

**Lundin Petroleum AB**

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The New Market at Stockholmsbörsen: **LUPE &**

**February, 15 2002**

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**REPORT FOR THE PERIOD ENDED 31 DECEMBER 2001**

- **The first tranche of the rights issue fully subscribed raising SEK 319 million**
- **New exploration block signed in Iran**
- **Operations in Sudan are temporarily suspended**

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

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## Letter to Shareholders

Dear fellow Shareholders,

### **2001 witnessed the sale of Lundin Oil AB and the creation of Lundin Petroleum AB.**

Lundin Petroleum AB came into existence as a result of the SEK 4 billion take-over of Lundin Oil AB by Talisman Energy Inc. in the summer of 2001. As a result of the transaction Lundin Oil shareholders received SEK 36.5 in cash plus one share in Lundin Petroleum AB for each share held in Lundin Oil.

On 6 September 2001 the shares of the new Company started trading on the new market at Stockholmbörsen with Öhman J:or Fondkommission AB as sponsor. In addition to SEK 68 million in cash the Company had assets of SEK 558 million including strong acreage positions in Sudan. It also had the same Board and Management Team that made Lundin Oil a success. In October 2001 the Company initiated a SEK 558 million rights issue, the first tranche of which was fully subscribed netting the Company SEK 319 million.

In hindsight it is clear that the sale of Lundin Oil was a well-timed and highly lucrative deal for our shareholders. At the time we started talking to Talisman, the oil price was still holding at above USD 25 per barrel. As a result of the economic downturn that was exacerbated by the events of September 11, the oil price has been under pressure since we completed the sale and fell below USD 19 by the end of the year.

It goes without saying that the value of Lundin Oil was directly linked to the oil price.

We have always worked on the basis (that we have to be prepared) to see our projects through until the end (if we want) to maximise the value of the Company. This philosophy has served us well. For instance, we could have walked away from Malaysia and Libya on many occasions when the going was tough. Instead we waited until we got an offer we considered to reflect the full value of the assets.

The same philosophy is being applied to Lundin Petroleum. Sudan is a case in point. As announced on January 22, 2002, operations have been suspended temporarily as a result of deteriorating security conditions. However the potential remains huge and although Sudan is proving to be a very challenging project we intend to persevere until the value of the asset can be fully realised. In addition to logistical difficulties, our engagement in Sudan has raised ethical issues as a result of the ongoing conflict in that country. The question being raised is whether oil fuels the war or sets the conditions for peace by providing the country with the necessary means to lift itself out of poverty. We believe in the latter. Peace and stability are basic necessities for any investor. Long-term investors, such as us, require long-term solutions. This is a message that we have delivered and will continue to deliver to all parties to the conflict, including the Government of Sudan. Ultimately we are confident that both Blocks 5A and 5B (in which our Company has a 40.375% and 24.5% interest respectively) will yield large quantities of oil for the benefit of Sudan as a whole and will create enormous value for you, our shareholders.

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

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

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

Thank you for your continued support.

Yours sincerely,

Ian H Lundin  
President

## **Income statement**

Service income received for the financial period ended 31 December 2001 amounted to 0.7 MSEK. This amount represents payments by the Sudan Block 5A joint venture partners to Lundin Petroleum as the operator of Block 5A in Sudan.

Other income of 4.4 MSEK is primarily the amount charged to third parties for work carried out by Lundin employees. The amount charged includes 1.1 MSEK relating to work carried out under a transition agreement with Lundin Oil AB relating to the reorganisation of the Lundin Group following the Talisman acquisition.

General and administration expenses amounting to 23.1 MSEK are mainly attributable to salaries, office leases and corporate costs. Included within general and administration expenses is an amount of 4.4 MSEK being non-recurring expenditure relating to the Company's initial share registration on the Stockholmsborsen.

Result from financial investment, net of 22.9 MSEK arises from 2.0 MSEK in interest income received on bank deposits and the USD 1.3 million promissory note issued by Khanty Mansyisk Oil Corporation (KMOC), offset by 0.7 MSEK in currency exchange movements and 24.2 MSEK in finance expenses. Financial expenses comprise primarily an amount of 23.8 MSEK being a write down in the carrying value of the shares held in Khanty Mansyisk Oil Corporation (KMOC). Details of the write down can be found under the heading financial fixed assets.

## **Fixed assets**

### ***Tangible fixed assets***

As at 31 December 2001, capitalised expenditure in relation to oil and gas properties amounted to 376.2 MSEK, of which 366.3 MSEK are attributable to Sudan. Tangible fixed assets relating to oil and gas properties are attributable to capitalised cost of exploration, appraisal and development and are accounted for under the full cost method of accounting.

### ***Financial fixed assets***

Lundin Petroleum holds 37,836 shares representing approximately 10 percent of the undiluted shares in the United States Delaware company KMOC. Lundin Petroleum also holds a USD 1.3 million promissory note issued by KMOC which carries an interest rate of 10 percent per annum.

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

Lundin Petroleum has agreed to sell its shares and promissory note to Enterprise Oil plc for approximately USD 18.3 million. The shares in KMOC have been written down to the sale value.

### ***Restricted cash***

As at 31 December 2001, restricted cash of 31.9 MSEK reflects 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 in Sudan. The total exploration expenditure commitment amounts to USD 33 million, of which 33.3 percent is guaranteed by the Block Sudan 5B Partners. The restricted cash reflects Lundin Petroleum's Block 5B paying interest of 27.2 percent. The amount of the bank guarantee and the corresponding cash collateral will be reduced as the work commitments are performed.

### **Current receivables**

As at 31 December 2001, current receivables amounted to 9.5 MSEK. This amount consists of prepaid expenses and other receivables attributable to joint venture partners in respect of operated ventures.

### **Cash and bank**

As at 31 December 2001, Lundin Petroleum's cash position amounts to 301.5 MSEK.

### **Current liabilities**

As at 31 December 2001, current liabilities amounted to 38.4 MSEK. This amount consists primarily of the Group's share of amounts due for joint venture activities.

### **Financial position**

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

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

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

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

### **Share data**

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

### **Cash flow**

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

### **Dividend**

The board and the managing director propose that no dividend be paid for the financial period.

## INCOME STATEMENT IN SUMMARY<sup>1</sup>

<i>Expressed in TSEK</i>	Group	Group	Parent Company	Parent Company
	4 May 2001 – 31 Dec 2001	1 Oct 2001 – 31 Dec 2001	4 May 2001 – 31 Dec 2001	1 Oct 2001 – 31 Dec 2001
Net sales of oil and gas	-	-	-	-
Service income	749	660	1,304	1,150
Write off of capitalised exploration costs	-502	-502	-	-
<b>Gross profit</b>	<b>247</b>	<b>158</b>	<b>1,304</b>	<b>1,150</b>
Other income	4,373	2,666	63	51
General and administrative expenses	-23,145	-14,895	-19,036	-13,223
<b>Operating result</b>	<b>-18,525</b>	<b>-12,071</b>	<b>-17,699</b>	<b>-12,022</b>
Result from financial investments, net	-22,907	-23,184	-23,771	-23,789
Result before tax	-41,432	-35,255	-41,440	-35,811
Tax	-551	-551	-	-
<b>Net result for the period</b>	<b>-41,983</b>	<b>-35,806</b>	<b>-41,440</b>	<b>-35,811</b>

<sup>1</sup> The Group income only reflects the parent company's result and the subsidiaries' results from 21 August 2001, being the date of the transfer of the assets into the Group following the acquisition of Lundin Oil AB being declared unconditional by Talisman Energy Inc.

**BALANCE SHEET IN SUMMARY**

<b>As at 31 December 2001</b>	Note	Group	Parent Company
<i>Expressed in TSEK</i>			
<b>Assets</b>			
<i>Tangible fixed assets</i>			
Oil and gas properties	1	376,181	-
Other fixed assets		6,254	55
<b>Total tangible assets</b>		<b>382,435</b>	<b>55</b>
Financial fixed assets	2	227,425	681,160
<b>Total fixed assets</b>		<b>609,860</b>	<b>681,215</b>
<i>Current assets</i>			
Current receivables		9,475	2,539
Cash and bank, and short term investments		301,519	193,683
<b>Total current assets</b>		<b>310,994</b>	<b>196,222</b>
<b>Total assets</b>		<b>920,854</b>	<b>877,437</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity including net result for the period	3	882,467	871,039
Current liabilities		38,387	6,398
<b>Total shareholders' equity and liabilities</b>		<b>920,854</b>	<b>877,437</b>
Pledged assets and contingent liabilities		-	-

## CASH FLOW STATEMENT IN SUMMARY<sup>1</sup>

<i>Expressed in TSEK</i>	Group	Group	Parent Compan y	Parent Compan y
	4 May 2001 – 31 Dec 2001	1 Oct 2001 – 31 Dec 2001	4 May 2001 – 31 Dec 2001	1 Oct 2001 – 31 Dec 2001
<i>Cash flow used in operations</i>				
Net result for the period	-41,983	-35,806	-41,440	-35,811
Adjustments for non-cash items	25,485	25,110	22,725	22,763
Changes in working capital	20,265	23,357	3,859	-4,724
<b>Total cash flow from/used in operations</b>	<b>3,767</b>	<b>12,661</b>	<b>-14,856</b>	<b>-17,772</b>
<i>Cash flow used for investments</i>				
Movement in restricted cash	5	160	-	-
Investment in shares in subsidiary	-	-	-95,297	-95,297
Investment in oil and gas properties	-77,263	-70,733	-	-
Investment in other fixed assets	-1,071	-891	-55	-55
<b>Total cash flow used for investments</b>	<b>-78,329</b>	<b>-71,464</b>	<b>-95,352</b>	<b>-95,352</b>
<i>Cash flow from financing</i>				
Proceeds from share issue	303,891	302,829	303,891	302,829
<b>Total cash flow from financing</b>	<b>303,891</b>	<b>302,829</b>	<b>303,891</b>	<b>302,829</b>
Change in cash and bank	229,329	244,026	193,683	189,705
Cash and bank at the beginning of the period	-	55,266	-	3,978
Cash contributed in connection with formation	69,792	-	-	-
Currency exchange difference in cash and bank	2,398	2,227	-	-
<b>Cash and bank at the end of the period</b>	<b>301,519</b>	<b>301,519</b>	<b>193,683</b>	<b>193,683</b>

<sup>1</sup> The reorganisation transactions carried out in the creation of the Group are not included in the cash flow statement because they do not involve the movement of cash.

## NOTES TO THE FINANCIAL STATEMENTS

<b>Note 1: Oil and gas properties</b>	Group	Parent Company
<i>Expressed in TSEK</i>		
Sudan	366,289	-
Iran	9,892	-
<b>Total oil and gas properties</b>	<b>376,181</b>	<b>-</b>
<b>Note 2: Financial fixed assets</b>	Group	Parent Company
<i>Expressed in TSEK</i>		
Shares in KMOC	181,619	181,619
Shares in subsidiaries	-	485,674
Promissory note from KMOC	13,867	13,867
Bank deposit to support a guarantee in respect of work obligations of Sudan, Block 5B	31,939	-
<b>Total financial fixed assets</b>	<b>227,425</b>	<b>681,160</b>
<b>Note 3: Shareholders' equity</b>	Number of shares	Share capital
<i>Expressed in TSEK</i>		
<b>Share capital</b>		
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
Rights issue	106,203,784	1,062
<b>Total share capital</b>	<b>212,407,568</b>	<b>2,124</b>
	Group	Parent Company
<b>Shareholders' equity, including net result for the period</b>		
Share capital	2,124	2,124
Share premium	301 767	301 767
Shareholders' contribution	608,588	608,588
Currency translation difference	11,971	-
Net result for the period	-41,983	-41,440
<b>Total shareholders' equity</b>	<b>882,467</b>	<b>871,039</b>

**KEY DATA**

Group

**For the period 4 May – 31 December 2001**

Return on equity, % <sup>1</sup>	-6
Return on capital employed, % <sup>2</sup>	-6
Debt/equity ratio, % <sup>3</sup>	-
Equity ratio, % <sup>4</sup>	96
Share of risk capital, % <sup>5</sup>	96
Interest coverage ratio, % <sup>6</sup>	-
Operating cash flow/interest expenses, % <sup>7</sup>	-
Yield, % <sup>8</sup>	-

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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.

<b>DATA PER SHARE</b>	Group
<b>4 May – 31 December 2001</b>	
Shareholders' equity, SEK <sup>1</sup>	4.1
Operating cash flow, SEK <sup>2</sup>	0.0
Cash flow used in operations, SEK <sup>3</sup>	0.1
Earnings, SEK <sup>4</sup>	-0.4
Earnings, (fully diluted), SEK <sup>5</sup>	-0.4
Dividend, SEK	-
Quoted price at the end of the financial period (regards the parent company), SEK	4.25
Number of shares at period end	212,407,568
Weighted average number of shares for the period <sup>6</sup>	105,142,301
Weighted average number of shares for the period (fully diluted) <sup>5</sup>	105,813,439

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

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

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

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

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

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

## **FINANCIAL INFORMATION**

**The Company will publish the following interim reports:**

- Three months report (January – March 2002) will be published on 9 May 2002.
- Six months report (January – June 2002) will be published on 8 August 2002.
- Nine months report (January – September 2002) will be published on 7 November 2002.
- Estimated distribution of the annual report 2001 will be April /May 2002 and will be available at the Stockholm office or at the Company's webpage, [www.lundin-petroleum.com](http://www.lundin-petroleum.com).

The Annual General Meeting will be held the 23 May, 2002 at Vinterträdgården, Grand Hotel Stockholm.

Stockholm 15 February 2002  
Ian H. Lundin  
*President and CEO*

The fourth quarter report has not been subject to review by the auditors of the company.