

ENCLOSURE TO EXPLORATION AND
PRODUCTION LICENCE NO. x

SECOND LICENSING ROUND

AGREEMENT

CONCERNING

EXPLORATION AND PRODUCTION OF HYDROCARBONS

**AGREEMENT CONCERNING EXPLORATION AND PRODUCTION OF
HYDROCARBONS PURSUANT TO LICENCE
NO. X**

ENCLOSURE A – JOINT OPERATING AGREEMENT

TABLE OF C O N T E N T S

DEFINITIONS	3
I THE JOINT VENTURE	5
ARTICLE 1 THE MANAGEMENT COMMITTEE	5
ARTICLE 2 MEETINGS AND PROCEDURES	5
ARTICLE 3 THE OPERATOR	6
ARTICLE 4 CHANGE OF OPERATOR	8
ARTICLE 5 PARTNER FORUM	9
II FINANCE	10
ARTICLE 6 THE JOINT ASSETS	10
ARTICLE 7 LIABILITIES AND PAYMENTS	11
ARTICLE 8 DUTY OF CONTRIBUTION	11
ARTICLE 9 DEFAULT	11
ARTICLE 10 ACCOUNTS	12
III THE ACTIVITIES	13
ARTICLE 11 CORPORATE GOVERNANCE	13
ARTICLE 12 WORK PROGRAM, BUDGETS, AUTHORISATIONS FOR EXPENDITURE ..	14
ARTICLE 13 PROCUREMENT	19
ARTICLE 14 INSURANCE	20
IV FIELD DEVELOPMENT	20
ARTICLE 15 PROPOSALS FOR FIELD DEVELOPMENT	20
ARTICLE 16 FIELD DEVELOPMENT AND PRODUCTION PLAN	21
ARTICLE 17 FIELD DEVELOPMENT	22
V SOLE RISK OPERATIONS	22
ARTICLE 18 SOLE RISK OPERATIONS	22
ARTICLE 19 SOLE RISK FIELD DEVELOPMENT	24
VI DISPOSAL OF PETROLEUM	24
ARTICLE 20 LIFTING OF OIL	24
ARTICLE 21 ANNUAL LIFTING OF OIL	25
ARTICLE 22 DISPOSAL OF NATURAL GAS	26
VII ASSIGNMENT ETC.	26
ARTICLE 23 ASSIGNMENT OF PARTICIPATING INTEREST	26
ARTICLE 24 WITHDRAWAL FROM THE JOINT VENTURE	27
ARTICLE 25 DISSOLUTION	28
VIII MISCELLANEOUS PROVISIONS	28
ARTICLE 26 TRANSACTIONS IN SEISMIC DATA, DRILLING RESULTS ETC.	28
ARTICLE 27 OBLIGATION TO INFORM AND CONFIDENTIALITY	29
ARTICLE 28 NOTICES	29
ARTICLE 29 DISPUTES	30
ARTICLE 30 CESSATION OF PETROLEUM ACTIVITIES	30
ARTICLE 31 DECOMMISSIONING PLAN	30
ARTICLE 32 IMPLEMENTATION OF A DECOMMISSIONING PLAN	31

DEFINITIONS

Unless otherwise specified, the following definitions shall apply:

1. "Accounting year" means one calendar year.
2. "AFE" means Authorisation for Expenditure.
3. "Affiliated company" means:
 - a) a company which directly or indirectly holds more than 50 % of the share capital or voting rights, or which in any other way directly or indirectly, controls one of the Parties of the Joint venture (parent company).
 - b) a company in which one of the Parties, directly or indirectly, holds more than 50 % of the share capital or voting rights, or in any other way, directly or indirectly, controls such company (subsidiary company).
 - c) a company whose share capital or voting rights, directly or indirectly and by more than 50 %, is owned or otherwise controlled, directly or indirectly, by one or more concerns which themselves, either directly or indirectly, own more than 50 % of the share capital or voting rights, or otherwise control one of the Parties of the joint venture (associated company).
4. "Commercial discovery" means any discovery that is sufficient to entitle the Parties to apply for authorisation from the National Energy Authority (NEA) to commence exploitation.
5. "Deposit" means an accumulation of Petroleum in a geological unit limited by the rock characteristics by structural or stratigraphic boundaries, contact surface between Petroleum and water in the formation, or a combination of these, so that all the Petroleum comprised is in pressure communication through liquids or natural gas.
6. "Gross book value" means each Party's share of the aggregate cumulative development costs which are charged to the joint account in accordance with the Operator's specifications.
7. "Participating interest" means the undivided percentage share which a Party holds at any time in the Production Licence and in the joint venture or, as appropriate, in a sole risk project.
8. "Investment Period" means the time period needed to consummate the investment phase.
9. "Member" means each Party's representative in the management committee.
10. "Natural gas" means all hydrocarbons which at standard atmospheric conditions of pressure and temperature are in a gaseous phase, including non-hydrocarbon gas which is in association with and produced with such gaseous hydrocarbons. The quantity is expressed in standard cubic metres.
11. "Oil" means all Petroleum, other than Natural gas, which under standard atmospheric pressure and temperature is in a liquid state.
12. "Party" means a company being a licensee and holding a Participating interest. Companies holding a Participating interest as a group shall be considered as one Party.
13. "Petroleum" means all liquid and gaseous hydrocarbons existing in a natural condition in the strata, as well as all substances produced in association with such hydrocarbons, including sulphur, but excluding basic sediments and water.

14. "Program period" means one calendar year, unless the management committee otherwise determines.
15. "Quarter" means three (3) consecutive calendar months commencing on and from either 1 January, 1 April, 1 July or 1 October.
16. "Standard atmospheric pressure" is 1.01325 bar.
17. "Standard atmospheric temperature" is 15 degrees Centigrade.
18. "Year" is one calendar year.

The joint venture established pursuant to this Agreement shall not be considered to be a public limited company, within the meaning of Act No. 2/1995, or a private limited company within the meaning of Act No. 138/1994. The joint venture does not, as such, carry any liability (reference is made to Article 7 of the Agreement) and is not a taxable legal entity.

I THE JOINT VENTURE

ARTICLE 1 THE MANAGEMENT COMMITTEE

- 1.1 Before the joint venture activities commence, a management committee shall be established. Each Party shall appoint one Member and one deputy Member and may at any time change such appointments.
- 1.2 The Member appointed by the Operator shall be chairman of the management committee. In his absence, his deputy shall act as chairman.
- 1.3 The management committee is the supreme body of the joint venture. Each Party shall contribute to the management and control of the joint venture activities.

The management committee shall have a key role in the joint venture's strategy process focusing on goals, the choice of direction and the monitoring of the activities. The Management Committee shall ensure the balance between strategic organization, monitoring and control.

The management committee shall establish guidelines for and exercise control over the Operator's activities. The management committee may issue general and specific directions for the Operator's performance of its duties.

The management committee may demand that all matters concerning the joint venture activities be presented to it, and may make decisions concerning such matters.

The management committee may establish sub-committees to deal with particular matters and may determine their terms of reference. Any such sub-committee shall be advisory, unless otherwise specified in this Agreement or specifically determined by the management committee. All Parties shall have the right to be represented in any sub-committee, unless otherwise specified in this Agreement.

- 1.4 The management committee itself shall deal with and decide matters pertaining to:
 - a) Appointment of an auditor for the joint venture and for the Operator's activities;
 - b) Such circumstances as referred to in Article 3.3 of the Special Provisions;
 - c) All matters pertaining to co-operation with licensees of other licence areas;
 - d) Claims for damages which are of importance as a matter of principle or which are of considerable economic importance;
 - e) Any other matter being submitted for consideration by any of the Parties;
 - f) Any other matter as specified in this Agreement; and
 - g) Procurement and contract strategy, unless otherwise provided by this Agreement.

ARTICLE 2 MEETINGS AND PROCEDURES

- 2.1 The chairman shall convene the meetings of the management committee. Meetings shall be held at least once every three (3) months, unless the Members unanimously otherwise decide. A Member may himself convene a meeting if the chairman does not comply with a request to do so.

A notice of a meeting shall be received by the Members at least ten (10) working days in advance of the meeting. The notice shall at least state the time and place for the meeting and the agenda as well

as draft decisions along with requisite background materials. A Member may, on at least five (5) working days' notice to the chairman and the other Members, demand that other matters be added to the agenda for the meeting. The aforementioned notice periods may only be waived with the unanimous consent of the Members.

Matters not included in the agenda may only be acted upon at the meeting provided that all Members agree.

- 2.2 A Member of the management committee may be accompanied by the necessary expert personnel. Their number may be limited by the management committee. The management committee may also determine that members only shall be present when a proposal is to be voted on.
- 2.3 The chairman shall see to it that minutes of the meetings are made. Copies of the minutes of meetings shall be submitted to the Members within fourteen (14) working days. Each Member shall with no undue delay inform the chairman whether the minutes are approved and shall, as appropriate, specify such corrections or additions as he proposes. Information concerning corrections and additions shall at the same time be given to the other Members.

If the chairman has not received any notification from a Member within fourteen (14) working days following his receipt of the minutes, that Member shall be assumed to have approved the minutes.

The chairman shall ensure that approved minutes are signed by the Members, and that copies of the original are submitted to the Members within 14 working days after it was signed.

The management committee may decide that a confirmation by the parties shall have the same effect as signature. In such a case, the chairman shall note on the minutes that such confirmation has been given.

- 2.4 If, as a result of an unexpected occurrence there is no time to convene a meeting, the chairman may by electronic communication, telefax or other notices in writing to the Members submit a motion for a decision in the management committee. The same procedure may also be applied if the chairman determines that it is not necessary to convene a meeting in order to adopt a decision.

Such notice from the chairman shall contain draft decisions with sufficient background material, as well as specifying the time limit for voting. The voting results shall immediately be reported to the Members in writing.

ARTICLE 3 THE OPERATOR

- 3.1 The Operator shall carry out and administer the day to day management of the joint venture activities.

The activities shall be carried out in accordance with the terms of this Agreement, the decisions of the management committee, the conditions specified in the Exploration and Production Licence, applicable law and other resolutions made by the authorities.

The Operator shall conduct all activities of the joint venture in a diligent, safe and efficient manner in accordance with such good and prudent industry practices as are generally followed by the international petroleum industry under similar circumstances.

The Operator shall exercise due care with respect to the receipt, payment and accounting of funds in accordance with good and prudent practices as are generally followed by the international petroleum industry under similar circumstances.

The Operator shall in its capacity as such neither have profit nor loss through the execution of its duties, unless otherwise provided in this Agreement.

- 3.2 Unless otherwise specified, the Operator shall act on behalf of the Parties of the joint venture. This includes the rights and obligations to obtain all necessary consents, approvals and licences, to enter into requisite agreements in the name of and on behalf of the joint venture, and to make timely payments in accordance with the Agreement of all expenses incurred from the activities for the Parties of the joint venture.
- 3.3 The Operator shall prepare the matters that are to be considered by the management committee. He shall keep the management committee informed of events and circumstances which may be of importance to the joint venture.

The Operator's organization of the activities shall enable the management committee and the Parties to supervise and, moreover, have access in Iceland to all information concerning the activities.

- 3.4 Reports and other information concerning the activities shall be prepared and submitted to the management committee as soon as such information is available, or as often as the management committee or one of the Parties reasonably makes a request for it. Such information shall, inter alia, include:
- a) Copies of logs;
 - b) Copies of records on drilling operations;
 - c) Copies of reports on testing analysis etc.;
 - d) Copies of the "final well report" with the "composite log";
 - e) Copies of all geological and geophysical reports, maps in connection with work carried out by the Operator or by contractors engaged by the Operator, with the exception of magnetic tapes. Such magnetic tapes shall be stored by the Operator in Iceland and made available to all Parties upon request;
 - f) Field and well data, including reservoir studies and evaluations of reserves;
 - g) Cores and samples of stones and liquids from the drilling wells. Samples and cores left after distribution to the Parties and Icelandic authorities shall be stored in Iceland;
 - h) Copies of detailed final reports for each completed well and reports of subsequent alterations and reparations, including the result from completed functional tests and the "flow test";
 - i) Copies of daily and periodic reports on exploration, development, maintenance, production and other activities. The reports shall, inter alia, contain information on problems or accidents, with a statement of the cause and a description of repair work. The reports for the development phase shall, inter alia, provide a summary of the progress. The production reports shall, inter alia, contain information concerning the quantity and quality of the Petroleum produced;
 - j) Copies of contingency plans, safety manuals, safety and accident reports;
 - k) A chart of the Operator's organization and of how the Operator, the contractors and the subcontractors at any time man their organization with regard to activities under this Agreement;

- l) Copies of evaluations and reports on technical, economical as well as other issues in connection with the activities;
- m) Copies of reports submitted to the Icelandic authorities by the Operator, and copies of minutes and correspondence between the Operator and the Icelandic authorities regarding the activities under this Agreement;
- n) Periodic development reports and status reports. The reports shall give account for any substantial deviations from the approved budget and work program.

The Operator may also be required to prepare amendments or supplements to the available information.

- 3.5 If the joint venture or any of the Parties sustain losses arising from the Operator's performance of its functions as an operator, the Operator shall only be liable for such losses provided it is the result of wilful misconduct or gross negligence by the management or supervisory personnel of the Operator or any of its Affiliated companies.

The Operator shall under no circumstances be liable for losses caused by delay in or stop of production. Nor is the Operator liable for any loss suffered by the Parties in connection with damages to third parties caused by a spill of Petroleum outside the safety zone in excess of the loss the Operator suffers as a Party.

The same limitation of liability shall apply to a Party performing the Operator's functions in its place.

ARTICLE 4 CHANGE OF OPERATOR

- 4.1 The Operator may resign as operator on six (6) months' written notice. The management committee may, subject to the NEA's consent, direct the Operator to continue until another company is ready to take over the operatorship.
- 4.2 The management committee may remove the Operator. The reason for the removal shall be stated and shall be subject to six (6) months' notice.

Before a decision concerning such removal may be adopted, the Operator shall be given the opportunity to express its views in a management committee meeting. The Operator is not entitled to vote on the proposal to remove him. The adoption of any such proposal requires the unanimous vote of the Members of the management committee who are entitled to vote.

Subject to the consent of the NEA, a removal of the Operator may take place with immediate effect provided that:

- a) The Operator's management or supervisory personnel has caused an economic loss to the Parties as the result of wilful misconduct or gross negligence;
- b) The Operator or any of his Affiliated companies is declared bankrupt, applies for a composition with its creditors or becomes insolvent;
- c) any of the Operator's Affiliated companies, as referred to in sub-section 14 litra a) of the definitions herein, is dissolved;
- d) The Operator transfers his Participating interest or a substantial part thereof, to another entity.

4.3 The Operator shall cooperate with the new operator with regard to the transfer of the operatorship.

If a change of Operator has taken place, the management committee shall ensure that the joint accounts are audited and that all equipment, supplies etc. provided by the Operator for the joint activities shall be inventoried. Stored Petroleum shall also be recorded.

The Operator shall, no later than at the time of change of operator and without compensation therefore, hand over to the new operator:

- a) All contracts/agreements, assets, core samples, log studies, records, data etc. which have been in the Operator's custody;
- b) All information and data necessary for accurate reporting during the period the change of operator is taking place;
- c) Books of account, accounting records and accounts concerning the joint activities. The retiring Operator shall, however, keep verifications etc. for control purposes for as long as this Agreement remains in effect and, thereafter, for such a period of time as required by law or the management committee;
- d) Copies of documents which are retained by the Operator.

The Operator shall be liable to the other Parties for the expenses connected to the change of operator if the Operator has been removed in accordance with Article 4.1 or Article 4.2 third paragraph litra a) through d).

4.4. The management committee shall within sixty (60) days following a notice of change of Operator submit a proposal for a new operator to the NEA. Failing such notice, or if the NEA does not approve the proposed operator, the NEA may appoint a new Operator.

ARTICLE 5 PARTNER FORUM

5.1 The Operator shall establish a partner forum (Partner Forum) for joint ventures having the same operator, in case there are three (3) or more such joint ventures active on the Icelandic continental shelf. Each participant in the joint ventures shall appoint one member and one alternate member, and may at any time make new appointments.

5.2 The Operator's member shall be the chairman of the Partner Forum. In his absence, his alternate member shall act as chairman.

5.3 The chairman shall convene the meetings of the Partner Forum. A meeting shall be held at least once a Year, and in any case a meeting shall be held before the Operator submits his proposal for work program and budget according to Article 13, but in any case no later than 15 September.

A notice of a meeting must be received by the participants at least 10 working days in advance of the meeting. The notice shall state the time and place for the meeting and the agenda as well as requisite background materials. A participant may, giving at least 5 working days' notice to the chairman and the other participants, demand that other matters, cf. Article 5.5, be added to the agenda for the meeting.

Matters not included in the agenda may only be acted upon in the meeting provided that all licensees are attending the Partner Forum and agree that the matter may be raised in the meeting.

The individual joint venture may, following a decision by the management committee, demand that the chairman of the Partner Forum convene a meeting to deal with matters stated in Article 5.5.

In matters relating to unsettled audit claims, the chairman shall convene a Partner Forum to handle claims according to provisions of Enclosure B – Accounting Agreement.

- 5.4 In the Partner Forum, matters shall be subject to common discussions. The Partner Forum has no authority to make decisions.
- 5.5 The Partner Forum shall deal with matters that are common to all the joint ventures of the Operator concerning the Operator's charging of costs and other matters of common interest within the scope of the provisions of Enclosure A – Joint Operation Agreement, Enclosure B – Accounting Agreement and applicable legislation. Such matters comprise, among others:
- a) The Operator's allocation methods for the charging of costs;
 - b) Criteria for charging of the Operator's costs to the Joint Account and the Operator's own costs;
 - c) The Operator's hourly rates, efficiency measures and stretch targets;
 - d) Benchmarking of the Operator's costs;
 - e) Reorganization or restructuring costs that the Operator proposes to charge to all joint ventures according to rules set forth in Enclosure B – Accounting Agreement; and
 - f) Unsettled audit claims from a multi-venture audit of the Operator according to procedures set forth in Enclosure B - Accounting Agreement.

The Operator and the other licensees shall seek to find solutions to the matters raised in the Partner Forum and implement such solutions in the individual joint ventures.

- 5.6 When matters are dealt with in the Partner Forum, the members may be assisted by expert personnel as needed. The number of such personnel may be limited by the Partner Forum.
- 5.7 The chairman shall ensure that minutes of the meetings are kept. The minutes shall be sent to the members within 14 working days. The members shall notify the chairman without undue delay of whether the minutes are approved and shall, as appropriate, specify any corrections or additions required. Information concerning corrections and additions shall at the same time be given to the other Members

If the chairman has not received any notification from a member within fourteen (14) working days of the member's receipt of the minutes, the member shall be assumed to have approved the minutes.

The chairman shall ensure that approved minutes are signed by the members and that copies of the signed original document are sent to them within fourteen (14) days of its signature.

Any written or electronic confirmation by members shall have the same effect as a signature. In such case, the chairman shall duly note such confirmation on the minutes.

II FINANCE

ARTICLE 6 THE JOINT ASSETS

- 6.1 Each Party shall own an ideal share of the capital assets, including rights of any kind which have been acquired or developed by the Operator or by any of the Parties on behalf of the joint venture. This also applies to produced Petroleum which has not been disposed of by any Party.

The size of the ideal share is equal to the Participating interest.

ARTICLE 7 LIABILITIES AND PAYMENTS

- 7.1 Unless otherwise specified in this Agreement, the Parties shall be primarily liable to each other on a pro rata basis, secondarily jointly and severally liable for all obligations arising by virtue of the joint venture's activities. This applies irrespective of a liability towards third parties.
- 7.2 Each Party is responsible for his share of the area fee. If a Party does not pay his share, the Operator shall make the payment on his behalf and apportion the amount between the other Parties in accordance with their Participating interest.
- 7.3 None of the other Parties may be held liable pursuant to Article 7.1 for direct taxes which a Party is obliged to pay.

Each Party is obliged to pay the direct taxes charged to him.

ARTICLE 8 DUTY OF CONTRIBUTION

- 8.1 The Parties are obliged to provide sufficient funds to cover all expenses relating to the activities of the joint venture.

Unless otherwise specified in the Licence, the amount to be contributed by each Party shall be calculated in accordance with the Participating interest at the time the payment is made.

- 8.2 Further provisions regarding the Parties' duty of contribution in this respect are specified in Enclosure B - Accounting Agreement.

ARTICLE 9 DEFAULT

- 9.1 If a Party does not comply with his obligation to make payments pursuant to Articles 7 or 8, the amounts which are not paid shall be advanced by the non-defaulting Parties in accordance with their Participating interest. Following notice to the defaulting Party, the other Parties may cover the advance which has been made or is pending by acquiring his share of the Petroleum produced. The acquired Petroleum will be regarded as lifted by the defaulting Party. Accounting is made in accordance with the norm price applicable at any time or, if a norm price is not stipulated, the contract price obtained.

If a Party is in default of his obligation to make payments pursuant to Articles 7, 8 or the preceding paragraph, he shall be charged a penal interest pursuant to Article 1.2.2 of Enclosure B – Accounting Agreement.

- 9.2 If a Party's default has not ceased within five (5) working days after he has received a demand for payment from the Operator, he loses his right to vote and his access to data and information for as long as the default remains in effect. The defaulting Party is nevertheless bound by decisions adopted by the joint venture.

The Operator shall inform the management committee and the NEA of any defaults comprised by this Article.

The default shall be deemed to have ceased when the defaulting Party has met his obligation to make payments to the other Parties, including accrued interest, deducting, however, settlement for any of its share of produced Petroleum acquired by the other Parties.

- 9.3 If a Party's default remains in effect for more than three (3) months after the Operator has informed the management committee, the NEA and those who have registered a mortgage in the Participating interest, the non-defaulting Parties may demand that the defaulting Party assign his Participating interest to them, effective from the expiry of the calendar month in which such demand is made. Such request for transfer has priority above an agreement concerning the assignment of a Participating interest and pre-emption rights in accordance with Article 23.

The mortgagees are entitled to make remedial payments with releasing effect for the defaulting Party.

The compensation shall be agreed between the Parties, but shall not exceed the book value of the Party's share of the investment in connection with the activities under this Licence, deducting unpaid contributions, any mortgage and the costs connected to the assignment. The book value in this connection shall be the difference between the Gross book value at the time of the assignment and the aggregate financial depreciation made in accordance with good accounting practice up to that point.

When a settlement has been made in accordance with the preceding paragraph, the Participating interest shall be assigned without any encumbrances.

- 9.4 The assigned Participating interest shall be apportioned pro rata amongst the non-defaulting Parties in accordance with their Participating interest, unless otherwise agreed. Any liability which the defaulting Party might have for unpaid contributions or other unsecured obligations pursuant to this Agreement shall be assumed by the non-defaulting Parties.

The defaulting Party, however, remains liable for obligations which have not been settled at the time of the assignment and which have been established due to injuries or damage, resolutions by the authorities or in any other way independent of any decision by the joint venture.

- 9.5 If a Party's continuous default is due to intervention by Icelandic authorities, a demand for assignment of a Participating interest pursuant to the provisions in Article 9.3 may not be asserted on the basis of such default. Such default does not deprive the Party of its rights to data and information.

ARTICLE 10 ACCOUNTS

- 10.1 The Operator shall keep accounts in Iceland for all activities pursuant to this Agreement, in accordance with laws and regulations and accounting practices in Iceland, and the provisions of Enclosure B – Accounting Agreement. The accounts shall be so kept that the other Parties may supervise the activities of the Operator. Thus, the accounts shall reflect the joint operations and activities in each Deposit in the licence area.
- 10.2 Further provisions regarding the Operator's keeping of accounts are specified in Enclosure B – Accounting Agreement.

III THE ACTIVITIES

ARTICLE 11 CORPORATE GOVERNANCE

11.1 Requirements for corporate governance

The management committee shall ensure that processes are established for integrated corporate governance in order to achieve the highest possible added value and implement the requirements relating to health, safety and the environment. The Operator shall prepare and continuously further develop processes for corporate governance. The corporate governance of the joint venture shall be based on the governing system of the Operator. The corporate governance shall integrate the control and follow-up processes of the joint venture, including strategy development, goal-oriented management, decision-making processes, processes for significant procurements, risk management, and reporting.

The corporate governance shall be adapted to the phase and level of activity of the operations.

11.2 Goals and strategy development

The management committee shall establish overall goals for the activities of the joint venture. The Operator shall prepare strategies for realisation of the goals and submit them to the management committee.

In connection with the establishment of goals and strategies, the Operator shall submit to the management committee a description of opportunities for increasing revenues, reducing costs and improving health, safety and the environment. Emphasis shall be put on the comparison with and learning from similar and other activities.

11.3 Long-term plan

The Operator shall submit a proposal for a long-term plan to the management committee that shall reflect the goals and strategies that have been decided, adapted to the relevant phase of the activities and the challenges the joint venture is facing.

Consistency between the long-term plan and the annual work programs and budgets shall be aimed at.

The long-term plan shall describe the long-term and overall ambitions of the joint venture, its goals and main activities. The management committee shall each year decide whether an update of the long-term plan is needed.

When preparing the long-term plan, the activities of the joint venture shall be considered in relation to possible synergies through collaboration with licensees of other licence areas.

11.4 Goal-oriented management

The Operator shall prepare relevant management parameters for short-term and long-term goal achievement and submit them to the management committee.

In connection with the budgetary procedure, the Operator shall prepare an overview showing developments in relation to the control parameters established and submit it to the management committee.

Goals for key performance indicators shall be included in work programs and budgets and shall be submitted to the management committee for approval.

11.5 Decision-making processes

In connection with the determination of work program and budget, the management committee shall prepare and approve a plan for significant decisions for the coming Year, including requirements for handling and decision-making processes.

11.6 Risk management

The Operator shall establish and maintain processes, procedures and plans for risk management and shall make visible a systematic process for the identification and management of risk.

For major projects or special activities implying a substantial risk exposure, the Operator shall submit an overview of the risk management to the management committee.

11.7 Follow-up of the activities

The Operator shall follow up the activities in accordance with the framework determined by the management committee and regularly report to the management committee on status, deviations and measures.

The Operator shall each month prepare periodic reports. The reporting shall be based on the activities in the reporting period and the key performance indicators, and shall focus on deviations and the need for corrective actions.

Unless otherwise decided by the management committee, the Operator shall include an updated forecast for the Year in the monthly report for April, July and October.

ARTICLE 12 WORK PROGRAM, BUDGETS, AUTHORISATIONS FOR EXPENDITURE

12.1 General

The work program and budget shall specify the main activities and the economic framework for the coming Year and shall include preliminary estimates for activities which are planned to be submitted to the management committee for approval during the budget year (optional budget).

The work program shall, among others:

- a) Define clear goals, deliverables and deadlines for significant activities,
- b) Clarify how the activities in the coming Year will contribute to realizing goals set forth for the activities, and
- c) Identify significant risk factors and relevant actions to manage risk.

12.2 Work program and budget - deadlines

No later than 1 June each Year the Operator shall submit to the management committee a brief overview of the economic framework and goals for the exploration, operation and investment activities in the coming year. The overview shall specify the major factors determining revenues and expenses and focus on level and development.

No later than 1 October each Year the Operator shall submit to the management committee a proposal for a work program for the exploration, operation and investment activities with appurtenant budgets, a long term budget for operation and investment for the 3 subsequent years, as well as up-dated cost estimates for the exploration activities and operations for the present Year and planned investments for the entire Investment period.

When preparing proposals for work programs and budgets, the Operator shall involve the Parties before the proposal is submitted to the management committee for final adoption.

No later than 1 December each year the management committee shall adopt the work program and the exploration, operation and investment budgets for the next Year, as well as approve the operation and investment budgets for the subsequent three (3) Years and for the entire Investment period.

During the budget year, a Party may propose that the management committee adopt alterations to the work program and the budgets.

By the end of January each Year, the Operator shall prepare and submit to the Parties a periodic overview of the operation and investment budgets for the current year.

Time limits referred to in this Article may be amended by the management committee, and by the Operator if the reporting obligations towards the authorities so require.

12.3 The main elements of the budget proposal

The draft budgets for the coming Year shall include an operating budget and an investment budget. The Operator shall explain the allocation procedures for charging of costs.

In the investment budget, fixed and contingent entries shall be specified separately. Expenses in connection with reconnaissance, exploration drilling and the evaluation of discovered Deposits shall not be included in the investment budget, unless otherwise decided by the management committee.

12.4 Structure and contents of the budget items

The following items for budgets, reporting and settlement shall be applied, however, the management committee may decide that the items shall be identified in further detail.

Budget/work programs, monthly reports and settlements shall be specified in the following items:

Item	Definition/Description
1 Exploration	
1.1 Geology and geophysics	Costs related to block evaluation and general exploration activities
1.2 Seismic	Costs related to the collection, processing, reprocessing and test processing of geophysical data.
1.3 Special studies	Costs related to dedicated studies in early phases (e.g. studies of migration, maturing of hydrocarbons, whether the trap is tight, etc.)
1.4 Other exploration costs	Costs related to data storing, core samples, administration and other exploration costs.
2. Exploration drilling and testing	
2.1 Regional positioning costs	Costs related to the collection and processing of geophysical data for the selection of well location.

2.2 Well X	
2.2.1 Drilling	Costs related to the drilling, completion and plugging of wells, also including planning costs.
2.2.2 Testing	Costs related to all testing and data collection in the well, normally only in case of discoveries. Includes test production
3 Field evaluation	Consideration of development solutions
3.1 Discovery A	Costs related to geology, geophysics as well as evaluation of various development options and commercial activities.
3.2 Discovery B	
4 Concept studies	This phase begins at choice of concept
4.1 Project A	Costs related to concept development in relation to a possible project from and including a decision on continuation in the planning phase. It is presupposed that the decision point for choice of concept has been passed and that the development of a specific concept continues. Normally containing both internal and external activities (studies, pre-engineering, Front End Engineering Design, PDO work, etc).
4.2 Project B	
5 Investments	This phase begins when a decision on implementation of a development project has been made.
5.1 Development investments	Development investments concern the development of new resources. There will always be concept studies before such an investment is made. The budget for the project is sanctioned by an approved PDO/PAD. Some projects are exempt from PDO requirement.
5.1.1 Part project X	
5.2 Operating investments	Operating investments are permanent investments that: <ul style="list-style-type: none"> - Increase the production capacity - Substantially increase the quality and thus the value of the products - Substantially improve the production process and thereby substantially lower the level of other production costs - Measures that enhance safety and prevent/reduce future pollution of the environment - Extensions of the plant and/or new functions This will normally be investments in operating equipment that have been put to use (after the project investment was made) and that are not classified as maintenance.
5.2.1 Part project X	
5.3 Production drilling	Production drilling is all activities related to the drilling and completion of production and injection wells after a decision on project implementation, and/or a decision on new wells or drilling targets in the production phase have been made. All associated/indirect activities with the objective of production drilling also belong under the classification “production wells” (e.g. well planning, mob/demob rig, modification rig, etc.).

6 Operating costs	This phase begins when a field enters the operating phase
6.1 Operating preparations	Activities related to recruiting, training and preparing the operating organization for taking over the plant and perform the operation. Start-up activities related to the testing of a facility are not included as part of preparations for operation.
6.2 Operating costs and support activities	
6.2.1 Operation	All work that is directly attributable to production and operation of a facility. This mainly comprises operating activities on the offshore/onshore facilities, as well as costs such as support activities from land and production chemicals.
6.2.2 Maintenance	All maintenance activities related to an offshore facility, land plant and associated pipes. These mainly comprise inspection, status check, preventive and corrective maintenance, surface maintenance, maintenance drilling module as well as maintenance support.
6.2.3 Well maintenance	All costs related to down-hole work up to the choke, and which do not form part of a drilling project.
6.2.4 Modifications	Activities related to extension or modification of existing equipment and facilities requiring amended technical documentation. Change projects and reconstruction that are neither maintenance nor an operating investment are included.
6.2.5 Subsea operations and maintenance	All operating and maintenance activities related to subsea facilities, including inspection and contingency costs for the subsea facilities.
6.2.6 Platform services	Costs related to the accommodation/catering on the platform and any other support services on the platform, as appropriate.
6.2.7 Administration	Costs related to management, direct and indirect administration of operative organization, e.g. field manager, economy, personnel and IT.
6.2.8 HSE	Activities related to HSE work as well as licence specific HSE projects.
6.2.9 Reservoir management and development	Costs in connection with long-term planning, quality assurance, reservoir management, production optimizing, modelling and enhanced oil recovery.
6.2.10 Business development	Commercial activities in connection with evaluating business opportunities for a licence in operation.
6.3 Logistics	
6.3.1 Maritime operations	Operating activities related to vessel operations, with the exception of standby vessels which are attributed to item 6.3.4. Vessel costs included in the report will comprise supply vessels, storage vessels, special assignment/support vessels and anchor handling, as well as consequential costs and administration of vessels.
6.3.2 Air transport	Transport services between helicopter bases and the installation as well as shuttling between facilities on the fields. Costs relating to SAR (Search and Rescue) and ambulance transport are attributed to item 6.3.4.
6.3.3 Supply bases	Costs related to the operation of bases such as area, rents, personnel, etc., as well as any transport to and from bases.

6.3.4 Preparedness	Vessel and helicopter costs related to operative preparedness on the fields. Installation specific standby vessels, any share of area standby vessels and consequential costs related to such vessels. SAR helicopter (Search and Rescue) and ambulance transport.
6.4 Tariff costs	Costs related to field external processing and transportation of oil and gas between fields.
6.5 Other operating costs	Costs that cannot be attributed to other operative items, e.g. write-down of stocks, obsolete stocks, previous years' costs, excess field times, gas purchases in connection with injection, insurance/guarantee matters related to operations, etc.
7. Operating income	Tariff income, processing and any other income.
8. Shutdown and removal	
8.1 Shutdown	Preparation for abandonment and removal, plugging and abandonment of wells and other abandonment of facilities.
8.2 Removal	Physical removal of facilities.
9. General costs	
9.1 Licence administration	Costs related to the Operator's responsibilities in connection with the administration of the joint venture, e.g. licence coordination.
9.2 Area fee	Fees to be paid annually to public authorities based on the area comprised by the licence.
9.3 Environment taxes	Costs related to the emission of defined substances harmful to the environment, e.g. CO2 duty and other environment taxes.
9.4 Other taxes and duties	Other taxes and duties that are not defined by other items, e.g. property tax.
9.5 Research and development (R&D)	Costs related to research and development projects performed by or under the auspices of the Operator and which are relevant for upstream activities.
9.6 General management	Costs related to the Operator's general management.
9.7 Business and industry and special interest organizations	Costs related to business and industry and special interest organizations
9.8 Financial costs	Financial costs such as exchange gains and losses and interest
9.9 Restructuring costs	Costs related to workforce reductions and severance pay in connection with reorganization processes in the company.

During a transitional period of up to 3 years from the entering into force of this Agreement, the Operator may depart from the numbering of the budget items based on cost considerations in connection with a reorganization of systems.

12.5 Authorizations for expenditure

The Operator may only incur expenses and financial obligations on behalf of the joint venture within the limits of the authorizations for expenditure as approved by the management committee pursuant to the exploration, operation and investment budgets, unless otherwise decided by the management committee.

In carrying out an approved work program, however, the Operator may exceed a budget item or an AFE by up to 10%. A budget item means each of the main items 1-9 in Article 12.4. None of the budgets may be exceeded by more than the lower of 5% or EUR 9,5 million during the Accounting year. These percentages and amount may be changed by a unanimous resolution of the Parties.

The Operator may also incur liability on behalf of the joint venture for expenses in connection with activities which are not comprised by the work program and the exploration, operation and investment budgets, up to an aggregate amount for each budget of EUR 0,5 million during the Accounting year. The amount limits may be adjusted by the management committee.

If, in case of emergency, there is not sufficient time to present a matter to the management committee, the Operator may incur liability on behalf of the joint venture for expenses which the Operator considers necessary to protect life, health or property or to prevent or limit pollution.

The Operator shall with no undue delay provide the management committee with a written notice concerning all expenses incurred which are either unforeseen or which might exceed the budget or a budget item.

12.6 Project management

A master control estimate and master control plan to be created prior to the initiation of the project shall be used for the management and progress control of significant development and modification projects.

The master control estimate and master control plan shall be amended in case of significant changes to the scope of the project or the assumptions on which the project are based. When updated, changes to the assumptions shall be clarified and submitted to the management committee for consideration.

The applicable control estimate and control plan shall represent the best estimate at the time of the estimate and reflect the approved budget limits.

The Operator shall submit the current control estimate and control plan to the management committee together with an analysis of opportunities for added value/cost reductions and potential risks, which may influence the planned target achievements. The current control estimate and control plan shall be revised and submitted to the management committee for consideration twice a Year, unless otherwise decided by the management committee.

ARTICLE 13 PROCUREMENT

13.1 The Operator shall prepare an overall procurement and contract strategy for significant purchases adapted to the various phases of the activities, to be submitted to the management committee for approval.

When presenting a budget proposal for activities in the coming Year, the Operator shall include an overview showing what significant purchases the Operator is planning for the budget year. Among others, this overview shall state the expected contract value for each individual purchase, contain a market evaluation and describe suitable framework agreements.

When considering the budget proposal, the management committee shall decide which purchases are to be included in the plan for significant decisions for the coming Year.

For purchases, the duration of which exceeds the budget for the Year, the Parties shall organize themselves such that the joint venture may commit itself according to the duration of the purchase.

In respect of purchases which the Operator expects will have a contract price of more than EUR 6,5 million, or EUR 3,5 million without competitive bidding, a proposal shall be made to the management committee for a decision concerning specific purchase strategies including a bidding

list and approval of the supplier. A decision shall be made within 5 working days after the Operator has submitted his proposal to the management committee.

13.2 By a unanimous resolution, the Parties may change the amount thresholds.

The Operator shall upon request send a copy of the bid invitation to the Parties.

13.3 Procurements with an agreed contract value exceeding EUR 1,5 million shall be subsequently reported to the management committee.

13.4 If a Party has an ownership interest in a company which is a bidder for a purchase, or has a self-interest in the purchase or in any other way is in a possible conflict of interest, the management committee shall be made aware of this fact before the contract is entered into.

ARTICLE 14 INSURANCE

14.1 The Operator shall, on behalf of the joint venture, take out and maintain such insurances as required by laws and regulations and other resolutions by the authorities, and other insurances as decided by the management committee. Copies of such policies shall be submitted to the Parties.

The Operator shall duly file all claims covered by such insurances and collect indemnities which are to be credited to the joint account. A Party may also make investigations in connection with an insurance claim.

14.2 A Party is entitled to take out his own insurance or in other equivalent ways ensure coverage. In such case he shall notify the Operator well in advance before the Operator takes out insurance on behalf of the joint venture, and give the Operator and the other Parties the necessary information on his insurance coverage, and ensure that recourse against the other Parties has been waived.

The Operator shall in such cases give the Party requiring it, the information necessary to establish the insurances and duly assist a Party promoting claims under such insurances. Extra cost arising in this respect shall be covered by the Party concerned.

14.3 The Operator shall establish that the insurer of those Parties which are covered by a joint insurance or other equivalent coverage taken out by the Operator, has waived recourse claims against a Party which has taken out its own insurance.

14.4 The Operator shall ensure that suppliers of goods and services to the joint venture activities take out and maintain such insurances as are required by laws and regulations and other requirements by the authorities, or which are decided by the management committee. The Operator shall endeavour to secure waivers of recourse actions against the Parties.

IV FIELD DEVELOPMENT

ARTICLE 15 PROPOSALS FOR FIELD DEVELOPMENT

15.1 Where a concrete evaluation is made of a commercial exploitation of Deposits discovered prior to a possible decision on continuation (“DOC”), the management committee shall decide how the further progress is to be managed through all phases of the project from planning through to operation. The management systems shall focus on decision milestones and a description of the factors the decision is to be based upon which shall be submitted to the management committee at these milestones. The

management committee may decide how the management committee is to be involved in the processes.

- 15.2 A proposal for a DOC shall specify the assumptions which form the basis for evaluating the possibilities of exploiting the Deposit(s) commercially. Information must, in any case, be provided on:
- a) The goals on profitability, execution, and health, environment and safety;
 - b) Design basis, resource basis, production and operation strategy, and other premises relevant to the development concept;
 - c) Cost estimates, which should meet a certainty level of +/- 30% in the estimate;
 - d) Profit calculations based on the cost estimates and price and market assumptions for the petroleum products that are planned to be delivered from the field;
 - e) Indication of the studies which are planned to be executed as part of the development concept ensuring the necessary accuracy of the cost estimates, such as sensitivity analyses of the resource base, price and market assumptions, technical solutions, feasibility and profitability;
 - f) Planned impact assessment program
- 15.3 If the management committee adopts a DOC, the Operator shall prepare a field development and production plan in close co-operation with the other Parties. The Operator shall ensure that any relevant information for the approval of the field development plan is made available to the NEA well in advance.

The management committee may choose to execute and make available to the NEA and other relevant authorities initiatives necessary for the approval of the field development and production plan, such as impact assessments, prior to the submission of the plan.

- 15.4 If the management committee does not adopt the DOC or does not deal with the matter within a reasonable period of time, any Party may himself prepare a field development and production plan. Upon request, the Operator shall assist the Party in its work to the extent this does not involve cost or inconvenience to the joint venture.

ARTICLE 16 FIELD DEVELOPMENT AND PRODUCTION PLAN

- 16.1 The Operator shall submit the field development and production plan to the Parties in the management committee.
- 16.2 The management committee decides if the development plan with the appurtenant documentation shall be submitted to the NEA and other relevant authorities, together with the application for approval of the field development plan.
- 16.3 Each Party shall within 3 months after the adoption of the plan in the management committee notify the NEA and the other Parties in writing whether or not he accedes to the field development plan.

In the event that not all of the Parties have acceded to the field development and production plan the Operator shall with no undue delay inform the NEA and let the application for approval of the plan rest. The acceding Parties may resume the application in accordance with the provisions of Article 19.

- 16.4 A Party's accession to the field development plan is binding in relation to the other Parties.

- 16.5 In case a Party has prepared a field development plan according to the provisions of Article 15.4, the provisions in this Article 16 shall apply accordingly to a proposal and accession of such plan. The Party may include the costs of preparing the plan in the field development budget.

ARTICLE 17 FIELD DEVELOPMENT

- 17.1 When all the Parties have given notice of their accession to a development plan, or when a development is adopted as a sole risk project pursuant to Article 19, the development shall take place on behalf of the participating Parties.

After the NEA's approval of the plan, the development shall be carried out with no undue delay.

- 17.2 If the NEA has not approved the development plan within six (6) months after having received the application for approval of the development plan, or a proposed sole risk development, a Party may withdraw his accession to the development plan unless contracts for delivery or renting of production facilities or other major equipment have been entered into with his consent. If no contracts for delivery or renting of production facilities or other major equipment have been entered into within two (2) years after the development plan has been approved, a Party may withdraw his accession to the development plan.

V SOLE RISK OPERATIONS

ARTICLE 18 SOLE RISK OPERATIONS

- 18.1 A Party may propose that a project which is not adopted by the management committee be carried out as a sole risk project.

Sole risk development shall take place in accordance with the provisions of Article 19.

- 18.2 The following activities may be carried out on a sole risk basis:

- a) Geological, geophysical and stratigraphic surveys and tests;
- b) Drilling of exploration wells, resumption of drilling of exploration wells, or drilling made to estimate reserves in connection with unitization;
- c) Deeper drilling, deviation drilling or testing of zones which have already been penetrated by the drilling of an exploration well;
- d) Further evaluation of a Deposit comprised by a development plan which has not been adopted pursuant to Article 15.1.

- 18.3 Nonetheless, sole risk operations may not take place:

- a) At or in connection with delineation drilling of a Deposit which has been developed or is comprised by an adopted development plan. This, however, does not apply to drilling for purposes of estimating reserves in connection with a unitization;
- b) If they may reduce the production from a Deposit which has been developed or for which a development plan has been adopted;

- c) If they wholly or in part may interfere with plans or work programs adopted by the joint venture before the sole risk project is commenced;
- d) Before the obligatory work commitment defined in the Licence has been completed. This, however, does not apply to activities described in Article 18.2, litra c).

18.4 A proposal to carry out a sole risk project shall be submitted in writing to the other Parties with a detailed description of the work to be carried out, along with a corresponding budget estimate.

Those of the Parties who wish to participate in the project must give notice to the other Parties within sixty (60) days after receiving the proposal. With respect to projects mentioned under Article 18.2, litra c), the term shall be 48 hours.

18.5 If a number of Parties with Participating interest satisfying the requirements for adoption of a decision have given notice that they want to participate in the project, the project with the appurtenant work program and budget shall be considered to be approved on behalf of the joint venture and shall be carried out by the Operator as a joint venture project.

If the requirements for adoption of a decision have not been satisfied, the project shall be completed for the account and risk of those Parties which have given notice that they want to participate.

18.6 In sole risk projects each Party participates in proportion to his Participating interest, unless the Parties otherwise agree.

18.7 Sole risk projects shall be carried out by the Operator. If the Operator is not a participant, one of the other participants may be approved as operator for the project.

18.8 The participating Parties are entitled, on reasonable conditions established by the management committee, to use the property and equipment of the joint venture to carry out the project, if this does not unreasonably disturb the joint activities.

18.9 The Operator shall keep separate accounts for the sole risk project. The account shall be submitted to the management committee and to all of the Parties.

18.10 The project, including data and information, is in its entirety owned by the participating Parties and is managed by a separate management committee, consisting of the participating Parties only. Article 3.4 of the Special Provisions shall apply accordingly.

If a sole risk project results in an increase of produced Petroleum from the licence area, such increased production shall be wholly owned by the participating Parties. Each of them has the right and obligation pursuant to the provisions of Articles 20 - 22 to dispose of its proportionate share of the extra Petroleum produced.

18.11 The participating Parties must keep the non-participating Parties informed about the project and shall indemnify them against all liabilities, expenses and obligations resulting from the sole risk project.

18.12 If a sole risk project pursuant to Article 18.2 results in the discovery of structures which the participating Parties want to drill or Deposit(s) which they want to develop, any of the non-participating Parties wishing to enter into the project must pay one thousand (1000) % of their proportionate share of the costs of the project. The payment shall be apportioned between the initial participants according to their Participating interest in the project.

Offers to enter into the project shall, with sufficient background material, be submitted to the non-participating Parties. In case of drilling, an offer to enter into the project shall be submitted to the non-participating Parties in ample time before the drilling is carried out. In case of field development the offer shall, at the latest, be submitted to the non-participating Parties at the same time as the proposal to prepare a development plan pursuant to Article 15. Entry into a project must take place no later than the time of accession to the development plan pursuant to Articles 16 or 19.

- 18.13 Unless otherwise expressly stated in this Article, the remaining Articles of this Agreement shall apply accordingly to sole risk operations.
- 18.14 Unless the project is commenced within 12 months after the time limits described in Article 18.4, the participating Parties lose their right to carry out the project. In such event, the relationship between the Parties shall be as if the project had never been proposed.

ARTICLE 19 SOLE RISK FIELD DEVELOPMENT

- 19.1 If not all Parties have acceded to the development plan within the time limit given in Article 16.3, Parties which have acceded to the plan may propose that the development be carried out on a sole risk basis. The proposal shall be submitted in writing to the NEA and to the Parties which have acceded to the plan.
- 19.2 A Party wanting to participate in a sole risk development must give notice thereof in writing to the NEA and the other relevant Parties within three (3) months after having received the proposal mentioned in Article 19.1.
- 19.3 The Parties participate in sole risk developments in accordance with their Participating interest, unless the Parties otherwise decide. If a Party wants to limit or increase his Participating interest, notice must be given thereof within the time limit set out in Article 19.2.
- 19.4 A proposal for a sole risk development in accordance with Articles 19.1 shall be considered to have been adopted when the proposal has obtained a 100 % Participating interest. The Party having put forward the proposal shall with no undue delay confirm to the NEA that the application for approval of the development plan is resumed.
- 19.5 If the Operator does not participate in the development, the participating Parties shall select an operator. Such selection is subject to approval by the NEA.
- 19.6 The Parties not participating in the sole risk development have no right to enter into or purchase an interest in the project at a later stage. Moreover, the provisions of Articles 18.9, 18.10, 18.11 and 18.13 shall apply accordingly.

VI DISPOSAL OF PETROLEUM

ARTICLE 20 LIFTING OF OIL

- 20.1 Each Party has the right and obligation to take in kind and dispose of a share of the produced Oil, which shall be equivalent to his Participating interest.

The property right, and the liability and risk pertaining to the produced Oil, is transferred to the individual Party at a point of delivery which shall be determined by the management committee prior to the commencement of production.

20.2 The Operator shall, at the point of time decided by the management committee, submit to the management committee a production program covering the Year in which production is to commence. If production is expected to commence after 1 June, the program shall also cover the subsequent Year. Thereafter, and before 1 June of each Year, the Operator shall submit to the management committee and to the NEA a production program which comprises the three (3) subsequent Years and a production estimate for the rest of the field's life. The program shall be specified for each Quarter and shall describe the quality of the Oil which is expected to be produced.

20.3 At the same time as the production program is submitted, the Operator shall submit to the management committee a draft Petroleum lifting program for the Program period in question.

The draft lifting program shall be adapted to the production program and to information collected in advance concerning the Parties' plans for lifting and shipment of Oil. The draft shall contain a schedule for the lifting as well as detailed terms and conditions concerning lifting, delivery and transportation of Oil, and shall specify the requisite steps in a lifting and shipment procedure.

The management committee shall establish the lifting program within thirty (30) days following receipt of the draft.

20.4 If the Oil production exceeds the Parties' aggregate demands under the program, such excess quantity shall be apportioned amongst the Parties in accordance with their Participating interest. If the production has become lower than the Parties aggregate demands, the demands shall be reduced in accordance with the Participating interest. None of the Parties, however, shall be obliged to return any Oil they have lifted.

The management committee shall immediately be notified if the produced quantity deviates from the production program.

20.5 Within twenty (20) days following the end of each Quarter, the Operator shall submit a summary to the management committee, showing the quantity of Oil which each Party has lifted during the Quarter.

ARTICLE 21 ANNUAL LIFTING OF OIL

21.1 Each Party shall, during the Program period, seek to lift its share of the produced Oil at an even pace and in conformity with the lifting program. When calculating the quantity which a Party has lifted during a one (1) Year Program period, the Party may demand that the lifted quantity during the first or the last sixty (60) days of such a Program period shall be considered as having been made in the previous or the succeeding Program period respectively.

21.2 If a Party, for reasons beyond its control and wholly related to the completion of the lifting program, has lifted a lesser quantity of Oil during the Program period than it is entitled to, it shall be considered as an "Under-lifter" and the quantity which it has not lifted will be considered as an "Under-lift".

If one or more Parties are Under-lifters, the Operator shall promptly notify the Parties and specify the quantity of each Party's Under-lift. Each Party which is not an Under-lifter shall have the right to lift the Under-lift, in addition to its own share. If two or more Parties want to take the Under-lift, it shall be apportioned between them in proportion to their Participating interest.

A Party lifting an Under-lift or a part thereof pursuant to this provision shall be considered an "Over-lifter" and the quantity which thereby has been lifted shall be considered as an "Over-lift".

- 21.3 When Over-lift has taken place, the Under-lifter is entitled to compensation for its Under-lift, to the extent it is covered by the Over-lift.

Unless the management committee has established another compensation arrangement, 10 % of each Overlifter's share shall be placed at the Underlifters' disposal as compensation until the Over-lift is balanced, commencing as of the first Quarter in a succeeding Year. If there are more than one Underlifter, the quantity placed at their disposal shall be apportioned amongst them in proportion to their Under-lift.

If an Under-lifter during a Quarter fails to lift a quantity which has been placed at its disposal as compensation, it shall nevertheless be considered to have received that quantity. In such event, the quantity which is not lifted by the Under-lifter shall be placed at the disposal of those Over-lifters who have offered the compensation with an acceptance time limit of 48 hours. The provisions of Article 21.2 second paragraph, second and third sentence shall apply accordingly.

- 21.4 If a Party for reasons other than those mentioned in Article 21.2 during a Program period lifts less than the quantity of Oil to which he is entitled, the quantity which he does not lift shall be apportioned between the other Parties in accordance with their Participating interest without later incurring an obligation to compensate as provided for in Article 21.3.

ARTICLE 22 DISPOSAL OF NATURAL GAS

- 22.1 Each Party has the right and obligation to take in kind and dispose of a share of produced Natural Gas which shall be equivalent to its Participating interest.

The property right, and the liability and risk pertaining to the Natural Gas are transferred to the individual Party upon lifting at a delivery point which shall be determined by the management committee prior to commencement of production.

- 22.2 The Parties shall enter into a gas lifting and balancing agreement which is subject to approval by the NEA prior to the commencement of production. For adoption of the gas lifting and balancing agreement, a unanimous vote by the management committee is required.

- 22.3 No later than 8 (eight) working days after the first day of each month the Operator shall submit to the management committee an overview of produced and lifted Natural Gas for the previous month and for accumulated volume since commencement of production.

VII ASSIGNMENT ETC.

ARTICLE 23 ASSIGNMENT OF PARTICIPATING INTEREST

- 23.1 A Party may assign its Participating interest or a part thereof. The assignment agreement shall contain provisions stipulating that the assignee shall be bound by this Agreement and the conditions of the Production Licence with subsequent amendments and supplements.

Before the obligatory work commitment pursuant to the Licence has been carried out a Party cannot, without the consent of the management committee, assign its Participating interest or part thereof to others than an Affiliated company.

23.2 A Party which has entered into an assignment agreement concerning its Participating interest or part thereof, shall notify the NEA of the price and other terms agreed between the Party and another Party or third Party.

23.3 [The State, or an entity acting on the behalf of the State,] may take over the whole Participating interest at the price and on the conditions agreed. Notice of exercise of this pre-emptive right shall be given to the Party no later than 40 days following the receipt of a notification according to Article 23.2.

This pre-emptive right does not apply when a Party assigns its Participating interest, or part thereof, to an Affiliated company.

A Party may include a clause in the assignment agreement to the effect that the agreement shall be terminated if a pre-emptive right is exercised.

23.4 After the exercise of a pre-emptive right or the completion of another assignment, the Party shall notify the management committee with no undue delay of the assignment. If the assignment agreement contains other terms than those notified to [the State, or entity acting on behalf of the State,] by the assignor, the provisions in Article 23.2 shall apply accordingly.

ARTICLE 24 WITHDRAWAL FROM THE JOINT VENTURE

24.1 A Party may withdraw from this Agreement when the obligatory work obligation described in the Licence has been carried out. If a Party has acceded to a development plan, it may only withdraw when the NEA has determined that the plan is completed.

A notice of withdrawal must be submitted to the management committee at least four (4) months in advance. The other Parties shall within 30 days notify the management committee of whether they want to take over the Participating interest. A Party failing to give such notice within the expiry of the time limit, will lose his right to take over the Participating interest unless otherwise agreed by the other Parties.

24.2 After a notice of withdrawal has been submitted, the withdrawing Party ceases to be liable for decisions taken by the joint venture which involve expenses not comprised by the agreed budget. A withdrawal from the Agreement shall be effective as of the first day of the month following the expiry of the 4 month time limit which started when the notice of withdrawal was submitted to the management committee. Notwithstanding the above the withdrawing Party is liable for expenses comprised by the agreed budget, resulting from a decision taken within the first day of the month subsequent to the expiry of the four month time limit, unless the Party taking over has accepted to cover such expenses.

The withdrawing Party shall continue to be liable for obligations which are not met at the time of withdrawal, and which have been established by damage, resolution by the authorities or in any other way independently of any decision made by the joint venture.

24.3 The other Parties may require that a satisfactory guarantee be provided concerning a proportionate share of the joint venture's liability for decommissioning of facilities belonging to the joint venture at the time of withdrawal.

24.4 If the other Parties as well as third parties do not want to take over the Participating interest pursuant to Article 23, the other Parties are entitled to take over their proportionate share of the Participating interest without compensation. An amendment to this Agreement following the withdrawal of a Party shall be submitted to the NEA, cf. Article 7 of the Special Provisions.

- 24.5 If nobody wants to take over the Participating interest pursuant to Article 24.4, the joint venture shall be dissolved pursuant to the provisions of Articles 25.2 and 25.3. In such case, the effects of a notice of withdrawal will lapse.

ARTICLE 25 DISSOLUTION

- 25.1 The Parties may decide that the Licence shall be surrendered and the joint venture dissolved.
- 25.2 Upon dissolution the Parties shall meet the obligations which have arisen as a result of the joint venture activities.

Each Party may demand that the obligations shall be met through the sale of produced Petroleum which has not been disposed of and through the sale of joint property which is not taken over by the Icelandic State. The Operator shall execute such sale.

Obligations which are not met through the sale of joint Petroleum and property shall be met by the Parties pursuant to the provisions of Article 8.

Remaining properties shall be distributed between the Parties according to their Participating interest at the time of dissolution.

- 25.3 If obligations arising out of the surrender of the Licence or arising out of the joint venture activities are claimed after the dissolution has been completed, the Parties shall remain liable for the fulfillment of such obligations pursuant to the provisions in Article 7.

VIII MISCELLANEOUS PROVISIONS

ARTICLE 26 TRANSACTIONS IN SEISMIC DATA, DRILLING RESULTS ETC.

- 26.1 The management committee shall, in due consideration of the need for efficiency, select a Party, or another entity or organization which is not a Party to this Agreement, to carry out and execute negotiations and agreements with third parties concerning the purchase, sale or exchange of seismic data, drilling results etc. At any given time, no more than one entity shall be chosen by the joint venture to negotiate and enter into such agreements. Proposals from the other Parties to enter into such agreements shall be given due consideration. The entity or organization selected by the management committee in accordance with the first sentence, cannot refuse exchanges that the Parties of the joint venture jointly wish him to perform, or execute exchanges that the Parties of the joint venture jointly oppose, unless specific reasons necessitating such execution or refusal can be shown. If a Party is selected to negotiate and execute agreements concerning exchanges, this Party cannot refuse exchanges that the other Parties of the joint venture jointly wish him to perform, or execute exchanges that the other Parties of the joint venture jointly oppose unless specific reasons necessitating such execution or refusal can be shown.
- 26.2 Agreements concerning the purchase and sale of data are subject to approval by the management committee. Agreements regarding the exchange of data shall be submitted to the management committee for information and possible comments, prior to conclusion of any final agreement.

ARTICLE 27 OBLIGATION TO INFORM AND CONFIDENTIALITY

- 27.1 Each Party and his Affiliated companies shall, for a reasonable compensation, make available to the Operator and the other Parties all geological and geophysical materials and other information which is directly relevant to the activities within the licence area. The parties' obligation to inform also includes interpretation of crude data of significance to the activities.

However, the above shall not apply to information which a Party cannot disclose according to Icelandic law or the law of the country of residence of the Party's parent company, or due to a contract with a non-Affiliated company which has been entered into prior to entering into this Agreement. The Party shall do what may reasonably be required to be released of such confidentiality obligation.

- 27.2 No Party shall without the consent of the other Parties inform a third party about, or in other ways make public plans, programs, maps, archive data, reports, technical or scientific data or any other information concerning technical, economic or commercial activities pursuant to this Agreement. This shall not apply to information provided to the Parties' Affiliated companies.

However, the obligation pursuant to the first paragraph does not apply to the participants in the partner forum according to Article 5 in their internal relationship as regards matters and associated information that are dealt with in the Partner Forum.

A Party is, however, entitled to provide financial institutions with such information as may be required and which is necessary in connection with the financing of the Party's participation in the joint activities. Information as mentioned in the first paragraph may also be given to companies with whom the Party is negotiating an assignment of the Participating interest in accordance with the Hydrocarbons Act Art. 30. The other Parties shall be informed in advance as to which information is requested by the potential assignee.

The Operator is entitled to provide information as mentioned above to consultants and suppliers who are directly engaged in the activities, if such information is necessary in order to carry out the work. Any Party has the right to provide such information to professional consultants carrying out work for the Party.

In any case, the Party providing information comprised by this sub-section shall ensure that the information given is kept confidential.

- 27.3 A Party who ceases to be a Party, is nonetheless obliged to keep confidential information comprised by Article 27.2, and may no longer make use of its right pursuant to Article 27.2 to present such information to other persons than the Parties.

ARTICLE 28 NOTICES

- 28.1 Unless otherwise decided, notices pursuant to this Agreement shall be submitted in writing. Notices between the Parties may be communicated by direct delivery, mail, facsimile, telex or by electronic mail. Statements relating to participation in the development of a Deposit shall be dispatched by registered mail or be directly delivered against receipt.

The use of electronic mail shall at all times be in accordance with internationally accepted standards for electronic transmission of documents as defined by the management committee. The standard

chosen shall make possible the use of a digital signature or a similar electronic safety device, scrambling, as well as filing and retrieval.

Notices may be given in Icelandic or English. They shall be dispatched to the Parties' most recently stated business address/electronic mail address. Notices to the management committee shall be dispatched to the chairman with copies to the other Members.

ARTICLE 29 DISPUTES

- 29.1 Unless the Parties agree to bring a dispute before the courts of law, any dispute arising in connection with this Agreement shall be settled by arbitration in Iceland pursuant to Icelandic law. The provisions of the Act no. 53 of 24 May 1989 relating to arbitration shall apply unless otherwise agreed.

ARTICLE 30 CESSATION OF PETROLEUM ACTIVITIES

- 30.1 The Operator shall submit a proposal to the management committee to prepare a decommissioning plan in accordance with the time limits stipulated in the Hydrocarbons Act.

If the Operator or a Party is of the opinion that activities should be terminated or the use of a facility should cease before the Licence expires, it may within the same time limits propose to the management committee that a decommissioning plan for the activities or the facility be prepared.

If the management committee so decides, the Operator shall in close cooperation with the other Parties prepare such a decommissioning plan.

The management committee may also decide to apply to the NEA for an extension of the time limit for submitting a decommissioning plan, or for an exemption from the requirement to present a decommissioning plan.

- 30.2 If the management committee does not adopt a proposal to prepare a decommissioning plan, or does not deal with the matter within a reasonable period of time, any Party may himself prepare a decommissioning plan. Upon request from such Party, the Operator shall assist the Party in its work to the extent this does not involve cost or inconvenience to the joint venture.
- 30.3 The decommissioning plan shall specify any proposals for continued production or shutdown of the production and disposal of facilities, for example further use of the facility in the petroleum activities, other use, complete or part removal or abandonment. Technical matters, matters concerning safety and matters relating to protection of the environment and economical issues as well as a due consideration of other users of the ocean shall be discussed in the decommissioning plan for the relevant disposal alternative(s). Further, any information required by applicable laws, regulations or guidelines shall be included.

ARTICLE 31 DECOMMISSIONING PLAN

- 31.1 A decommissioning plan as mentioned in Article 30 shall be submitted to the management committee and the Parties.
- 31.2 Any Party may prepare an alternative decommissioning plan or make suggestions for alterations and shall, in such case, attach an account of the Party's diverging conclusions. Upon request, the

Operator shall assist the Party in its work to the extent this does not involve costs or inconvenience to the joint venture.

- 31.3 The management committee may adopt a decommissioning plan no earlier than three months after it received the plan. If a Party within this period has notified that it will prepare proposals for substantial alterations in the decommissioning plan or an alternative decommissioning plan, the management committee shall set a period of at least three months for the submittal of such proposal.
- 31.4 If the management committee adopts a decommissioning plan prepared pursuant to Articles 30.2, 31.2 or 31.3, or makes substantial use of such decommissioning plan, the Party who has prepared the plan may require that the cost relating to its preparation be reimbursed.
- 31.5 An approved decommissioning plan with appurtenant documentation shall be submitted to the Parties and the NEA.
- 31.6 In case one or more Parties intend(s) to oppose a decision by the management committee to submit a decommissioning plan and instead continue the production, this or those Party(ies) may submit a proposal to this effect to the management committee, including a draft agreement for continued production. If no agreement is obtained about such agreement for continued production, the agreed decommissioning plan shall be submitted in accordance with Article 31.5 together with the proposal for continued production.

ARTICLE 32 IMPLEMENTATION OF A DECOMMISSIONING PLAN

- 32.1 As soon as the NEA has made its decision on disposal the Operator shall submit a proposal to the management committee concerning the execution of the decision.
- 32.2 The management committee shall discuss the Operator's proposal within three months; otherwise the Operator's proposal shall be deemed to be adopted.

The management committee may change, adopt or reject the Operator's proposal for execution of the NEA's decision on disposal.
- 32.3 The provisions of Article 12 shall, as appropriate, apply accordingly to the budget for the cost of execution of decisions on disposal.

**AGREEMENT CONCERNING EXPLORATION AND PRODUCTION OF
HYDROCARBONS PURSUANT TO LICENCE
NO. X**

ENCLOSURE B – ACCOUNTING AGREEMENT

TABLE OF CONTENTS

<i>ARTICLE 1</i>	<i>GENERAL PROVISIONS</i>	33
1.1	Definitions	33
1.2	Cash requirements – Advances.....	33
1.2.1	General provisions	33
1.2.2	Interest on late payments	34
1.2.3	Interest on cash balances	35
1.3	Statements and billings	35
1.3.1	General provisions	35
1.3.2	Interest on recalculations	37
1.3.3	Corrections.....	37
1.3.4	Relinquishment of Licenses.....	37
1.4	Audits.....	37
1.4.1	General provisions	37
1.4.2	Audit of cost for General Research and Development	39
1.4.3	Audit of Corporate Management and Corporate Staff cost	39
1.4.4	Audit of standard rates for Affiliated Companies.....	39
<i>ARTICLE 2</i>	<i>CHARGES TO THE JOINT ACCOUNT</i>	39
2.1	Direct Charges	39
2.1.1	Procurement of goods and services	39
2.1.2	Personnel.....	39
2.1.4	Material and services from Operator, Non-operator or Affiliated companies.....	40
2.1.5	Damage to or loss of Joint property.....	41
2.1.6	Insurance.....	41
2.1.7	Legal assistance	41
2.1.8	Taxes, duties and levies	41
2.1.9	Offices, bases and miscellaneous facilities.....	41
2.1.10	Execution of decisions concerning disposal	41
2.2	Indirect cost	42
2.2.1	General.....	42
2.2.2	General Research and Development.....	42
2.2.3	Corporate Staff and Corporate Management.....	43
2.2.4	Additional Indirect cost	44
<i>ARTICLE 3</i>	<i>CREDITS TO THE JOINT ACCOUNT</i>	44
3.1	Sale and return of Material	44
3.2	Insurance.....	44
<i>ARTICLE 4</i>	<i>MISCELLANEOUS</i>	45
4.1	Inventories	45
4.2	Sole risk operations.....	45

ARTICLE 1 GENERAL PROVISIONS

1.1 Definitions

The definitions included in the Joint Operating Agreement shall also apply to this Enclosure B, as appropriate. In addition, the following definitions shall apply:

- a. "Accounting procedure" shall mean the rules, provisions and conditions contained in this Agreement.
- b. "Joint Property" shall mean equipment acquired for the Joint Operations and fixed property subordinated the Joint Operating Agreement.
- c. "Joint Account" shall mean the accounts maintained by the Operator to record all charges and credits relative to the Joint Operations.
- d. "Joint Operations" shall mean all activities carried out under the provisions of the Joint Operating Agreement for all the Parties jointly.
- e. "General Research and Development" shall mean projects (in accordance with the definition of "Research and Development" adopted by the NEA) that are carried out by or under the direction of the Operator. The projects shall be beneficial to the upstream operations and be charged to the Operator.
- f. "Corporate Management" shall mean that part of the Operator's top management, or as appropriate, Affiliated Companies' top management, that is directly engaged in upstream-related activities.
- g. "Non-operators" shall mean the Parties to the Joint Operating Agreement other than the Operator.
- h. "Indirect cost" shall mean cost that cannot be directly charged to a single Joint Operation.
- i. "Internal booking rates" are the rates established by the Parties for use in translation of foreign currencies into ISK or the currency that their accounts are kept in.
- j. "Corporate Staff" shall mean the following of the Corporate Management's staff activities: accounting and economics, tax, information technology, internal and external information, health/safety/environment, finance, insurance, internal audit and human resources/organization
- k. "Material" shall mean all equipment and supplies acquired for use in the Joint Operations.

1.2 Cash requirements – Advances

1.2.1 General provisions

At least 10 days prior to the beginning of each month, the Operator shall submit to the Non-operators a 3 month forecast, specified by month, of estimated cash requirements.

Upon request, the Non-operators shall advance their share of estimated cash requirements for the following month. The Operator shall submit a written request for advances at least 15 days prior to the due date. The due date shall be set by the Operator, but shall be no earlier than the first working

day of the month for which the advances are requested. Notwithstanding the terms of Article 1.2.3, the Operator shall avoid accumulating unnecessary cash balances from cash advances.

To avoid build-up of such cash balances, substantial cash advances may be divided into two payments to coincide with disbursements.

The prognosis for cash requirements and the request for cash advances shall specify the currencies in which the advances are to be made. Cash advances shall be called in currency when the Operator is obliged to make a payment in that currency exceeding more than the equivalent of EUR 6,5 million annually. The amount may be altered by the management committee.

If the advance payments prove insufficient, the Operator may make a written request for additional advances. Such request shall state which expenditures the unpredicted payments refer to. The due date shall be set by the Operator, but shall at the earliest be set at 5 working days after the receipt of the request.

If the actual monthly need for cash proves to be significantly less than the advances called for, the Operator shall refund the excess amounts as soon as possible, unless the Parties agree to transfer the amount to the following period. If the Operator sees that the cash requirement will be reduced before due date, the Parties shall be so informed through a revised cash call to the extent this is feasible.

The difference between the monthly cash advances and the actual payments in each currency shall be stated, and the next request for advances shall be adjusted accordingly.

Where the total cash requirement is less than EUR 0,5 million a month, the Operator is not required to make cash calls. The amount may be altered by the management committee.

If the Operator has made no request for advance payments, the Non-operators shall pay their proportionate share of the actual monthly payments within 15 days after receipt of the Operator's billing with request for payment.

1.2.2 Interest on late payments

Payments of advances or billings shall be made on or before the due date thereof. If they are not so paid, the unpaid balance shall carry interest for each month or pro-rata portion thereof, in accordance with the following:

Interest is due for the period starting on and including the due date of payment and ending on, but excluding, the value date for payment.

For ISK the interest shall be calculated at an annual rate equal to three months' Reykjavik Interbank Offered Rate (REIBOR) as quoted daily by the web-site of the Central Bank of Iceland, as per the due date of payment, plus three percentage points.

For EUR the interest shall be estimated at an annual rate equal to three months' EUROLIBOR as quoted daily on Reuters page LIBOR 01 at 11:00 A.M. London time, as per the due date of payment, plus three percentage points.

For other currencies the interest shall be estimated at an annual rate equal to three months' London Interbank Offered Rate (LIBOR) for the relevant currencies as quoted by Reuters page LIBOR 01 at 11:00 A.M. London time, as per the due date of payment, plus three percentage points.

If the rates for certain currencies are not published by Reuters, the rates quoted by the largest bank at the clearing centre of the relevant currency shall be used as reference.

Interest on late payments shall be proportionally distributed to the Parties financing the default.

1.2.3 Interest on cash balances

Interest is to be credited/charged on the Parties' daily cash balances with the Operator (positive and negative).

This interest credit/charge is to be calculated on the Operator's internal accounts showing daily cash balances per currency called and/or arising from the use of separate bank accounts for the Joint Operations.

The Operator's contribution shall be credited on the due day of payment for the cash call.

Interest and other conditions shall in principle correspond to the conditions that a company with a similar cash flow would obtain in a first-class bank, but not less than those corresponding to the interest obtained by the Operator. The following two alternatives shall be considered as equal:

ALTERNATIVE 1:

The rate of interest shall be determined on a three month basis and be linked to a relevant Interbank Rate:

Group 1: ISK – REIBOR (3 months) + 1,0 % / - 1,0 %

Group 2: EUR – EUROLIBOR (3 months) + 0,5%/- 0,5%

Group 3: Others (e.g. USD, GBP)-LIBOR (3 months) + 0,5 % / - 0,5 %

LIBOR/EUROLIBOR is defined as:

A one month average of this month for three months' "Euro Currency Interest Rate" as quoted by Reuters page LIBOR 01 at 11:00 A.M. London time. For the day or days when such rates are not available, three months' LIBOR for the currency in question from Chase Manhattan Bank, London, quoted the day before the relevant day of quotation, shall be used. In calculating the monthly average, quotations given with four decimals shall be used.

The above-mentioned interest rate shall be amended if there is a discrepancy between the base of the interest rate and the calculation principles regarding the days of interest.

ALTERNATIVE 2:

If the Operator has established separate bank accounts for licence cash balances (covering one or more licences), the interest earned/paid by the Operator shall be allocated to the Parties based on the Operator's and the Non-operators' actual deposits in these accounts. Both the Operator and the Non-operators shall pay to such accounts according to cash calls.

The calculation of interest shall be based on the Non-operators' daily cash balances with the Operator, or on the basis of an average cash balance calculated for each month, or on the basis of formulas reflecting the build-up of daily cash balances, and on the quarterly balance. The amount of interest shall be specified under "Financial items" in the accounts, no later than the month after the expiry of the period. The day of payment shall be determined on the same credit/debit principles, no later than the first day in this following month.

1.3 Statements and billings

1.3.1 General provisions

Each Party is responsible for preparing its own accounts in compliance with Icelandic rules, regulations and in compliance with good accounting practice. The Operator's billings and statements shall be sufficiently detailed to meet these requirements. The Operator shall also furnish the Non-

operators with such other information as they may reasonably request in connection with their own keeping of accounts.

The Operator shall furnish the Non-operators with a chart of accounts and a brief description of its accounting procedures. The Non-operators shall be informed of significant amendments thereto.

The Joint Account shall be kept in [CURRENCY OF JOINT ACCOUNT], and it is presupposed that none of the Parties shall entail a gain or loss at the expense of or to the benefit of the other Parties due to exchange or conversion of currencies.

On conversion of foreign currency expenditures to [CURRENCY OF JOINT ACCOUNT] the Operator is entitled to use Internal booking rates, based on sales rates as distributed by the Central Bank of Iceland or other places of notification as proposed by the Operator and approved by the Non-operators.

When the Operator makes cash calls in other currencies, Internal booking rates shall also be used for the receipt and disbursement of such currencies. When Internal booking rates are changed, the [CURRENCY OF JOINT ACCOUNT] value of the balance in other currencies shall be adjusted at the same time. To facilitate control, adjustment of Internal booking rates should only be made at the end of the month.

Payments in currencies which have not been called by the Operator shall be booked at the actual rate as charged by the bank. If payments are made from the Operator's own currency accounts, payments are to be booked at sales rates as distributed by the Central Bank of Iceland or other places of notification as proposed by the Operator and approved by the Non-operators two working days prior to the value date.

The difference in [CURRENCY OF JOINT ACCOUNT] between the amounts charged to expenses and amounts paid in foreign currencies and translated to [CURRENCY OF JOINT ACCOUNT] in accordance with the Internal booking rate, shall be debited or credited by the Operator to an exchange gain or loss account maintained for the Joint Account (agio and disagio).

Within 15 days after the end of each month, the Operator shall furnish the Non-operators with the information listed below. If this time limit proves too short, the Operator shall immediately make an estimation of cost for each budget group and forward this to the Non-operators. If activities for the Joint account are low, the management committee may decide that account statements shall be sent to Non-operators 15 days after each calendar quarter only.

- a) A statement of expenditures showing all charges and credits to the Joint account, summarized by appropriate classifications which coincide with approved budget classifications, indicating the nature thereof and including the total amount of provisions and accruals separately identified. This statement shall also contain accumulated figures from the beginning of the Year as compared to the budget. For investments, accumulated figures from the commencement of the investments shall be given.
- b) A statement showing the joint liabilities and receivables.
- c) A statement showing each Party's advance payments in the respective currencies and the corresponding shares of payments made for the month and for the accumulated figures.
- d) Detailed specifications of unusual charges and credits, including audit adjustments to be separately identified.
- e) Information concerning the exchange rates applied.

- f) A statement showing each Party's share of draws on joint export credits paid directly to suppliers of goods and services.

The Operator's progress reports in accordance with the Joint Operating Agreement Article 13 shall include budget progress reports and summary of AFE's.

1.3.2 Interest on recalculations

If the Operator charges/credits the Joint operation with provisional recalculations for this year and recalculations for a previous year, the Joint operation shall be charged/credited interest on these. The interest shall be calculated from the time it should have been charged/credited, or from 1 July that Year, until the time when the interest is charged/ credited the Joint operation. The interest rate shall be equal to the average of 3 months' [CURRENCY OF JOINT ACCOUNT]-LIBOR, based on a representative 3 months' average, cf. Article 1.2.3, Alternative 1, but without any interest margin.

1.3.3 Corrections

The Operator shall carry out corrections of debits/credits as soon as possible, and at the latest within 24 months after expiration of the relevant financial year. The interest shall be calculated from the point in time when it should have been debited/credited, or from 1 July of that year, to the day it is debited/credited the Joint Account. The interest rate shall be equal to the average of 3 months' [CURRENCY OF JOINT ACCOUNT]-LIBOR, calculated in accordance with Article 1.2.3, Alternative 1, but without interest margin.

1.3.4 Relinquishment of Licenses

The Operator may charge the Joint Account only for expenses necessary to properly wind up the activities after the Licence has been surrendered. Unless otherwise agreed, this shall take place within 6 months following the month of surrender. Debits/ credits stemming from post calculations, corrections or audits shall carry interest in accordance with Article 1.2.3, Alternative 1 and be charged the Non-operators in a separate statement.

1.4 Audits

1.4.1 General provisions

A Non-operator shall have the right to audit the accounts, ledgers, records and documents relating to the Joint Operations, within a 24-month period following the end of each Financial Year, unless the Parties have agreed to extend this period. The Operator shall give the auditors access to all Operator's systems, documents, data and other information necessary for the audit and shall allow a general assessment of the Operator's control procedures and systems as far as these are relevant to the Joint Operations. The Operator shall also ensure that the audit is performed efficiently and without unnecessary delay.

Further, the auditors shall have access to records and facilities necessary to review and appraise the cash management procedures according to Article 1.2 and the procedures used in awarding contracts and purchasing.

The Operator and the other Non-operators shall have at least 30 days written notice before the planned commencement of an audit.

The Non-operators shall conduct the audit simultaneously and in a manner resulting in a minimum of inconvenience to the Operator. If the Non-operators agree, audits should be performed by a joint audit group.

For operators with more than one operatorship, the Non-operators and Operator may agree with other non-operators in other joint ventures with the same operator to carry out joint audits of Indirect cost and joint charging systems that are common to all operatorships. Under such an agreement these charges shall be excluded from the dedicated audit of the Joint Operations. The provisions in Articles 1.4.1.1 and 1.4.1.2 shall also apply to such joint audits.

1.4.1.1 Audit report

A written report (audit report) shall be sent to all Parties within 3 months of the conclusion of the audit.

The report shall include a summary of all issues reviewed by the auditors with relevant comments to the handling of accounts and vouchers. Before the written report is distributed to all Parties, unresolved audit matters shall be dealt with in writing and in at least one meeting. Unresolved audit matters shall be dealt with in a solution-oriented dialog between the Operator and the audit team who perform the audit on behalf of the Non-operators.

Signed minutes of the meeting shall be attached to the written report when it is forwarded to all Parties. An agreed closing date for the audit shall be stated in the minutes of the meeting.

If the report is not submitted within the time-limit, the Non-operators shall lose their right to take exceptions to the Operator's charges to the Joint Account. Exceptionally, and where special reasons exist, the Non-operators may by a written notification to the Operator extend the time-limit to submit the report by a new short time-limit that may not exceed 15 working days.

1.4.1.2 Treatment of unresolved audit claims

The Operator shall give a written reply to the report within 3 months of the receipt thereof. If a Non-operator has comments to the Operator's written reply, such comments shall be submitted in writing. The Operator shall give a written reply to the comments. Unresolved audit claims shall be dealt with in a dialog between the Operator and the Non-operators with a view to finding an agreed solution.

Should the Operator fail to give a written reply to the report within 3 months of the time it was received, the Operator shall forfeit its right to make objections to audit claims in the report. Exceptionally, and where special reasons exist, the Operator may by a written notification to the Non-operators extend the time-limit to submit its reply by a new short time-limit that may not exceed 15 working days.

Should any unresolved audit claim not be settled within 9 months from the Operator received the written report, the Operator shall:

- i) List the unresolved audit claim on the agenda for the next ordinary management committee meeting and together with the notice of the meeting give a written summary of the communication and treatment of the unsettled audit claim(s),
- ii) in case of a joint audit of the Operator's Indirect costs and cost allocation systems that are common to all operatorships convene the Partner forum for dealing with unresolved audit claims

A party may propose the use of a jointly appointed independent expert to give an opinion on unsettled audit claims or an alternative simplified dispute solution for the solution of any unresolved audit claim. Such decision requires unanimous agreement among the Parties.

1.4.1.3 Interest and costs

Any adjustments between the Joint Operation and the Operator or other Joint Operations resulting from an audit shall be credited/debited interest according to Article 1.2.3, Alternative 1, but without interest margin. The interest shall accrue from the day the debit/credit was made or, if there is

uncertainty with regard to this point in time, from 1 July of the Year the debit/credit was made, until the day the correction is debited/credited to the Joint Operation.

The Operator shall bear no portion of the cost in connection with the audit unless otherwise agreed.

1.4.2 Audit of cost for General Research and Development

General Research and Development as delimited in Article 2.2.2 shall not be subject to partner audit. The Operator's state authorized public accountant shall submit an attestation that cost for general Research and Development have been charged according to Article 2.2.2 of this Agreement.

1.4.3 Audit of Corporate Management and Corporate Staff cost

Expenses covered by the percentage for Corporate Management and Corporate Staffs in Article 2.2.3 shall not be subject to an audit. Expenses of an extraordinary nature that are charged directly according to the same Article may be subject to an audit.

1.4.4 Audit of standard rates for Affiliated Companies

Standard rates for personnel and services for Affiliated companies that are charged directly shall not be subjected to a full audit. The Operator's state authorised public accountant shall present an attestation that these are cost based and in compliance with this Agreement.

To the extent Affiliated companies carry out and are responsible for substantial activities that are chargeable to the Joint Account, such cost is fully auditable.

ARTICLE 2 CHARGES TO THE JOINT ACCOUNT

All expenditures necessary to properly conduct of the Joint Operations shall be charged to the Joint Account. The charges shall be fair in relation to the nature and extent of the Joint Operations and shall be adequately documented.

At the end of each month the Operator shall make provisional charges for cost incurred, but not yet booked. Such provisional charges shall be reversed the following month.

Expenditures shall include, but are not necessarily limited to:

2.1 Direct Charges

2.1.1 Procurement of goods and services

Goods and services that are purchased shall be charged to the Joint Account at the net amount invoiced after deduction of discounts and bonuses, including transport to the joint area and other related cost such as loading and unloading, dock charges, insurance, duty and freight etc.

2.1.2 Personnel

2.1.2.1 Salaries and social cost

Salaries and social cost for employees of the Operator and its Affiliated companies directly engaged in the Joint operation, whether temporarily or permanently assigned. Social cost includes expenses incurred in accordance with laws and tariff agreements, as well as other cost and allowances pursuant to common oil industry practice.

2.1.2.2 *Transportation of employees*

Transportation of employees that are needed for the performance of the Joint Operation.

2.1.2.3 *Relocation cost*

Relocation cost for employees to locations from which the Joint operation is carried out. Relocation cost back to the place from where the employee was moved, except when, according to normal practice, such relocation cost will be attributable to other Joint Operations. Such cost shall include transportation of employees' families and their personal effects and all other relocation cost in accordance with the Operator's normal practice.

2.1.2.4 *Restructuring cost*

Before the Operator may make any charge to the Joint Account for restructuring cost, including cost for retirement before the Pensionable Age (“early retirement”) and severance pay, such charge shall be approved by the management committee pursuant to the provisions of the Joint Operations Agreement. For the discussion in the management committee, the Operator shall show the probable cost effect of the measures for the Joint Operation. To the extent the Operator makes probable that the cost will entail savings for the Parties, the Parties shall be obligated to approve the charge to the Joint Account.

For those cases where the Operator makes probable that the activity shall cease or be substantially reduced, and the Operator proposes a necessary restructuring as the consequence of this, the Parties shall be obligated to approve the charge to the Joint Account in the management committee.

Restructuring cost shall be charged to the Joint Account as a discounted non-recurring amount. Charging may take place when a binding agreement (s) has/have been entered into or when the employment of the relevant employee(s) with the Operator ceases.

The cost shall be charged to the Joint Operation concerned. If the restructuring concerns several of the Operator's Joint Operations, the cost shall be apportioned pro rata between the relevant Joint Operations' Joint Accounts based on their relative share of the last three years hourly charges.

2.1.4 Material and services from Operator, Non-operator or Affiliated companies

a) Material

All cost relating to acquisition and storing of Material owned by the joint venture and the operating cost of the joint venture's storing facility, shall be charged to the Joint Account. In case of Material being borrowed by other joint ventures, the borrower shall replace the Material unit by unit in accordance with a separate agreement.

Material being transferred to the Operator's common storing facility shall be charged according to the average acquisition cost or the agreed price. Used Material suitable for reuse after reconditioning may be re-allocated to stock cf. Article 3.1. The Material shall then be classified as new.

The average purchase cost for Material shall include the cost of buying and storing such Material, as well as reasonable interest and dead stock.

b) Services

Technical and other services including, but not limited to, laboratory analyses, drafting, geological and geophysical interpretation, engineering, cost of gas sales activities, research, data processing and accounting for the direct benefit of the Joint operation, shall be charged to the Joint Account at actual

cost, provided such cost does not exceed the cost that would have incurred if such services were performed by external consulting and service companies.

c) Equipment and facilities

Use of equipment and facilities shall be charged to the Joint Account at rates that include direct operating and maintenance cost, reasonable depreciation cost and interest on depreciated investments. Such rates shall not exceed those currently prevailing in the area of operation. Calculation of rates shall be documented upon request. If equipment and facilities are used for other operations, the cost shall be allocated according to the actual use in the period.

2.1.5 Damage to or loss of Joint property

Expenses necessary for the repair or replacement of damaged or lost Joint property shall be charged to the Joint Account and classified in a way that indicates the nature of the expense. To the extent such damage or loss is covered by a joint insurance, insurance settlements shall be credited accordingly.

The Operator shall as soon as practicable give the Non-operators written notice of any damage or loss of importance, and any other information which the Non-operators need for insurance purposes.

2.1.6 Insurance

- a) Net premiums for insurance required by law or regulations or which have been decided by the management committee to be part of the Joint cost of the parties.
- b) Actual expenditures incurred in the settlement of indemnities which are not recoverable from the insurance.

2.1.7 Legal assistance

All cost concerning the handling of claims and disputes arising in connection with the Joint operation, including expenses for legal advice and other assistance in connection with the evaluation of such claims and disputes, conciliation board proceedings and conduct of cases, as appropriate. No charge in excess of EUR 3.000 may be made for services rendered by the legal staff of the Operator for a single case without the prior approval of the Non-operators.

This limit may be changed by the management committee.

2.1.8 Taxes, duties and levies

All taxes, duties, levies of any kind levied by the Icelandic authorities, except income and capital taxes.

2.1.9 Offices, bases and miscellaneous facilities

Net cost of establishing and operating any offices, sub-offices, operating bases and other facilities or properties exclusively serving the Joint operation. If facilities or properties also serve other purposes than the Joint operation, the net cost shall be allocated fairly between the different operations in accordance with normal distribution criteria.

2.1.10 Execution of decisions concerning disposal

Cost related to the execution of a decision concerning disposal made in accordance with the legislation applicable at any time, including pre-engineering and administrative expenses.

2.2 Indirect cost

2.2.1 General

Indirect cost is cost related to organizational units/functions which are by nature indirect, e.g.:

1. Corporate management;
2. Support and staff functions such as economy and finance, personnel, organisational, legal and joint service functions;
3. Indirect functions in operational departments;
4. Indirect cost of Affiliated companies.

Moreover, cost can be indirect according to their nature, and may include financing cost and depreciation, office leasing and communications cost.

Finally, certain activities may entail Indirect cost, such as General Research and Development.

Services rendered by the aforementioned or similar departments and which are directly chargeable to the Joint operation shall, to the extent practicable, be charged as direct cost in accordance with Article 2.1.4 a) Material above.

According to different systems for intermediate distribution, Indirect cost shall ultimately be charged to the individual Joint operation or to activities for which the Operator himself bears the cost. The charges shall be made pursuant to fair distribution methods. Examples of such methods are:

5. According to direct time, applied to direct personnel cost;
6. According to direct Material consumption, applied to direct material cost;
7. According to turnover ratios, including sliding scale systems;
8. Other capacity and/or consumption-based distribution methods.

Charges related to such distribution methods shall be calculated on the basis of time and cost studies and be reviewed annually to verify that they compensate the Operator fairly for the charges they are intended to cover. If the Operator uses provisionally budgeted hourly fees etc. for the charges throughout the Year, and does a recalculation the following Year, see Article 1.3.3, the recalculation shall be terminated and charged/credited to the Joint operation including interest, preferably within the first Quarter of the following Year, but at the latest 1 June of the following Year.

In order to provide the basis for such annual review, the Operator shall provide the Non-operators with a current organization chart together with the basis for charging cost to the Joint Account and an identification of those sections of the organization for which cost will be charged directly to the Joint account under Articles 2.1.2, 2.1.3 a) and 2.1.8, and those parts of the organisation that are covered by charges under this Article.

2.2.2 General Research and Development

The Operator's cost for General Research and Development may be charged to the Joint Account in proportion to the exploration, development and operating cost of the year in accordance with the following provisions:

Projects which are not subjected to unlimited audit may be charged to the Joint Account according to the following per cent rates and limits based on annual costs except for area fees, CO2 duty, NOX duty when directly imposed on the Joint operation, purchase of gas for injection and tariffs paid in

connection with the processing of petroleum on a third party's field installation. The amount limits and percentages may be adjusted by the management committee.

Exploration cost:

0 – 40 million EUR	2.5%
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Operating cost:

0 – 125 million EUR	2.7%
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125 – 315 million EUR	1.0%
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Development cost:

0 – 125 million EUR	2.5%
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125 – 250 million EUR	1.0%
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250 – 450 million EUR	0.5%
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Tariffs received for the processing of other companies' petroleum and other revenues that are credited to the Joint Account shall not be deducted at the calculation of the above-mentioned cost.

Exploration cost means all cost charged to the Joint Account as exploration cost by decision of the management committee, i.e. normally cost until an approved development plan is established, and in addition all cost outside the area comprised by the development plan.

Operating cost means all cost charged to the Joint Account as operating cost by decision of the management committee, i.e. normally direct cost of production and direct and indirect expenses of the operating organisation before and after commencement of production, excluding exploration cost.

Development cost means all cost charged to the Joint Account as investments by decision of the management committee, i.e. normally all cost excluding operating cost (including cost related to preparation for operation) for activities in the area comprised by the development plan.

Removal cost shall be dealt with as development cost.

The Operator shall each Year document that General Research and Development cost has a useful effect for the Icelandic Continental Shelf and has been charged to an extent at least corresponding to the chargeable amounts against the relevant Joint Accounts. The Operator shall charge the Joint Account with the percentage additions at the time of periodic settlement of accounts. Cost charged to the Joint Account in accordance with this Article is not to be included in the basis of calculation.

To the extent the Operator is unable to document a cost level sufficient to fully charge the percentage additions to the relevant Joint Accounts, the charges made by the Operator to the relevant Joint Accounts shall be reduced correspondingly on a pro rata basis.

The intervals above will be adjusted at the beginning of each Year on the basis of the consumer price index as published by Statistics Iceland per 15 July of the current year. The starting basis is 15 July 2011.

2.2.3 Corporate Staff and Corporate Management

The Operator's cost for Corporate Management and Corporate Staff may be charged to the Joint Account with 0.65 % of the annual costs for exploration, operation and development of the Joint operation, with the exception of charges for General Research and Development which may be charged to the Joint Account according to Article 2.2.2. Costs for exploration, operation and development shall have the same meaning as in Article 2.2.2.

The percentage shall cover the Operator's Corporate Management and Corporate Staff cost to the extent that Corporate Management and Corporate Staffs perform work of a general nature for the Operator that does not refer directly to the operation of one or several fields on the Icelandic Continental Shelf. The activities covered by the percentage shall comprise the Corporate Management and Cooperate Staff's cost related to the preparation and maintenance of management documentation and procedures covering the group as well as services that are not covered by Article 2.2.3 fourth paragraph. The percentage shall cover internal services as well as services bought externally.

The expenses covered by the percentage shall not be subject to any audit.

Services of an extraordinary nature which are beneficial to one or several joint ventures on the Icelandic Continental Shelf shall be chargeable directly to the relevant joint ventures in addition to the percentage. If the expenses for services of an extraordinary nature are known at the time when the Operator submits the budget proposal for the coming year, these expenses are to be included in the budget proposal. In all cases, the management committee shall be informed of any such expense in the monthly report. Extraordinary nature means work performed by the Group Staffs of a particularly large or unusual scope and not comprising work which forms part of the ordinary operation of one or several joint ventures (major investigations, reports and crisis management related to accidents and the like, the establishment of new group systems and other extraordinary activities). Expenses related to services of an extraordinary nature shall be documented by way of work description and may be subject to an audit.

Expenses covered by this Article 2.2.3 shall not be charged to the joint ventures in any other way.

2.2.4 Additional Indirect cost

The Indirect cost not covered by Articles 2.2.2 and 2.2.3 and which accrue to the Operator or the Operators' Affiliated companies for the Joint operation in Iceland, shall be calculated on the basis of cost studies and shall be charged to the Joint Account each month pursuant to the distribution key described in Article 2.2.1.

ARTICLE 3 CREDITS TO THE JOINT ACCOUNT

All credits from Joint Operations shall be credited to the Joint Account at the net amount actually collected.

3.1 Sale and return of Material

The Operator shall have the right to dispose of surplus Material, but shall obtain the approval of the management committee for all dispositions of Material with an aggregate original purchase cost of EUR 0,5 million or more. The amount may be changed by the management committee.

The Operator shall be under no obligation to purchase the share of the Non-operators in new or used surplus Material.

When Material is returned to the Operator or Affiliated companies, the Joint Account shall be credited with the current average purchase price of new Material or the agreed price, cf. Article 2.1.4 a). Any reconditioning cost shall be charged to the Joint Account. Used Material which cannot be repaired shall be scrapped without crediting the Joint Account.

3.2 Insurance

Credits for settlements received from the insurance companies or others.

If a Party does not participate in the insurance, he will not be entitled to any share in such settlements.

ARTICLE 4 MISCELLANEOUS

4.1 Inventories

The Operator shall take periodic inventories of all warehouse stock at least once a Year. The Operator shall give the Non-operators 30 days' written notice of his intention to take an inventory to allow them to be represented. Failure of any Non-operator to be represented shall bind him to accept the result of the inventory.

The Operator shall furnish the Non-operators with a list showing counted and booked stocks and shortages. The Joint Account shall be adjusted accordingly as soon as possible.

In case of assignment of a Participating interest in accordance with Article 23 of Enclosure A – Joint Operating Agreement, a special inventory shall be made by the Operator, provided that the assigner and/or assignee agree to bear all the cost thereof.

4.2 Sole risk operations

Charges and credits referring to sole risk operations under Article 19 of Enclosure A – Joint Operating Agreement shall be recorded in separate accounts. The provisions of this Enclosure B – Accounting Agreement shall also apply to sole risk operations.