

Act
on Prospecting, Exploration and Production of Hydrocarbons
No. 13, 13 March 2001
as Amended by Act No. 49, 27 March 2007, Act No. 166, 20 December 2008, Act No. 8, 3
March 2009, Act No. 105, 7 September 2011, Act No. 126, 28 September 2011, and Act No. 131,
28 September 2011

CHAPTER I

Scope and Definitions.

Article 1

Scope.

This Act applies to the prospecting, exploration and production of hydrocarbons and transport of hydrocarbons through piping systems outside 115 metres from the shore and within Icelandic territorial waters and economic zone and on the Icelandic continental shelf. The Act also applies to offshore installations unless otherwise determined in legislation or rules based on this Act.

Article 2

Definitions.

Hydrocarbons in this Act means mineral oil, natural gas or other types of hydrocarbons found naturally in strata under the seabed and which can be exploited in a gaseous or liquid form.

Offshore installations in this Act means:

1. Equipment, such as platforms, piping systems and other structures within the Icelandic economic zone and on the Icelandic continental shelf used for hydrocarbon activities.
2. Any kind of transport equipment used in hydrocarbon activities while at anchor.

Prospecting in this Act means investigating general conditions for the formation and conservation of hydrocarbons, delimiting areas where such conditions are favourable and searching for hydrocarbon resources by measurements from air, land, sea or the seabed or by taking samples from the seabed top strata, e.g. with shallow drilling or taking cores.

Exploration in this Act means evaluation of size, position and production properties of hydrocarbon accumulation by drilling exploration wells and making borehole measurements in addition to prospecting for hydrocarbons by geophysical methods.

Production in this Act means production of hydrocarbons from a hydrocarbon reservoir, including drilling of production wells, pumping or conduction of hydrocarbons to the surface, pumping down hydrocarbons and other materials, treatment and storage of hydrocarbons for transport, loading of hydrocarbons as well as constructing, installing, operating and decommissioning an offshore installation meant for such a production.

Licensee in this Act means a legal entity registered in Iceland who has received a licence for exploration and/or production of hydrocarbons according to Chapter IV. An Icelandic branch or agency of a company registered in a State party to the Agreement on the European Economic Area, in a State party to the Convention establishing the European Free Trade Association or in the Faeroe Islands, constitutes a legal entity registered in Iceland.

Joint Operating Agreement in this Act means an agreement entered into by the parties of a single licence, if more than one, which provides for the roles and obligations of each licensee under the licence and its exercise.

Operator in this Act means the party responsible for the day-to-day management of the hydrocarbon activities on behalf of the licensee.

Prospecting Licensee in this Act means a party who has received a licence to prospect for hydrocarbons according to Chapter III.

CHAPTER II

Ownership of Hydrocarbons.

Article 3

The Icelandic State owns hydrocarbons according to Article 1. A holder of a production licence may be conveyed the ownership of hydrocarbons produced by him.

The Minister is the sovereign authority regarding matters pertaining to this Act

CHAPTER III

Prospecting.

Article 4

Licence to Prospect.

The National Energy Authority grants licences for prospecting for hydrocarbons for the purpose of exploration and production.

The National Energy Authority shall consult the Ministries responsible for the issues of nature conservation as well as the research, preservation and utilisation of the sea floor before a licence is granted. Furthermore, the National Energy Authority shall obtain the opinion of respective municipalities when applications that are submitted cover areas that are within one nautical mile off the 115 m distance from the shore.

Article 5

Application.

An application for a licence to prospect for hydrocarbons shall state clearly the purpose of obtaining a licence along with detailed information, as determined by the National Energy Authority, about the applicant's intended operations.

Article 6

Licence Duration and Conditions.

A licence to prospect for hydrocarbons shall be granted for a period of three years at a time unless a shorter duration is indicated in the licence.

A licence to prospect for hydrocarbons does not give the prospecting licensee a right to drill for hydrocarbons, produce hydrocarbons or priority to obtaining such a licence later. Such a licence can, however, include a permission to drill for the purpose of obtaining information about general conditions for the formation and conservation of hydrocarbons.

The Minister may issue regulations laying down further requirements for the granting of licences for hydrocarbon prospecting.

CHAPTER IV

Exploration and Production.

Article 7

Exploration and Production Licence.

The National Energy Authority grants licences for the exploration and production of hydrocarbons in specific. Such a licence gives the licensee exclusive rights for exploration and production. Such a licence may only be granted to applicants whom the National Energy Authority considers to have the requisite expertise, experience and financial capacity to undertake these activities and the same conditions shall apply to the decision of the National Energy Authority on the operator under Paragraph 1 of Article 10(a). More stringent requirements may apply to operators. The duties and research commitments of the licensee shall be further defined in the exploration and production licence.

In the case of the holders of a licence being more than one, they shall prepare and submit a Joint Operating Agreement for approval by the National Energy Authority. All changes in such an agreement or annexes thereto, are subject to an approval by the National Energy Authority. A licence for the exploration and production of hydrocarbons may be granted only to applicants who are considered to have the requisite expertise, experience and financial capacity to undertake these activities.

The substance of a Joint Operating Agreement pursuant to Paragraph 2 shall be subject to this Act. A Joint Operating Agreement, or the parties to the Agreement, shall not be regarded as an independent company in the understanding of Act No. 138/1994 on Private Limited Companies or Act No. 2/1995 on Limited Companies. Each of the parties to the Agreement shall have a share in the licence provided for in the Agreement and thereby constitute an independent licensee in the understanding of this Act.

The National Energy Authority shall consult the Ministries responsible for the issues of nature conservation as well as the research, preservation and utilisation of the sea floor before granting a licence for exploration and production, permission or a licence for particular activities according to Articles 14–18. Furthermore, the National Energy Authority shall obtain the opinion of respective municipalities when applications that are submitted cover areas that are within one nautical mile off the 115 m distance from the shore.

An exploration licence given in accordance with this law includes a permission to explore a hydrocarbon resource in a given area during the licence period with the provisions given by this law, in the licence itself, and as determined more specifically by the National Energy Authority. The National Energy Authority may divide the licence period into sub-periods, with further specifications of the rights and obligations of the licensee within each individual period.

A production licence given in accordance with this law includes a permission for the licensee to produce and utilise a given hydrocarbon resource during the licence period in such a volume and under other restrictions given in this law, in the licence itself and as the National Energy Authority considers to be necessary.

The licensee shall annually pay a fee to the Treasury for the use of an exploration area. For the first six years that the licence is valid, the licensee shall pay a yearly fee of ISK 10,000 for each square kilometre of area covered by the licence and subsequently the fee will increase by ISK 10,000 for each square kilometre. Notwithstanding this, the fee shall never exceed ISK 150,000 per year for each square kilometre. The operator is responsible for the calculation and payment of the fee on behalf of the licensee.

Article 8

Granting of Licences.

A public notice inviting applications shall normally be issued prior to the granting of licence for the exploration and production of hydrocarbons.

The notice shall be published in the National Gazette and the Official Journal of the European Community. The deadline for the application shall be indicated in the notice and be no shorter than 90 days. The notice shall also, *i.a.* define the area to which the licence applies and other conditions of the licence.

There shall be no discrimination between applicants in the granting of a licence, and the equality of rights shall be observed. The licence shall be granted on the grounds of objective criteria which have been made public. At the same time, due consideration shall be given to production that has already started or has been applied for in the surroundings. The National Energy Authority may decide to reject all licence applications submitted following a public notice.

Decisions on granting a licence for exploration and production shall be based mainly on considerations of the financial and technical capacity of applicants, that the production from a given resource is viable by measures of the national economy and in which ways a submitted exploration plan may reach a given goal. If the National Energy Authority considers two or more applications equal by the measure of the criteria given above, the National Energy Authority is permitted to rate applications by other criteria.

It is permitted to grant licences for the exploration and production of hydrocarbons without public notice, if the given licence area:

- a. is available on a permanent basis; or
- b. has previously been subject to a public notice without any licence being given consequently;
or
- c. has been given back by a company, without automatically belonging under provisions given by item a.

Before such a licence is granted, an advertisement shall be placed in the National Gazette and the Official Journal of the European Community, giving the limits of the given area together with a notice on where to find further information on granting licences in the area. Any considerable changes in this information shall immediately be announced by a new advertisement. Before a licence is granted under the provisions of this paragraph, licensees in adjacent areas shall also be given the opportunity to apply for a licence for exploration and production in the area concerned. However, applications for

licences under this paragraph cannot be deliberated nor granted until the appropriate advertisement has been published in the National Gazette and the Official Journal of the European Community.

The National Energy Authority may demand payment of cost due to evaluation of applicants and the granting of licences according to Article 7.

Article 8 a

State Partnership.

The Minister may decide upon participation by the Icelandic State in hydrocarbon production under this Act.

In the event that the Minister decides that the State of Iceland should participate in the production of hydrocarbon, he must initiate the founding of a limited company with the objective of guarding the interests of the Icelandic State in pursuance of the State's participation. All shares in the limited company shall always be the property of the State Treasury. The Minister shall prepare the founding of the limited company in consultation with the Minister responsible for the registration of companies. The limited company may not operate as a production company.

A limited company pursuant to Paragraph 2 shall only operate on the continental shelf of Iceland. The limited company may however operate in those areas outside the territorial waters, the economic jurisdiction and the continental shelf of Iceland where the State of Iceland is entitled to a share according to international treaties or other lawful means.

Article 8 b

Board of Directors of Limited Company.

Iceland's State Treasury shall be the owner of all the shares in the limited company upon its foundation. The Minister controls the State's shares in the company.

The limited liability company's board of directors is composed of five members. They shall be elected annually at the general meeting.

The objective and the tasks of the limited company shall be further described in its articles of association. The company's articles of association may be amended at a shareholder's meeting according to general rules of procedure.

The provisions of the Act on Public Limited Companies shall apply to the company if not otherwise provided for in the present Act.

Article 9

Application.

An application for a licence for exploration and production shall state clearly the purpose of obtaining the licence along with detailed information on the location, magnitude, nature and timing of the applicant's intended activities as more precisely determined by the National Energy Authority. The applicant shall submit the appropriate maps and drawings. The applicant shall identify the operator in the application.

If the National Energy Authority considers that an application for a licence for exploration does not fulfil the requirements given in Paragraph 1, the National Energy Authority may reject the granting of an exploration licence or prescribe special provisions to be met in the exploration licence due to this.

Article 10

Licence Duration and Conditions.

A licence for exploration shall be granted for a period up to 12 years, and the term may be extended for up to two years at a time. However, the maximum duration of a licence may not exceed 16 years. The duration of a licence shall depend on the magnitude of the exploration activity and the nature of the hydrocarbon resource.

When the conditions for a licence for exploration have been fulfilled, the licensee shall have priority for an extension of the licence for the production of hydrocarbons for up to 30 years. An application for the extension of the licence shall arrive at the National Energy Authority no later than 90 days before a valid licence expires. The National Energy Authority may require the licensee to relinquish a certain part of the licence area before extending the licence, in which case the licensee's

proposal for such a relinquishment shall arrive at the National Energy Authority no later than 90 days before a valid licence expires. Further requirements on the relinquishment of areas shall be put forward in the exploration licence. If the National Energy Authority does not receive any relinquishment proposal from the licensee, the National Energy Authority is free to decide on the relinquishment of areas.

If a licensee stops production for a continuous three-year period, the licence becomes invalid.

A licence may be withdrawn if the licensee files for bankruptcy or if the licensee files a plan of reorganisation under a bankruptcy code.

A licence for production according to Article 2, shall apply at least to the area where the licensee intends to begin production and is economically suitable for exploitation according to the assessment of the National Energy Authority.

A requirement for the granting of a licence is the founding of a company in Iceland for this particular operation of the applicant. An Icelandic branch or agency of a company registered in a State party to the Agreement on the European Economic Area, in a State party to the Convention establishing the European Free Trade Association or in the Faeroe Island constitutes a company. The licensee must be organised in a manner that will ensure independent management and supervision for all facets of hydrocarbon activities in this country. For this purpose, the National Energy Authority may impose certain requirements regarding the organisation and the equity base of the licensee. The objective and the activities of the licensee shall be connected with the prospecting, exploration and/or the production of hydrocarbon under the provisions of this Act.

The licensee shall ensure that the hydrocarbon activities take place in a responsible manner and in accordance with the Legislation that is in effect at any given time. The hydrocarbons activities shall take into account the utilisation of the resource as well as safety and public interests. The measures of the Licensee regarding the planning and size of the activities shall be such that the Licensee can at any time make informed decision on its hydrocarbon activities. To ensure follow-up of the measures of the Licensee, the NEA may, if the NEA consider this necessary judging from the scale of the hydrocarbon activities of the Licensee, put forward specific requirements on the measures of the Licensee and the placement of the bases of the Licensee. The Ministry may issue more detailed regulations regarding the operations of such bases, for example regarding the distance from exploration and production areas. The licensee of an exploration and production licence must, during the licence validity period, pay an annual contribution to a special education and research fund. The exploration and production licence shall provide further details regarding the initial contribution as well as the annual contribution to be paid into the above Fund. Further details must be provided regarding the objective and the role of the education and research fund in a regulation to be issued by the Minister. The Fund's Board must be constituted of the licensee's representatives in addition to the State's representative who will be appointed by the Minister and who has the right of veto if the Board's decisions are not in accordance with the Fund's role and its objectives as they are defined in a regulation. The National Energy Fund, under the supervision of the National Energy Authority, shall take care of the Fund's daily administration.

Each applicant may be granted only one licence according to Chapter IV.

Article 10 a

Operator.

Upon the granting of an exploration and production licence, the National Energy Authority shall decide on an operator for each licence.

No change of operator is permitted without the express permission of the National Energy Authority. In special circumstances the National Energy Authority may change operators on its own initiative.

In cases where the National Energy Authority has decided on an operator who is not a licensee of an exploration and production licence, the duties and other obligations under this Act regarding licensees shall also apply to the operator, except as otherwise expressly provided. Further provisions regarding the operator shall be included in the exploration and production licence.

Article 11

Content of Licence for Exploration and Production.

A licence for exploration and production shall state, *i.a.* the following points:

1. Duration of the licence. The start of the activities at the latest and the timing of their termination shall be specified.
2. The geographical limits of the exploration or production area to which the licence applies.
3. The licensee's obligations with regard to the production of hydrocarbons, *i.a.* provisions on the location and depth of boreholes for production and recharge and on production rates.
4. The licensee's duty of reporting and notification to the National Energy Authority, including the duty to deliver samples and data and how this delivery is to take place.
5. Provisions for safety and environmental protection, as appropriate.
6. The licensee's purchase of insurance from a recognised insurance company, banker's indemnity or other collateral that the National Energy Authority considers equal, to cover possible liability for damages caused by activity of the licensee.
7. Disposal of production systems and equipment at the end of the licence term.
8. Closure of offshore installations and bases that have been used for exploration or production activities.
9. The initial contribution as well as an exploration and production licensee's annual contribution to a special education and research fund.
10. The operator of the licence.

A provision may be set for the licence to be re-evaluated within a set period of time, given that the preconditions for the provisions of the licence have changed.

The Minister may, by means of regulation, decide on further stipulations regarding licences for exploration and production.

Article 12

Obligations of Licensee After End of Licence Term.

The National Energy Authority may stipulate that obligations according to an exploration and production licence remain after the licence has terminated, or the licence returned or withdrawn. If the licensee does not meet his obligations according to an exploration and production licence, the National Energy Authority may demand that the licensee pay the cost associated with meeting the obligation, in part or in full.

Article 13

Duty of Precaution.

When exploring for and producing hydrocarbons, every measure of safety shall be taken, and the activity shall be in accordance with good international practice for similar situations. The activity shall not needlessly endanger or hinder communication, fisheries or other activities.

Article 14

Drilling.

Drilling into strata under the seabed may begin only when the National Energy Authority has accepted the equipment, drilling plans and working arrangements.

Article 15

Offshore Installation.

The building and installation of an offshore installation and the production of hydrocarbons requires the consent of the National Energy Authority.

If a licensee wants to commence such an activity, he shall present a field development and production plan to the National Energy Authority for approval.

The National Energy Authority may alter a previously approved field development and production plan in order to ensure that the activity is safe and economical or when it is in the public interest to demand it.

Article 16

Decommissioning of Offshore Installation.

Decommissioning of an offshore installation, including cessation of maintenance, is subject to the consent of the National Energy Authority. A licensee shall present to the National Energy Authority for approval a plan for decommissioning an offshore installation containing, *i.a.* information on how the decommissioning will take place.

At the decommissioning of an offshore installation, it will normally be removed as a whole or partly. The National Energy Authority can, however, agree to its continued use for exploration and production of hydrocarbons or other kind of use.

If there is reason to assume that a licensee does not have the financial ability to pay for the cost of decommissioning an offshore installation, the National Energy Authority can at any time demand that the licensee prove his ability to pay or provide necessary guarantees.

Article 17

Piping Equipment.

The construction and operation of piping equipment for the production or transportation of hydrocarbons is subject to the permission of the National Energy Authority. A permission shall, *i.a.* include conditions on the organisation of the equipment, the use of the equipment by others and payment for the use.

The provisions of Paragraph 1 do not apply to local piping equipment that belongs to an offshore installation and is used only for production from one hydrocarbon resource.

If piping equipment belonging to a licensee reaches the territory or continental shelf of another State, and an agreement of co-operation regarding the construction and operation of the piping system has been reached between that State and the Icelandic State, the National Energy Authority can impose the obligation on the licensee of the Icelandic part of the piping equipment to take part in the co-operation and set further conditions for the participation.

Article 18

Piping Equipment of a Foreign State.

The construction and operation of piping equipment on behalf of another State for the transportation of hydrocarbons across the Icelandic continental shelf is subject to the consent of the National Energy Authority.

Article 19

Division of Hydrocarbon Resource.

Where a hydrocarbon resource extends into areas where two or more parties have a licence to explore and produce, the licensees must make an agreement of co-operation regarding exploration and production from the resource. The agreement of co-operation is subject to the consent of the National Energy Authority. If the licensees do not reach an agreement within a suitable time period, the National Energy Authority may decide its contents.

If a hydrocarbon resource extends into another State's continental shelf and an agreement of co-operation regarding exploration of and production from the hydrocarbon resource has been reached between that State and the Icelandic State, the National Energy Authority may oblige licensees on the Icelandic continental shelf to take part in the co-operation and set further conditions regarding the participation.

Article 20

Co-exploitation of Hydrocarbon Resources.

If the National Energy Authority deems it sensible to exploit two or more hydrocarbon resources together due to economic considerations, the Authority can, having consulted the licensee, demand such a co-exploitation.

The National Energy Authority may oblige the licensee to allow other licensees, for payment, access to equipment and transportation with such a co-exploitation in mind. If the licensees do not reach an agreement about payments for the use, the payments shall be decided by the National Energy Authority.

CHAPTER V

Environmental Protection, Working Conditions and Safety Measures.

Article 21

Environmental Aspects.

When granting a licence according to Chapter IV, the exploitation of resources shall take into consideration environmental aspects, national economical interests and exploitation already started in the vicinity.

Article 22

Safety Measures.

Utmost safety measures shall be taken in hydrocarbon activities, and it shall be verified that the activities comply with general demands for hydrocarbon activities at any given time, *i.a.* regarding technical equipment and work processes.

The licensee and others involved in hydrocarbon activities shall work to provide good and healthy conditions, as well as workplace safety, and actively ensure that the working conditions comply with the legislation that is in force.

The licensee and others involved in hydrocarbon activities shall take the necessary measures to prevent damage or reduce the consequences of damage which has occurred, including measures aimed to bring the environment back to its former state.

Article 23

Special Safety Zone.

A special safety zone shall be set up around offshore installations. The Minister sets further rules about safety zones in accordance with international practice, including communication and fisheries in the area, and he can ban the traffic of unauthorised ships and aircraft in the area. The Minister can also set rules, for reasons of safety, limiting the right of ships to anchor and fish near piping equipment.

CHAPTER VI

Supervision, Resorts and Providing Information.

Article 24

Supervision.

The National Energy Authority supervises that the activities of the holders of licences for prospecting, exploration and production of hydrocarbons are in accordance with the present Act and the licences that have been granted based on this Act. The Minister may, by means of regulation, decide on further instructions concerning the National Energy Authority supervision.

The National Energy Authority shall submit an annual report to the Minister regarding work on prospecting, exploration and production.

The National Energy Authority shall operate and lead the work of a consultation group of supervising authorities regarding prospecting, exploration and hydrocarbon production in Iceland. The consultation group shall consist of 11 representatives nominated by the Iceland Fire Authority, the Icelandic Civil Aviation Administration, Icelandic Radiation Protection Institute, Marine Research Institute, Icelandic Coast Guard, Icelandic Institute of Natural History, National Energy Authority, the Icelandic Maritime Administration, the National Planning Agency, the Environment and Food Agency, and the Administration of Occupational Safety and Health. The role of the consultation group

shall, among other things, be to ensure an exchange of information and to co-ordinate public control supervising prospecting, exploration and hydrocarbon production in Iceland. The conduct of the consultation group shall be further described in a regulation.

The National Energy Authority may demand payment of cost due to supervision in areas where licences have been granted for prospecting, exploration and/or production.

Article 24 a

Authority of the National Energy Authority.

The National Energy Authority may demand all the information and data that are necessary for supervision according to this Act from the holder of a prospecting, exploration and production licence. Such data and information shall be delivered within reasonable time limits as decided by the National Energy Authority. The National Energy Authority may also impose regular reporting from these parties on matters that are important for the supervision.

The National Energy Authority may, in relation to its supervisory role, demand information and data from other governmental bodies, notwithstanding their obligations of confidentiality.

Article 24 b

Resorts of the National Energy Authority.

If the holder of a prospecting licence or an exploration and production licence does not comply with the requirements of this Act, with regulations based on this Act, with the exploration and production licence or other sources, the National Energy Authority shall give written notice of warning to the licensee with an ample time limit for remedies but daily penalties pending. If the prospecting licensee or licensee takes no heed of the notice by the National Energy Authority within the set time limits, the National Energy Authority may withdraw or change the licence. In the case of a serious infraction or negligence, or if it is clear that the prospecting licensee or licensee cannot fulfil obligations given by the licence, the National Energy Authority may withdraw the licence without warning.

Penalties can be ISK 50,000–500,000 per day. When deciding on the order of daily penalties, the nature of negligence or infraction against given interests may be of influence. A decision on daily penalties shall be announced by a letter to the payer delivered in a certifiable manner. Daily penalties constitute an enforceable claim, as well as the costs associated with collecting them. Collected penalties less costs associated with collecting them go to the State Treasury. Non-compliance by the prospecting licensee or licensee with the requests of the National Energy Authority shall be reported to the Minister.

Article 25

Gathering of Data.

The National Energy Authority shall gather all data on the continental shelf that is produced during the activities according to this Act.

The National Energy Authority keeps information on hydrocarbon resources in a database. This database will contain data that has been collected by prospecting, exploration, production and supervision, as well as obligatory data filed by licensees.

Article 26

Reporting by Prospecting Licensees and Licensees.

A holder of a licence for prospecting or exploring and producing shall, at least once a year and at the end of his licence period, send the National Energy Authority a report with information on the progress and results of prospecting, exploring and producing; information on the nature and magnitude of a hydrocarbon resource; the total amount; an estimate of the value of the hydrocarbons that have already been produced; other details according to clauses in the licence in question. The prospecting licensee and licensee must also deliver data and send samples of materials if the National Energy Authority so requests.

Article 26 a

Professional Secrecy.

Information kept by the National Energy Authority under the provisions of this Act shall be exempted from public scrutiny according to the Information Act during the period of validity of a prospecting licence or exploration and production licence.

The employees of the National Energy Authority who perform supervisory duties under this Act shall have a duty to maintain professional secrecy. They are prohibited from disclosing confidential material pertaining to the business and management of those whom they are supervising to any unauthorised party, at the risk of liability according to the stipulations of the penal code on infractions by public servants. The same goes for specialists performing supervisory work on behalf of the National Energy Authority as, *i.a.* employees of registered inspectorates and supervisory bodies. Professional secrecy must be upheld after an employee retires.

Information given by the holder of a prospecting licence or exploration and production licence to the National Energy Authority under the present Act shall be kept by the National Energy Authority. After the period of confidentiality according to Paragraph 1 has expired, the National Energy Authority is free to pass on that information or use it for the purposes of further licensing.

Proscribed professional secrecy by Icelandic Authorities shall not prevent their giving all necessary information to the EFTA Surveillance Authority in connection with fulfilling the obligations of the EEA Agreement.

In spite of the provisions on confidentiality, the employees of the National Energy Authority are free to negotiate with the exploration licensee on clearance for less strict stipulations regarding access to or uses of exploration data.

Provisions on confidentiality shall not prevent the National Energy Authority, or other authorities designated by the Ministry, from giving general information to the public on prospecting, exploration and production areas and activity in these areas as, *i.a.*:

1. Giving general information in connection with public announcements, yearly reports and similar matters in relation with hydrocarbon activities.
2. Handing over information in connection with co-operation on hydrocarbon activities with another State, given that similar stipulations on confidentiality are in force in that State.
3. Using the information for increased knowledge about the geology and resources of the bottom of the sea.

Further stipulations may be given concerning professional secrecy in the licences for prospecting, exploration and production.

CHAPTER VII

Clauses on Expropriation and Compensation.

Article 27

Expropriation.

The Minister may expropriate real estate in order to allow activities according to this Act. The expropriation and determination of compensation shall be according to provisions in legislation on the execution of expropriation.

Article 28

Compensation.

The holders of prospecting licenses or exploration and production licenses will be liable for damages under this Act for any loss or damage caused by hydrocarbon activity, including environmental damage, regardless of whether the loss or damage was caused by culpable conduct or not. The National Energy Authority is permitted, when deciding on an operator, to provide that liability for damages under this paragraph should extend also to an operator who is not a licensee.

In cases where the holders of a licence for exploration and production of hydrocarbons are more than one, claims for damages should be addressed to the operator of the licence. If an operator has not paid a claim for damages in full on its due date, licensees are required to pay the balance of the payment in direct proportion to their respective shares in the licence in question. If a single licensee does not make his payment, his share in the payment of damages shall be paid by other licensees in direct proportion to their shares in the licence in question.

Compensation for physical injury or for loss of provider may be reduced or cancelled if the party who suffered loss or damage, or who died, caused loss or damage intentionally or through gross negligence. Compensation for material loss or damage may be reduced or cancelled if the party who suffered loss or damage caused the loss or damage intentionally or through gross negligence.

Compensation for environmental damage may be reduced or cancelled when there is proof that the damage was caused by natural catastrophe or by other uncontrollable events for which the licensee cannot be held liable.

Article 29

General Rules of Law of Tort

The provisions of Article 28 by no means limit the right to damages derived from general rules.

CHAPTER VIII

Miscellaneous Provisions.

Article 30

Licence Transfer.

Exploration and production licences according to this Act, or parts thereof, cannot be transferred, directly or indirectly, to a third party or another licensee of the same licence without the permission of the National Energy Authority. In addition, the transfer of equities or other titles of property in such a volume that may change the ruling majority in a company holding or co-holding a licence, or making contracts to the same effect, is not permitted without the consent of the National Energy Authority.

The National Energy Authority may demand a fee for permitting transfer of licences according to Paragraph 1. Provisions for such a fee may be given in a licence.

Article 30 a

Fees for Applications, Issuing of Licences and Supervision.

An applicant for a licence for hydrocarbon prospecting shall pay an application fee of ISK 150,000 to the National Energy Authority.

An applicant for a licence for hydrocarbon exploration and production shall pay an application fee of ISK 150,000 to the National Energy Authority.

In order to bear the cost of preparing and issuing licences under this Act, the following fees must be paid to the licensor:

1. A fee of ISK 600,000 shall be paid for a licence to engage in hydrocarbon prospecting with exploration and production as a goal, cf. Article 4.
2. A fee of ISK 850,000 shall be paid for a licence to engage in hydrocarbon exploration, cf. Article 7.
3. A fee of ISK 1,350,000 shall be paid for a licence to engage in hydrocarbon production, cf. Article 7.

A prospecting licensee shall pay a yearly fee of ISK 500,000 for defraying the costs of supervision, preparation and safekeeping of data according to the present Act.

A licensee for an exploration and production licence shall pay a yearly fee of ISK 1,000,000 for defraying the costs of supervision, preparation and safekeeping of data according to the present Act.

Article 30 b

Appeals.

Decisions on granting, revisions and withdrawals of licences based on this Act can be appealed to the Committee on Environmental and Resource Matters. Decisions on whether an appeal is a party to a case, the deadline for appeals, court procedures, and other issues regarding the appeal, shall be in accordance with the Act on the Committee [No. 130/2011].

Administrative decisions by the National Energy Authority that are not appealable to the Committee on Environmental and Energy Matters may be appealed to the Minister. An appeal to the Minister shall be in writing. Appeals to the Minister are otherwise handled in accordance with the Administrative Act [No. 37/1993].

Article 31

Regulation.

The Minister may set, by means of regulation, further provisions on the execution of this Act.

Article 32

Penalties.

Offences against this Act are punishable by fines, unless a more severe punishment is indicated pursuant to other legislation. Both legal entities and individuals may be subjected to fines for offences against this Act. A legal entity may be fined for violation of this Act regardless of culpability of the legal person's representative or employee.

Article 33

Validity

This Act enters into force immediately.

Interim provision I

Until new regulations have been issued pursuant to Paragraph 3 of Article 6, the Rules on the Granting of Licences for Hydrocarbon Prospecting No. 553/2001 shall remain in effect.

Interim provision II

Prior to 1 January 2010, the Minister of Industry, Energy and Tourism and the Minister for the Environment shall complete an inspection of the necessity of amendments to the provisions of Articles 14–18 of this Act and the provisions of Act No. 73/1997 regarding the contents, preparation and handling procedure of municipal planning and the issuing of licences for individual projects based on licences giving the right to explore and produce hydrocarbons issued by the National Energy Authority.