Lundin

Offer to subscribe for shares in Lundin Petroleum AB (publ) and the entitlement to receive warrants

Öhman

E. ÖHMAN J:OR FONDKOMMISSION AB

TERMS AND CONDITIONS IN BRIEF

Rights issue

Preferential rights:
One (1) existing share entitles the shareholder to one (1) subscription right. One (1) subscription right entitles the owner to subscribe for one (1) newly issued share. Subscription for two (2) newly issued shares entitles the subscriber to the reception of one (1) warrant.

Subscription price:
SEK 3.00 per share.

Record date:
25 October 2001.

Trading in subscription rights:
1–13 November 2001

Subscription period:
1–16 November 2001.

Subscription and payment:
Subscription for new shares shall be effected by cash payment during the subscription period.

Warrants

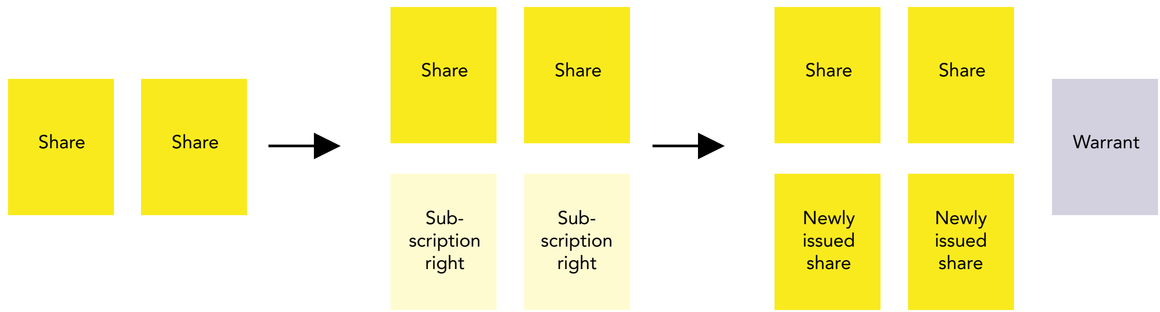
Warrant:
One (1) warrant entitles the holder to subscribe for one (1) newly issued share.

Subscription price:
SEK 4.50 per share.

Subscription period:
15 May – 14 June 2002.

Subscription and payment:
Warrants are exercised for subscription through application and cash payment during the subscription period.

Rights issue and entitlement to receive warrant – example



2 shares held on the record date 25 October 2001 …

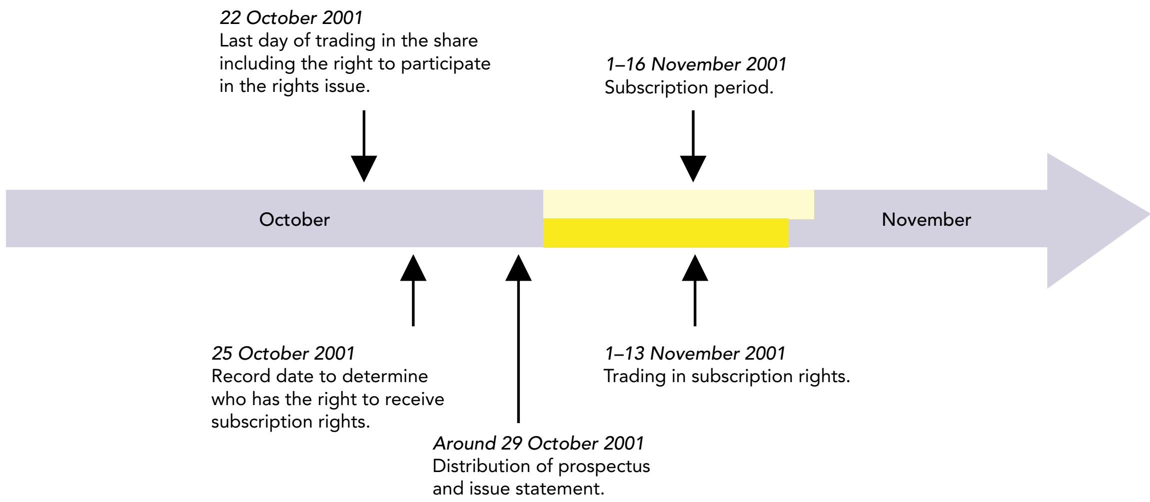
… entitle the holder to receive 2 subscription rights.

2 subscription rights entitle the holder to subscribe, during the subscription period 1–16 November 2001, for …

… 2 newly issued shares by cash payment of SEK 3.00 per share.

Subscription for 2 newly issued shares entitle the subscriber to receive 1 warrant, each entitling the holder to subscribe for 1 new share at a subscription price of SEK 4.50.

Important dates



FINANCIAL REPORTS

Interim report for the period
4 May–30 September 2001
will be published 7 November 2001

Preliminary annual statement for the period
4 May–31 December 2001
will be published 15 February 2002

Annual general meetings will be held in May.

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.

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

References to "Talisman" pertain to Talisman Energy Inc. and/or its Swedish subsidiary Talisman Energy AB.

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

AN INVESTMENT IN LUNDIN PETROLEUM MUST BE CONSIDERED A HIGH-RISK INVESTMENT. THEREFORE, INVESTORS CONSIDERING AN INVESTMENT IN LUNDIN PETROLEUM ARE ENCOURAGED TO CAREFULLY STUDY THIS PROSPECTUS, ESPECIALLY THE SECTION "RISK FACTORS".

This prospectus is available at Öhman's branch office, Lundin Petroleum's corporate head office and Lundin Petroleum's website, www.lundin-petroleum.com. The "Offer" pertains to the offer to subscribe for shares in Lundin Petroleum AB (publ) and the entitlement to receive warrants.

Neither the shares nor the warrants are subject to trading or application for the same in any other country than Sweden.

The Offer is not aimed at persons whose participation requires further prospectuses, registration or measures other than those that follow Swedish law.

The prospectus should not be distributed into or in a country where distribution or the Offer requires measures according to the previous paragraph or conflicts with regulations in such a country.

Neither the subscription rights, subscribed paid shares, the new shares nor the warrants have been, or will be, registered in accordance with the United States Securities Act of 1933 or any applicable law in Canada, Japan or Australia.

Lundin Petroleum has assigned Öhman to make provisions for subscription rights, which would otherwise have been distributed to directly registered American, Canadian, Japanese and Australian shareholders who are not included in the Offer, to be sold and that the proceeds of the sale, with deductions for costs, are forwarded to them.

This prospectus is a translation of the Swedish prospectus. In the event of any differences between this translation and the Swedish original, the Swedish prospectus shall prevail.

The Swedish language version of this prospectus has been approved by and registered with the Swedish Financial Supervisory Authority (Finansinspektionen) as provided in chapter 2 § 4 of the Financial Instruments Trading Act (1991:980). Approval and registration do not imply any guarantee by the Swedish Financial Supervisory Authority that the information in the prospectus is accurate or complete.

Disputes arising due to the Offer in accordance with this prospectus shall be decided according to Swedish law and exclusively by Swedish courts.

Certain figures in this prospectus have been rounded off.

Shareholders in Lundin Petroleum are hereby offered to exercise their preferential rights to subscribe for new shares in Lundin Petroleum pursuant to the terms and conditions set out in this prospectus. Based on an authorisation given at the Extraordinary General Meeting in Lundin Petroleum held on 20 June 2001, the Board of Directors resolved, on 1 October 2001, a new share issue with preferential rights for existing shareholders. As a consequence of the resolution, the Company's share capital can be increased by up to a maximum of SEK 1,062,037.84 from SEK 1,062,037.84 to a maximum of SEK 2,124,075.68, through a new share issue of a maximum of 106,203,784 new shares, each with a nominal value of SEK 0.01.

Each existing share held in Lundin Petroleum shall carry entitlement to subscription for one (1) new share. Following the new share issue, the number of shares outstanding in Lundin Petroleum will increase from 106,203,784 shares up to a maximum of 212,407,568 shares, all of the same class. The subscription price is SEK 3.00 per share. Assuming full subscription, the Company will receive approximately SEK 319 million before issue related costs[1]. Following full subscription of the new share issue, but before exercise of outstanding warrants attributable to the Company's incentive program[2], the newly issued shares correspond to a maximum of 50 percent of the share capital and votes in Lundin Petroleum.

Adolf H. Lundin, other members of the Board of Directors, management (see pages 35–36) and Yasmin Settlement, holding a total of 32,831,495 shares, corresponding to 30.9 percent of the share capital and votes in Lundin Petroleum, will utilise, in full, the subscription rights received to subscribe for new shares.

Based on the aforementioned authorisation, the Board of Directors of Lundin Petroleum resolved, on 1 October 2001, to raise a subordinated loan through the issue of debentures with detachable warrants attached. Upon utilisation of subscription rights for subscription of new shares, the subscriber receives, in addition to the new shares and at no cost, 1 warrant for every 2 shares subscribed for.

Following full subscription of the new share issue, whereby the number of outstanding shares will be increased by 106,203,784 new shares, 53,101,892 warrants will be allotted. Following exercise of all allotted warrants, the share capital in Lundin Petroleum will increase by SEK 531,018.92 from SEK 2,124,075.68 to SEK 2,655,094.60, corresponding to an increase in the number of outstanding shares from 212,407,568 shares to 265,509,460 shares, all of the same class.

New shares can be subscribed for by exercise of the allotted warrants during the period 15 May – 14 June 2002. The warrants can be exercised at a subscription price of SEK 4.50 per share. Assuming exercise of all allotted warrants, Lundin Petroleum receives approximately SEK 239 million before costs in connection with the utilisation of the allotted warrants[3]. After the exercise of all allotted warrants, but before exercise of the aforementioned outstanding warrants attributable to the Company's incentive program, the newly issued shares correspond to a maximum of 20 percent of the share capital and votes in Lundin Petroleum.

Assuming full subscription of the new share issue and the exercise of all allotted warrants, Lundin Petroleum receives approximately SEK 558 million before issue related costs and costs in connection with the utilisation of the allotted warrants. After full subscription of the new share issue and the exercise of all allotted warrants, but before exercise of outstanding warrants attributable to the Company's incentive program, the newly issued shares correspond to a maximum of 60 percent of the share capital and votes in Lundin Petroleum.

[1] The issue related costs are estimated at around SEK 16 million.
[2] See further on page 34.
[3] The costs in connection with the exercise of the allotted warrants are estimated at around SEK 2 million.

Background and reasons

On 6 September 2001, the Lundin Petroleum shares commenced to be traded on the New Market at Stockholmsbörsen with Öhman as sponsor. Lundin Petroleum is a spin-off from Lundin Oil, which has been acquired by Talisman. The spin-off was effectuated on 21 August 2001 after Talisman announced the offer on Lundin Oil unconditional.

Lundin Petroleum is an oil and gas exploration company with assets principally including the following:

- A 40.375 percent working interest in Block 5A in Sudan, where a significant oil discovery has been made and further exploration is ongoing.
- A 24.5 percent working interest in Block 5B in Sudan, which is in the early stages of exploration.
- A 40.0 percent interest in the exploration of the Munir Block in Iran, which is in the early stages of exploration.
- Approximately 10 percent of the undiluted[1] share capital in Khanty Mansiysk Oil Corporation ("KMOC"), a USD 1.3 million promissory note issued by KMOC and 115,440[2] warrants to purchase shares in KMOC for USD 11.25 per share.

In addition, Lundin Petroleum holds a 100 percent interest in the Halaib Block in Sudan, which is in suspension due to a border dispute, and a 5-year option to acquire all or part of a 20 percent interest in Blocks 35 and M-10A in Somalia, which are in force majeure.

Lundin Petroleum's shareholders have equity participation in a well-positioned oil and gas exploration company with attractive growth opportunities through existing discoveries and with exposure to some of the largest oil basins in the world. Lundin Petroleum's strategic objective is to establish the Company as a significant oil and gas exploration and production company with a large and valuable asset base.

The new share issue with preferential rights for existing shareholders will, if fully subscribed, provide Lundin Petroleum with approximately SEK 319 million before issue related costs. In addition, shareholders exercising their preferential right to subscribe for new shares also receive 1 warrant for every 2 shares subscribed for. Each warrant entitles to subscription for 1 new share at a subscription price of SEK 4.50 during the period 15 May–14 June 2002. Assuming exercise of all allotted warrants, the Company receives an additional SEK 239 million before requisite costs in connection with the exercise. The Board of Directors assesses the Offer issue as being advantageous to both the Company and its shareholders.

Proceeds from the new share issue will be used in accomplishing the strategic objective, which partly consists of continuing exploration and development of existing assets in Sudan and Iran, and partly of searching for new exploration acreage in targeted areas. The present minimum expenditure obligations to which Lundin Petroleum is contractually committed to under various concession agreements are USD 81 million, of which Lundin Petroleum's share amounts to USD 28 million. The proceeds from the new share issue will be used mainly in the following areas and activities:

- The development of the Thar Jath discovery in Block 5A, Sudan, amongst other things the accomplishment of the approved work program, including the construction of a connecting pipeline and key elements of infrastructure and the drilling of appraisal wells.
- Continuing exploration in Block 5A and 5B in Sudan, including the acquisition and interpretation of seismic and drilling of explorations wells.
- Exploration in the Munir Block in Iran, including acquisition and interpretation of 2D and 3D seismic and the drilling of exploration wells.

In addition, the proceeds from the new share issue will enable the Company to participate in future acquisitions of new exploration acreage.

Lundin Petroleum's management and organisation have a proven track record and an experience, creating the foundation for the establishment of a significant oil and gas company.

For other information, refer to the presentation in this prospectus, which has been prepared in conjunction with the Offer. The Board of Directors of Lundin Petroleum is responsible for the content of the prospectus. Assurance is hereby given that, to the best of the Board of Director's knowledge, the information in the prospectus pertaining to actual conditions is accurate and that nothing that could have a material impact on such descriptions has been omitted in the prospectus.

Stockholm, 19 October 2001

Lundin Petroleum AB (publ)
Board of Directors

[1] Not taken into account outstanding warrants and the proposed new share issue.
[2] After given effect to a 40 to 1 common share split to be effected prior to the completion of the proposed public offering (see further information on page 23).

Terms and conditions

PREFERENTIAL RIGHT TO SUBSCRIBE

Those who, on the record date 25 October 2001, are registered as shareholders in Lundin Petroleum have preferential rights to subscribe for one (1) newly issued share for each existing share in Lundin Petroleum.

Further, those utilising the subscription rights for subscription of new shares will receive one (1) warrant for every two (2) shares subscribed for. During the period 15 May–14 June 2002, warrantholders are entitled to subscribe for one (1) newly issued share for each warrant held at a subscription price of SEK 4.50. Warrants have to be utilised for subscription according to terms and conditions and payment has to be made, or else all rights emanating from the warrants are lost. The terms regarding the warrants can be obtained from Lundin Petroleum.

SUBSCRIPTION PRICE

The new shares are issued at a subscription price of SEK 3.00 per share.

RECORD DATE

The record date at the Swedish Securities Register Centre ("VPC") for determining who has the right to receive subscription rights in the new share issue is 25 October 2001. The final day of trading in Lundin Petroleum shares with subscription rights is 22 October 2001. The first day of trading in the Company's shares excluding the subscription rights is 23 October 2001.

SUBSCRIPTION RIGHTS

Each share held in Lundin Petroleum on the record date entitles the holder to receive one (1) subscription right. One (1) subscription right entitles the holder to subscribe for one (1) newly issued share in Lundin Petroleum.

ISSUE STATEMENT

Around 29 October 2001, this prospectus, which will be available at Öhman's branch office, Lundin Petroleum's corporate head office and Lundin Petroleum's website, www.lundin-petroleum.com, along with an issue statement from VPC with an accompanying payment note, will be mailed to directly registered shareholders on the aforementioned record date or to representatives of shareholders. The issue statement will show, among other things, the number of subscription rights received. A VP-account note showing the booking of subscription rights will not be mailed. Those who are recorded in the special list of creditors and others accompanying the shareholders' register will not receive an issue statement; this will instead be forwarded separately.

RIGHT TO DIVIDEND

The new shares in Lundin Petroleum will carry rights to dividends beginning with the financial year 2001.

NOMINEE-REGISTERED HOLDINGS

Shareholders whose holdings in Lundin Petroleum are nominee-registered with a bank or other nominee will not receive a prospectus, or an issue statement from VPC. Subscription and payment shall instead be effected in accordance with instructions from the nominee.

TRADING IN SUBSCRIPTION RIGHTS

Trading in the subscription rights will take place during the period 1–13 November 2001 on the New Market at Stockholmsbörsen. Öhman and other securities institutions with the required authorisation are available to facilitate the trading in subscription rights. No financial reimbursement will be made for subscription rights not utilised for subscription. Those who wish to sell their subscription rights must do so on or before 13 November 2001.

SUBSCRIPTION PERIOD

Subscription for new shares shall be effected by cash payment during the period 1–16 November 2001[1].

> Note that subscription for new shares should be executed by 16 November 2001 at the latest. Following the expiration of the subscription period, unutilised subscription rights become invalid and hence without value. On 23 November 2001, unutilised subscription rights will be removed from the VP-account without notification by VPC.

SUBSCRIPTION AND PAYMENT WITH PREFERENTIAL RIGHTS

Subscription for shares on the basis of subscription rights shall be conducted through the simultaneous payment at any Swedish bank with the required authorisation. As noted above, a payment note has been mailed by VPC. Subscription through payment shall be made through one of the following alternatives:

A. Payment note

If all subscription rights received on the record date are used to subscribe for new shares, only the sent out payment note is to be used as documentation of subscription through payment.

In this case, no special application form is to be used.

[1] Lundin Petroleum's Board of Directors reserves the right to extend the period during which the subscription of shares can be made.

B. Special application form
In the event subscription rights are acquired or sold, or if for any other reason a number of subscription rights not equal to the number shown on the issue statement from VPC is used to subscribe, a special application form is to be used as a basis for subscription through payment. Such special application form is obtainable from Öhman by telephone +46-8-402 51 32.

> The special application form should be submitted or sent to:
>
> **E. Öhman J:or Fondkommission AB**
> Emissionsavdelningen/Lundin Petroleum
> P.O. Box 7415
> Kungsgatan 49
> SE–103 91 Stockholm

The special application form must reach Öhman no later than 16 November 2001. Application forms sent by post should be dispatched well in time before the final subscription date.

In this case, the pre-printed payment note from VPC should not be used.

The same applies for those who were not registered as shareholders on the record date, but have acquired subscription rights during the subscription period.

Shareholders who are not resident in Sweden must pay in accordance with the instructions on the special application form.

SUBSCRIPTION WITHOUT PREFERENTIAL RIGHTS
If all subscription rights are not exercised, the Board of Directors is authorised to stipulate the allotment of shares for subscription without preferential rights, which are not to exceed the new share issue's maximum amount.

The subscription for shares without preferential rights shall be done during the same period as subscription with preferential rights, that is 1–16 November 2001[1].

Notification of the intent to acquire shares through subscription without preferential rights must be made on a special application form. Such special application form is obtainable from Öhman by telephone +46-8-402 51 32.

The application form must reach Öhman no later than 16 November 2001. Note that the application is binding.

Notification of any allotment of shares subscribed for without preferential rights is made by sending a settlement note. Those who have not been allotted any shares are not notified in any way.

Shares subscribed for without preferential rights shall be paid for in cash in accordance with the mailed settlement note. Shares that are not paid for in time will be reassigned to someone else. If the price realised by such a reassignment falls short of the subscription price according to the Offer, the person to whom those shares had been allotted may be responsible for making up the difference.

TRANSITIONAL ACCOUNT
In cases where the subscription rights are registered in a transitional account maintained by the VKI (the institution that maintains VPC's accounts), the transitional account will be taken over by a securities institution in connection with the trading in subscription rights.

SUBSCRIBED, PAID SHARES
Subscription by payment is registered by VPC as soon as possible, ordinarily within a few business days after payment. Subsequently, the subscriber will receive a VP-note confirming the booking of the subscribed, paid shares ("BTAs") in the subscriber's VP-account.

BTAs can be traded on the New Market at Stockholmsbörsen up until the Swedish Patent and Registration Office ("PRV") has registered the increase in share capital.

After PRV has registered the increase in share capital, BTAs will be converted into ordinary shares without notification from VPC.

WARRANTS
The warrants are expected to be booked in the subscriber's VP-account around 20 December 2001.

Trading in warrants on the New Market at Stockholmsbörsen is expected to commence around the date of the booking of the warrants on the subscriber's VP-account. Last day for trading in the warrants is 11 June 2002.

The Company will have access to the warrant register.

> In order to prevent the subscription rights from being invalid, and hence without value, you must either:
>
> - Use the subscription rights for subscription of new shares in Lundin Petroleum 16 November 2001 at the latest, or
> - Sell your subscription rights on or before 13 November 2001.

[1] Lundin Petroleum's Board of Directors reserves the right to extend the period during which the subscription of shares can be made.

Lundin Petroleum

Lundin Petroleum is an oil and gas exploration company with a strategic focus in areas of the world where there are proven petroleum systems, large reserves potential and lack of recent exploration activity. The aim is to establish the Company as a significant oil and gas company with a large and valuable asset base consisting of exploration, development and production assets.

MISSION

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

VISION

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

STRATEGY

In order to realise Lundin Petroleum's vision, the Board of Directors has decided to pursue the following strategy:

- **Continue to explore and develop existing asset base in Sudan**
  Having initiated exploration and appraisal activities in targeted areas in Sudan, Lundin Petroleum will focus on continued exploration while seeking to develop existing oil discoveries.
- **Pursue an active search for new exploration acreage in targeted areas**
  The Company intends to increase the asset portfolio by fostering new, and using existing, relationships to enter into additional agreements in new areas, by use of Lundin Petroleum's extensive network. The search for new exploration acreage is geographically focused on, but not limited to, Northern Africa and the Middle East.

OVERVIEW OF LUNDIN PETROLEUM'S ASSET PORTFOLIO

Lundin Petroleum holds a working interest of approximately 40.4 percent in, and is the operator of, an area called Block 5A located in Southern Sudan. The initial exploration well, called Thar Jath-1, flowed at a cumulative rate of 4,260 bopd and the appraisal well drilled nearby, Thar Jath-2, flowed at a cumulative rate of over 2,000 bopd.

In addition, Lundin Petroleum holds a non-operated working interest of 24.5 percent in Block 5B, the block adjoining Block 5A. Both areas are located in the prospective Muglad Basin, which is one of the few remaining largely undeveloped but proven oil basins in the world.

Lundin Petroleum also holds the Halaib Block located partly onshore and partly off the coast of Northern Sudan in the Red Sea, which is in suspension. Further, Lundin Petroleum has a 40 percent interest in the exploration contract for the Munir Block in Iran and an option to acquire interests in 2 blocks in Somalia, Blocks 35 and M-10A, from Talisman. However, the 2 blocks in Somalia are in force majeure.

As a financial fixed asset, Lundin Petroleum holds approximately 10 percent of the undiluted share capital in KMOC and a USD 1.3 million promissory note issued by KMOC, a United States company with various oil and gas assets in the Russian Federation. KMOC is currently pursuing a public offering of its shares, which are proposed to be listed on Nasdaq in the United States.

All necessary approvals for the transfer of control of the interests and companies from Lundin Oil to Lundin Petroleum have been received.

Exploration expenditure obligations

Lundin Petroleum participates in joint ventures with third parties in oil and gas exploration activities. The Company is contractually committed under various concession agreements. The present minimum expenditure obligations are USD 81 million, of which Lundin Petroleum's share amount to USD 28 million.

LUNDIN PETROLEUM'S FINANCIAL POSITION

At present, Lundin Petroleum has limited liquid financial resources. As at 31 August 2001, the Company's cash position amounted to approximately SEK 68 million.

In order to provide adequate liquidity until the settlement of the pending new share issue, Lundin Petroleum's main shareholder Adolf H. Lundin has agreed to provide liquid funds through a loan agreement of up to a maximum of USD 10 million (see further information on page 34).

Currency exposure

Lundin Petroleum's cash flow is affected by changes in the SEK/USD exchange rate due to operating cash outflows being denominated in USD. Further, the Company's exploration expenditure obligations and potential future oil and gas revenues will be denominated in USD. The Company also has limited cash outflows in CHF and in SEK. Lundin Petroleum enters into hedging contracts when deemed necessary or advantageous.

Dividend policy

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

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

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

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

ORGANISATION

Lundin Petroleum employs 70 persons on a full-time basis, 29 of whom are based at the technical and corporate offices in Stockholm, Sweden and Geneva, Switzerland and 41 of whom are based in Sudan.

In addition to the corporate and financial staff, Lundin Petroleum maintains a workforce of full-time key technical personnel within crucial activities such as geophysics, geology, reservoir engineering and drilling.

Lundin Petroleum is managed from its office in Geneva where the President, Finance Director and Exploration Director are responsible for the strategic management of the Company. This involves the implementation of strategic and investment decisions in relation to existing and new business areas as well as the funding for the Company. The Sudan operations are managed by the Lundin Sudan Limited Managing Director in Khartoum, Sudan, reporting to the President in Geneva, who has day to day responsibility for the implementation of operations in the country.

In certain stages of the exploration and development process, Lundin Petroleum hires specialised companies and/or people for a limited period of time. Stages in which this would typically come into question include acquisition of seismic data, drilling and building of infrastructure. During certain periods of time the use of sub-contractors and temporarily employed staff can exceed the number of full-time staff.

COMPETITION

Lundin Petroleum competes globally with other upstream companies, including major oil and gas companies, for exploration acreage and producing assets that may come up for sale.

Other companies are often competitors in the stage where exploration acreage is acquired, but can become partners in the stage when possible farm-out agreements are made. Hence, the line separating competitors from partners varies over time.

FORWARD LOOKING STATEMENT

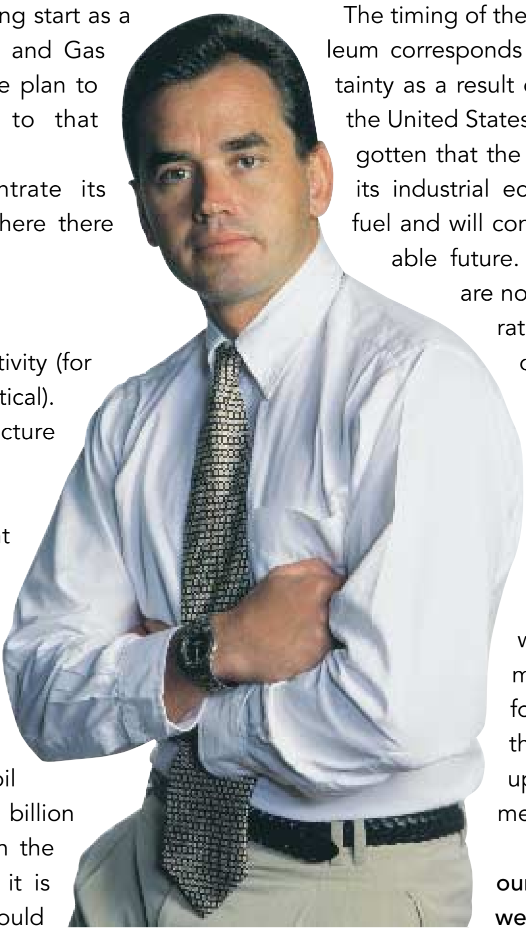
Lundin Petroleum's Board of Directors believes the Company is well positioned for a favourable long-term development considering the existing oil discoveries and the exposure to some of the largest oil basins in the world. However, the management of Lundin Petroleum does not expect the Company to generate positive cash flow and an operating profit before the Thar Jath discovery, or any other discovery, yields commercial quantities of oil. Lundin Petroleum is expected to incur losses as it meets ongoing administration costs prior to the development of any revenue streams. In addition, Lundin Petroleum is expected to experience negative cash flow as it incurs significant capital expenditures on the exploration and development of its assets.

President's statement

Lundin Petroleum is off to a strong start as a new "Swedish Independent Oil and Gas Exploration Company". Soon we plan to add the word "Production" to that description.

The Company will concentrate its efforts in areas of the world where there are:

- Proven petroleum systems.
- Large reserves potential.
- Lack of recent exploration activity (for various reasons including political).
- Access to existing infrastructure and export markets.



The assets in Sudan (40.4 percent in Block 5A and 24.5 percent in Block 5B) meet all of the above criteria. The Muglad Basin, of which approximately 50 percent of the surface area is covered by Blocks 5A and 5B, is one of the last undeveloped oil basins of the world. So far, over 1 billion barrels have been discovered in the northern half of the Basin and it is estimated that the whole Basin could contain in excess of 10 billion bbls of oil recoverable. The first well drilled on Block 5A for instance, resulted in the discovery of the Thar Jath Field, which could become the largest oil producing field in the whole basin. Currently, all of the oil production from the Basin (+/–230,000 bopd) is transported via a 1,540-kilometre pipeline to the Red Sea Coast. Importantly, up to 40 percent of the capacity of the export pipeline is reserved for third parties such as Lundin Petroleum and its partners in Blocks 5A and 5B. The ultimate capacity of the export pipeline is estimated at 450,000 bopd.

We plan to start producing from Block 5A as soon as practicable taking into account all the technical, commercial and environmental issues that have to be addressed.

Lundin Petroleum's most recent project, the 40 percent interest in the Munir Block onshore Iran, also meets all of the above criteria. The Block is located in the highly prolific Zagros Basin where 150 billion bbls of oil have been discovered to date. The Operator of the Munir Block is Edison International and the proposed workprogramme for 2002 consists of the acquisition of 800 kilometres of seismic, which will be followed by three exploration wells.

The timing of the establishment of Lundin Petroleum corresponds with a period of great uncertainty as a result of the 11 September attack on the United States. However, it should not be forgotten that the World depends on oil to drive its industrial economies. Oil is the dominant fuel and will continue to be so for the foreseeable future. Furthermore new oil reserves are not being discovered at the same rate as old reserves are being depleted. Major oil companies such as Shell have recently revised their growth forecast downward due to the difficulty the companies are facing in replacing reserves. Therefore, notwithstanding a potential slowdown in the world economy in the coming months, we believe that demand for oil will increase at a faster rate than supply, thus creating an upward price development in the medium term.

As a single-product-company our corporate strategy is simple: we will build the Company by finding oil. And we have the necessary skills, industry contacts and asset base to find a lot of it. The Company has the same Board of Directors and management that made Lundin Oil a success. All of the key employees within our organisation are hard working, intelligent and very ambitious. As a team we complement each other well having worked together for years. The Board of Directors and the management share the common view of success through exploration.

We look forward to building Lundin Petroleum into another significant player in the international oil and gas arena.

Sincerely,

Ian H. Lundin
President and Chief Executive Officer

CRUDE OIL

Crude oil is a naturally occurring substance found trapped in certain rocks below the earth's crust. The liquid is dark and sticky and is classed as a hydrocarbon, a compound containing only hydrogen and carbon. Crude oil is highly flammable and can be burned to create energy.

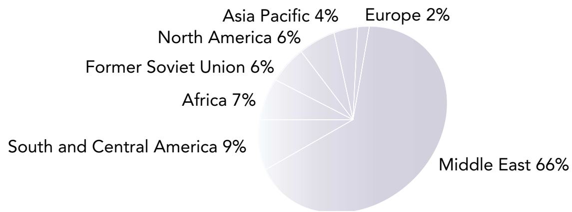
Crude oil comes in different qualities depending on what region and what area in the respective region the crude oils origins from. The name of the oil is then based on the field from which it was extracted. One of the most commonly known qualities is the Brent blend, which is extracted from various fields in the North Sea, including the Brent field. Prices of oil from other fields are often benchmarked against commonly traded blends, such as Brent blend.

The burning of crude oil in itself is of limited value. To obtain a higher value, the crude oil is refined into different products, such as petrol. The list of products derived from crude oil is long, some are fuels, as is the case for petrol, fuel oil and kerosene, other products are asphalt for road construction, lubricants and a wide range of petrochemical end products such as plastics, synthetic rubbers and chemical fertilisers.

GLOBAL OIL RESERVES

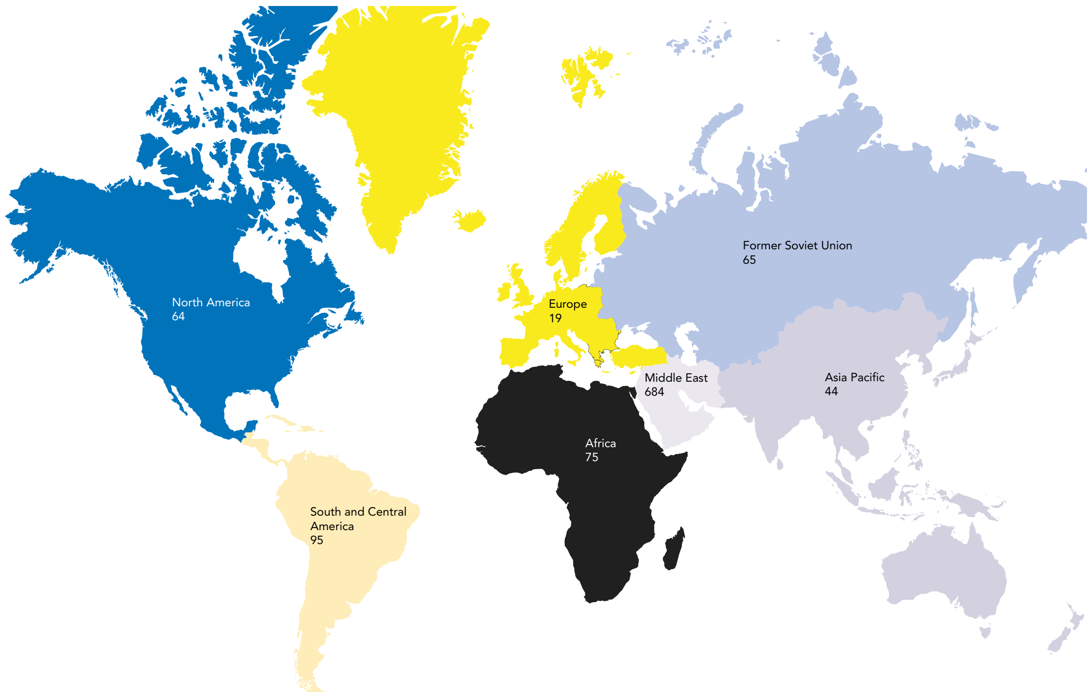
Oil is found on all continents of the world. The Middle East is by far the region where the largest proven oil reserves are found, followed by South and Central America and Africa. In total, global proven oil reserves amounted to 1,046 billion bbls at the end of 2000, of which 66 percent was attributable to the Middle East (see figure 2).

Figure 2: Proven reserves by region



Source: BP statistical review of world energy, June 2001.

Figure 1: Global proven oil reserves at the end of 2000 (billion bbls)



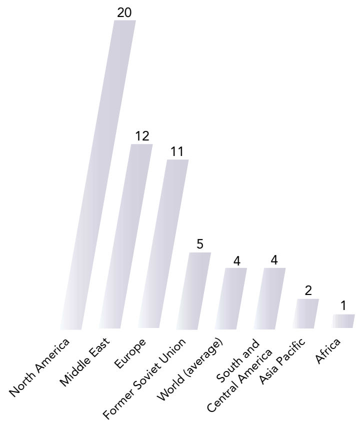
Source: BP statistical review of world energy, June 2001.

GLOBAL OIL CONSUMPTION

The primary driving force behind the demand for oil is economic growth. To a great extent the world's energy needs are met by fossil fuels, of which oil is the dominant fuel. In developing countries, demand for energy is much in line with economic growth, whereas in industrialised countries the growth in demand is more volatile in comparison with economic growth.

The consumption per capita varies greatly between different regions. North America has by far the greatest consumption per capita, followed by the Middle East with roughly half the consumption per capita compared with North America. Oil consumption per capita was much the same in 2000 as in 1985, with modest increases in most parts of the world offset by a major fall in the former Soviet Union.

Figure 3: Yearly oil consumption per capita, bbls



Source: BP Statistical Review of World Energy, June 2001/PRB 2001 World Population Data Sheet.

OIL PRICE DEVELOPMENT

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

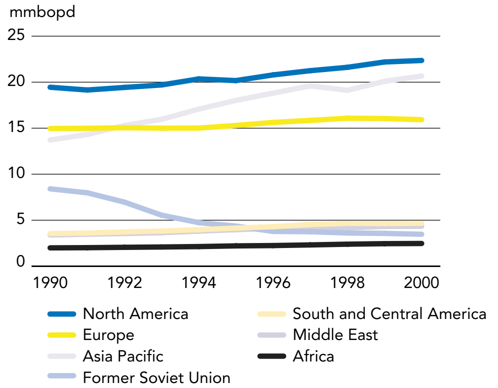
OPEC

OPEC is an international organisation founded in 1960, consisting of eleven oil-exporting developing nations. Representatives of the member countries meet at least twice a year to decide on output levels, hence adjusting the global supply of oil. Together with some of the large non-member oil producers following the organisation's recommendations, OPEC has a strong impact on the prices of oil.

The OPEC members supply roughly 40 percent of the world's output of oil and 15 percent of gas and possess more than three-quarters of the world's total proven crude oil reserves.

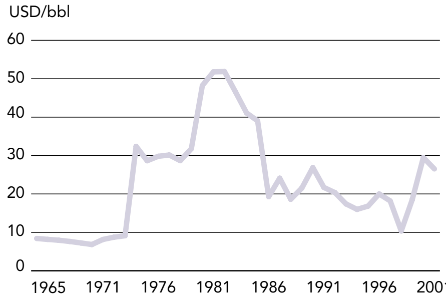
The OPEC members	
Algeria	Indonesia
Iran	Iraq
Kuwait	Libya
Nigeria	Qatar
Saudi Arabia	United Arab Emirates
Venezuela	

Figure 4: Oil consumption by region 1990–2000



Source: BP Statistical Review of World Energy June 2001.

Figure 5: Oil price development in real terms 1965–2001, denominated in year 2000 prices



Source: Tor Wergeland (Norwegian School of Economics & Business Administration)/BP Statistical Review of World Energy/Pareto Securities.

THE PRESENCE OF OIL IN AFRICA AND THE MIDDLE EAST

Africa's share of the world's proven reserves amounts to roughly 7 percent (see figure 2). The largest proven oil reserves in Africa are found in Algeria, Libya and Nigeria to which more than 80 percent of the reserves are attributable. Due to economic, social and political instability in many of the African countries, the level of exploration has historically been low.

The Middle Eastern countries hold the majority of the global proven oil reserves and oil has been one of the major reasons for the fast development of many of the countries in the region. In addition to the proven reserves, there is still a great potential in many of the countries for further oil discoveries. Due to various factors, some of the countries have been closed for foreign investments for a long time and the level of exploration has been low. However, during recent years these countries have begun to open up for investments by foreign oil companies.

BRIEF DESCRIPTIONS OF RELEVANT COUNTRIES

The Republic of the Sudan

Sudan is situated in the Northeast of Africa, bordering Egypt, Libya, Chad, Central African Republic, Congo, Uganda, Kenya, Ethiopia and Eritrea, with sea access through the Red Sea in the north-eastern corner of the country. The total area compromises 2,506 million square kilometres, which is about 5.5 times larger than Sweden or slightly more than one-quarter of the size of the United States. Sudan is the largest country in Africa and has a population of around 35 million, with a majority of the population having agriculture as their occupation. In 2000, the industrial sector composed 17 percent of GDP. Khartoum, the capital city, is situated in the middle of the country. The climate in the north is arid desert and in the south tropical.

Due to cultural diversity and tribal rivalry, the country has experienced civil unrest for the last 50 years. The conflicts are mainly between the Khartoum government and the rebel movements in the south, but they are also intertribal in nature. Sudan's external ties are assessed to be strengthened in the coming years, although slowly. The European Union is currently holding dialogue meetings with the Sudanese government in order to address human rights, democracy and to continue the peace process. In November 1997, the United States imposed sanctions against Sudan based on the Sudanese government's alleged sponsorship of international terrorism. The sanctions prohibit United States companies from trading with, and investing in, Sudan (see further information on pages 31–32). On 28 September 2001, the United Nations adopted a resolution, implying the lifting of sanctions on the Republic of Sudan according to resolutions adopted in 1996. The Republic of Sudan has completed its accession to all international anti-terrorist conventions.

Sudan has been exporting oil since mid 1999. The oil exploration activity however, began in the late 1950s in the coastal waters of the Red Sea and the Sudanese continental shelf. In 1984, due to the political instability and the new outbreak of the civil war, Chevron Corporation, the main foreign operator of the time, withdrew its operations from Sudan. However, ever since the early 1990s foreign companies have begun to return. Today, a number of companies are active in Sudan, including China National Petroleum Corporation, Gulf Petroleum Corporation, Lundin Petroleum, National Iranian Gas Company, OMV[1], Petronas[2], Royal Dutch/Shell, Sudapet[3] and Talisman.

Sudan's recoverable oil reserves are estimated at around 1 billion bbls. In 2000, the production amounted to approximately 200,000 bopd, of which 115,000 bopd were exported mainly to East Asian refineries.

Figure 6: Map over Africa indicating Sudan, Iran and Somalia

[1] References to OMV pertain to OMV Aktiengesellschaft and/or its subsidiaries, pertaining to the relationship with Lundin Petroleum see figures 18 and 19.

[2] References to Petronas pertain to Petroliam Nasional Berhad and/or its subsidiaries, pertaining to the relationship with Lundin Petroleum see figures 18 and 19.

[3] References to Sudapet pertain to Sudapet Ltd. and/or its subsidiaries, pertaining to the relationship with Lundin Petroleum see figures 18 and 19.

The Islamic Republic of Iran

The Islamic Republic of Iran is situated in the Middle East and borders Afghanistan, Armenia, Azerbaijan, Iraq, Pakistan, Turkey and Turkmenistan, with sea access through the Gulf of Oman and the Persian Gulf. The country also borders the Caspian Sea in the north. Iran covers 1.648 million square kilometres, which equals 3.6 times the size of Sweden or a size slightly larger than Alaska. The population of roughly 65 million is mainly working within services. In 2000, the industrial sector composed around 35 percent of GDP. The climate varies between extreme heat and cold, since most of the country is situated in the highlands. Tehran, the capital city, is situated in the north.

Following the Islamic revolution in 1979, foreign investments stopped. In combination with the war against Iraq, lasting for 8 years between 1980–1988, the result was a suffering economy. Refineries, pipelines and export ports for oil were destroyed, costing enormous amounts to rebuild. Most of the banks and industry were nationalised. New oil exploration was very limited, with mainly old fields being developed resulting in Iran being relatively under explored compared to other countries in the region. During recent years, reforms have slowly begun to be implemented through privatisation of parts of the economy, opening up for foreign investments, including those of foreign oil companies.

Iran and Iraq restored diplomatic relations in 1990, but still have agreements to sign settling border disputes and freedom of navigation over some waters. Further, Iran is in disputes with the United Arab Emirate concerning some islands in the Persian Gulf. In 1996, the United States imposed sanctions against Iran prohibiting United States companies from investing in and trading with Iran (see further information on pages 31–32).

Iran is dependent on the production of oil and gas as a large part of the economy and for the inflow of hard currency, such as USD. In 2000, proved reserves totalled 90 billion bbls, making Iran one of the top five countries in the world as regards to proved reserves with a production in excess of 3.7 mmbopd.

Typical topography of the Munir Block, onshore Iran

Somalia

Somalia is situated in Eastern Africa, bordering Kenya, Ethiopia and Djibouti. A large part of the country borders the Indian Ocean and the Gulf of Aden. The total area is around 638 thousand square kilometres, roughly 1.4 times the size of Sweden or slightly smaller than Texas, mainly made up of desert. The population is around 7 million, working mainly with agriculture. Mogadishu, the capital city of Somalia, is situated on the coast of the Indian Ocean. The climate is hot and dry with very little rainfall.

Somalia has experienced 24 years of intermittent civil war and constant famine conditions. Conflicts are mainly between clans battling for control over key economic areas, but border conflicts also exists with nearby states such as Ethiopia. The country has been without a central government since January 1991. Self-declared administrations have been set up both in the Northwest (Somaliland) and the Northeast (Puntland) of Somalia, where conditions now are relatively stable compared to the south. In October 2000, after a long period of negotiations, a transitional government was selected for an interim 3-year period. However, the government, which has not been accepted by the powerful regional warlords, has only been able to take control over Mogadishu.

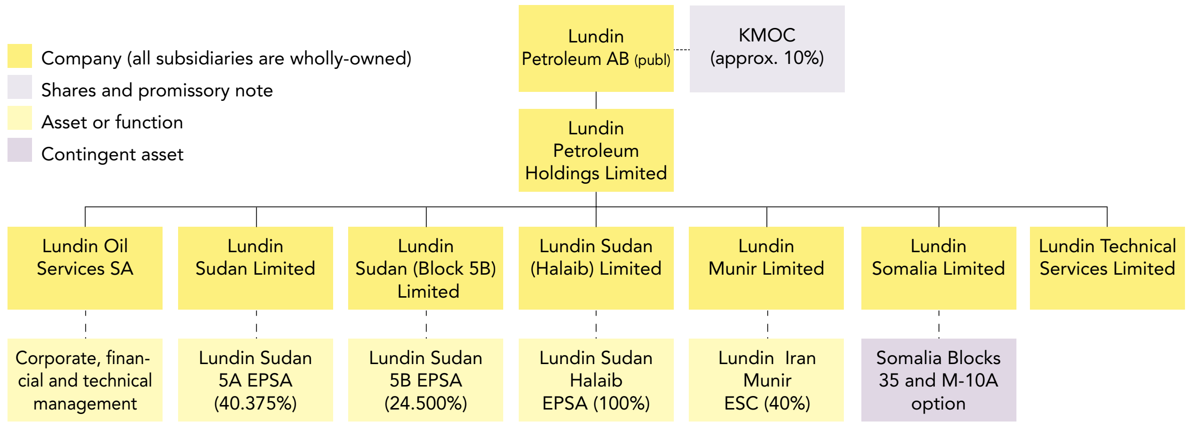
The industrial sector is very small (in 2000, 10 percent of GDP) and most facilities have been shut down due to the civil war. All oil exploration activities have been suspended since 1991 and all licenses are under force majeure and are likely to be until the situation stabilises.

Bridge built by Lundin Sudan Limited over the Bahr el Gahzal river in Southern Sudan

Lundin Petroleum's asset portfolio

The parent company Lundin Petroleum AB (publ) has a number of wholly-owned subsidiaries. The function of, or the assets held by, each subsidiary is shown below. The parent company, Lundin Petroleum AB (publ), is based in Stockholm, Sweden. Lundin Oil Services SA in Geneva is a Swiss company employing the corporate, financial and technical management.

Figure 7: Lundin Petroleum



All of Lundin Petroleum's assets are in the exploration and/or appraisal stages, other than the equity interest in KMOC, which is a United States company with production and development assets in Western Siberia in the Russian Federation. Lundin Petroleum's exploration and appraisal areas are found in the Muglad Basin in Southern Sudan, a large basin with high potential. In more explored parts of the Muglad basin, large oil discoveries have been made by companies other than Lundin Petroleum. At present, the Company also holds an asset in Northern Sudan, which is in suspension. Lundin Petroleum recently signed an agreement of a 40 percent interest in the exploration of Munir Block in Iran. In addition, Lundin Petroleum has an option to acquire interests in 2 blocks in Somalia, currently in force majeure, from Talisman.

Figure 8: Lundin Petroleum's assets

Country	Block	Area, km²	Working interest, %[1]	Paying interest, %[1]	Operator	Joint venture partners	Status
Assets							
Sudan	5A	20,000	40.375	42.500	Lundin Petroleum	Petronas, OMV and Sudapet	Exploration and appraisal
Sudan	5B	20,119	24.500	27.222	Petronas and Sudapet	Petronas, OMV and Sudapet	Seismic operations in 2002
Sudan	Halaib	10,304	100.000	100.000	Lundin Petroleum	None	Suspension[2]
Iran	Munir	2,690	40.000	40.000	Edison[3]	Edison	Seismic operations in 2001/2002
Contingent asset							
Somalia	35 and M-10A	16,282	20.000	20.000	BP Amoco[4]	BP Amoco, Murphy[5], Fortum[6] and Gulfstream[7]	Force majeure

[1] See definitions on page 51.
[2] Due to a border dispute between Egypt and Sudan.
[3] References to Edison pertain to Montedison S.p.A, and/or its subsidiaries, pertaining to the relationship with Lundin Petroleum see figure 20.
[4] References to BP Amoco pertain to BP p.l.c. and/or its subsidiaries.
[5] References to Murphy pertain to Murphy Oil Corporation and/or its subsidiaries.
[6] References to Fortum pertain to Fortum Oy and/or its subsidiaries.
[6] References to Gulfstream pertain to Gulfstream Resources Canada Limited and/or its subsidiaries.

EXPLORATION EXPENDITURE OBLIGATIONS

Lundin Petroleum participates in joint ventures with third parties in oil and gas exploration activities. The Company is contractually committed under various concession agreements to complete certain exploration programmes. The present minimum expenditure obligations are USD 81 million, of which third parties who are joint venture partners have contractually agreed to contribute approximately USD 53 million.

The obligations and liabilities under the concession agreements are joint and several. As a consequence thereof, Lundin Petroleum and its subsidiaries may be held responsible for obligations and liabilities in connection with the other joint venture partners in case of default. However, the parent companies of Lundin Petroleum's joint venture partners are large and well established companies with substantial asset portfolios.

Figure 9: Lundin Petroleum's future exploration expenditure obligations

Country	Block	Total expenditure obligation, USD million	Lundin Petroleum's paying interest, %	Lundin Petroleum's expenditure obligation, USD million	Minimum work obligation	Duration
Sudan	5A	8.0	42.500	3.4	Drill 2 exploration wells.[1]	24 months, commencing 6 August 2001
Sudan	5B	33.0	27.222	9.0	Drill 3 exploration wells, review existing and acquire and process 1,000 km of new 2D seismic data.[2]	48 months, commencing 2 May 2001
Iran	Munir	40.0	40.000	16.0	Drill 3 exploration wells, review existing and acquire and process 800 km of new 2D seismic data, acquire and process 800 km of Magneto-Telluric and 150 square kilometres of 3D seismic data.[3]	48 months, commencing 16 January 2001

[1] The Sudan Partners have the option to decide whether the work obligation of 1 of the exploration wells should be replaced by either the aquisition of 500 kilometres of 2D seismic or 166 square kilometres of 3D seismic. The EPSA is in the beginning of the second commitment period (see further information on pages 24–25).

[2] The EPSA is in the beginning of the first commitment period (see further information on pages 26–27).

[3] The ESC is in the beginning of the exploration period (see further information on pages 27–28).

THE SUDAN ASSETS

Three wholly-owned subsidiaries of Lundin Petroleum are parties to Exploration and Production Sharing Agreements ("EPSAs") with the Republic of the Sudan (see further information on pages 24–27). The 3 exploration areas covered by the EPSAs are referred to as Block 5A, Block 5B, and the Halaib Block, respectively. In the case of EPSAs for Blocks 5A and 5B, parties are Petronas, OMV, and Sudapet (together with Lundin Petroleum referred to as the "Sudan Partners").

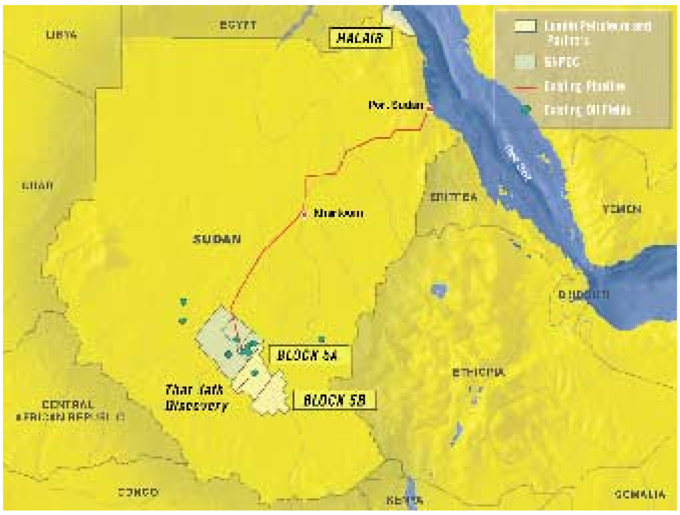
The following map over Sudan and surrounding countries indicates the location of the Sudanese blocks in which Lundin Petroleum has interests.

In respect of Blocks 5A and 5B, the relevant Lundin Petroleum subsidiary is obligated, together with Petronas and OMV, to bear the initial exploration, appraisal and development costs of Sudapet. This obligation results in the Lundin Petroleum subsidiary having a cost-bearing interest ("the paying interest") in excess of its working interest. The additional cost incurred between the paying interest and the working interest will be recovered out of Sudapet's share of oil produced.

Muglad basin

The Muglad Basin is situated in Southern Sudan and is part of a Cretaceous rift system, which extends across Central Africa and contains the Doba Basin currently being developed by a Royal Dutch/Shell led consortium in Chad. The basin is roughly the size of the North Sea rift system and is substantially underexplored (see figure 11).

Figure 10: Map indicating Lundin Petroleum's interests in Sudan



Reservoirs are primarily Upper Cretaceous sandstones of fluvial-deltaic origin with excellent reservoir properties. Source rocks are found in the lacustrine Abu Gabra of Aptian age and are quite thick (500m+) with total organic carbon ranging from 1 to 8 percent. A large portion of the basin is currently within the oil and gas generative window. The trend where geologically favourable conditions are expected to be present extends over a large portion of the block. Traps are formed by rift-related block faulting and are sealed by overlying shaly intervals, which form top and cross-fault seals.

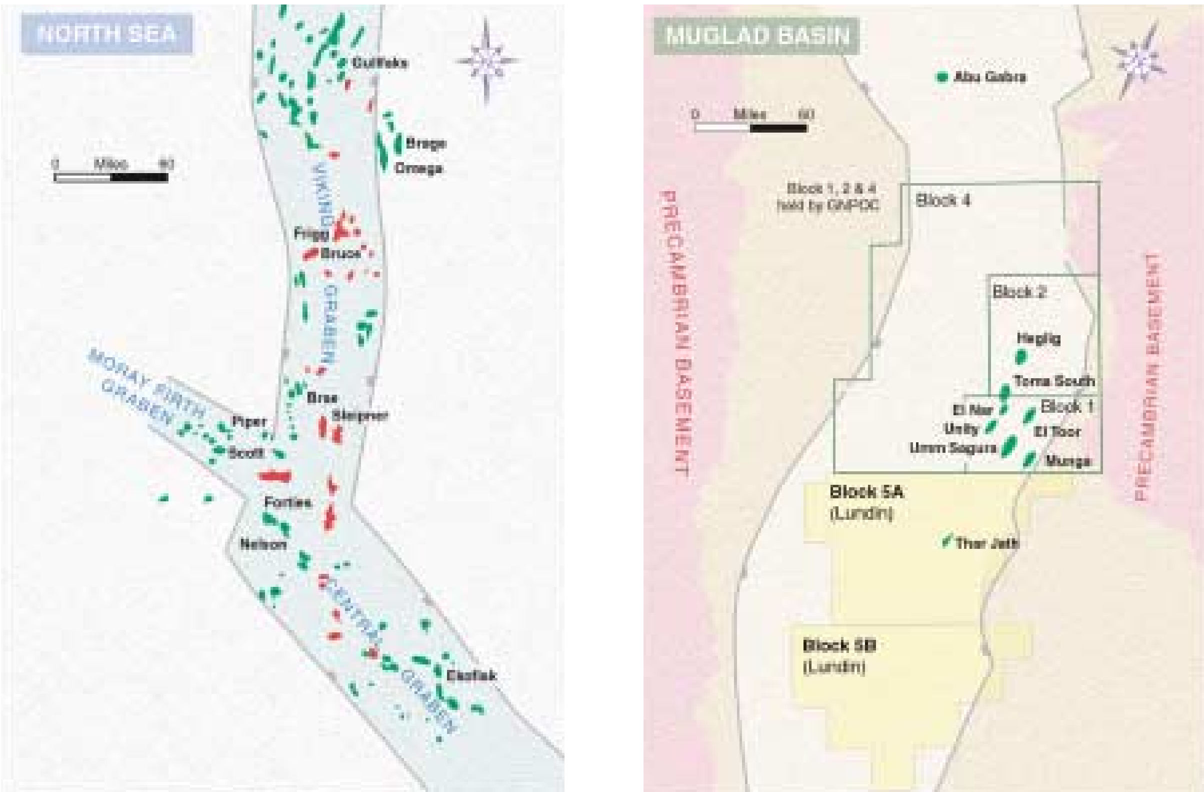
The Muglad Basin contains Blocks 5A and 5B, making up approximately 50 percent of the Muglad Basin. The Muglad Basin also contains Blocks 1, 2 and 4 where there are oil fields currently producing and being developed by a consortium of international companies. The consortium includes China National Petroleum Corporation, Petronas, Sudapet and Talisman and is known as the Greater Nile Petroleum Operating Company ("GNPOC"). GNPOC is currently producing in excess of 200,000 bopd and has discovered proven and probable oil reserves of approximately 1 billion bbls.

GNPOC owns a pipeline, which provides an export route from the Muglad Basin to Port Sudan at the coast of the Red Sea. The 1,540-kilometre pipeline was completed in August 1999 and currently has a total capacity in excess of 250,000 bopd. By adding additional pumping stations, this capacity can be expanded to a maximum of 450,000 bopd. As part of GNPOC's agreements with the Republic of the Sudan, capacity of 40 percent is available to other oil producers operating in the area. These agreements provide the Sudan Partners with an export route for oil produced from Block 5A and/or Block 5B. Tariffs for using the pipeline are expected to range between USD 4 and USD 6 per bbl.

Block 5A covers an area of approximately 20,000 square kilometres and is located adjacent to and on the same geological trend as the blocks currently being exploited by GNPOC. Block 5B, covering an area of 20,119 square kilometres, in turn adjoins Block 5A.

Several recent discoveries nearby, including Munga South, less than 3 kilometres from the Block 5A boundary, and El Khairat, have dramatically increased the prospectivity of the area.

Figure 11: Size comparison showing the North Sea and Muglad rift basins at the same scale



Block 5A

Lundin Petroleum currently holds a working interest of approximately 40.4 percent and a 42.5 percent paying interest (arising out of its obligation to bear a share of the initial exploration, appraisal and development costs of Sudapet) in an EPSA dated 6 February 1997 with the Republic of the Sudan. On 7 April 1999, a joint operating agreement was entered into. Working interests are Petronas 28.5 percent, OMV 26.1 percent and Sudapet 5.0 percent with Lundin Petroleum as operator (the "Lundin Sudan 5A EPSA"). Up to 40 percent of all oil produced will be available to the Sudan Partners to recover exploration, development and operating costs. The Lundin Sudan 5A EPSA stipulates that the Sudan Partners' share of profit oil produced after cost recovery will be between 18.7 and 28.5 percent depending on the average daily production.

Figure 13: Map over Blocks 5A and 5B

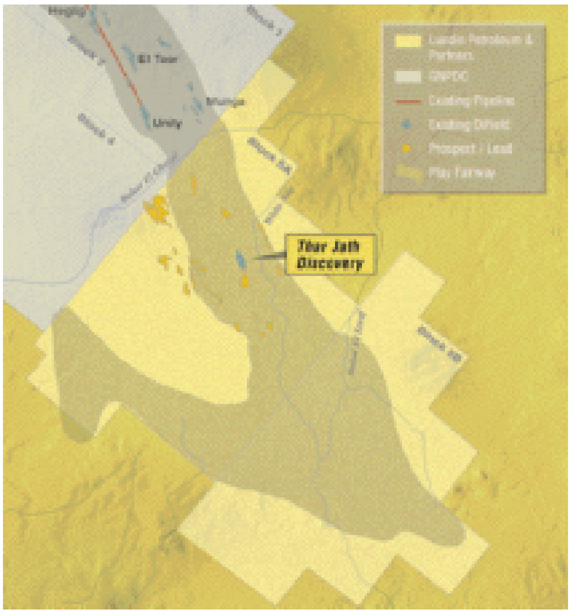
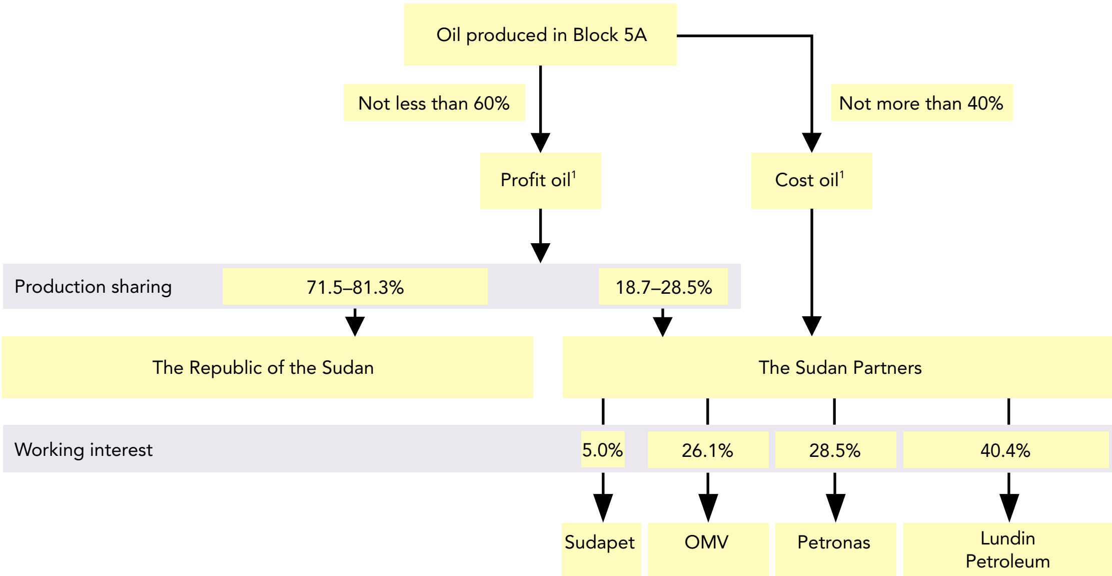


Figure 12: Illustration of the terms for production sharing in Block 5A if oil is produced



[1] For definitions see page 51.

The term of the Lundin Sudan 5A EPSA consists of 3 commitment periods and a development and production period lasting 27 years from the date of execution of the Lundin Sudan 5A EPSA. The first commitment period is for 54 months with 2 extensions (the second and the third commitment period) of 24 months and 18 months, respectively. The Sudan Partners have completed the work obligation for the first commitment period and have entered the second commitment period. As a result of the extension, 30 percent of the area originally covered by the Lundin Sudan 5A EPSA has been relinquished.

During the first commitment period, the Sudan Partners have committed to a work obligation consisting of the drilling of 2 exploration wells. As stipulated in the work obligation, Lundin Petroleum has also completed 1,485 line kilometres of seismic surveys, which defined 3 drillable prospects. The first of these, the Thar Jath-1 prospect, was drilled in the second quarter of 1999. Lundin Petroleum completed the testing of the Thar Jath-1 well in February 2001 and the well flowed at a cumulative rate of 4,260 bopd from 3 drill stem tests over the Bentiu and Aradeiba formations.

The second exploration well that Lundin Petroleum drilled on Block 5A was Jarayan 1, situated 12 kilometres southeast of the Thar Jath-1 well located on trend with the Thar Jath-1 discovery. The well did not encounter economic volumes of hydrocarbons and has been suspended. On the completion of the exploration well Jarayan 1, the minimum work obligation in Block 5A was fulfilled. Lundin Petroleum has acquired 182 square kilometres of 3D seismic data over the Thar Jath structure, which is currently being interpreted (see further information on pages 24–25).

Following the Thar Jath-1 well test and the exploration well Jarayan 1, the first appraisal well on the Thar Jath structure named Thar Jath-2 was drilled. The appraisal well flowed at a cumulative rate of more than 2,000 bopd from 2 separate tests in the Bentiu and Aradeiba formations.

The Sudan Partners have approved a 2001/2002 work program for Block 5A, which includes:

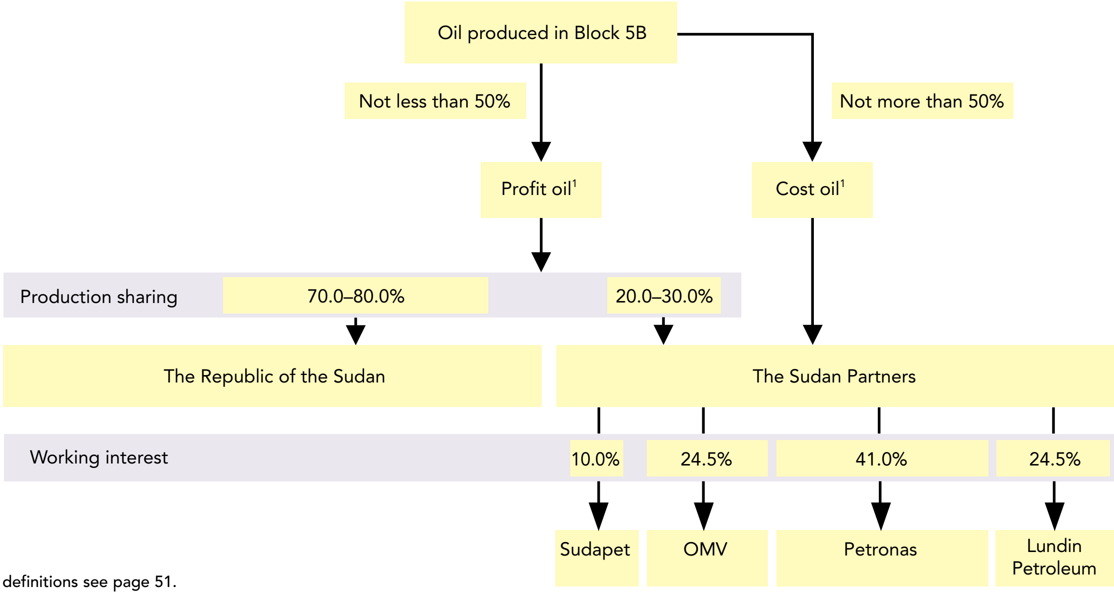
- Drilling an additional exploration well.
- Completing a conceptual development plan study on the Thar Jath field with a view to initiating the development of the Thar Jath field in 2002. The Sudan Partners and the Republic of the Sudan are in principle committed to the fast track development of the Thar Jath field through the installation of a pipeline connecting the Thar Jath field to the nearby GNPOC pipeline and facilities.
- Acquiring new 2D seismic data on existing leads.
- Establishing an infrastructure and operations base, allowing the Sudan Partners to proceed, subject to the results of the conceptual development plan study, with the development of the Thar Jath field.
- Drilling 2 further appraisal wells on Thar Jath.
- Completing the construction of key elements of the infrastructure in preparation for the full development of Thar Jath.

Block 5B

Lundin Petroleum currently holds a 24.5 percent working interest and 27.2 percent paying interest in an EPSA dated 2 May 2001, with the Republic of the Sudan and the Sudan Partners (working interests are Petronas 41.0 percent (joint operator), OMV 24.5 percent and Sudapet 10.0 percent (joint operator) (the "Lundin Sudan 5B EPSA"). In the case of a commercial discovery going into production, the Sudan Partners will, in accordance with the Lundin Sudan 5B EPSA, receive a share of profit oil produced in the range of 20 to 30 percent depending on the average daily production. This profit oil is, after cost oil being up to 50 percent of gross oil production, available to the Sudan Partners to recover exploration, development and operating costs.

The term of the Lundin Sudan 5B EPSA consists of a 6-year exploration period and a development and production period lasting 25 years from the date of execution of the Lundin Sudan 5B EPSA. The exploration period consists of a 48-month period with the option to extend the period for a further 24 months. The Sudan Partners are committed to spend USD 33 million or drill 3 exploration wells and acquire and process 1,000 kilometres of 2D seismic data in the first 48-month period. The commitment for the second 24-month period is to spend USD 18 million or drill 2 exploration wells and acquire 400 kilometres of 2D seismic data. In order to extend the exploration period, Lundin Petroleum must fulfil the work obligation for the preceeding period.

Figure 14: Illustration of the terms for production sharing in Block 5B if oil is produced



[1] For definitions see page 51.

Halaib Block

Lundin Petroleum has a 100 percent working interest in the Halaib Block located partly onshore and partly off the coast of Northern Sudan in the Red Sea. The area where the Halaib Block is situated has been subject to a border dispute between Sudan and Egypt since 1992. The term of the Halaib Block has been suspended until the dispute is resolved. Lundin Petroleum has no remaining work obligation on the Halaib Block.

In an EPSA dated 17 December 1991 with the Republic of the Sudan (the "Lundin Sudan Halaib EPSA"), Lundin Petroleum is granted the right to explore for oil and gas in the Halaib Block. Originally, the EPSA covered 2 blocks, Halaib and Delta Tokar, of which the latter was relinquished 17 December 1997.

The term for the EPSA stipulates an initial commitment period of 48 months with an option of a second commitment period of 24 months. The development period is 25 years commencing from the date of the first commercial discovery. With the consent of the Republic of the Sudan, the development period can be renewed for an additional 5 years.

Production will be shared between the Republic of the Sudan and Lundin Petroleum, with Lundin Petroleum's share ranging from 20 to 35 percent depending on average daily production. The cost of exploration, development and operations will, in the case of a commercial discovery, be repaid to Lundin Petroleum out of the oil produced.

Women carrying water provided by Lundin Sudan Limited near Rubkoena (Southern Sudan)

Lundin Petroleum's Community Development and Humanitarian Assistance Program in Sudan

Sudan is the area of operations where the Company has focused the greatest attention in view of the importance of the operations to the Company as well as the specific context it represents. In carrying out its operations, the Company has put into practice its health, safety and environmental policies, commissioning environmental studies prior to new undertakings and implementing measures aimed at ensuring a safe and healthy environment for its people. Further, given that the area in which the Company operates in Sudan is one where many basic needs are not met, the Company has initiated a Community Development and Humanitarian Assistance Program ("CDHAP"), which is implemented by a dedicated staff at corporate, country and field level.

Reasons for the Community Development and Humanitarian Assistance Program

While Lundin Petroleum's main objective in Sudan is to explore for and produce oil, it also seeks, through its activities, to contribute to the welfare of the people of Sudan, particularly those situated in the concession area. In the long-term, it can achieve this objective by helping the country achieve economic development by bringing its resources into commercial production. In the short-term, it can do so by helping the population cope with some pressing needs.

With these objectives in mind, Lundin Petroleum, through its subsidiary Lundin Sudan Limited, held consultations with representatives of the local population, tribal leaders, representatives of the State and the Government of Sudan, and other relevant stakeholder groups to determine key needs. Initially, the Company carried out activities on a time/needs basis. As a result of the consultation process, it then elaborated CDHAP, which Lundin Oil began implementing in January 2001.

CDHAP objectives

CDHAP has 3 main objectives:

- To promote better health, hygiene, education and quality of life for the current and future inhabitants of the concession area of Block 5A.
- To contribute to the economic and social development of the area.
- To promote friendly relations between the consortium and the people in the area.

CDHAP projects

The initial CDHAP-period covering the pre-production phase of Lundin Petroleum's operations, is 2001–2004. Activities are carried out mainly in Block 5A and particularly areas south of Bentiu, which are not currently receiving attention from the GNPOC or Talisman programs.

Activities undertaken to date consist of a combination of humanitarian assistance and community development. Where feasible, the activities are coupled with self-help measures, to reinforce and prolong their positive effects.

Projects 2001

Projects carried out under CDHAP during 2001 include the following:

- Freshwater supply
  - daily delivery of 13,000 litres of water to cisterns placed along the all weather road ("AWR"),
  - drilling of 6 shallow water wells along the AWR providing a permanent supply of freshwater,
  - repair of 10 water wells in the town of Lehr,
  - distribution of one thousand 20-litre water containers for the local population.
- Health
  - visit of medical doctor and provision of basic medical services in accessible areas of Block 5A such as Lehr, Dorang and Rier,
  - distribution of blankets, mosquito nets, plastic sheeting and soap, to prevent the spread of diseases during the rainy season,
  - facilitation of vaccination programs launched by other institutions,
  - needs assessment for the feasibility of setting up and staffing tent clinics.
- Education
  - distribution of school supplies (school kits, chalkboards and chalk to existing schools).
- Self-help measures
  - distribution of farming tools to agricultural village committees for the upcoming farming season (hand spray pumps, hand grinding flour mills etc),
  - employment of Sudanese for general operations,
  - employment of Sudanese for seismic programs (over 80 percent of total staff),
  - employment of Sudanese staff for CDHAP purposes.

Plans for 2002–2004

CDHAP will focus on providing longer-term solutions to medical problems and educational requirements, and increased employment opportunities and preservation of the environment. Important work will be undertaken to continue to build up the local infrastructure. Main activities projected contemplated include the refurbishment (and staffing) of a hospital in Lehr, the extension of the AWR to Lehr, drilling of deepwater wells in the block area and setting up and equipping schools.

In addition, during this second phase, Lundin Petroleum plans to focus on capacity building measures in order to diversify people's means and sources of income. These may include adult educational programs, vocational training, enhancement of existing skills and micro-credits. In this manner, the Company hopes to help local people achieve self-reliance and sufficiency.

MUNIR BLOCK IN IRAN

The Munir Block is located in the Zagros Fold Belt in the Khuzestan province, one of the richest petroleum provinces in Iran. The block is situated close to some large oil fields, such as Gachsaran (over 15 billion bbls of initial oil reserves), Bibi Hakimeh (4.5 billion bbls) and some smaller oil fields. The Munir Block is significantly underexplored with only 2 wells drilled, solely on surface geology information, in the early 1960s by the NIOC[1] with poor seismic available.

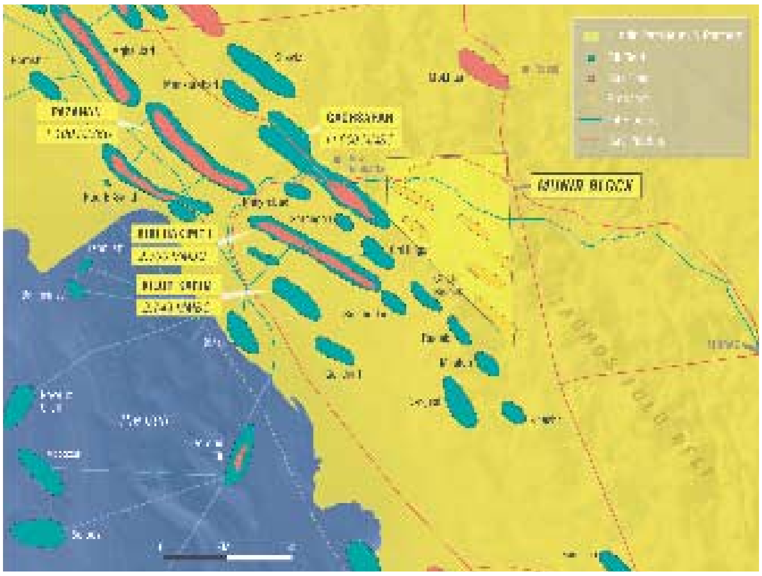
Lundin Petroleum recently acquired a 40 percent working and paying interest in an Exploration Service Contract ("ESC") dated 16 January 2001 between Edison and NIOC, (the "Lundin Iran Munir ESC") (see further information on pages 27–28). The ESC concerns an area in Southwestern Iran called the Munir Block. Edison holds the remaining 60 percent interest in the ESC and is the operator (together, Lundin Petroleum and Edison are referred to as the "Iran Partners").

The term of the ESC is for an exploration period of 4 years, with the possibility of a 1-year extension if exploration operations are in progress at the end of the exploration period given upon the request of the Iran Partners and approval by NIOC. If an oil or gas discovery has been made and the exploration obligation has been fulfilled, the exploration period may be extended for 1 additional year to evaluate the discovery.

The Iran Partners are committed to spend a minimum of USD 40 million on exploration activities including, but not limited to, acquisition and interpretation of 800 kilometres of 2D seismic and 800 kilometres of Magneto-Telluric, 150 square kilometres of 3D seismic and reprocessing of 1,000 kilometres of existing seismic acquired by NIOC. Further, the Iran Partners will drill a minimum of 3 exploration wells, the first drilling commencing within 2 years from the effective date of the ESC.

Upon establishing a commercial field, NIOC and the Iran Partners will enter into negotiations for reaching an agreement on a development contract where the Iran Partners will recover their exploration expenditures and receive a share of the oil produced. Should the Iran Partners and NIOC fail to reach such an agreement, NIOC may invite other companies to negotiations for the development contract, in which case the Iran Partners will recover their exploration expenditures, plus a premium, from the other companies. In addition, the Iran Partners would be offered a participating interest of a minimum of 30 percent in the development contracts agreed by other companies. This process will be undertaken for each commercial field within the block being established.

Figure 15: Map indicating Lundin Petroleum's interest in Iran



[1] References to NIOC pertain to National Iranian Oil Company and/or its subsidiaries.

THE SOMALI CONTINGENT ASSETS

Lundin Oil currently has a 20 percent working interest in Block 35 and Block M-10A in Northern Somalia, also referred to as Somaliland. Lundin Petroleum will have a 3-year option to purchase 100 percent of this interest from Talisman, subject to receiving the requisite government and third party approvals. During the subsequent 2 years, Lundin Petroleum will have the option to purchase 50 percent of the interest. The options to purchase are at nominal values of USD 100 and USD 50, respectively, plus a proportionate share of any subsequent expenditure by Talisman.

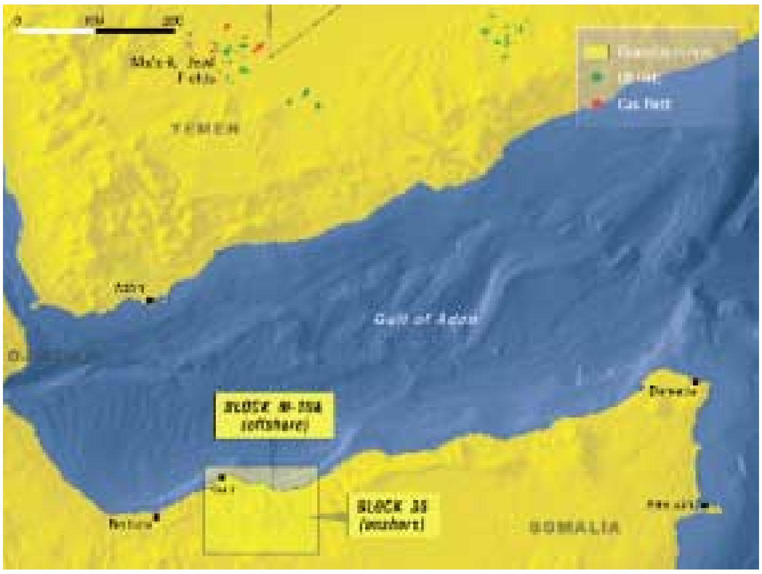
In 1986, Lundin Oil and Gulfstream jointly executed a concession agreement (the "Somalia Concession Agreement") with the State of Somalia, thereby acquiring 2 onshore blocks (Blocks 35 and 36) in Northern Somalia, on the coast of the Gulf of Aden, East of Berbera. Lundin Oil held a 66.67 percent working interest in the blocks. The 2 blocks were acquired on the premise that the petroliferous Ma'arib-Jawf (in which Hunt Oil's 500 mmbo Alif field in the Republic of Yemen is sited) extends into Somalia.

A 450-kilometre seismic program in Block 35 was completed in mid 1986, in conjunction with extensive geological and geochemical sampling and mapping in both Blocks 35 and 36. The analysis of that data demonstrated the prospectivity of Block 35, while revealing the lack of Jurassic source rocks essential for oil generation in Block 36. Consequently, Block 36 was relinquished in 1987 and was replaced with Block M-10A, which is the offshore extension of Block 35. The geological conclusions by analogy with the Yemen oil fields are that the Somali blocks have prolific oil source rocks, which are mature at the present depth of burial with impermeable seals or cap rocks over potential reservoirs.

Farm-out agreements were reached with BP Amoco (50 percent), Fortum (10 percent) and Murphy (10 percent), and with Lundin Oil and Gulfstream retaining a 20-percent and 10-percent working interest, respectively, in the Somalia Concession Agreement.

Due to military strife between government forces and rebellious elements, which limited access to the concession area and prevented spudding of the projected wells in complete safety in Northern Somalia, operations were suspended 11 July 1989 due to force majeure. The significance of the indefinite postponement of the Somalia project is the ongoing suspension of the work program due to the force majeure situation.

Figure 16: Map indicating the blocks in Somalia where Lundin Petroleum has an option to participation



KHANTY MANSIYSK OIL CORPORATION

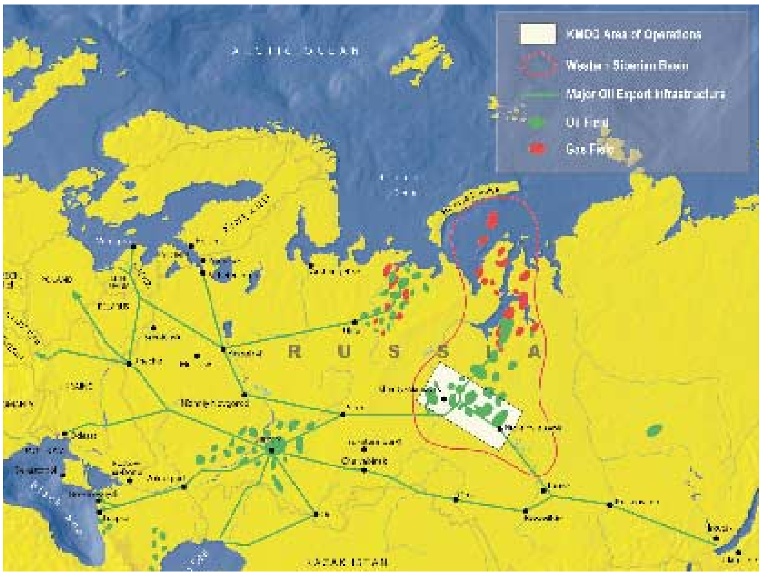
Lundin Petroleum holds 1,507,680[1] shares, representing approximately 10 percent of the undiluted share capital in the United States Delaware company KMOC and a USD 1.3 million promissory note issued by KMOC (see further information on page 42). KMOC develops, produces and markets crude oil from the Khanty Mansiysk region in Western Siberia in the Russian Federation. The region is part of one of the largest hydrocarbon basins in the world.

The average operated production, excluding a 22.3 percent indirect equity interest in a Russian company, increased from 4,099 bopd in 1999 to 8,436 bopd in 2000. The current production is in excess of 10,000 bopd. The estimated total proven reserves as of 31 December 2000, verified by a third party (Ryder Scott Co.), were 410 mmbo. KMOC currently holds production licenses to 9 fields, 3 of which are currently producing.

Lundin Oil's acquisition of shares and promissory note in KMOC has been made through various purchases totalling USD 8.4 million. A total of 115,440[1] warrants are attached to the promissory note, entitling Lundin Petroleum to subscribe for 115,440[1] new shares in KMOC at a subscription price of USD 11.25 per share. The warrants may be exercised for subscription during the period 19 October 2000 – 14 October 2002. The shares and the promissory note were transferred to Lundin Petroleum at a value of USD 21.1 million, which was based upon the price per share achieved in KMOC's most recent private placement in 2000.

KMOC is currently pursuing a public offering of its shares, which are proposed to be listed on Nasdaq in the United States. In the public offering, Lundin Petroleum has exercised its contractual right to include 307,824[1] shares. However, in view of the recent turmoil in the world financial markets, as a result of the 11 September terrorist attacks that took place in the United States, it is likely that the public offering process will be delayed.

Figure 17: Map over KMOC's producing and development assets in the Russian Federation



Source: KMOC.

[1] After given effect to a 40 for 1 common share split to be effected prior to the completion of the proposed public offering.

Exploration and production agreements

INTRODUCTION

The assets in Lundin Petroleum include interests in the EPSAs concerning Blocks 5A and 5B. The Company also holds the Halaib Block located partly onshore and partly off the coast of Northern Sudan in the Red Sea. This block is in suspension as a result of a boundary dispute between Egypt and Sudan. Further, Lundin Petroleum has a 40 percent interest in the exploration of the Munir Block in Iran and an option to acquire interests in 2 blocks in Somalia, Blocks 35 and M-10A, from Talisman. However, the 2 blocks in Somalia are in force majeure.

Sudanese law governs the two EPSAs concerning Blocks 5A and 5B, including the Sudanese Petroleum Act. The EPSAs are signed by the Minister of Energy and Mining, representing the Government of the Republic of the Sudan, after the form of the EPSA having been approved by the Petroleum Board, which is chaired by the President of the Republic of the Sudan. The decisions made by the Petroleum Board are not officially published.

The Republic of the Sudan shall assume, pay and discharge the parties' Sudanese income taxes as well as any other taxes that might be imposed now or in the future on the parties operations out of the sums received by the Government from its share of crude oil and gas. By Sudanese income taxes is meant income or profits tax, municipal tax, defence tax, development tax or any other payable tax or charge imposed by the Republic of the Sudan and the regional, provincial or municipal subdivision thereof.

The ESC is signed by the NIOC and is governed by Iranian law.

THE LUNDIN SUDAN 5A EPSA

On 6 February 1997, IPC Sudan Limited (renamed Lundin Sudan Limited and hereafter referred to as Lundin Sudan Limited) entered into an EPSA with the Republic of the Sudan. Lundin Sudan Limited is given the exclusive rights to oil and gas exploration and production in an area defined as Block 5A. The block is located in Southern Sudan and covered originally 29,885 square kilometres (20,000 square kilometres after relinquishment in 2001).

On 29 May 1997, Lundin Sudan Limited assigned 30 percent of its interest in the EPSA to Petronas. On 2 June 1997, Lundin Sudan Limited assigned an additional 27,5 percent of its interest in the EPSA to OMV. As a result of the assignment, OMV assumed the obligation to pay 55 percent of the initial exploration costs up to USD 27.5 million. On 10 June 1997, Lundin Sudan Limited, Petronas and OMV assigned their proportionate share of a 5 percent interest to Sudapet, a wholly-owned company of the Republic of the Sudan. Sudapet is a carried partner, meaning that Lundin Sudan Limited, OMV and Petronas are obliged to bear the initial exploration, appraisal and development costs of Sudapet. In the event oil is produced and sufficient revenue streams are developed, all of the costs associated with the difference between paying and working interests will be recovered out of Sudapet's share of cost and profit oil.

Figure 18: Participating interests in the Lundin Sudan 5A EPSA

Joint venture partner	Working interest, %	Paying interest, %
Lundin Petroleum[1]	40.375	42.500
Petronas[2]	28.500	30.000
OMV[3]	26.125	27.500
Sudapet[4]	5.000	0.000

Lundin Petroleum, OMV and Petronas (the "Party") and Sudapet are jointly and severally responsible towards the Republic of the Sudan for all obligations and liabilities set forth in the EPSA.

The EPSA has two stages, the exploration stage and the production stage. The exploration stage is divided into the first commitment period, the second commitment period (24 months, commencing 6 August 2001) and the third commitment period (18 months), a total of 8 years. The second and the third period are optional. With reference to the effective date of 6 February 1997, the current status of the EPSA is that it is in the beginning of the second commitment period (see figure 9). The EPSA is terminated if there have been no commercial discoveries within the exploration stage. Provided commercial discoveries are made, the EPSA may be in effect for 27 years from 6 February 1997.

The Party shall bear all the costs and expenses required in carrying out exploration, development, production and all other operations related thereto, including, but not limited to, transportation of petroleum from wells to the export and/or refinery terminals, transportation of the same to internal distribution points and all other operations authorised, required or contemplated under the EPSA ("petroleum operations").

The Party is committed to a minimum expenditure obligation for the duration of the exploration stage, amounting to a minimum of USD 28.0 million. During the second commitment period the Party is committed to spend the higher of USD 8.0 million or the cost associated with the drilling of 1 exploration well, and either the drilling of a second exploration well or the acquisition of 500 kilometres of 2D seismic

[1] Party to the EPSA is Lundin Sudan Limited.
[2] Party to the EPSA is Petronas Carigali Overseas Sdn Bhd.
[3] Party to the EPSA is OMV (Sudan) Exploration GmbH.
[4] Party to the EPSA is Sudapet Ltd.

data or 166 square kilometres of 3D seismic data. Lundin Petroleum's share of this minimum expenditure obligation is USD 3.4 million. However, the fulfilment of the minimum expenditure obligation shall not relieve the parties of the corresponding minimum work obligation. The minimum expenditure obligation during the optional third commitment period is the higher of USD 5 milllion or the cost associated with the drilling of 2 exploration wells.

In addition to costs relating to petroleum operations, the Party is committed to pay various bonuses, fees and other payments to the Republic of the Sudan. The production bonuses are as follows:

- USD 2.0 million as a production bonus upon the commencement of commercial production.
- USD 3.0 million as a further production bonus when for the first time the total average daily production of crude oil is sustained at the rate of 50 mbbl for a period of 30 consecutive producing days.
- USD 2.0 million as a further production bonus when for the first time the total average daily production of crude oil is sustained at the rate of 100 mbbl for a period of 30 consecutive producing days.
- USD 3.0 million as a further production bonus when for the first time the total average daily production of crude oil is sustained at the rate of 150 mbbl for a period of 30 consecutive producing days.

Further, a scholarship and a social development bonus of USD 0.15 million each are payable at the beginning of each financial year while the EPSA remains in effect. Provided a commercial discovery is made, this payment will increase to USD 0.3 million per year commencing from the first regular shipment for export.

The Party shall pay, in advance, annual surface rentals for areas retained under the agreement as follows:

- USD 2 per annum for each 1 square kilometre in the first commitment period, excluding any development area.
- USD 10 per annum for each 1 square kilometre in the second commitment period excluding any development area.
- USD 20 per annum for each 1 square kilometre in the third commitment period, and any extension.
- During the exploration stage, USD 50 per annum for each 1 square kilometre of contract area included in a development area.
- After the termination of the third commitment period, USD 50 for each 1 square kilometre of contract area remaining under this agreement.

Expenditures related to exploration, production and development are recoverable upon commencement of production with 40 percent of oil produced per year and 60 percent of gas produced per year after deduction of oil transportation costs.

The remaining part of the annual gross production from the contract area shall be shared by the Party and the Republic of the Sudan proportionally. The share of the Party varies from 18.7 to 28.5 percent of the oil and 15.0 to 20.0 percent of the gas.

Failure to perform obligations under the EPSA is excused insofar as such failure arises from force majeure and the Party has taken appropriate measures to avoid such event and to cure the failure with a minimum of delay.

Force majeure includes, but is not limited to, acts of God, acts of war, or conditions arising out of or attributable to war, decrees and orders by any other government or governmental agency or any other cause not due to the fault or negligence of Party, provided that any such cause is beyond the reasonable control of a party. If operations under the EPSA remain in total suspension the EPSA may be extended. However, either Party may terminate the EPSA in respect of the affected area due to suspension over longer periods of time defined in the EPSA.

The Government of Sudan is not responsible for damages arising out of force majeure to the Party. Surface rentals and training and social bonuses shall not be affected by any events of force majeure.

Joint operating agreement Block 5A

On 7 April 1999, Lundin Sudan Limited, Petronas, OMV and Sudapet entered into a joint operating agreement concerning Block 5A, which governs the rights and obligations of the participating parties in the Lundin Sudan 5A EPSA.

Sudapet's share of all costs and expenses in operations shall from the effective date of the EPSA and until the commencement of commercial production be funded by the Party in proportion to their participating interests.

Lundin Petroleum is designated to act as operator. This is an exclusive right to conduct and supervise all petroleum operations, being responsible for carrying out petroleum operations, reporting, budgeting, representing etc. The responsibilities of the operator are quite comprehensive, but the operator should neither suffer a loss nor make a profit as a result of its activities in this respect.

THE LUNDIN SUDAN 5B EPSA

On 2 May 2001 Lundin Muglad Limited (which subsequently assigned its interest to Lundin Sudan (Block 5B) Limited) entered into an EPSA with the Republic of the Sudan, Petronas, OMV and Sudapet regarding the exploration, development, production and transportation of petroleum in an area defined as Block 5B, a block adjoining Block 5A, covering 20,119 square kilometres.

Figure 19: Participating interests in the Lundin Sudan 5B EPSA

Joint venture partner	Working interest, %	Paying interest, %
Lundin Petroleum[1]	24.500	27.222
Petronas[2]	41.000	45.556
OMV[3]	24.500	27.222
Sudapet[4]	10.000	0.000

According to the EPSA the parties are given the exclusive right to conduct petroleum operations in Block 5B. The parties shall each be jointly and severally responsible towards the Republic of the Sudan for all obligations and liabilities of the parties under the EPSA.

Sudapet is a carried partner, which means that the other parties to the EPSA shall carry the costs of Sudapet. Such costs shall be recoverable upon commencement of production with 50 percent of the oil produced per year and 60 percent of the gas produced per year.

The duration of the EPSA is 25 years starting from the date of signature, consisting of a mandatory initial 48-month first commitment period and, at the parties option, a 24-month second commitment period. The EPSA is currently in the beginning of the first commitment period (see figure 9). Block 5B shall be relinquished if no commercial discovery is made by the end of the second commitment period. If any of the parties to the EPSA are in material breach of their obligations or fails to make any payments, the Republic of Sudan can terminate the EPSA within a period of 90 or 60 days, respectively, if the mentioned defaults have not been rectified within these periods.

During the first commitment period, Lundin Sudan (Block 5B) Limited and its partners are obliged to review existing seismic data, acquire and process 1,000 kilometres of new 2D seismic data and drill 3 exploration wells with a minimum expenditure of USD 33 million. During the second commitment period, Lundin Sudan (Block 5B) Limited and its partners are obliged to acquire and process 400 kilometre of new 2D seismic data, drill 2 exploration wells or 1 exploration well and 1 appraisal well with a minimum expenditure of USD 18 million. However, the fulfilment of the minimum expenditure obligation shall not relieve the parties of the corresponding minimum work obligation.

According to the EPSA, the parties are obliged to pay production bonuses of:

- USD 1.5 million when accumulated production first exceeds 750 mbbl over 30 producing days.
- USD 2.0 million when accumulated production first exceeds 1,500 mbbl over 30 producing days.
- USD 2.5 million when accumulated production first exceeds 3,000 mbbl over 30 producing days.

Further, the parties are obliged to pay a scholarship bonus and a social bonus, each payable with USD 0.15 million per year, rising to USD 0.30 million per year after start of commercial production.

In addition, the parties shall pay, in advance, annual surface rentals for areas retained under the agreement as follows:

- USD 10 per annum for each 1 square kilometre the first 4 years of the EPSA.
- USD 20 per annum for each 1 square kilometre the next 2 years of the EPSA.
- USD 50 per annum for each retained 1 square kilometre after the expiry of the exploration stage.

Upon commencement of oil production, the production from Block 5B shall be taken and disposed separately by the Republic of the Sudan and the parties varying in proportions depending on the average daily production of crude oil and gas in a financial year. The share of the parties varies from 20 to 30 percent of the extracted oil and gas.

Failure to perform obligations under the EPSA is excused insofar as such failure arises from force majeure and the Party has taken measures to avoid such event and to cure such event with a minimum of delay.

Force majeure includes but is not limited to acts of God, acts of war, or conditions arising out of or attributable to war, decrees and orders by any other government or governmental agency or any other cause not due to the fault or gross negligence of Party, provided that any such cause is beyond the reasonable control of a party and not due to the fault or gross negligence of any of the parties. If operations under the EPSA remain in total suspension the EPSA may be extended. However, either Party may terminate the EPSA in respect of the affected area due to suspension over longer periods of time defined in the EPSA.

1 Party to the EPSA is Lundin Sudan (Block 5B) Limited.
2 Party to the EPSA is Petronas Carigali Overseas Sdn Bhd.
3 Party to the EPSA is OMV Aktiengesellschaft.
4 Party to the EPSA is Sudapet Ltd.

The Government of Sudan is not responsible for damages arising out of force majeure to the Party. Surface rentals and training and social bonuses shall not be affected by any events of force majeure.

Lundin Petroleum´s drilling crew on the rig site in Block 5A in Sudan

THE LUNDIN IRAN MUNIR ESC

In September 2000, NIOC, a company duly organized under the laws of the Islamic Republic of Iran, officially communicated to Edison, a company duly organized under the laws of Italy, that Edison would be awarded the Munir Block, subject to final negotiations. The ESC concerning the Munir Block was signed 16 January 2001. The ESC grants Edison a right to conduct oil and gas exploration in the said area.

According to a Memorandum of Understanding dated 21 December 2000, Edison and Lundin Oil agreed to transfer an interest of 30–50 percent in the ESC to Lundin Oil. In a letter dated 19 July 2001, NIOC approved the acquisition of 40 percent interest to be held by the company Lundin Munir Limited with effect from 16 January 2001. Lundin Munir Limited is a wholly owned subsidiary of Lundin Petroleum and duly organized under the laws of Bermuda.

Figure 20: Participating interests in the Lundin Iran Munir ESC

Joint venture partner	Working interest, %	Paying interest, %
Lundin Petroleum[1]	40.000	40.000
Edison[2]	60.000	60.000

[1] Party to the ESC is Lundin Munir Limited.
[2] Party to the ESC is Edison International S.p.A.

Edison and Lundin Petroleum (collectively referred to as the "ESC party") are jointly and severally responsible towards the Islamic Republic of Iran for all obligations and liabilities set forth in the ESC.

The duration of the ESC is 48 months from the effective date (exploration period), which is 16 January 2001. The agreement may be prolonged provided consent from NIOC.

The agreement is terminated if no commercial field has been established by the end of the exploration period.

Edison and Lundin Petroleum have a minimum expenditure obligation of USD 40 million during the exploration period for exploration operations. Lundin Petroleums's share of the said obligation is USD 16 million. The liability towards the Islamic Republic of Iran is joint and several, which means that the economic exposure of Lundin Petroleum may be USD 40 million.

The exploration operations shall include, but is not limited to:

- Carrying out 800 kilometers of 2D seismic acquisition and 800 kilometers of Magneto-Telluric and 150 square kilometers of 3D seismic acquisition. Notwithstanding the foregoing, the ESC party at its sole discretion shall have the option to carry out an additional 150 square kilometers of 3D seismic.
- Processing and interpretation of the above data
- Reprocessing of a minimum of 1,000 kilometers available seismic lines acquired by NIOC
- Drilling a minimum of 3 exploration wells. The drilling operations in the first well shall start within 24 months from the effective date.
- Carrying out topographical, geochemical and geophysical surveys, regional studies and integration of all geological, geophysical, geochemical and drilling data as well as logs, PVT analysis, reservoir studies, offer functions normally associated with exploration in order to fully evaluate the petroleum potential of the contract area.

If the ESC party has not entirely fulfilled the obligations stated above, but has cumulated exploration expenditures up to USD 40 million, the ESC party shall be deemed to have fulfilled the exploration obligation for the exploration period.

In addition, the ESC party is obliged to conduct training for Iranian employees introduced by NIOC. The annual training program shall be jointly prepared with NIOC, at cost up to 1 percent of the yearly exploration obligation.

The recovery of exploration expenditures is subject to negotiations. Upon establishment of each commercial field, NIOC and the ESC party will enter into negotiation for reaching an agreement on the relevant master development plan provided by the ESC party, for the development operations under a development contract. Depending on the outcome of the negotiations the following options are available:

- All exploration expenditures so far incurred and approved according to the accounting procedure shall be consolidated for the purpose of reimbursement to the ESC party in the manner set forth in the development contract, which is subject to negotiations.
- If NIOC and the ESC party fail to reach an agreement (within 6 months) either party may elect to withdraw from the negotiations. NIOC may invite interested applicants, even though priority is given to the ESC party. The exploration expenditures shall be consolidated for the purpose of reimbursement to the ESC party in the manner set forth in the development contract, which is subject to negotiations.
- If NIOC chooses not to develop the commercial field, the exploration expenditures incurred by the Party together with the remuneration fee amounting to 50 percent of the capital costs incurred and shall be paid by NIOC.
- Should the ESC party fail to be awarded the development contract, the new contractor shall be obliged to offer a 30 percent participating interest in the contract to the ESC party. The ESC party shall be reimbursed the (1) exploration expenditures, (2) the bank charges accrued and the (3) exploration remuneration fee, less a proportionate amount of (1), (2), and (3) thereof corresponding to its participating interest. The payment shall be made by the new contractor within two months from the effective date of the development contract.
- If the ESC party is not awarded the development contract or does not exercise the option to a participating interest, the ESC party shall be reimbursed for the exploration expenditures incurred by it, the remuneration fee and the bank charges accrued. Payment shall be made by the new development contractor within two months from the effective date of the development contract, or by NIOC if payment is not made within 18 months from the end of such exploration period.

Force majeure includes, but is not limited to strikes, labor disturbances, acts of God, unavoidable accidents, acts of war (declared or undeclared). No failure or omission to perform any of the terms in the ESC shall give the other party a claim against such party or be deemed a breach of the said contract, if and to the extent that such failure or omission arises from force majeure.

If force majeure continues for a period of three years or for a period equal to the aggregate of the remaining duration of the exploration period and extension thereof, whichever period is longer, this may lead to termination of the ESC. Each party have the right to terminate if no commercial field has been established, while only the ESC party have the right to terminate if a commercial field has been established. Three months written notice is required.

Termination under the above-referred conditions implies that the right and obligations of the parties shall be deemed terminated and the parties shall be relieved from obligations set forth in the ESC. The exploration expenditures incurred by the ESC party shall not be reimbursed by NIOC.

If NIOC terminate the agreement earlier than three years, the amount awarded in favor of ESC party shall be limited to 50 percent of the exploration expenditures actually incurred and paid. The said amount shall be paid within two years from such termination.

In order to ensure that Lundin Petroleum conducts business in an economically efficient and a socially and environmentally responsible way the Company has established a Code of Conduct (the "Code"). The Code, which is set forth below, is an important cornerstone on which the Company's values, responsibilities and principles are based.

At the corporate level, the formal adoption of the Code entails integration of Corporate Social Responsibility ("CSR") considerations in strategic planning and decisions, development of mechanisms to ensure that CSR aspects are fully integrated in operations as well as examination of current operations from a CSR perspective. Further, the Code entails the establishment of guidelines for CSR projects. At the operations level the Code entails that the Company is acting in accordance with stipulated values and principles, carrying out activities in accordance with the Code as well as developing projects and programs in furtherance of the Code.

Lundin Petroleum will continue and improve its practice of contributing to the development of its areas of operations through health, education, employment and humanitarian initiatives. The Company is committed to its Code and to enhance its overall performance as a responsible corporate citizen.

CODE OF CONDUCT

Values

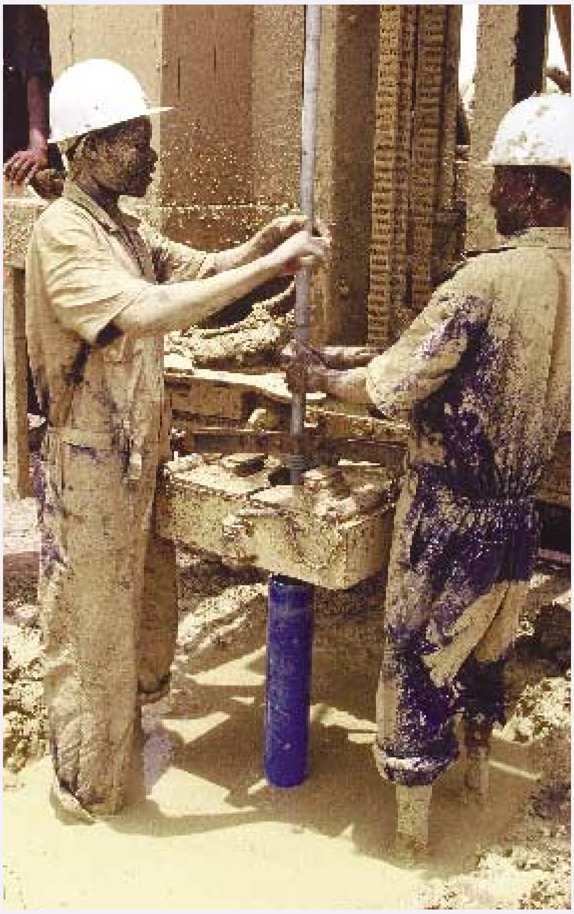
Lundin Petroleum is committed:

- To act in a fair, honest and equitable way.
- To observe local laws and regulations.
- To respect local customs and traditions.
- To observe applicable international laws and standards.

Responsibilities

Lundin Petroleum is responsible:

- Towards shareholders, to realise and sustain a good return on investment and continuing growth of the assets.
- Towards employees, to provide a safe and rewarding working environment.
- Towards host countries, owners of the resources, to find and produce oil and gas professionally and efficiently.
- Towards local communities, to contribute to local development and higher standard of living.
- Towards society, to contribute to wealth generation while limiting possible adverse impacts on the environment.



Drilling of water well sponsored by Lundin Sudan Limited along the all weather road between Rubkoena and Thar Jath (Block 5A in Sudan)

Lundin Petroleum's guiding principles

Attitude towards business

Lundin Petroleum seeks to achieve high standards of performance, while being attentive and sensitive to the way business is conducted. Lundin Petroleum is committed to:

- Promote innovation throughout the operations.
- Be flexible and take measured risks.
- Practice free and fair competition.
- Maintain transparency in the way operations are conducted.
- Honour the Company's commitments.
- Use appropriate and adequate means to protect staff and operations.
- Refrain from accepting/offering improper payments, gifts or engaging in bribery or corrupt business practices.
- Seek similar standards from co-venturers and subcontractors.

Attitude towards employees

Lundin Petroleum's performance as a corporate entity is dependent upon the performance of the employees as individuals. The Company therefore aim to achieve maximum employee satisfaction and ultimate standards of performance. To that end Lundin Petroleum is committed to:

- Respect and promote employees' rights.
- Offer rewarding working conditions.
- Provide a safe and healthy working environment.
- Realise each employee's individual potential through training and job promotion.
- Respect the cultural diversity of employees.
- Ensure equal opportunity without discrimination on the basis of age, culture, disability, gender, race, religion etc.
- Avoid the direct or indirect use of child or forced labour.

Attitude towards host countries

Lundin Petroleum seeks to respect and gain the respect of the countries in which the Company operates. Good relations with host countries are prerequisites to the Company's business. Wherever Lundin Petroleum operates, the Company is committed to:

- Observe local laws and rules.
- Respect the sovereignty of the state.
- Observe and, through the Company's example, promote the rule of law.

Attitude towards local communities

Local communities may be affected by Lundin Petroleum's operations. To ensure that communities benefit from the Company's presence, Lundin Petroleum is committed to:

- Encourage employment of indigenous people.
- Engage in capacity building, through the transfer of skills and technologies.
- Work with local communities by contributing to improve their health, education and welfare.
- Respect indigenous people and their traditions.
- Minimise disturbances that may be caused by the Company's operations.
- Be mindful of the impact of the Company's security arrangements on the communities.
- Refrain from any implications in tribal or internal armed conflicts or acts of violence.

Attitude towards the environment

Lundin Petroleum strives to limit adverse impacts on the environment, thereby contributing to sustainable development, and are committed to:

- Comply with applicable environmental laws and regulations and international standards.
- Adhere to the Company's environmental policy and sound management practises.
- Use sound technologies.
- Co-operate with industry, government and the public on programs to protect the environment.
- Minimise and mitigate the effects of pollution within the scope of operations.
- Review and monitor the Company's environmental performance.

In addition to the other information contained in this prospectus, Lundin Petroleum faces a number of risks and uncertainties in its properties, which may adversely impact on its ability to successfully pursue its exploration, appraisal and development plans. An investment in Lundin Peroleum must be considered a high-risk investment. The Board of Directors believes that the risk factors set out below should be taken into account when evaluating Lundin Petroleum and its operations. The risk factors mentioned below should not be considered exhaustive and are not set forth in any order of priority.

NATURE OF OIL AND GAS EXPLORATION AND PRODUCTION

Oil and gas exploration, development and production involves high operational and financial risks, which even a combination of experience, knowledge and careful evaluation may not be able to eliminate. Lundin Petroleum's prospects depend on its ability to exploit the oil and gas assets it holds, and to foster new relationships to enter into additional agreements in other areas. The marketability of the oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include market fluctuations in terms of supply and demand, proximity and capacity of oil and gas pipelines and processing equipment and government regulations (including regulations relating to royalties, allowable production, importing and exporting of oil and gas and environmental protection).

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Company's operations may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of equipment and compliance with governmental requirements. In addition, there is no assurance that commercial quantities of oil and gas will be recovered within any of the Company's exploration projects. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Among the inherent risks related to oil and gas exploration, development and production, special mention should be given to the danger of causing serious damage to the environment. There is a significant risk that the Company's activities, so far carried out onshore, will entail emissions to the air, the earth and the ground water, which may pose a threat to the environment. In particular, the environment will suffer in case of an accident in connection with the activities. Under applicable laws and regulations as well as contracts, the Company may be held liable towards governments, the Company's joint venture partners and third parties for such damage.

PROPERTY AND/OR BORDER DISPUTES

Longitude and latitude establish the co-ordinates of the Company's concession areas. There could be some doubt as to the exact location of certain areas of the Company's concession areas being explored and/or developed relative to the established co-ordinates. Further, the jurisdictions within which Lundin Petroleum's concessions exist, periodically become the subject of disputes. Failure to resolve these disputes or any disputes, which may arise in the future, could materially and adversely affect the Company's ability to develop a concession area and may have a material adverse effect on the Company's business, financial condition and results of operations.

POLITICAL UNCERTAINTIES AND MILITARY DISTURBANCES

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 program require the consent or favourable decisions of governmental bodies. In addition, the Company's exploration and development activities are 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 the Company'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 high risk profile of Lundin Petroleum's interests.

Sudan and Iran, in which Lundin Petroleum foremost will be operating, constitute 2 of the 7 countries on the list of governments that the US Secretary of State has designated as state sponsors of international terrorism. The United States' struggle against international terrorism has been strongly intensified as a result of the terrorist attacks that took place in the United States 11 on September 2001. The European Union has expressed its support for the United States in the struggle against terrorism. In November 1997, the United States imposed sanctions against

Sudan based on the Sudanese government's alleged sponsorship of international terrorism. The United States has also imposed sanctions against Iran, beginning in October 1987. The sanctions imposed against Sudan and Iran, which apply to all "U.S. persons[1]", prohibit them from, amongst other things, trading with and investing in, Sudan and Iran. If the United States takes further actions against countries allegedly sponsoring international terrorism, such as Sudan and Iran, and/or if the European Union and/or any country imposes sanctions, similar to those imposed by the United States, and/or takes other measures against the countries in question, this may prevent Lundin Petroleum from conducting business in those countries.

LIABILITIES AND OBLIGATIONS UNDER EXPLORATION AND PRODUCTION AGREEMENTS

Lundin Petroleum participates in joint ventures with third parties in oil and gas exploration activities. The Company and its joint venture partners are contractually committed under various agreements to complete certain exploration programmes. The liabilities and obligations under the agreements are joint and several meaning that failure of one such joint venture partner to perform its share of the liabilities and obligations shall not relieve the other joint venture partners of its or their liabilities and obligations to perform fully all of the liabilities and obligations pursuant to the terms of the agreement.

Should a force majeure situation arise, the liabilities and obligations under the agreement will not cease. The liabilities and obligations are instead postponed for a period corresponding to the period the agreement is in force majeure. Should force majeure exceed a certain period, depending on the agreement, this may lead to the termination of the agreement.

LAWS GOVERNING THE EPSAs AND THE ESC

Sudanese law governs the EPSAs concerning Block 5A, Block 5B and the Halaib Block and Iranian law governs the ESC concerning Munir Block. Due to the uncertainties concerning the consequences of these laws, this may be a risk factor. Further, any arbitration proceedings concerning Block 5B and the Halaib Block shall be held in Khartoum, Sudan, which could be disadvantageous for Lundin Petroleum. Any arbitration proceedings concerning Block 5A shall be held in London, Great Britain, and any arbitration proceedings concerning Munir Block shall be held at a location agreed upon by the parties. Should such arbitration proceedings be held in Iran, this could be disadvantageous for Lundin Petroleum.

LOSSES AND NEGATIVE CASH FLOW

Lundin Petroleum is expected to incur losses as it meets ongoing administration costs prior to the development of any revenue streams. In addition, Lundin Petroleum is expected to experience negative cash flow as it incurs capital expenditures in the exploitation of its assets. If revenues grow more slowly than anticipated, or if operating expenses are greater than expected, Lundin Petroleum's business, financial conditions and financial results may be adversely affected.

FINANCING RISK

At present, Lundin Petroleum has limited liquid financial resources. As a consequence thereof, Lundin Petroleum is effecting the new share issue in question. However, there can be no assurance that the new share issue will be fully subscribed, implying that the Company would have to seek other sources of financing.

Due to the nature of oil and gas exploration and production activities, further fund raising is expected to be required in the future.

DEPENDENCE ON KEY EMPLOYEES

The Company's success is largely dependent on the efforts and abilities of certain senior executives and key employees. While the Company does not foresee any reason why such executives or key employees will not remain with the Company, if for any reason they do not, it could have a material adverse effect on the Company's business, financial condition and results of operations.

COMPETITION

The oil and gas exploration and production industry is highly competitive. Lundin Petroleum competes with other companies, including major oil and gas companies. Some of these companies have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities.

LIMITED TRADING IN THE LUNDIN PETROLEUM SHARES

The first day of trading in the Lundin Petroleum shares was 6 September 2001 and consequently there has only been limited trading in the shares. Although all requirements are fulfilled for the Company's shares to trade on the New Market at Stockholmsbörsen, there can be no assurance that an active trading in the shares will continue and hence the share price may be volatile and fluctuate significantly.

[1] The term "U.S.persons" is defined to mean "any United States citizen, permanent resident alien, entity organised under the laws of the United States (including foreign branches), or any person in the United States".

Share capital and ownership structure

SHARE CAPITAL

Prior to the pending new share issue, Lundin Petroleum's share capital amounted to SEK 1,062,037.84 distributed among 106,203,784 shares with a par value of SEK 0.01 and representing 1 vote each. All shares outstanding are common shares and carry equal rights to participation in Lundin Petroleum's assets and earnings.

Since the incorporation of Lundin Petroleum, the Company's share capital has developed as shown below. The table also shows the development of the share capital assuming full subscription of the new share issue and exercise of all allotted warrants.

Transactions	Month and year	Nominal value, SEK	Change in number of shares	Total number of shares	Change in share capital, SEK	Total share capital, SEK	Subscription price, SEK
Initial formation of the Company	May, 2001	100.00	1,000	1,000	100,000	100,000	100.00
Share split 10,000:1	June, 2001	0.01	9,999,000	10,000,000	–	100,000	–
New share issue	June, 2001	0.01	92,861,283	102,861,283	928,613	1,028,613	0.01
New share issue	July, 2001	0.01	3,342,501	106,203,784	33,425	1,062,038	0.01
New share issue[1]	November, 2001	0.01	106,203,784	212,407,568	1,062,038	2,124,076	3.00
Exercise of allotted warrants[2]	June, 2002	0.01	53,101,892	265,509,460	531,019	2,655,095	4.50

[1] Provided the pending new share issue is fully subscribed.

[2] Subscription in the pending new share issue entitles the subscriber to receive warrants, which entitle the warrantholder to subscribe for new shares during the period 15 May–14 June 2002.

OWNERSHIP STRUCTURE BEFORE PENDING NEW SHARE ISSUE

The ownership structure in Lundin Petroleum before the pending new share issue, according to a report from VPC dated 5 October 2001, is shown in the table below.

Shareholders as at 5 October 2001	Number of shares	Percentage of share capital/votes, %
Lundin Adolf H.	29,000,000	27.3
Deutsche Bank (GB)	5,393,965	5.1
Bear Stearns (US)	2,685,013	2.5
Bank Julius Baer (CH)	2,010,773	1.9
Merrill Lynch (US)	1,487,013	1.4
Royal Trust London (GB)	1,366,564	1.3
SEB Private Bank (CH)	1,177,591	1.1
Royal Tr Corp of Canada (CA)	1,163,000	1.1
Pictet (CH)	1,080,882	1.0
Lombard Odier (CH)	1,020,046	1.0
Other shareholders	59,818,937	56.3
Total	**106,203,784**	**100.0**

DISTRIBUTION OF SHAREHOLDINGS PRIOR TO THE PENDING NEW SHARE ISSUE

On 5 October, the shareholders in Lundin Petroleum were distributed according to the table below. The table is based on a report from VPC.[1]

Size categories as at 5 October 2001	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1–500	2,617,480	2.5	16,673	68.5
501–1,000	2,612,763	2.4	3,166	13.0
1,001–10,000	11,524,404	10.9	3,959	16.2
10,001–50,000	9,102,198	8.6	440	1.8
50,001–100,000	3,613,087	3.4	52	0.2
100,001–	76,733,852	72.2	65	0.3
Total	**106,203,784**	**100.0**	**24,355**	**100.0**

[1] The distribution of shares into size categories has been calculated on each, with VPC, registered shareholder.

TRADING IN LUNDIN PETROLEUM SHARES

Trading in Lundin Petroleum shares on the New Market at Stockholmsbörsen commenced 6 September 2001. The graph below shows the share price development of the Lundin Petroleum share against Affärsvärlden's composite index as from the commencement of trading 6 September 2001 and up until 16 October 2001.

INCENTIVE PROGRAM

On 20 June 2001, an Extraordinary General Meeting of the shareholders of Lundin Petroleum adopted a resolution regarding an issue of 2,500,000 debentures, each with a nominal value of SEK 0.10. On 9 August 2001, the resolution was supported at the Extraordinary General Meeting of the shareholders of Lundin Oil.[1]

A detachable warrant is attached to each debenture and entitles the holder to subscribe for one new share in Lundin Petroleum at a subscription price corresponding to the average closingprice during the first 20 trading days following the market quotation. The intention is to divide the warrants corresponding to 2,500,000 shares among executive Directors, management and other employees as part of their compensation scheme. The subscription price and the number of warrants are subject to the pending new share issue. The warrants may be exercised for subscription during the period 1 May 2002 – 1 May 2004. Assuming full subscription, Lundin Petroleum's share capital will increase by SEK 25,000. The dilution effect in the event of full exercise of the warrants will be 2.3 percent before the pending new share issue.

The Board of Directors of Lundin Petroleum intends, on an annual basis, to seek approval by the Annual General Meeting to issue warrants as part of the Company's compensation scheme.

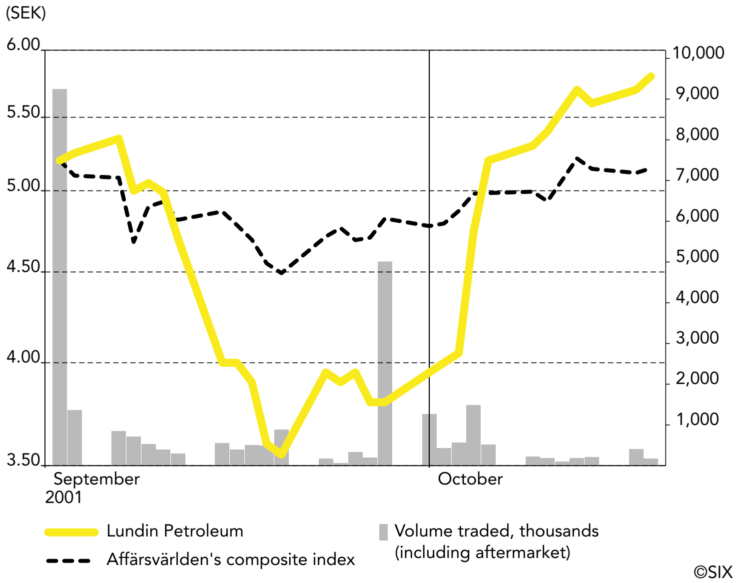
FUND RAISING

Authorisation

An Extraordinary General Meeting in Lundin Petroleum held 20 June 2001, authorised the Board of Directors to, at one or more occasions prior to the next Annual General Meeting, resolve to issue new shares and/or other securities. Based on this authorisation, the Board of Directors resolved the new share issue presented in this prospectus.

Loan agreement with Adolf H. Lundin

In order to provide adequate liquidity until the settlement of the pending new share issue, Adolf H. Lundin has agreed to provide liquid funds through a loan agreement of up to a maximum of USD 10 million. Funds provided by Adolf H. Lundin will carry an annual interest rate of 7 percent and will be repaid out of the proceeds of the new share issue or at the latest as at 31 December 2001. Undrawn amounts will incur a commitment fee of 1.5 percent per annum.



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[1] The resolution regarding an issue by Lundin Petroleum was subject to the provisions of the Act Concerning Certain Directed Issues in Stock Market Companies. In order for the resolution to be valid, the resolution had to be supported at the Extraordinary General Meeting of the shareholders of Lundin Oil by shareholders holding at least nine tenth of the shares voted and represented at the shareholders' meeting.

From left standing: Ashley Heppenstall, Magnus Unger, Lukas H. Lundin, Carl Bildt, William A. Rand and Kai Hietarinta.
From left sitting: Adolf H. Lundin and Ian H. Lundin.

BOARD OF DIRECTORS

Adolf H. Lundin
Chairman
Born 1932
Other board duties: Chairman of North Atlantic Natural Resources AB and Vostok Nafta Investment Ltd. Board Member of Khanty Mansiysk Oil Corporation.
Master of Science degree (Department of Engineering) from the Royal Institute of Technology, Stockholm. Master of Business Administration degree from Centre d´Etudes Industrielles, Geneva.
Shares in Lundin Petroleum: 29,000,000.

Carl Bildt
Director
Born 1949
Other board duties: Chairman of Teleoptimering AB, board member of HiQ AB, Humany AB, Melody Interactive Solutions AB, E. Öhman J:or Fondkommission AB, KREAB and Talisman Energy AB.
Member of the Swedish Parliament 1979–2001. Prime Minister of Sweden 1991–1994. UN Secretary General's Special Envoy for the Balkans 1999–2001.
Shares in Lundin Petroleum: 0.

Kai Hietarinta
Director
Born 1932
Other board duties: Board member of Vostok Nafta Investment Ltd. and NCC Finland Oy 1995–2001.
Master of Science degree in Engineering from Helsinki University of Technology. MBA from Helsinki School of Economics. Dr of Economics HC from the School of Economics and Business Administration in Turku.
Shares in Lundin Petroleum: 0.

Lukas H. Lundin
Director
Born 1958
Other board duties: Chairman of Tanganyika Oil Co. Ltd. and International Curator, board member of North Atlantic Natural Resources AB, Vostok Nafta Investment Ltd., Tenke Mining Corp. and Santa Catalina Mining Corp.
Graduate from New Mexico Institution of Mining, Technology and Engineering.
Shares in Lundin Petroleum: 196,822.

William A. Rand
Director
Born 1942
Commerce degree (Honours Economics) from McGill University. Law degree from Dalhousie University. Master of Law degree in international law from the London School of Economics.
Shares in Lundin Petroleum: 22,000.

Ian H. Lundin
President and Chief Executive Officer
Born 1960
Other board duties: Board member of Vostok Oil Ltd.
Bachelor of Science degree in petroleum engineering from the University in Tulsa.
Shares in Lundin Petroleum: 0.

Magnus Unger
Deputy Managing Director
Born 1942
Other board duties: Chairman of the Odin Group.
MBA from the Stockholm School of Economics.
Shares in Lundin Petroleum: 22,909.

Ashley Heppenstall
Finance Director
Born 1962
Bachelor of Science degree in mathematics from the University of Durham.
Shares in Lundin Petroleum: 457,300.

MANAGEMENT

Adolf H. Lundin
Chairman of the Board, see Board of Directors

Ian H. Lundin
President and Chief Executive Officer, see Board of Directors

Magnus Unger
Deputy Managing Director, see Board of Directors

Ashley Heppenstall
Finance Director, see Board of Directors

Alexandre Schneiter
Exploration Director
Born 1962
Bachelor of Science in Geology from the University of Geneva and a Masters degree in Geophysics.
Shares in Lundin Petroleum: 53,000.

AUDITORS

Carl-Eric Bohlin
Born 1946
Authorised Public Accountant
Company's auditor since 2001
PricewaterhouseCoopers AB, Stockholm

Klas Brand
Born 1956
Authorised Public Accountant
Company's auditor since 2001
PricewaterhouseCoopers AB, Gothenburg

Deputy Auditor
Bo Hjalmarsson
Born 1960
Authorised Public Accountant
Company's deputy auditor since 2001
PricewaterhouseCoopers AB, Stockholm

SIGNIFICANT AGREEMENTS

Lundin Petroleum entered into a reorganisation agreement dated 21 June 2001 (the "Reorganization Agreement") with Lundin Oil, Talisman and various companies that will become subsidiaries of Lundin Petroleum (the "Lundin Petroleum Subsidiaries") pursuant to which Lundin Petroleum and the Lundin Petroleum Subsidiaries have agreed, inter alia, to indemnify Talisman and Lundin Oil for all losses, liabilities and damages arising out of or relating to a number of different matters, including:

- Any misrepresentation, breach of warranty or failure to fulfill a covenant set forth in the Reorganization Agreement by Lundin Petroleum or any Lundin Petroleum Subsidiary.
- Any liability or obligation of Lundin Petroleum or any Lundin Petroleum Subsidiary which Lundin Oil, any of its subsidiaries or Talisman is or becomes liable for.
- Any liability arising from the internal reorganisation effected prior to the distribution of the shares of Lundin Petroleum or arising out of the same.

FUTURE RELATIONSHIP BETWEEN LUNDIN PETROLEUM AND LUNDIN OIL

On 13 August 2001, Talisman, Lundin Petroleum and Lundin Oil entered into a transition agreement. The term of the agreement is until the earlier of 6 months following 21 August 2001 or upon written notice from Talisman to Lundin Petroleum that no further services will be required under the agreement. Lundin Oil and Lundin Petroleum have agreed to provide certain services to Talisman in connection with the transition of ownership, operation and administration of the Lundin Oil companies acquired by Talisman and their assets and the knowledge and information transferred to Talisman. The parties have agreed to segregate, as soon as possible, inter alia the books, records and data and information systems and technology relating to each of the Lundin Oil companies and the Lundin Petroleum companies.

SHAREHOLDERS' AGREEMENT

To the best knowledge of the Company's Board of Directors, there are no shareholders' agreements between the Company's current owners.

LITIGATION

There are no current or pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their assets or properties is subject, which, either individually or in the aggregate, are expected by the Company to have a material adverse effect on its consolidated financial position, liquidity or results of operations.

INSURANCE

The Board of Directors believes that Lundin Petroleum has satisfactory insurance cover in view of the risks arising from operations.

EMPLOYMENT AGREEMENTS

The executives have entered into employment agreements with the Company which provide for, among other things, standard employment terms, including compensation, termination and assignment of intellectual property rights. Pursuant to these employment agreements, employment can be terminated upon 1 month's notice during the first year of employment, 2 months' notice from 2 to 9 years of employment and 3 months' notice from 10 years of employment, after which the executive officers remain subject to confidentiality clause.

REMUNERATION OF MANAGEMENT AND THE BOARD OF DIRECTORS

The President's yearly remuneration amounts to SEK 2,255,000[1] and total yearly remuneration to other senior executives, excluding the Chairman and the Deputy Managing Director, amounts to a total of SEK 4,162,000[1]. In addition, the President and the other senior executives receive additional benefits in respect of the payment of school fees and company cars.

The President and the other senior executives are subject to notice periods as previously described under "Employment agreements".

The President and the other senior executives are entitled to pension benefits on market terms.

The Chairman's yearly remuneration amounts to SEK 1,728,000[1]. Total yearly remuneration to the non-executive Board of Directors amounts to SEK 210,000 each. The Deputy Managing Director receives the same yearly remuneration as the non-executive Board of Directors. In addition, the Deputy Managing Director receives remuneration directly in respect of any time associated with executive duties.

There are no severance payment agreements.

PROPERTIES

The Company's executive offices are located in 209 square metres of leased space in 2 locations in Geneva, Switzerland under leases that expire in July and November 2004, respectively. In addition to the offices in Geneva, the Company also leases an office space in Stockholm, Sweden, of 355 square meters. The lease contract expires in September 2002. The Company expects that its current domestic and international facilities will be sufficient to meet its needs for at least the next 12 months, other than in Sudan. A subsidiary of the Company leases an office in Khartoum, which lease expires in May 2002. The Com-

[1] Converted according to exchange rate 31 August 2001, SEK/CHF 6.28.

pany intends to enter into a new lease agreement with respect to a larger office space by such time.

PENSIONS

The Company makes all mandatory social security payments required under Swiss law and all other applicable local laws in respect of the Company's employees in all relevant jurisdictions. The Company has no other pension or retirement plan for its employees.

AGREEMENTS WITH CLOSELY RELATED PARTIES

Lundin Petroleum has entered into a service agreement with Namdo Management Services Ltd., a private company owned by Lukas H. Lundin, a Director of the Company. Namdo Management Services Ltd., which has 16 employees, provides administrative and investor relation services to, among a number of public companies, Lundin Petroleum. Yearly service fees amount to CAD 60,000.

WARRANTIES AND INDEMNITIES UNDER EXPLORATION AND PRODUCTION AGREEMENTS

Certain subsidiaries of Lundin Petroleum are parties to EPSAs with the Republic of the Sudan. In order to secure their obligations under such EPSAs, the subsidiaries are required to provide security in the form of performance guarantees or bank guarantees.

With respect to Lundin Sudan Limited, Lundin Petroleum has provided a parent company guarantee to secure the performance of all obligations, agreements and undertakings of Lundin Sudan Limited under the Lundin Sudan 5A EPSA to the Republic of the Sudan. The term of the guarantee is for the duration of the EPSA and thereafter while there remains any outstanding obligations or liabilities owed by Lundin Sudan Limited in respect of, or arising under, the EPSA.

With respect to Lundin Sudan (Block 5B) Limited, SEK 31.1 million has been placed as a collateral for a bank guarantee to secure Lundin Sudan (Block 5B) Limited's obligations under the Lundin Sudan 5B EPSA to the Republic of the Sudan.

With respect to Lundin Sudan (Halaib) Limited, Lundin Petroleum has provided a parent company guarantee to secure the performance of all obligations, agreements and undertakings of Lundin Sudan (Halaib) Limited under the Lundin Sudan Halaib EPSA to the Republic of the Sudan. The term of the guarantee is for the duration of the EPSA and thereafter while there remains any outstanding obligations or liabilities owed by Lundin Sudan (Halaib) Limited in respect of, or arising under, the EPSA.

With respect to Lundin Munir Limited, as being party to the ESC with NIOC through Edison, SEK 33.3 million will be placed as security for a bank guarantee in favour of Edison. The bank guarantee is a counter guarantee of the bank guarantee placed by Edison in favour of NIOC, equal to Lundin Petroleum's interest in the ESC. The term of the guarantee is for the duration of the ESC and is reduced annually by an amount corresponding to 20 percent of the value of the work program fulfilled during the preceding year.

CORPORATE REGISTRATION NUMBER, ETC.

Lundin Petroleum's corporate registration number is 556610-8055. Its registered office is located at Hovslagargatan 5, SE-111 48 Stockholm, Sweden. The Company was registered with the Swedish Patent and Registration Office 4 May 2001. The current company name was registered 26 June 2001. The Company's form of association is governed by the Swedish Companies Act (1975:1385).

LUNDIN PETROLEUM'S SPONSOR ON THE NEW MARKET AT STOCKHOLMSBÖRSEN

According to the terms for being traded on the New Market, Öhman is acting sponsor for Lundin Petroleum, being responsible for the Company acting in compliance with the rules and regulations of the New Market.

The following summary is based on current Swedish tax legislation and is intended only as general information for shareholders, who are resident or domiciled in Sweden for tax purposes, if not otherwise stated. The presentation does not cover cases where shares are held as current assets in a business operation or are held by a partnership.

The tax treatment of each shareholder will depend, in part, on the shareholder's specific situation. Special tax consequences that are not described below may also apply for certain categories of taxpayers, including persons who are not Swedish citizens or residents in Sweden. Each shareholder should consult a tax advisor for information with respect to the special tax consequences that may arise as a result of the distribution of the shares in Lundin Petroleum and participation in the new issue of shares by Lundin Petroleum, including the applicability and effect of foreign income tax regulations, provisions contained in treaties to avoid double taxation and other rules, which may be applicable.

DISTRIBUTION OF LUNDIN PETROLEUM SHARES

In accordance with a special tax legislation – "Lex Asea" (Chapter 42, Section 16 of the Swedish Income Tax Act) – the distribution of the shares in Lundin Petroleum is expected to be exempt from Swedish income tax. Instead, the acquisition value for tax purposes of the Lundin Oil share that entitles the shareholders to receive the distribution should be allocated to both the shares in Lundin Oil and in Lundin Petroleum. The allocation of the acquisition value for tax purposes is done on the basis of the decline in value of the Lundin Oil shares due to the distribution of the shares in Lundin Petroleum.

Lundin Oil and Lundin Petroleum will apply to the National Tax Board for guidance as to how the acquisition value on the shares should be allocated. Lundin Oil and Lundin Petroleum will provide information of the National Tax Board's recommendation by advertisements in the Swedish daily press.

DISPOSAL OF LUNDIN PETROLEUM SHARES RECEIVED

Shareholders in Lundin Petroleum who sell their shares are subject to capital gains tax. The capital gain or loss is calculated as the difference between the sales proceeds after deduction for sales expenses and the shares' acquisition value for tax purposes.

The acquisition value for tax purposes of the Lundin Petroleum shares received through the tax-exempt distribution from Lundin Oil will, when calculating the capital gain, equal the value to be allocated in accordance with the recommendation from the National Tax Board.

The acquisition value for tax purposes of all shares of the same class and type shall, however, be added together and determined collectively in accordance with the so-called average method. This means that the average acquisition value for tax purposes is affected if, for example, additional shares in Lundin Petroleum are acquired.

The so-called "standard rule" (according to which the acquisition cost is considered equal to 20 percent of the net sales price) may be used on the disposal of shares traded on the New Market at Stockholmsbörsen such as shares in Lundin Petroleum.

For individuals who are resident in Sweden for tax purposes, all capital income such as interest, dividends and capital gains are taxed as income from capital, at a flat rate of 30 percent. Capital losses on shares traded on the New Market at Stockholmsbörsen, such as the shares in Lundin Petroleum, are fully deductible against capital gains on listed shares and other listed securities that are taxed as shares but also against capital gains on unlisted shares. 70 percent of a loss in excess of such gains will be deductible from any other income from capital. If a deficit arises in the incomes from capital category, a reduction of the tax on income from employment and from business, as well as the tax on real estate and wealth tax is allowed. The tax deduction allowed amounts to 30 percent of any deficit not exceeding SEK 100,000 and 21 percent of any deficit in excess of SEK 100,000. Deficits may not be carried forward to a later tax year.

Limited liability companies are taxed on all income as income from business activities at a flat rate of 28 percent. Capital losses on shares (or other securities that are taxed in the same manner as shares), which are held as capital investments, may be offset only against gains on shares or other securities that are taxed in the same manner as shares. Capital losses on shares or other such securities, which have not been deducted from capital gains within a certain year, may be carried forward and be offset against similar capital gains in future years without any limitation in time. Specific tax consequences may be applicable to certain categories of companies.

CASH DIVIDENDS

Dividends on shares are taxed at a rate of 30 percent as income from capital for individuals and at a tax rate of 28 percent for limited liability companies as ordinary income from business activities. For individuals domiciled in Sweden and estates of deceased Swedish persons, preliminary tax of 30 percent on the dividend amount is withheld. Preliminary tax is normally withheld by VPC or, in the case of shares registered with a nominee, by the nominee.

NET WEALTH TAXATION ON SHARES

Shares in a Swedish company traded on the New Market at Stockholmsbörsen, such as the Lundin Petroleum shares, is currently exempt from Swedish wealth tax.

INHERITANCE AND GIFT TAX ON SHARES

For inheritance and gift tax purposes shares traded on the New Market at Stockholmsbörsen are valued at 30 percent of their quoted value.

UTILISATION OF SUBSCRIPTION RIGHTS RECEIVED

Shareholders in Lundin Petroleum are not liable to tax when they exercise the subscription rights. The issue price represents the acquisition cost for the shares.

When shares in Lundin Petroleum are sold, the shareholder's acquisition cost for all shares of the same type and class will be added together and calculated in accordance with the average method. The standard rule, which means that the acquisition cost is considered equal to 20 percent of the net sales price, is applicable to shares in Lundin Petroleum.

DISPOSAL OF SUBSCRIPTION RIGHTS RECEIVED

Shareholders who do not wish to utilise their right to participate in the new shares issue may sell their subscription rights. Such a sale of subscription rights trigger capital gains tax. Each subscription right in this instance is deemed to have been acquired at no cost. The standard rule may not be used in this case. The entire sale price (less selling costs) is subject to tax. The acquisition cost of the original share is not affected.

TREATMENT OF PURCHASED SUBSCRIPTION RIGHTS

If subscription rights in Lundin Petroleum are purchased on the market, or acquired in a similar manner, the acquisition cost is considered equal the purchase price. A sale of subscription rights trigger capital gains taxation. The acquisition cost for the subscription rights is calculated using the average method. The standard rule may be used for publicly listed subscription rights acquired in this way.

The utilisation of subscription rights to subscribe for new shares does not trigger any taxation. The amount paid for subscription rights and the issue price constitutes the acquisition cost for the shares.

UTILISATION OF WARRANTS

The utilisation of warrants to subscribe for new shares in Lundin Petroleum does not trigger any taxation. The subscription price for the shares and the amount paid for the warrants constitutes the acquisition cost for the shares.

When shares in Lundin Petroleum are sold, the shareholder's acquisition cost for all shares of the same type and class will be added together and calculated in accordance with the average method. The standard rule, which means that the acquisition cost is considered to be 20 percent of the net sales price, is applicable to shares in Lundin Petroleum.

DISPOSAL OF WARRANTS RECEIVED

Individuals who sell their warrants are subject to capital gains tax at a flat rate of 30 percent. Limited liability companies are taxed as income from business activities at a flat rate of 28 percent. Each warrant received from Lundin Petroleum in conjunction with the rights issue is deemed to have been acquired at no cost.

The capital gain or loss is calculated as the difference between the sales proceeds after deduction for sales expenses and the warrants' acquisition value for tax purposes. The standard rule may not be used when calculating the capital gain.

For individuals capital losses on warrants traded on the New Market at Stockholmsbörsen are fully deductible against capital gains on listed shares and other listed securities that are taxed in the same manner as shares but also against capital gains on unlisted shares. 70 percent of a loss in excess of such gains will be deductible from any other income from capital. If a deficit arises in the income from capital category, a deduction of the tax on income from employment and from business, as well as the tax on real estate and wealth tax is allowed. The tax deduction allowed amounts to 30 percent of a deficit not exceeding SEK 100,000 and 21 percent of a deficit in excess of SEK 100,000. Deficits may not be carried forward to a later tax year.

Capital losses on shares (or other securities that are taxed in the same manner as shares), which are held by limited liability companies as capital investments, may be offset only against gains on shares or other securities that are taxed in the same manner as shares. Capital losses on shares or other such securities, which have not been deducted from capital gains within a certain year, may be carried forward and be offset against similar capital gains in future years without any limitation in time. Specific tax consequences may be applicable to certain categories of companies.

LAPSED WARRANTS

If a warrant is not utilised during its term the warrant is considered to have been sold for tax purposes. Each warrant is in such case deemed to have been sold for SEK 0. A capital loss will occur if the acquisition cost exceeds SEK 0.

NET WEALTH TAXATION ON WARRANTS

Warrants traded on the New Market at Stockholmsbörsen are subject to Swedish wealth tax and valued at 80 percent of their quoted value at the end of the year.

INHERITANCE AND GIFT TAX ON WARRANTS

For inheritance and gift tax purposes warrants traded on the New Market at Stockholmsbörsen are valued at 75 percent of their quoted value.

TAX CONSIDERATIONS FOR SHAREHOLDERS RESIDING OUTSIDE OF SWEDEN

For shareholders who are fiscally not domiciled or residing in Sweden and who receive dividends on shares in a Swedish limited liability company, Swedish withholding tax is payable. However, no Swedish withholding tax will be withheld on the distribution of the shares in Lundin Petroleum if Lex Asea applies. The shareholder may, however, be liable to tax in his or her country of domicile.

Dividends from Lundin Petroleum are subject to Swedish withholding tax. The tax rate is 30 percent. The tax rate is, however, generally reduced under double tax treaties with other states. In Sweden, VPC, or, for nominee-registered shares, the nominee, normally deduct withholding tax on dividends.

Generally, shareholders who are not liable to Swedish income tax will not be liable to Swedish tax on the disposal of Swedish shares. The shareholder may, however, be liable to tax in his or her country of domicile. According to a special tax rule, individuals who are fiscally residents outside of Sweden may be liable to Swedish tax on the disposal of Swedish securities if they have been residents of Sweden or permanently lived here during the calendar year of the sale or at any time during the 10 calendar years immediately preceding the year of the sale. The application of this rule is, however, in many cases limited by double tax treaties between Sweden and other states.

§ 1 Name
The name of the Company is Lundin Petroleum AB. The Company is a public company (publ).

§ 2 Registered office
The Board of Directors shall have its registered office in Stockholm.

§ 3 Object of the Company
The object of the Company's business is to explore for and exploit gas, oil and gold and activities compatible therewith, either directly, through its subsidiaries, associated companies or other forms of partnerships.

§ 4 Share capital
The share capital of the Company shall amount to not less than SEK 1,000,000 and not more than SEK 4,000,000.

§ 5 Shares
Shares shall have a nominal value of SEK 0.01.

§ 6 Financial year
The financial year of the Company shall be January 1 – December 31.

§ 7 Board of Directors
The Board of Directors shall consist of not less than three and not more than ten members with not more than three deputies.

The Board of Directors shall be elected annually at the Ordinary General Meeting for the time until the end of the next ordinary general meeting.

§ 8 Auditors
With the duties to examine the Company's annual report and financial statements as well as the management of the Company by the Board of Directors and the President, one or two auditors with not more than two deputy auditors shall be appointed. The auditors are appointed for a term until the end of the annual general meeting of shareholders that are held on the fourth financial year after the election took place.

§ 9 Shareholders' meeting
At an Ordinary General Meeting the following matters shall be dealt with;

1. Election of a chairman at the meeting,
2. Preparation and approval of the voting list,
3. Election of at a minimum one person to attest the minutes,
4. Approval of the agenda
5. Determination as to whether the meeting has been duly convened,
6. Presentation of the annual statement of accounts and the auditor's report
7. Resolutions in respect of
   a) adoption of the profit and loss statement and the balance sheet and the consolidated profit and loss statement and consolidated balance sheet,
   b) appropriation of the Company's profit or loss according to the adopted balance sheet,
   c) discharge of the Directors and President from liability
8. Resolutions in respect to the fees payable to the Board of Directors and, where applicable, to the auditors,
9. Election of the members of the Board of Directors and, where applicable, of auditors
10. Other matters which should be addressed by the Annual General Meeting according to the Swedish Companies Act (1975:1385) or the Articles of Association

§ 10 Notice
Notice convening shareholders meeting shall be given through announcement in the Post- och Inrikes Tidningar (the Swedish Gazette) and in Svenska Dagbladet or other Swedish daily newspaper with nation-wide coverage.

Notice of Annual General Meeting and any Extraordinary General Meeting at which a proposal for amendment of the articles of association is to be considered shall be given not earlier than six weeks and not sooner than four weeks before the meeting. Notice of other Extraordinary General Meetings shall be given not earlier than six weeks and not sooner than two weeks before to the meeting.

Shareholders who wish to participate in a General Meeting shall be registered in the share register of the Company pertaining to conditions ten days prior to the General Meeting, and shall notify the Company of the same on the date stated in the notice. The latter shall not be a Saturday, Sunday, holiday, Mid-Summer's Eve, Christmas Eve, New Year's Eve and not fall earlier than five working days before the general shareholders meeting.

§ 11 Record date provision
Persons who, on the recorded date, are registered in the share register or in a schedule in accordance with Chapter 3 section 12 of the Swedish Companies Act (1975:1385) shall be deemed entitled to receive dividends and, in connection with a bonus issue, new shares to which the holder is entitled.

Lundin Petroleum's Articles of Association were adopted at the Extraordinary General Meeting 20 June 2001.

COMMENTS TO THE FINANCIAL STATEMENTS FOR THE PERIOD 4 MAY – 31 AUGUST 2001

Income statement

Service income received for the financial period amounted to SEK 12 thousand. This amount represents payments by the Sudan Partners to Lundin Petroleum as the operator of Block 5A in Sudan.

Other income of SEK 435 thousand is the amount charged to third parties for work carried out by Lundin employees.

General and administrative expenses amounting to SEK 3,523 thousand are mainly attributable to salaries, office leases and corporate costs. Financial net of SEK –13 thousand arises from SEK 52 thousand in interest income received primarily on the SEK 13,452 thousand promissory note issued by KMOC, payable at a rate of 10 percent per annum offset by SEK 26 thousand in currency exchange movements and SEK 39 thousand in finance expenses attributable to the loan agreement with Adolf H. Lundin (see further information on page 34).

Fixed assets

Tangible fixed assets

As at 31 August 2001, tangible fixed assets amounted to SEK 299,391 thousand, of which SEK 292,315 thousand are attributable to oil and gas properties in Sudan (for information regarding warranties and indemnities under exploration and production agreements see page 32). Tangible fixed assets relating to oil and gas properties are attributable to capitalised costs of exploration, appraisal and development and are accounted for using the full cost method further described on page 46.

Financial fixed assets

Lundin Petroleum holds 1,507,680[1] shares representing approximately 10 percent of the undiluted[2] shares in the United States Delaware company KMOC. Lundin Petroleum also holds a USD 1.3 million promissory note issued by KMOC payable at an interest rate of 10 percent per annum. A total of 115,440[1] warrants are attached to the promissory note, entitling Lundin Petroleum to subscribe for 115,440[1] new shares in KMOC at a subscription price of USD 11.25 per share. The warrants may be exercised for subscription during the period 19 October 2000 –14 October 2002.

The shares and the promissory note were transferred from Lundin Oil to Lundin Petroleum at a value of USD 21.1 million, reflecting the price achieved in KMOC's most recent private placement of shares in 2000.

KMOC is currently pursuing a public offering of its shares, which are proposed to be listed on Nasdaq in the United States. The most recent filing with the U.S. Securities and Exchange Commission ("SEC") was made 30 August 2001. In the public offering, Lundin Petroleum will exercise its contractual right to include 307,824[1] shares.

In the SEC filing, KMOC stated an estimated price range for the offering of the shares of USD 14–16 per share. There is no assurance, however, that such price will be achieved.

Restricted cash

As at 31 August 2001, restricted cash of SEK 31,075 thousand reflects an amount placed as collateral for a bank guarantee to the Minister of Energy and Mining, representing the Republic of the Sudan, in relation to the first commitment period in Block 5B. The total exploration expenditure commitment amounts to USD 33 million, of which 33.3 percent is guaranteed by the Sudan Partners. The restricted cash reflects Lundin Petroleum's paying interest of 27.2 percent. The collateral for the bank guarantee, and hence the restricted cash, will be reduced in proportion with work performed.

Current receivables

As at 31 August 2001, current receivables amounted to SEK 9,252 thousand. This amount consists of prepaid expenses and other receivables attributable to joint venture partners in respect of operated ventures.

Cash and bank

As at 31 August 2001, Lundin Petroleum's cash position amounted to SEK 67,975 thousand. Included within this amount is the Group's share of cash held by joint ventures.

Current liabilities

As at 31 August 2001, current liabilities amounted to SEK 18,264 thousand. This amount includes Lundin Petroleum's share of joint venture liabilities and liabilities outstanding following the establishment and distribution of Lundin Petroleum.

Financial position

In order to provide adequate liquidity until the settlement of the pending rights issue, Adolf H. Lundin has agreed to provide liquid funds up to a maximum of USD 10 million through a loan agreement. Funds provided carry an annual interest rate of 7 percent. Undrawn amounts will incur a commitment fee of 1.5 percent per annum (see further information on page 34).

As at 31 August 2001, Lundin Petroleum had no interest-bearing liabilities. The equity/asset ratio was 97 percent.

Cash flow

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

[1] After given effect to a 40 for 1 common share split to be effected prior to the completion of the proposed public offering.
[2] Not taken into account outstanding warrants and proposed new share issue.

The presentation below shows Lundin Petroleum AB (publ)'s financial statements for the period 4 May – 31 August 2001. Lundin Petroleum was registered with PRV on 4 May 2001. Operations conducted in Lundin Petroleum before the registration date were conducted in Lundin Oil.

INCOME STATEMENT[1]
4 May–31 August 2001

Expressed in SEK thousand	Group	Parent Company
Net sales of oil and gas	–	–
Service income	12	21
Result from operations	**12**	**21**
Other income	435	–
General and administrative expenses	–3,523	–2,009
Operating result	**–3,076**	**–1,988**
Financial income and expenses, net	–13	–4
Income before tax	**–3,089**	**–1,992**
Tax	–	–
Net result for the period	**–3,089**	**–1,992**

BALANCE SHEET
31 August 2001

Expressed in SEK thousand	Note	Group	Parent Company
Assets			
Tangible fixed assets			
Oil and gas properties	1	292,315	–
Other fixed assets		7,076	–
Total tangible assets		**299,391**	**–**
Financial fixed assets	2	249,286	608,630
Total fixed assets		**548,677**	**608,630**
Current assets			
Current receivables and inventories		9,252	65
Cash and bank, and short term investments		67,975	1,062
Total current assets		**77,227**	**1,127**
Total assets		**625,904**	**609,757**
Shareholders' equity and liabilities			
Shareholders' equity including net result for the period	3	607,640	607,658
Current liabilities		18,264	2,099
Total shareholders' equity and liabilities		**625,904**	**609,757**
Pledged assets and contingent liabilities		–	–

[1] The Group income only reflects the parent company's and subsidiaries' results from 21 August 2001, being the date for reorganisation after Talisman declared the Talisman offer unconditional.

CASH FLOW STATEMENT[1]
For the period 4 May–31 August 2001

Expressed in SEK thousand	Group	Parent Company
Cash flow used in operations		
Net result for the period	–3,089	–1,992
Adjustments for non-cash items	169	–
Changes in working capital	1,340	1,992
Total cash flow used in operations	**–1,580**	**0**
Cash flow used for investments		
Investments in oil and gas properties	–1,556	–
Total cash flow used for investments	**–1,556**	**–**
Cash flow from financing		
Proceeds from share issue	1,062	1,062
Total cash flow financing	**1,062**	**1,062**
Change in cash and bank	–2,074	1,062
Acquired cash	69,792	–
Currency exchange difference in cash and bank	257	–
Cash and bank at the end of the period	**67,975**	**1,062**

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Oil and gas properties

Expressed in SEK thousand	Group	Parent Company
Sudan	292,315	–
Total oil and gas properties	**292,315**	**–**

Note 2: Financial fixed assets

Expressed in SEK thousand	Group	Parent Company
Shares in subsidiaries	–	57
Investment in subsidiary	–	390,362
Shares in KMOC	204,759	204,759
Promissory note from KMOC	13,452	13,452
Bank deposit to support a guarantee in respect of work obligations of Sudan, Block 5B	31,075	–
Total financial fixed assets	**249,286**	**608,630**

Note 3: Shareholders' equity

Expressed in SEK thousand	**Number of shares**	**Share capital**
Share capital		
Initial formation of the Company	1,000	100
Share split 10,000:1	9,999,000	–
New share issue	92,861,283	929
New share issue	3,342,501	33
Total number of shares and share capital	**106,203,784**	**1,062**

[1] The transactions carried out in the creation of the Group are not included in the cash flow statement, as they do not involve the movement of cash.

Note 3: Shareholders' equity, continued

Expressed in SEK thousand	Group	Parent Company
Shareholders' equity, including net result for the period		
Share capital	1,062	1,062
Shareholders' contribution	608,588	608,588
Exchange differences	1,079	–
Net result for the period	–3,089	–1,992
Total shareholders' equity	**607,640**	**607,658**

KEY DATA
4 May – 31 August 2001

	Group
Return on equity, %[1]	–1
Return on capital employed, %[2]	–1
Debt/equity ratio, %[3]	–
Equity ratio, %[4]	97
Share of risk capital, %[5]	97
Interest coverage ratio, %[6]	–
Operating cash flow/interest expenses, %[7]	–
Yield, %[8]	–

1 Return on equity is defined as the Group's net result divided by average shareholders' equity (the average over the Group's existence).
2 Return on capital employed is defined as the Group's income before tax plus interest expenses plus/less exchange differences on financial loans divided by the average capital employed (the average balance sheet total less non interest-bearing liabilities over the Group's existence).
3 Debt/equity ratio is defined as the Group's interest-bearing liabilities in relation to shareholders' equity.
4 Equity ratio is defined as the Group's shareholders' equity, including minority interest, in relation to balance sheet total.
5 Share of risk capital is defined as the sum of the shareholders' equity and deferred taxes, including minority interest, divided by balance sheet total.
6 Interest coverage ratio is defined as the Group's income before tax plus interest expenses plus/less exchange differences on financial loans divided by interest expenses.
7 Operating cash flow/interest expenses is defined as the Group's operating income less production costs and less current taxes divided by the interest charge for the period.
8 Yield is defined as dividend in relation to quoted share price at the end of the financial period.

DATA PER SHARE
4 May – 31 August 2001

	Group
Shareholders' equity, SEK[1]	5.72
Operating cash flow, SEK[2]	0.00
Cash flow used in operations, SEK[3]	–0.02
Earnings, SEK[4]	–0.05
Earnings, (fully diluted), SEK[5]	–0.05
Dividend, SEK	–
Quoted price at the end of the financial period (regards the parent company), SEK	–
Number of shares at period end	106,203,784
Weighted average number of shares for the period[6]	63,351,675
Weighted average number of shares for the period (fully diluted)[5]	63,351,675

1 Shareholders' equity per share is defined as the Group's shareholders' equity divided by the number of shares at period end.
2 Operating cash flow per share is defined as the Group's operating income less production costs and less current taxes divided by the weighted average number of shares for the period.
3 Cash flow used in operations per share is defined as cash flow used in operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the period.
4 Earnings per share is defined as the Group's net result divided by the weighted average number of shares for the period.
5 Earnings per share fully diluted is defined as the Group's net result divided by the fully diluted weighted average number of shares for the period. The warrants to be issued to employees will have an exercise price calculated as the average of the first 20 trading days. No dilution has been calculated given the uncertainty relating to the issue and trading prices.
6 Weighted average number of shares is defined as the number of shares at the beginning of the period with newly issued shares weighted for the proportion of the period they are in issue.

ACCOUNTING PRINCIPLES

The accounting principles set forth below are adopted by Lundin Petroleum Group.

Principles of consolidation

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

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

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

Accounting for investments in associated companies

An investment in an associated company is an investment in an undertaking where the Group holding represents at least 20 percent but not more than 50 percent of the votes, and over which the Group exercises significant influence. Such investments are accounted for in the consolidated financial statements in accordance with the equity method. The difference between the acquisition cost of shares in an associated company and the amount these represent of the fair market value of the net assets in the undertaking at the time of acquisition is treated as goodwill and amortised over 5 years. The Group's share in the associated company's income before taxes for the financial year is accounted for as participations in associated companies in the income statement. Tax expense relating to the associated companies is accounted for in the Group's tax expense.

Foreign currencies

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

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

Exchange differences on intercompany balances of permanent nature are taken directly to shareholders' equity net of deferred tax.

Corporation Taxes

Current tax

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

Deferred tax

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

Valuation principles

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

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

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

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

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

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

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

Fees associated with long-term financing are deferred and amortised over the life of the financing.

Oil and gas operations

Accounting for costs of exploration, appraisal and development

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

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

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

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

Proceeds from the sale or farm-out of oil and gas concessions are offset against the related capitalised costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalised included in the income statement.

A gain or loss is recognised on the sale or farm-out of producing areas when the depletion rate is changed by more than 20 percent.

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

Revenues

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

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

Service income

Service income, generated by providing technical and management services to joint ventures, is recognised as revenue in accordance with the terms of each concession agreement.

Joint ventures

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

Ceiling tests

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

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

Site restoration costs

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

Effects of changes in estimates

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

Over- and underlifts

The quantities of oil and other hydrocarbons lifted by the Group may differ from its equity share of production giving rise to over- or underlifts, which are accounted for as follows:

- an underlift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price.
- an overlift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price.

Royalties

Where royalties are calculated on sales income and are payable in cash, royalties are charged to income in the same period as the sales to which they relate and are included within the production cost.

Where royalties are taken in kind and are deducted from the production allocation, no entry for royalties is recorded.

Interest

Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred. Interest on borrowings to finance fields under development is capitalised within oil and gas properties until production commences.

To highlight the financial effects of the Offer, two different pro forma balance sheets have been drawn up with the balance sheet as at 31 August 2001 as the base. The pro forma balance sheets have been drawn up as if the new share issue and the exercise of allotted warrants had been made as at 31 August 2001. Further, full subscription in the new share issue and exercise of all allotted warrants have been assumed. The new share issue has been assumed to increase cash and bank by approximately SEK 303 million after issue related costs[1] and the exercise of allotted warrants has been assumed to increase cash and bank by approximately SEK 237 million after requisite costs in connection with the exercise[2].

PRO FORMA SUMMARISED GROUP BALANCE SHEETS
31 August 2001

Expressed in SEK million	**According to Financial statements**	**Including the proceeds from the new share issue**	**Including the proceeds from the new share issue and following exercise of all allotted warrants**
Assets			
Fixed assets	548.7	548.7	548.7
Other current assets	9.3	9.3	9.3
Cash and bank, and short term investments	67.9	370.8	607.5
Total assets	**625.9**	**928.8**	**1,165.5**
Shareholders' equity and liabilities			
Shareholders' equity, including net result for the period	607.6	910.5	1,147.2
Current liabilities	18.3	18.3	18.3
Total shareholders' equity and liabilities	**625.9**	**928.8**	**1,165.5**

PRO FORMA KEY RATIOS

Number of shares	106,203,784	212,407,568	265,509,460
Equity ratio, %	97	98	98
Shareholders' equity per share, SEK	5.72	4.29	4.32

[1] The issue related costs are estimated at around SEK 16 million.
[2] The costs in connection with the exercise of the allotted warrants are estimated at around SEK 2 million.

Auditors' Report

In our capacity as auditors of Lundin Petroleum AB (publ) we have reviewed this prospectus. Our review has been carried out in accordance with the recommendation issued by FAR (the Swedish Institute for the accountancy profession in Sweden).

Forward looking statement has not been subject to review.

The pro forma balance sheets have been prepared using the bases of preparation described on page 49.

Interim financial information has been subject to a limited review.

Nothing has come to our attention that caused us to believe that this prospectus does not comply with the requirements of the Swedish Companies Act and the Swedish Financial Instruments Trading Act.

Stockholm, 19 October 2001

Carl-Eric Bohlin	*Klas Brand*
Authorised Public Accountant	Authorised Public Accountant
PricewaterhouseCoopers AB	PricewaterhouseCoopers AB

CURRENCY ABBREVIATIONS

CAD	Canadian dollar
CHF	Swiss franc
SEK	Swedish krona
USD	US dollar

OIL RELATED TERMS AND MEASUREMENTS

Bbl	Barrel
Bbls	Barrels
Bopd	Barrels of oil per day
Mbbl	Thousand barrels (in Latin mille)
Mmbo	Million barrels of oil
Mmbopd	Million barrels of oil per day

INDUSTRY SPECIFIC TERMS

Barrel	One barrel is equivalent to 159 litres.
Basin	A depression of large size in which sediments have accumulated.
Cost oil	A share of oil produced used to cover ongoing operations costs and to recover past exploration, appraisal and development expenditures.
Cretaceous	A period in geological history from about 65 to 141 million years ago.
ESC	Exploration Service Contract
EPSA	Exploration Production Sharing Agreement.
Hydrocarbons	Naturally occurring organic substances composed of hydrogen and carbon. They include crude oil, natural gas and natural gas condensate.
Jurassic	A period in geological history from about 141 to 195 million years ago.
Magneto-Telluric	Using magnetic methods to define nearsurface properties.
Paying interest	The cost-bearing interest arising out of the obligation to bear initial exploration, appraisal and development costs on behalf of a partner. The difference between the paying interest and the working interest will be recovered out of the partner's share of oil produced.
Probable reserves	Probable reserves are defined as those reserves which are not yet proven, but which are estimated, by independent third parties, to have better than a 50 percent chance of being technically and economically producible.
Profit oil	The remaining share of oil produced after cost recovery through the cost oil. The profit oil is shared according to the production sharing agreement and working interests.
Proven reserves	Proven reserves are defined as the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data, as presented by independent third parties, demonstrate with reasonable certainty (more than 90 percent) to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is prices and costs as at the date the estimate is made.
PVT-analysis	Pressure-, Volume- and Temperature analysis.
Seal	An impermeable rock (usually claystone or shale) which prevents the passage of hydrocarbons.
Seismic	A method of geophysical prospecting involving the interaction of sound waves and buried rocks.
Source rock	The geological formation in which oil, gas and/or other minerals originate.
Working interest	The actual interest owned by a party.

OTHER TERMS

GDP	Gross Domestic Product is the value-added produced in the domestic economy regardless of the origin of the production factors.

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