The Hague, Netherlands	150	100	EUR 450.00
Lundin Netherlands BV	BV 86811	The Hague, Netherlands	30,000	100	EUR 450.00
Lundin Tunisia BV	BV 1355993	The Hague, Netherlands	180	100	EUR 100.00
Lundin Nigeria Ltd (under liquidation)	RC 615830	Lagos, Nigeria	10,000,000	100	N 1.00
Lundin Exploration BV	BV 1303454	The Hague, Netherlands	180	100	EUR 100.00
Lundin Block 5B BV	BV 1225618	The Hague, Netherlands	180	100	EUR 100.00
Lundin Marine BV	BV 1310579	The Hague, Netherlands	180	100	EUR 100.00
- Lundin Marine SARL	06B090	Pointe Noire, Congo	200	100	FCFA 5,000
Lundin South East Asia BV	BV 1384642	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Ventures BV	BV 1386730	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Vietnam BV	BV 1272860	The Hague, Netherlands	180	100	EUR 100.00
Lundin Cambodia BV	BV 1397919	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Data Services BV	BV 1458414	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Malaysia BV	BV 1458418	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Netherlands Facilities BV	BV 1509030	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Petroleum SA	1731/1999	Collonge-Bellerive, Switzerland	1,000	100	CHF 100.00
Lundin Services BV	BV 1229867	The Hague, Netherlands	180	100	EUR 100.00
Lundin Holdings SA	Nanterre B442423448	Montmirail, France	1,853,700	100	EUR 10.00
- Lundin International SA	Nanterre B572199164	Montmirail, France	1,721,855	99.86	EUR 15.00
- Lundin Gascogne SNC	Nanterre B419619077	Montmirail, France	100	100	EUR 152.45
Lundin Indonesia Holding BV	BV 1386728	The Hague, Netherlands	18,000	100	EUR 1.00
- Lundin Lematang BV	BV 547158	The Hague, Netherlands	40	100	EUR 450.00
- Lundin Oil & Gas BV	BV 547156	The Hague, Netherlands	40	100	EUR 450.00
- Lundin Sareba BV	BV 608284	The Hague, Netherlands	40	100	EUR 450.00
- Lundin Banyumas BV	BV 1140222	The Hague, Netherlands	182	100	EUR 100.00
- Lundin Rangkas BV	BV 1479636	The Hague, Netherlands	18,000	100	EUR 1.00
- Lundin Cakalang BV	BV 1479547	The Hague, Netherlands	18,000	100	EUR 1.00
- Lundin Baronang BV	BV 1479551	The Hague, Netherlands	18,000	100	EUR 1.00
- Lundin South Sokang BV	BV 1509027	The Hague, Netherlands	18,000	100	EUR 1.00
- Natuna Ventures BV	BV 1408196	The Hague, Netherlands	18,000	100	EUR 1.00
Lundin Russia BV	BV 1386727	The Hague, Netherlands	18,000	100	EUR 1.00
- Culmore Holding Ltd	162316	Nicosia, Cyprus	1002	100	CYP 1.00
- Lundin Russia Services BV	BV 1391268	The Hague, Netherlands	18,000	100	EUR 1.00
- Lundin Russia Ltd.	656565-4	Vancouver, Canada	55,855,414	100	CAD 1.00
- Lundin Lagansky BV	BV 1397745	The Hague, Netherlands	18,000	100	EUR 1.00
- Mintley Caspian Ltd	160901	Nicosia, Cyprus	5000	70	CYP 1.00
- LLC PetroResurs	1047796031733	Moscow, Russia	1	100	RUR 10,000
- LundinNeft LLC (under liquidation)	1057747770002	Moscow, Russia	1	100	USD 100,000

Etrion Corporation and subsidiaries were distributed on 12 November 2010. Lundin North Sea BV and subsidiaries were spun-off to EnQuest plc on 6 April 2010. Lundin Indonesia BV and Lundin Salawati BV were sold during 2010.

During 2010 Valkyries Cyprus Ltd. and Valkalm Holding Ltd. merged with Culmore Holding Ltd.

During 2010 the 100% investment in Lundin Investment Ltd., Lundin Sudan (Halaib) BV, Lundin Albania BV, Lundin Blora BV and Lundin Munir BV were liquidated.

Lundin Nigeria Ltd and Lundin Neft LLC were under liquidation as at 31 December 2010.

At 7 April 2011, the Board of Directors and the President of Lundin Petroleum AB have adopted this annual report for the financial year ended 31 December 2010.

BOARD ASSURANCE

The Board of Directors and the President & CEO certify that the annual financial report for the Parent Company has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the financial position and profit of the Company and the Group and provides a fair review of the performance of the Group's and Parent Company's business, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, 7 April 2011

Lundin Petroleum AB (publ) Org. Nr. 556610-8055

Ian H. Lundin Chairman	C. Ashley Heppenstall President & CEO	Lukas H. Lundin Board Member	William A. Rand Board Member
Magnus Unger Board Member	Asbjørn Larsen Board Member	Dambisa F. Moyo Board Member	

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 president & CEO of Lundin Petroleum AB (publ) for the year 2010. The company's annual accounts and the consolidated accounts are included in the printed version on pages 57–99. The board of directors and the President & CEO 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 IFRSs 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 president & CEO and significant estimates made by the board of directors and the president & CEO 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 president & CEO. We also examined whether any board member or the president & CEO 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 administration report and that the members of the board of directors and the president & CEO be discharged from liability for the financial year.

Stockholm, 7 April 2011

Bo Hjalmarsson
Lead Auditor
Authorised Public Accountant
PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
PricewaterhouseCoopers AB

Income Statement Summary (TUSD)	2010	2009	2008	2007	2006
Continuing operations					
Operating income	798,599	571,835	628,939	416,669	242,957
Production costs	-157,065	-155,311	-198,269	-152,947	-89,378
Depletion	-145,316	-118,128	-95,046	-80,008	-47,392
Exploration costs	-127,534	-134,792	-110,023	-20,439	-16,755
Impairment costs	–	-644,766	-78,572	–	–
Gross profit	**368,684**	**-481,162**	**147,029**	**163,275**	**89,432**
Gain on sale of assets	66,126	4,589	20,481	–	–
General, administration and depreciation expenses	-40,960	-27,619	-19,684	-24,317	-14,434
Operating profit/(loss)	**393,850**	**-504,192**	**147,826**	**138,958**	**74,998**
Financial investments	-12,507	29,559	-110,121	-5,470	-308
Result from share in associated company	–	-25,504	4,480	–	–
Profit/(loss) before tax	**381,343**	**-500,137**	**42,185**	**133,488**	**74,690**
Tax	-251,865	-45,669	-40,824	-76,196	-31,640
Net result from continuing operations	**129,478**	**-545,806**	**1,361**	**57,292**	**43,050**
Discontinued operations					
Net result from discontinued operations	368,992	8,737	59,042	83,794	55,459
Net result	**498,470**	**-537,069**	**60,403**	**141,086**	**98,509**
Net result attributable to the shareholders of the Parent Company:	511,875	-411,268	93,958	141,750	99,673
Net result attributable to non-controlling interest:	-13,405	-125,801	-33,555	-664	-1,164
NET RESULT	**498,470**	**-537,069**	**60,403**	**141,086**	**98,509**

Balance Sheet Summary (TUSD)	2010	2009	2008	2007	2006
Tangible fixed assets	2,014,242	2,556,275	2,704,556	2,631,890	2,116,029
Other non-current assets	129,944	119,093	259,515	334,685	242,214
Current assets	284,950	275,290	272,619	316,021	218,153
TOTAL ASSETS	**2,429,136**	**2,950,658**	**3,236,690**	**3,282,596**	**2,576,396**
Shareholders' equity	920,416	1,141,658	1,462,442	1,513,340	1,304,219
Non-controlling interest	77,365	95,555	179,793	209,893	235,291
Total equity	**997,781**	**1,237,213**	**1,642,235**	**1,723,233**	**1,539,510**
Provisions	769,687	897,622	779,370	856,547	652,861
Interest bearing debt	476,671	558,327	555,626	427,243	202,649
Current liabilities	184,997	257,496	259,459	275,573	181,376
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**2,429,136**	**2,950,658**	**3,236,690**	**3,282,596**	**2,576,396**

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 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.

KEY FINANCIAL DATA

Key financial data is based on the total of continuing and discontinued operations.

Financial data		2010	2009	2008	2007	2006
Operating income	TUSD	863,149	805,852	977,719	812,440	599,116
EBITDA	TUSD	635,647	486,171	596,825	453,851	371,915
Net result	TUSD	498,470	-537,069	60,403	141,086	107,727
Operating cashflow	TUSD	598,586	471,946	625,763	463,094	308,233
Data per share						
Shareholders' equity per share	USD	2.96	3.64	4.67	4.80	4.15
Operating cash flow per share	USD	1.92	1.51	2.00	1.47	1.10
Cash flow from operations per share	USD	1.79	1.56	1.92	1.49	1.00
Earnings per share	USD	1.64	-1.31	0.30	0.45	0.39
Earnings per share fully diluted	USD	1.64	-1.31	0.30	0.45	0.39
EBITDA per share fully diluted	USD	2.04	1.54	1.89	1.44	1.32
Dividend per share	USD	2.30	–	–	–	–
Quoted price at the end of the financial period	USD	12.47	7.95	5.25	10.52	11.58
Number of shares issued at period end		317,910,580	317,910,580	317,910,580	315,550,580	314,215,080
Number of shares in circulation at period end		311,027,942	313,420,280	313,420,280	315,550,580	314,215,080
Weighted average number of shares for the period		312,096,990	313,420,280	315,682,981	315,020,401	280,867,805
Weighted average number of shares for the period (fully diluted)		312,096,990	313,420,280	315,682,981	315,409,915	282,251,337
Key ratios						
Return on equity	%	45	-37	3	9	11
Return on capital employed	%	47	-29	11	14	22
Net debt/equity ratio	%	36	40	35	21	12
Equity ratio	%	41	42	51	52	51
Share of risk capital	%	67	66	71	71	81
Interest coverage ratio	%	3,591	-2,865	973	2,203	4,010
Operating cash flow/interest ratio	%	2,803	2,605	3,797	3,631	4,848
Yield	%	18	–	–	–	–

KEY RATIO DEFINITIONS

Shareholders' equity per share: Shareholders' equity divided by the number of shares in circulation at period end.
Operating cash flow per share: Operating income less production costs and less current taxes divided by the weighted average number of shares for the period.
Cash flow from operations per share: Cash flow from operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the period.
Earnings per share: Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period.
Earnings per share fully diluted: Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period after considering the dilution effect of outstanding warrants.
EBITDA per share fully diluted: EBITDA divided by the weighted average number of shares for the period after considering the dilution effect of outstanding warrants. EBITDA is defined as operating profit before depletion of oil and gas properties, exploration costs, impairment costs, depreciation of other assets and gain on sale of assets.
Quoted price at the end of the financial period: The quoted price in USD is based on the quoted price in SEK converted in USD against the closing rate of the period.
Weighted average number of shares for the period: The number of shares at the beginning of the period with changes in the number of shares weighted for the proportion of the period they are in issue.
Return on equity: Net result divided by average total equity.
Return on capital employed: 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).
Net debt/equity ratio: Net interest bearing liabilities divided by shareholders' equity.
Equity ratio: Total equity divided by the balance sheet total.
Share of risk capital: The sum of the total equity and the deferred tax provision divided by the balance sheet total.
Interest coverage ratio: Result after financial items plus interest expenses plus/less exchange differences on financial loans divided by interest expenses.
Operating cash flow/interest ratio: Operating income less production costs and less current taxes divided by the interest charge for the period.
Yield: dividend per share in relation to quoted share price at the end of the financial period

Proved and probable oil reserves	Total Mbbl	UK Mbbl	France Mbbl	Netherlands Mbbl	Tunisia Mbbl	Norway Mbbl	Indonesia Mbbl	Russia Mbbl
1 January 2009	189,056	77,048	26,438	94	362	53,888	9,548	21,678
Changes during the year								
- acquisitions	–	–	–	–	–	–	–	–
- sales	-5,974	–	–	–	–	–	–	-5,974
- revisions	684	440	-3,227	-29	394	730	-698	3,074
- extensions and discoveries	50,246	–	–	–	–	50,246	–	–
- production	-12,932	-3,743	-1,249	-2	-495	-4,678	-875	-1,890
31 December 2009	221,080	73,745	21,962	63	261	100,186	7,975	16,888
2010								
Changes during the year								
- acquisitions	–	–	–	–	–	–	–	–
- sales	-80,175	-72,933	–	–	–	–	-7,242	–
- revisions	26,653	–	1,509	25	625	23,368	–	1,126
- extensions and discoveries	–	–	–	–	–	–	–	–
- production	-10,477	-812	-1,161	-2	-372	-6,076	-733	-1,321
31 December 2010	157,081	–	22,310	86	514	117,478	–	16,693

Proved and probable gas reserves	Total MMscf[1]	UK MMscf	Netherlands MMscf	Norway MMscf	Indonesia MMscf
1 January 2009	189,429	30,610	25,426	99,650	33,743
Changes during the year					
- acquisitions	–	–	–	–	–
- sales	–	–	–	–	–
- revisions	-8,554	-3	-988	-7,985	422
- extensions and discoveries	34,797	–	–	34,797	–
- production	-6,933	–	-4,541	-2,299	-93
31 December 2009	208,739	30,607	19,897	124,163	34,072
2010					
Changes during the year					
- acquisitions	–	–	–	–	–
- sales	-32,108	-30,607	–	–	-1,501
- revisions	9,582	–	5,859	9,459	-5,736
- extensions and discoveries	–	–	–	–	–
- production	-8,780	–	-4,530	-3,324	-926
31 December 2010	177,433	–	21,226	130,298	25,909

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

Of the total proved and probable oil and gas reserves at 31 December 2010, 33 Mbbl are attributable to non-controlling shareholders of other subsidiaries of the Group.

The reserves as at 31 December 2010 have been certified by Gaffney, Cline & Associates.

SHAREHOLDER INFORMATION

ANALYST COVERAGE

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ABG Sundal Collier	Anders Holte	anders.holte@abgsc.no
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Swedbank Markets	Ola Sodermark	ola.sodermark@swedbank.se
Öhman Fondkomission	Oskar Tuwesson	Oskar.Tuwesson@ohman.se

FINANCIAL REPORTING DATES

Lundin Petroleum will publish the following interim reports:

- 4 May 2011 Three month report (January – March 2011)
- 5 May 2011 AGM 2011
- 3 August 2011 Six month report (January – June 2011)
- 2 November 2011 Nine month report (January – September 2011)
- February 2012 Year End report 2011

The reports are available on Lundin Petroleum's website, www.lundin-petroleum.com in Swedish and English directly after public announcement.

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 may also attend the AGM through a proxy and the shareholder shall in such a case issue a written and dated proxy. A proxy form is available on the website www.lundin-petroleum.com.

Lundin Petroleum's AGM of the shareholders is to be held on Thursday, 5 May 2011 at 13.00 (Swedish time). Location: Spegelsalen, Grand Hotel, Södra Blasieholmshamnen 8 in Stockholm.

Attendance at the meeting

Shareholders wishing to attend the meeting shall:

- be recorded in the share register maintained by the Euroclear Sweden AB on Friday 29 April 2011; and
- notify Lundin Petroleum of their intention to attend the meeting no later than Friday 29 April 2011.

Confirmation of attendance

- in writing to Lundin Petroleum AB, c/o Computershare AB, P.O.Box 610, SE 182 16 Danderyd, Sweden
- by telephone:+46-8-518 01 554
- by e-mail: info@computershare.se
- via the website www.lundin-petroleum.com

When registering please indicate your name, social security number/company registration number, registered shareholding, address and day time telephone number.

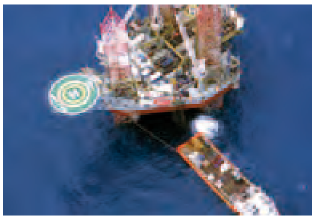
Shareholders whose shares are registered in the name of a nominee must temporarily register the shares in their own names in the shareholders' register to be able to attend the meeting and exercise their voting rights. Such registration must be effected by Friday 29 April 2011.

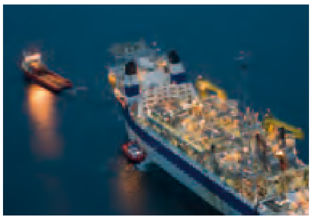
OIL RELATED MEASUREMENTS

bbl	Barrel (1 barrel = 159 litres)
bcf	Billion cubic feet (1 cubic foot = 0.028 m^3)
Bn	Billion
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
Bn boe	Billion barrels of oil equivalents
Mbbl	Thousand barrels (in Latin mille)
Mbo	Thousand barrels of oil
Mboe	Thousand barrels of oil equivalents
Mboepd	Thousand barrels of oil equivalents per day
MMbo	Million barrels of oil
MMboe	Million barrels of oil equivalents
MMbpd	Million barrels per day
MMbopd	Million barrels of oil per day
Mcf	Thousand cubic feet
Mcfpd	Thousand cubic feet per day
MMscf	Million standard cubic feet
MMscfd	Million standard cubic feet per day
MMbtu	Mllion British thermal units

CURRENCY ABBREVIATIONS

CHF	Swiss Franc
EUR	Euro
GBP	British Pound
NOK	Norwegian Kroner
RUR	Russian Rouble
SEK	Swedish Kroner
USD	US Dollar
TCHF	Thousand CHF
TSEK	Thousand SEK
TUSD	Thousand USD
MSEK	Million SEK
MUSD	Million USD



FORWARD-LOOKING STATEMENTS

Certain statements made and information contained herein constitute "forward-looking information" (within the meaning of applicable Canadian securities legislation). Such statements and information (together, "forward looking statements") relate to future events or the Company's future performance, business prospects or opportunities. Forward-looking statements include, but are not limited to, statements with respect to estimates of reserves and or resources, future production levels, future capital expenditures and their allocation to exploration and development activities, future drilling and other exploration and development activities, ultimate recovery of reserves or resources are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

All statements other than statements of historical fact may be forward-looking statements. Statements concerning proven and probable reserves and resource estimates may also be deemed to constitute forward-looking statements and reflect conclusions that are based on certain assumptions that the reserves and resources can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements". Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations and assumptions will prove to be correct and such forward-looking statements should not be unduly relied upon. These statements speak only as on the date of this annual report and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. These forward-looking statements involve risks and uncertainties relating to, among other things, operational risks (including exploration and development risks), productions costs, availability of drilling equipment and access, reliance on key personnel, reserve estimates, health, safety and environmental issues, legal risks and regulatory changes, competition, geopolitical risk, financial risks. These risks and uncertainties are described in more detail under the heading "Risk Factors" and elsewhere in this this annual report. Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward looking statements included in this new release are expressly qualified by this cautionary statement.

CONTINGENT AND PROSPECTIVE RESOURCES

This annual report contains certain estimates relating to contingent and prospective resources. The recovery and production estimates of the Company's contingent and prospective resources provided herein are only estimates and there is no guarantee that the estimated contingent and prospective resources will be developed or recovered. Actual contingent and prospective resources may be greater than or less than the estimates provided here. There is no certainty that any portion of prospective resources will be discovered. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources or, if discovered, the prospective resources, on any of its properties.

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