

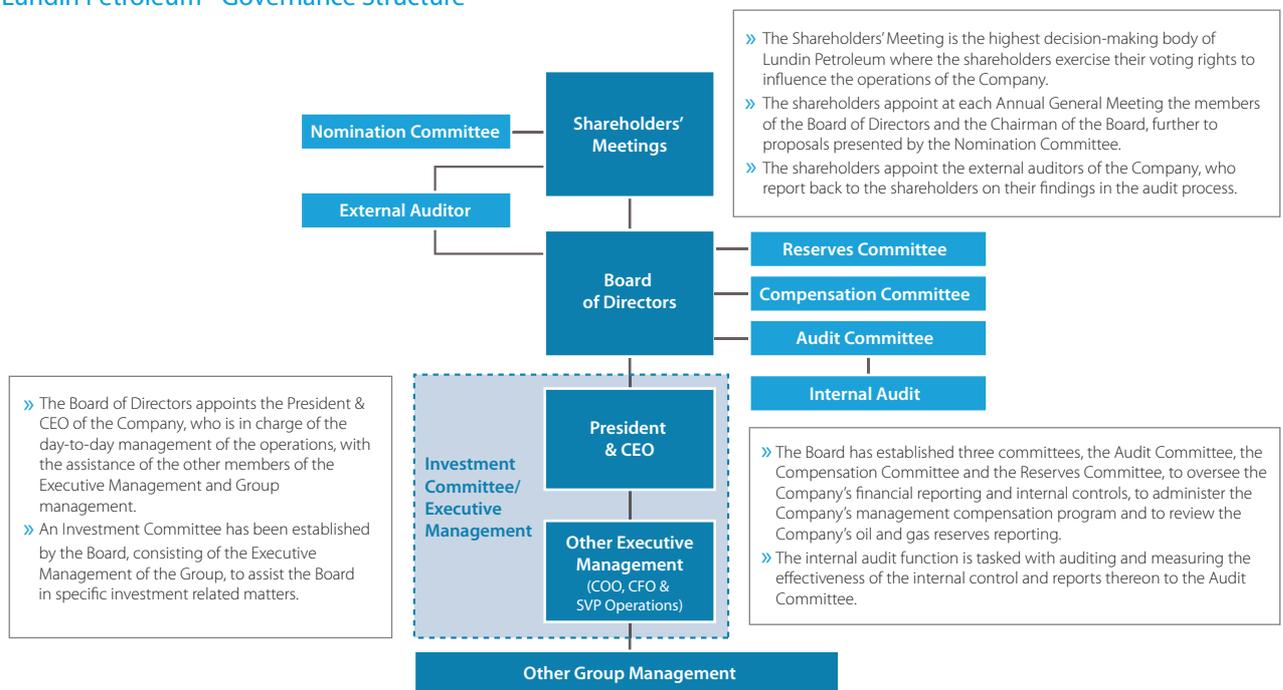
INTRODUCTION - GOVERNANCE STRUCTURE

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

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

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

Lundin Petroleum - Governance Structure



LUNDIN PETROLEUM'S GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

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

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

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

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

The Swedish Code of Corporate Governance

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

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

Lundin Petroleum’s Articles of Association

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

Lundin Petroleum’s Code of Conduct

Lundin Petroleum’s Code of Conduct is a set of principles formulated by the Board to give overall guidance to employees, contractors and partners on how the Company is to conduct its activities. As an international oil and gas exploration, development and production company operating globally, the aim of the Company is to explore for and produce oil and gas in the most economically efficient, socially responsible and environmentally acceptable way, for the benefit of its shareholders, employees and co-venturers. The Company applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements.

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

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

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

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

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

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

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

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

Lundin Petroleum’s Rules of Procedure of the Board

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

LUNDIN PETROLEUM'S SHARE CAPITAL AND SHAREHOLDERS

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

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

NOMINATION COMMITTEE

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

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

The Nomination Committee for the 2011 AGM

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

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

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

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

SHAREHOLDERS' MEETINGS

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

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

2010 AGM

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

The resolutions passed by the 2010 AGM include:

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

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

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

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

An EGM was held on 22 March 2010 at Näringslivets hus in Stockholm. The EGM was attended by 149 shareholders, personally or by proxy, representing 46.8 percent of the share capital. The Chairman of the Board and two other Board members, including the CEO, as well as the Company's auditors, were present. However, four out of seven Board members were

unable to attend due to previous commitments, which thus led to a deviation from the Code of Governance. Prior to the EGM, the Board had considered the matter and had unanimously approved the transaction.

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

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

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

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

External Auditor of the Company

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

BOARD OF DIRECTORS

Composition of the Board

According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of ten directors with a maximum of three deputies. As mentioned above, Ian H. Lundin, also Chairman of the Board, Magnus Unger, William A.

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

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

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

Functions of the Board

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

- » Decisions regarding the focus of the business and adoption of Company policies
- » Decisions regarding supply of capital
- » Appointment and regular evaluation of the work of the CEO and the management
- » Approval of the reporting instructions for the management
- » Ensuring that the Company's external communications are open, objective and appropriate for target audiences
- » Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis established goals
- » Monitoring that operations are carried out within established limits in compliance with laws, regulations, stock exchange rules and generally acceptable behaviour in the securities market
- » Ensuring that the necessary guidelines governing the Company's ethical conduct are established
- » Ensuring that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general include satisfactory systems of internal control

Board Meetings and Work

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

- » Review and approval of the minutes from the preceding meeting
- » Report of the CEO regarding:
 - status of the business
 - prospects
 - economic and commercial report
 - financial report
- » Reports from the committees of the Board of Directors
- » Items related to decisions (e.g. concerning investments, acquisition and sale of assets, loans and guarantees and structural and organisational matters)
- » Miscellaneous issues of material importance to the Company

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

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

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

Evaluation of the Board's Work

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

» Board structure

The Board as a whole possesses the right skills and background for addressing issues facing the Company; the composition of the Board and the Board committees is appropriate; the Board committees have clear scopes of responsibilities and charges; there should be no term limits or a fixed retirement policy.

» Board meetings

The number of Board meetings is appropriate; the meetings are well planned with clear agendas and the Board generally receives adequate materials in advance of the meetings; the meetings are chaired effectively and the time at the meetings is used efficiently; the members prepare for meetings and participate constructively; the Board focuses properly on competitive, financial and other challenges that the Company faces and is adequately involved in determination of the Company's strategy; the Board efficiently monitors the Company's operating performance and implementation of the strategy.

» Other

Information provided between meetings is adequate and timely and the staff and related support to the Board and the committees functions adequately; there is generally sufficient time for committee meetings and the committee reports give appropriate information to the Board; new members are oriented and briefed before joining the Board; the CEO performance review is adequate; the Board is well organised to handle a crisis situation; holding Board meetings in various regions in conjunction with site visits is beneficial; the Board focuses on activities that help maximise shareholder value; the Board members are appropriately compensated for their work.

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

Remuneration of Board Members

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

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

BOARD COMMITTEES

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

Compensation Committee

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

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

Audit Committee

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

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

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

Reserves Committee

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

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

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

MANAGEMENT

Management structure

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

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

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

Investment Committee

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

INTERNAL CONTROL AND RISK MANAGEMENT FOR THE FINANCIAL REPORTING

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

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

Internal control system for financial reporting

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

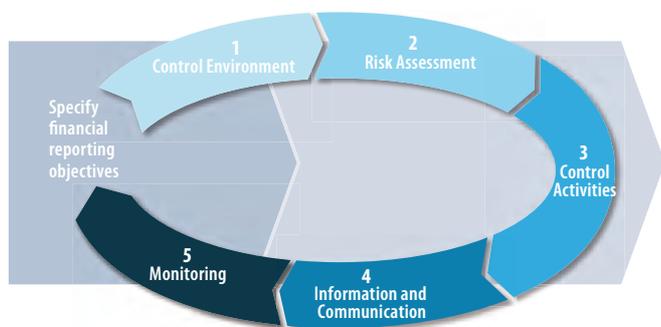
Lundin Petroleum’s objective for financial reporting is: *“The financial reporting objective of Lundin Petroleum is to provide reliable and relevant information for internal and external purposes, in compliance with existing laws and regulations, in a timely and accurate manner.”*

An internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, and is designed to manage rather than eliminate the risk of failure to achieve the financial reporting objectives.

Improving on a continuous basis

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

Internal control – a continuous process



1. Control Environment

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

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

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

2. Risk Assessment

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

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

Significant internal policies that form the control environment:

- » The Code of Conduct was adopted by the Board in 2001. The Board has stated the Group's vision and values and the standards of integrity, ethical value and competence at which the Group's employees shall operate.
- » The anti-fraud policy was approved by the Board in 2005. The policy outlines the employees' responsibilities with regard to fraud prevention, what to do if fraud is suspected and what action will be taken by management in the case of suspected or actual fraud.
- » The whistleblowing policy was adopted by the Board in 2008 to complement the anti-fraud policy and is intended to cover serious concerns that could have a significant impact on the Group.

3. Control Activities

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

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

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

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

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

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

4. Information and Communication

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

Financial information is published in the following forms:

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

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

5. Monitoring

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

The Board reviews and evaluates comprehensive financial information regarding the Group as a whole and the entities it comprises. The Board also reviews, primarily through the Audit Committee, the most important accounting principles applied by the Group in the financial reporting, as well as changes to these principles. Minutes are taken at all meetings of the Audit Committee and are provided to all Board members and the external auditors. The Rules of Procedures of the Board include detailed instructions regarding the type of internal financial reports that shall be submitted to the Board.

CORPORATE GOVERNANCE REPORT 2010 – BOARD OF DIRECTORS



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

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

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

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

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

CORPORATE GOVERNANCE REPORT 2010 – BOARD OF DIRECTORS



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

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

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

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

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

CORPORATE GOVERNANCE REPORT 2010 – EXECUTIVE MANAGEMENT



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

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

Stockholm, 7 April 2011

The Board of Directors of Lundin Petroleum AB (publ)

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

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

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

Stockholm, 7 April 2011

Bo Hjalmarsson
Lead Auditor
Authorised Public Accountant
PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
PricewaterhouseCoopers AB