

# **MODEL LICENCE**

FOR EXPLORATION  
AND PRODUCTION OF HYDROCARBONS

Second Licensing Round on the Icelandic Continental Shelf

ORKUSTOFNUN

The National Energy Authority, Iceland

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## Exclusive Licence for Exploration and Production of Hydrocarbons

Pursuant to Article 7 of Icelandic Parliamentary Act No. 13 of 13 March 2001, on prospecting, exploration and production of Hydrocarbons (**the Hydrocarbons Act**), with later amendments, and Regulation No. 884/2011 (**the Hydrocarbons Regulation**) of the Ministry of Industry, Energy and Tourism (**the Ministry**), and based on the information provided in the Application[s] and other information disclosed, NEA hereby grants an exclusive licence for exploration for and production of hydrocarbons within the area indicated in Article 2 hereof (**the Licence**) to the following company (**the Licensee**) or companies jointly (**the Licensees**), which hold participating interests in the Licence:

1. [Company X, Reg. no., address, Iceland, as a Partner];
2. [Company Y, Reg. no., address, Iceland, as a Partner];
3. **[Petoro AS Norwegian Subsidiary (to be named), Icelandic Branch, Reg. no., address, Iceland, as a Partner];**
4. [Company Z, Reg. no., address, Iceland, as a Partner as well as the Operator];

[Petoro AS Norwegian subsidiary (to be named), Icelandic Branch, is Licensee on behalf of the Kingdom of Norway, in accordance with the Agreement of 1981 between Norway and Iceland on the Continental Shelf between Iceland and Jan Mayen and the Agreed Minutes of 3 November 2008 concerning the Right of Participation pursuant to Articles 5 and 6 of the Agreement from 1981.]

Petoro AS Norwegian subsidiary (to be named), Icelandic Branch, assumes all liabilities and obligations of the Kingdom of Norway under this Licence and as a Party to the Agreement concerning Exploration and Production of Hydrocarbons.]

Reykjavík, xx.xx.2012

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Gudni A. Johannesson  
Director General

The Licence thus granted shall be subject to the following conditions:

## Section 1 – Definitions

For the purpose of this Licence and the attached Appendices, the following terms shall have the meaning indicated below, unless otherwise apparent from the context:

Application[s]: the application[s] for exploration and production of hydrocarbons in the Dreki Area, dated [•], submitted by the Licensees.

Licensee: a company holding a Participating interest in the Licence. Companies holding a Participating interest as a group are jointly the Licensee.

Operator: the party responsible for the day-to-day management of the hydrocarbon activities on behalf of the Licensee.

Exploration period: the Licence period in which the exploration work takes place, i.e. prior to an extension of the Licence for the purpose of production.

Exploratory well: a well that is drilled to investigate whether hydrocarbons are present in a formation or other unit within a geological structural or stratigraphic trap in which the presence of hydrocarbons has not previously been demonstrated. The reopening and re-drilling of a well shall not be considered a new exploratory well unless explicitly approved by NEA.

Hydrocarbons: mineral oil, condensate, natural gas and other hydrocarbons found naturally in the subsoil which can be produced in a gaseous, liquid or solid form.

Hydrocarbon deposit or deposit: a continuous accumulation of hydrocarbons in the subsoil. In case of doubt, NEA shall determine what constitutes a hydrocarbon deposit.

Hydrocarbon discovery: any indication of an accumulation of hydrocarbons penetrated by an exploratory well.

Joint Operating Agreement (JOA): the agreement concluded between the companies holding participating interests in the Licence governing their relationship and performance of the activities comprised by the Licence.

Licence year: each year this Licence is in effect.

Production period: the period for which the Licence is extended for the purpose of production pursuant to Paragraph 2 of Article 10 of the Hydrocarbons Act.

## Section 2 – Licence Area

The Licence shall apply to the area indicated on the attached map, with the relevant corner coordinates and block(s) or parts of block(s) set forth in Appendix 1.

The coordinate system implemented herein is the World Geodetic System 1984 (WGS-84). The label of each quadrant starts with IS, followed by two digits for the latitude degree and then two digits for the longitude degree for the south-eastern corner coordinates of the quadrant, e.g. IS6708 (67° N, 08° W). Each individual quadrant is subdivided into 3 blocks of 20 longitudinal minutes and 4 blocks of 15 latitudinal minutes each. The blocks are labelled from 01 to 12, beginning in the north-western corner of each quadrant, e.g. IS6708/01.

### **Section 3 – Licence Period**

The Licence shall be valid for the period indicated in Appendix 2. The licence period for the purpose of exploration (exploration period) is divided into sub-periods, as indicated in Appendix 2.

NEA may extend the exploration period for the purpose of further exploration by up to two years at a time in accordance with Paragraph 1 of Article 10 of the Hydrocarbons Act. Applications for any such extensions shall be submitted to NEA no later than 90 days before the expiry of the exploration period. Any extension will be granted as an addendum to this Licence.

Subject to the provision of Article 12 of the Hydrocarbons Act, the Licence may at any time during the exploration period be surrendered, provided that all exploration commitments for the sub-period in which the Licence is surrendered have been fulfilled. Notice thereof shall be forwarded to NEA within 90 days from the intended date of effect.

Subject to the conditions specified in Section 6 of this Licence, the relevant provisions of the Hydrocarbons Act and Regulations, NEA shall grant the Licensee an extension of the Licence for the purpose of production for up to 30 years (the production period) for parts of the Licence area. Extensions may be granted separately for one or more areas.

At the end of the first and second sub-periods, respectively, of the exploration period, the Licensee shall at NEA's demand, relinquish the percentage shares of the licence area indicated in Appendix 2, unless the work programme for the next sub-period include the drilling of at least one exploratory well. For the purpose of calculating the areas to be relinquished, appraisal areas with respect to production and areas where the licence has been extended for the purpose of production shall be excluded. The Licensee's proposal for relinquishment under the above paragraph shall be submitted to NEA for approval no later than 90 days before the end of each individual sub-period, unless another respite is approved. The relinquishment shall take effect from the end of the sub-period in question. If proposals are not received in time NEA may determine which parts of the licence area shall be relinquished.

At any time after the end of the first sub-period of the exploration period, the Licensee may relinquish parts of the licence area. Such relinquishment shall not affect the exploration commitments for the second or the third sub-period. The relinquishment shall take effect from the date of NEA's approval.

Relinquishment shall be approved by NEA. The relinquished area shall after each relinquishment consist of contiguous and compact units of a form and size that make them suitable for further exploration and production and be delimited by degrees of longitude and latitude, expressed in whole minutes. The same applies to the areas for which the licence term is extended for the purpose of production in accordance with Paragraph 2 of Article 10 of the Hydrocarbons Act.

NEA may require the Licensee to relinquish a certain part of the licensed area before prolonging the Licence for production purposes, in which case the Licensee shall submit a proposal for such a relinquishment with NEA no later than 90 days before the exploration Licence expires. In the event NEA does not receive any relinquishment proposal from the Licensee, NEA may decide on the relinquishment of the licensed areas.

In the event that the Licence expires, is abandoned or is rescinded, the Licensee shall not be relieved of its obligations under any relevant legislation, this Licence or other applicable rules and regulations, conditions or directives.

In the event that the rights granted under this Licence are relinquished during the exploration phase, said abandonment shall extend to the entire licence area, unless NEA consents to partial abandonment of the area.

Upon expiry, termination or relinquishment of the Licence, the Licensee shall have fulfilled all decommissioning and abandonment activities relating to installations, facilities or other hydrocarbons related constructions and equipment on- or off shore, pursuant to Article 16 of the Hydrocarbons Act or as required by NEA.

#### **Section 4 - Operator**

[Company Z] has been appointed and has accepted the designation and responsibility as Operator.

#### **Section 5 – Exploration Commitments**

The Licensee shall carry out the exploration commitments set out in Appendix 3.

If the exploration period of the Licence is extended in accordance with Section 3(2) exploration commitments or other types of work commitments will be stipulated for any such sub-period in the addendum to the licence.

The exploration commitments shall be deemed to be fulfilled when the exploration work specified in Appendix 3 has been completed.

Any exploratory wells drilled during a sub-period in addition to the exploratory wells stipulated in Appendix 3 for the period in question may be credited against exploration commitments in subsequent periods.

If a hydrocarbon discovery is made, the Licensee shall:

- a) Immediately notify NEA.
- b) No later than eight (8) months following the completion of the well in which the discovery is made, submit a report on the discovery.
- c) Submit for the approval of NEA a field appraisal programme detailing the further work required according to good international oilfield practice under similar circumstances, to ascertain whether a hydrocarbon deposit has been demonstrated under conditions such that exploitation of the hydrocarbon deposit is technically feasible and commercially viable.

The appraisal programme shall include a time schedule for the work to be performed in order to provide a sufficient basis for submitting a field development and production plan for the relevant hydrocarbon deposit no later than 3 months prior to the expiry of the exploration period.

The appraisal programme shall be revised continuously on the basis of the results obtained. The appraisal programme and any amendments thereto shall be approved by NEA. The appraisal programme shall not qualify as fulfilment of the exploration commitments stipulated in Appendix 3.

During and after the planning and implementation of an appraisal programme the Licensee is entitled to delimit a reasonably sized contiguous area around the discovery well comprising the anticipated Hydrocarbon deposit (the appraisal area). The delimitation of such appraisal area is subject to approval by NEA. If during an entire sub-period, the Licence comprises appraisal areas only, the Licensee shall not be obliged to drill exploratory wells in accordance with Appendix 3.

A commitment to drill an exploratory well cannot be replaced by other activities without prior approval of NEA. Other types of exploration activity, including seismic surveys, appraisal wells, delimitation wells, production wells, and other non-exploratory wells, do not qualify to fulfil such exploration commitment. The same applies to investigations preparing for the construction of development and production facilities,

installations, etc., unless approved by NEA. However, further drilling from an appraisal well may count as an exploratory well, where this is approved by NEA in advance.

In case exploration commitments are not fulfilled, the Licence has terminated or has been rescinded NEA may demand that the Licensee indemnifies NEA for the costs of meeting unfulfilled commitments and any expenses incurred by NEA for having a third party perform or fulfil unfulfilled exploration commitments. Payment of such indemnities shall be made no later than 30 days from demand by NEA thereof. Once NEA has been indemnified, the Licensee shall have no other obligations with respect to the unfulfilled exploration commitments.

## **Section 6 – Conditions for Extension for the Purpose of Production**

If the Licensee has discovered and prepared a proposal for the delimitation of one or more commercial hydrocarbon deposits that the Licensee intends to exploit, and provided that the terms of the Licence have been complied with, the Licensee shall be entitled to an extension of the Licence for the purpose of production in accordance with Paragraph 2 of Article 10 of the Hydrocarbons Act. The Licensee shall forward a request for an extension to NEA no later than 90 days before the end of the exploration period.

The Licensee's request for an extension for the purpose of production for one or more hydrocarbon deposit(s) shall be based on the results of one or more appraisal programmes and be accompanied by

- a) A statement to the effect that
  - i. One or more hydrocarbon deposit(s) have been demonstrated.
  - ii. The hydrocarbon deposit(s) have been demonstrated under such conditions that exploitation is deemed technically and commercially feasible.
  - iii. The Licensee intends to exploit the deposit(s).
- b) A feasibility study of the deposit(s) comprised by the statement. The feasibility study shall contain a description and an evaluation of the deposits with respect to geology and reservoir technology, as well as a specification of the technical, financial, environmental and other assumptions upon which the Licensee's declaration is based.
- c) The Licensee's proposal for the delimitation of the area for which the Licensee requests the extension.

NEA shall undertake the delimitation of the area or areas for which the licence term is extended for the purpose of production. The delimitation shall be indicated by geographical co-ordinates and by depths according to the following principles:

- a) The extended Licence will comprise the area in which commercially exploitable deposits have been demonstrated and delimited, according to the available seismic data and drilling data or other relevant data.
- b) The basis for the delimitation will be the deposits in question and their extent, as documented by the Licensee to the satisfaction of NEA in the above mentioned feasibility study, with due regard being paid to the Licensee's proposal, cf. Section 6(2)(c) hereinabove.
- c) The depth of the delimited area shall be considered to extend at least to the point penetrated by drilling and in any case shall include all hydrocarbon deposits for which the extension is granted.

- d) Where conditions so require, a delimited area may include more than one deposit.
- e) If the delimitation of the deposit cannot be established with a major degree of certainty, NEA shall take this into account in determining the extent of any additional area falling under the Licence (and the associated depths).

The area(s) for which the Licensee relinquishes the right in which to explore and produce hydrocarbons and the area(s) for which this right is preserved pursuant to Section 3(5), as well as the area(s) for which a licence term is extended pursuant to Section 3(4) above shall be contiguous and shall be delimited by longitude and latitude, expressed in whole minutes.

## **Section 7 – Field Development and Production Plan**

Any extension of the licence term pursuant to Sections 3 and 6 above is subject to the condition that prior to a deadline set by NEA in granting the extension, the Licensee shall submit a field development and production plan for the designated hydrocarbon deposits(s) that meets with the approval of NEA pursuant to Paragraph 2 of Article 15 of the Hydrocarbons Act, and subject to the condition that the Licensee shall initiate production at the time provided for in the approval.

The field development and production plan shall consist of a description of all necessary activities, such as:

- a) Development, including a plan for drilling.
- b) Production, handling, storage and transportation.
- c) Navigation, fishing, scientific investigations, practical surveys, other lawful third-party activities.

Furthermore, the field development and production plan shall contain:

- a) A plan describing all necessary activities, including development, production, storage and transportation activities, including a time schedule for the Licensee's development activities.
- b) An approved environmental impact assessment by the Ministry for the Environment, pursuant to the Environmental Assessment Impact Act No. 106/2000 of the development plan mentioned in the item a) above. NEA may demand that the assessment be amended or amplified if it is considered inadequate by NEA.
- c) A plan for decommissioning an offshore installation as stipulated in Article 16 of the Hydrocarbons Act, which shall include cost estimates for the decommissioning activities.
- d) Any other information or reports required by the Hydrocarbons Regulation.

In its evaluation of the proposed plan, pursuant to Section 7(1), NEA will review the plan's components and the activities contemplated thereby from a technical, financial, health, safety, environmental and Icelandic socio-economic perspective.

The Licensee shall use its best endeavours to carry out the activities in the development plan in accordance with the approved time schedule, and shall initiate exploitation by the date stipulated in the approval by NEA of the plan, unless a postponement is approved by NEA in response to an application.



## **Section 8 – Rights of the Licensee**

This Licence confers upon the Licensee the exclusive right to explore for and produce hydrocarbons within the Licence area. Excepted are such hydrocarbons as are extracted by subjecting coal, bituminous shales or other subsoil deposits to destructive distillation processes or similar treatment.

Where the Licensee discovers any raw materials other than those falling within the scope of the Licence, the Licensee shall be obligated to notify NEA thereof.

In the event that other natural resources may be exploited at the same time as a necessary extension of the production of hydrocarbons, the Licensee shall be entitled to such natural resources unless they are subject to third party ownership. NEA reserves the right to impose upon the Licensee specific terms and conditions with respect thereto, including payment of a special surcharge in the event such additional exploitation or production is commercially viable.

## **Section 9 – Third-Party Activities in the Licence Area**

The Licensee shall respect all existing rights, and the Licence shall not entail any restrictions in lawful activities carried out by third parties in the Licence area, or prevent such other parties from being granted permission to perform the activities mentioned in the following paragraph.

Within the Licence area third parties may:

- a) Undertake prospecting for hydrocarbons in the subsoil, provided that a copy of the raw data (e.g. copies of seismic field tapes) acquired by such third parties within the licence area is forwarded to the Licensee free of charge.
- b) Explore for and to produce raw materials other than those covered by this Licence.
- c) Establish and operate pipeline facilities, installations, infrastructure, etc., intended for activities falling within the scope of the Hydrocarbons Act.
- d) Use the subsoil for storage or for purposes other than production.
- e) Undertake scientific and practical surveys of a general nature and for the purpose of producing maps and charts regarding mineral resources.

The Licensee shall endeavour to ensure that its activities under this Licence do not impede unnecessarily the activities referred to in a-e) or any hydrocarbon exploration and production activities carried out under any other licences. NEA shall endeavour to ensure that such activities and the activities of other persons under such other licences do not impede unnecessarily the activities to be undertaken by the Licensee under this Licence.

The Licensee shall endeavour to organise its activities and if necessary revise its operations to accommodate fishing efforts that may occur within the Licence area. To comply with this requirement, the Licensee, prior to conducting any seismic or other investigations, shall notify NEA in a timely manner.

## **Section 10 – Coordination and Unitisation**

Pursuant to Paragraph 1 of Article 19 of the Hydrocarbons Act, in the event a Hydrocarbon deposit extends from the area of this Licence into the area(s) of one or more other Licences, such licensees shall coordinate their activities by entering into a co-operation agreement of unitisation which is subject to the approval of

NEA. In the event such licensees do not promptly conclude a co-operation agreement NEA may determine the terms and conditions of such an agreement to which the Licensee and other licensees shall be bound.

If a Hydrocarbon deposit extends into another state's continental shelf the Licensee shall comply with instructions of NEA pursuant to Paragraph 2 of Article 19 of the Hydrocarbons Act.

## Section 11 – Fees

A fee of ISK 850,000 shall be paid to NEA in accordance to Item 2, Paragraph 3 of Article 30 a. of the Hydrocarbons Act.

Should the Licence be extended for the purpose of production, a fee of ISK 1,350,000 shall be paid to NEA for such an extension in accordance with Item 3, Paragraph 3 of Article 30 a. of the Hydrocarbons Act.

A yearly fee of ISK 1,000,000 shall be paid in accordance with Paragraph 5 of Article 30 a. of the Hydrocarbons Act.

An annual area fee shall be paid to the State Treasury, based on the size of the Licence area, i.e. the number of square kilometres the Licence covers, on each anniversary of the Licence in accordance with Paragraph 7 of Article 7 of the Hydrocarbons Act. Such an annual fee shall not be charged for producing hydrocarbon deposits delimited in accordance with Section 6(3) above. In calculating the size of the area, the figure shall be rounded up to NEArest whole square kilometre.

The area fee is:

Licence year	ISK pr. km <sup>2</sup>
Payment 1 – 6 (i.e., payments for licence years 1 – 6)	10,000
Payment 7	20,000
Payment 8	30,000
Payment 9	40,000
Payment 10	50,000
Payment 11	60,000
Payment 12	70,000
Payment 13	80,000
Payment 14	90,000
Payment 15	100,000
Payment 16	110,000

The annual fee for the area comprised in the Licence shall be paid in advance on each licence date, that is the day and month on which this Licence is dated and issued. In the event of overdue payments, the Licensee shall pay interest at an annual rate equal to the official discount rate set by the Central Bank of Iceland (Seðlabanki Islands) from time to time, plus 6% from the date the payment is due to the date of actual payment.

The fees described in this Section are subject to changes in the Hydrocarbons Act.

## Section 12 – The Hydrocarbon Research Fund

Pursuant to Paragraph 8 of Article 10 of the Hydrocarbons Act and Regulation No. 39/2009, with later amendments (**the Hydrocarbon Research Fund Regulation**), establishing the Hydrocarbon Research Fund (**the Fund**), a special training and research fund in the field of hydrocarbon activity, an initial contribution to

the Fund in the amount of ISK 1.000.000 shall be paid. Furthermore, during the lifetime of the Licence, an annual contribution in the amount of ISK 5.000.000 shall be paid.

The initial contribution pursuant to Paragraph 1 above is payable on the date this Licence is issued, with the annual contribution payable on each licence date, that is the day and month on which this Licence is dated. In the event of overdue payments, the Licensee shall pay interest on any such amounts, at an annual rate equal to the official discount rate set by the Central Bank of Iceland (Sedlabanki Islands) from time to time, plus 6% from the date the payment is due to the date of actual payment.

The contributions and other provisions regarding the Hydrocarbon Research Fund are subject to changes in the Hydrocarbons Act and the Hydrocarbon Research Fund Regulation.

### **Section 13 – Joint Operating Agreement**

Where the Licensee is held by several Parties jointly, the Licensee's performance of the activities covered by the Licence shall be regulated by a co-operation agreement concerning hydrocarbon exploration and production between the parties in question (cf. Paragraph 2 of Article 7 of the Hydrocarbons Act). The Agreement concerning Exploration and Production of Hydrocarbons ("the Agreement") comprises the following enclosures to this Licence:

1. Enclosure - Special provisions.
2. Enclosure A - Joint Operating Agreement.
3. Enclosure B - Accounting Agreement.

The Agreement shall following the award of the Licence be signed by the Parties within 30 days.

Any amendment of, deviation from or supplement to such an Agreement, including the appointment of a new operator, shall be submitted to NEA for approval.

In the event of the Norwegian Government determining to exercise the rights of the Kingdom of Norway pursuant to the Agreed Minutes concerning the Right of Participation pursuant to Articles 5 and 6 of the Agreement of 22 October 1981 between Iceland and Norway on the continental shelf in the area between Iceland and Jan Mayen, the Agreement shall contain voting rules which in a balanced manner both reflect the participating interest and protect a minority interest. The Agreement shall contain provisions allowing a participant to individually decide whether or not to take part in a particular field development plan for hydrocarbon deposits, and the right to assign a participating interest subject to prior consultation and in accordance with the Hydrocarbons Act, cf. Section 21 below.

### **Section 14 – Supervision**

Pursuant to Paragraph 7 of Article 10 of the Hydrocarbons Act, the Licensee shall ensure that the hydrocarbon activities take place in a responsible manner and in accordance with the Legislation that is in effect at any given time. The hydrocarbons activities shall take into account the utilisation of the resource as well as safety and public interests. The measures of the Licensee regarding the planning and size of the activities shall be such that the Licensee can at any time make informed decision on its hydrocarbon activities. To ensure follow-up of the measures of the Licensee, NEA may, if NEA consider this necessary judging from the scale of the hydrocarbon activities of the Licensee, put forward specific requirements on the measures of the Licensee and the placement of the bases of the Licensee. The Ministry may issue more detailed regulations regarding the operations of such bases, for example regarding the distance from exploration and production areas.

Pursuant to Article 24 of the Hydrocarbons Act, NEA will supervise the Licensee's activities under the Licence. The Licensee shall repay NEA expenses associated with and resulting from such supervision, subject to NEA demanding such payment. If the Licence is granted to several parties jointly, they shall be jointly and severally liable towards NEA for such payments.

Pursuant to Article 24 of the Hydrocarbons Act, NEA shall supervise the Licensee's activities under the Licence. The supervision personnel shall have the right to:

- a) Access (at all reasonable times) exploration vessels, drilling units, production facilities, other installations and shipment and pipeline facilities as well as all data and materials pertaining to exploration and production operations.
- b) Stay onboard vessels or other installations as long as they deem necessary.
- c) Inspect (at all reasonable times), make abstracts or copies of any records, returns, plans, maps, books or accounts which the Licensee is required to keep or make and also to take such samples, (including samples of geological material) as they deem necessary. The Licensee shall ensure that the supervisory personnel are given access to all relevant material which is in the possession of a person other than the Licensee.
- d) Execute at all reasonable times any works or provide and install any equipment which the Minister of Industry, Energy and Tourism or NEA has the right to execute or provide and install.
- e) Call attention to any infringement of legislation or other provisions applicable to the Licensee's activities violations of laws, regulations and rules and may issue such instructions as they deem necessary. The Licensee shall comply with an instruction issued under this paragraph.
- f) Temporarily bring operations to a halt in the case of serious or repeated violations.

NEA may decide and direct that moveable facilities shall be taken into an Icelandic port or other port for inspection purposes.

The Licensee is obliged to grant the supervision personnel all the assistance required for their investigations.

The Licensee shall ensure that the supervisory personnel are given access to all relevant material which is in the possession of a person other than the Licensee.

The Licensee shall according to agreement, arrange for the transportation of representatives of public authorities from their place of work to and from the site of inspection. The same applies to accommodation for the supervision personnel at the inspection site and transport within the licence area. The associated expenses shall be borne by the Licensee.

The foregoing rules (provisions) shall also apply to aircraft including helicopters.

## **Section 15 – Reporting**

In order to ensure insight into the Licensee's activities under this Licence and the nature of the Icelandic continental shelf, the Licensee shall submit to NEA all information and data required about its prospecting, exploration and production activities and other information relating to the Licensee's activities under the Licence. Upon NEA's request, the Licensee shall submit samples of geological material, including drill cores that have been obtained as a part of the Licensee's activities to NEA, free of charge.

Discovery by the Licensee of mineral resources other than those covered by the Licence shall be reported to NEA with no undue delay.

To ensure in depth knowledge and oversight of the activities of the Licensee under this Licence, the Licensee shall submit all information required about its exploration and exploitation activities performed under the Licence, including information concerning its financial condition, as well as the types of data, interpretations and other information to be included in the reports, pursuant to the then current rules and regulatory schemes promulgated under Article 31 of the Hydrocarbons Act.

Furthermore, in accordance with Articles 24 a and 26 of the Hydrocarbons Act, the Licensee shall submit to NEA all information it may require.

All expenses for the preparation and submission of data, reports and samples under the Licence shall be paid by the Licensee.

## **Section 16 – Confidentiality**

Information given by the licensees to NEA Licensee under the provisions of the Hydrocarbons Act and this Licence shall be treated as confidential by NEA, and other public authorities and persons performing duties on a contractual basis for NEA, during the period of validity of the Licence. Should the Licence expire, be relinquished or revoked, in whole or in part, such period of confidentiality shall be terminated with respect to information relating to the area no longer covered by the Licence.

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

Provisions on confidentiality shall not prevent NEA, or other authorities designated by the Minister of Industry, Energy and Tourism, from giving general information to the public on prospecting, exploration and production areas and activity in these areas as, i.a.:

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

The provisions of Paragraph 1 above shall not prevent the disclosure of such information and other data in the following instances:

- a) If information of a general nature is furnished in connection with the issuance of public statements, annual reports or the like concerning matters relating to exploration and production.
- b) If information is disclosed in co-operation with the authorities of other countries, subject to the condition that similar provisions for confidentiality of such information apply in the country in question. Information received from the authorities of other countries that is classified or confidential, or where this is implied by the nature of the information, shall be subject to the provisions of Paragraph 1 above.

In communications to individuals or to the public, the Licensee shall not, without the prior consent of NEA, directly or indirectly quote or refer to statements or communications emanating from NEA, the supervisory

authority, any other public authority or any person employed by or performing duties for them that concern the probability of making discoveries, the size of hydrocarbon deposits and the timing and nature of any hydrocarbon production.

### **Section 17 – Methods and Equipment for Measuring Hydrocarbons Produced**

Any equipment, procedures and units of measurement for the qualitative and quantitative measurement of hydrocarbons produced are subject to the approval of NEA. Measurements shall be made on the basis of recognised and customary methods, and shall be subject to control by NEA.

If it is found that the methods or equipment used has provided too low a measurement, this shortfall shall be deemed to have existed since the previous check took place, unless it is established that the shortfall has existed for a shorter or a longer period of time.

### **Section 18 – Damages and indemnity**

Pursuant to Article 28 of the Hydrocarbons Act the Licensee is liable for any damage caused by its exploration, exploitation and production activities or the non-performance thereof, including environmental damage, regardless of whether the damage can be proved to be culpable. The compensation liability for bodily harm or loss of provider may be lowered or cancelled if it is proven that the party suffering harm has inflicted the harm intentionally or due to major carelessness. The compensation liability for material damages may be lowered or cancelled if it is proven that the party suffering damages has inflicted the damage intentionally or due to carelessness.

Compensation for environmental damage may be reduced or cancelled due to the occurrence of a force majeure event.

The Licensee shall indemnify and hold harmless the Icelandic State, NEA and all related and collateral parties from any and all disputes, actions, claims or causes of actions (including attorneys' fees and costs) whatsoever which may be brought by any third party arising out of or in connection with the activities of the Licensee undertaken pursuant to this Licence.

NEA shall notify the Licensee of any claim falling within the scope of Paragraph 2 above. In the event that NEA considers any such claim unjustified, NEA shall reject the claim, if necessary by bringing the matter before the courts. The Licensee may join any action brought in respect of such claim in accordance with the applicable provisions of the Code of Civil Procedure No. 91 of 31 December 1991.

The foregoing does not limit the right to damages by an injured party derived from general rules.

### **Section 19 – Joint and Several Liability**

According to Paragraph 2 of Article 28 of the Hydrocarbons Act the Licensees together are jointly and severally liable for any damages or compensation payable pursuant to Section 18 above, and for the satisfaction of any and all other obligations towards the Government of Iceland under this Licence.

### **Section 20 – Insurance and Guarantee**

The petroleum activities shall be insured at all times. The insurance must at least cover:

- a) Damage to facilities.
- b) Pollution damage and other liability towards third parties.

- c) Wreck removal and cleanup as a result of accidents
- d) Drilling of [exploratory/appraisal/production] wells.
- e) Insurance of the Licensee's own employees who are engaged in the activities.

The Licensee shall ensure that contractors and subcontractors engaged in the activities take out insurance for their employees to the same extent as the operator insures its own employees.

When taking out insurance as mentioned in the Paragraph 1 item a) to d), the Licensee shall provide reasonable insurance cover, taking into consideration risk exposure and premium costs. NEA may consent to the Licensee using other security arrangements.

At the end of each calendar year, the Licensee shall inform NEA about existing insurance agreements, with an indication of the main terms. NEA may require further insurance.

All companies with a parent company are required to sign a parent company guarantee (Appendix 4).

In order to ensure the Licensee's performance of all of its obligations and liabilities under this Licence, it shall within a period of 30 days from the granting hereof provide guarantee in amount and of a kind, in the form of a parent company guarantee (Appendix 4) to NEA. If the Licensee does not have a parent company, extra insurance or bank guarantee are required that is acceptable to NEA. The parent guarantee, extra insurance or bank guarantee shall cover the fulfilment of all obligations towards the Icelandic State as well as any liability in damages pursuant to Sections 18 and 19 hereinabove. Upon 30 days' notice, NEA may subsequently require that such guarantee be changed or supplemented. The requirement of a guarantee applies equally to all Licensees, cf. Section 19 above.

## **Section 21 – Transfer of a Licence**

This Licence or any part thereof cannot directly or indirectly be transferred to any third party or from one Licensee to another, unless such transfer is approved by NEA according to Article 30 of the Hydrocarbons Act. Corresponding restrictions shall apply to the conclusion of any other agreements having the same effect. A fee may be charged for an approval granted pursuant to this Section.

## **Section 22 – Legislation**

The Licence and any activities hereunder shall be subject to the rules of law in force in Iceland. Accordingly, this Licence shall not restrict the general right of the Icelandic States to levy taxes or its authority to issue general provisions concerning more specific aspects of exploration and production activities.

This Licence shall not exempt the Licensee from obtaining any other licences and approvals required pursuant to the Hydrocarbons Act.

## **Section 23 – Disputes**

Any disputes or controversies arising out of or in connection with this Licence or with the Licensee's performance of activities under this Licence shall be resolved pursuant to the rules of law in force in Iceland and shall be brought before an Icelandic court.

The venue shall be Reykjavík.

Paragraphs 1 and 2 shall not prejudice the rights of NEA and the Licensee to decide, in any particular case, that a dispute as referred to in Paragraph 1 shall be resolved by arbitration.



**APPENDIX 1<sup>1</sup>**  
**MODEL LICENCE**  
**FOR THE**  
**EXPLORATION AND PRODUCTION OF HYDROCARBONS**  
**2<sup>nd</sup> LICENSING ROUND**

Area covered by the licence, cf. Section 2 of the Licence

The Licence encompasses the area represented in block(s) or parts of block(s) \_\_\_\_\_, with the following coordinates:

World Geodetic System 1984: WGS-84

<u>LATITUDE</u>			<u>LONGITUDE</u>		
Degree	Minutes	Seconds	Degree	Minutes	Seconds

Where possible, the licence area is delineated by connecting the corner coordinates by longitudes and latitudes in the above order. Otherwise geodesics are used.

The Licence covers [•] square kilometres.

The location of the licence area is shown on the attached map

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<sup>1</sup>**NOTE:** Appendix 1 is for illustrative purposes only. Each licence area shall be determined on the basis of individual submissions and subsequent decisions by NEA.

**APPENDIX 2<sup>2</sup>**  
MODEL LICENCE  
FOR THE  
EXPLORATION AND PRODUCTION OF HYDROCARBONS  
2<sup>ND</sup> LICENSING ROUND

Licence period for the purpose of exploration, pursuant to Section 3 of the Licence

The licence period shall be ..... years, divided into the following sub-periods:

1. First sub-period: [date of the granting of the Licence] – .....
2. Second sub-period: ..... – .....
3. Third sub-period: ..... – [date of the expiry of the Licence]

Before the end of the first sub-period, the Licensee shall either undertake to carry out the work commitments for the second sub-period, see Appendix 3, or surrender the Licence. Likewise, before the end of the second sub-period, the Licensee shall either undertake to carry out the work commitments for the third sub-period, see Appendix 3, or surrender the Licence.

At the end of the first sub-period, at least [•] % of the area shall be relinquished. At the end of the second sub-period at least [•] % of the area remaining at the start of the second sub-period shall be relinquished.

Relinquishment shall take place in accordance with Section 3.

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<sup>2</sup>**NOTE:** Appendix 2 is for illustrative purposes only. The Licence period shall be determined on the basis of individual submissions and subsequent decisions by NEA.

**APPENDIX 3<sup>3</sup>**  
MODEL LICENCE  
FOR THE  
EXPLORATION AND PRODUCTION OF HYDROCARBONS  
2<sup>ND</sup> LICENSING ROUND

Work Programme for the Licence, pursuant to Section 5 of the Licence

The following work programme covers the exploration activities that the Licensee shall carry out pursuant to Section 5 of Licence No. .... for Exploration for and Production of Hydrocarbons, dated ....., relating to the licence area (*in block(s)* .....), see Appendix 1.

1. During the first sub-period, the Licensee shall carry out the following activities:

Acquire [•] km of its own 2D seismic data. Of these a minimum of [•] km shall lie within the Licensee's block(s).

2. During the second sub-period, the Licensee shall carry out the following activities:

[•] Exploration well(s) shall be drilled through /to [•] (geologic formation) ..... or a total depth of [•] metres, whichever is reached first.

3. During the third sub-period, the Licensee shall carry out the following activities:

...

4. The wells shall be drilled in an appropriate manner that comports with good exploration practice, which shall include core drilling, the extraction of samples and production testing, and that otherwise conforms to the guidelines laid down by NEA in connection with the approval of each individual drilling programme.
5. Satisfactory analyses and interpretations of acquired data shall be carried out. The Licensee shall comply with any instructions issued by NEA in this respect.
6. Prior to the commencement of the work, the Licensee may obtain the opinion of NEA as to whether the exploration activities planned will constitute fulfilment of the work programme.
7. When the Licence for an area terminates, the Licensee shall submit a final report to NEA on the hydrocarbon potential of the relinquished area.

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<sup>3</sup>**NOTE:** Appendix 3 is for illustrative purposes only. Each work programme shall be determined on the basis of individual submissions and subsequent decisions by NEA.

**APPENDIX 4**  
**MODEL LICENCE**  
**FOR THE**  
**EXPLORATION AND PRODUCTION OF HYDROCARBONS**  
**2<sup>ND</sup> LICENSING ROUND**

Parent company guarantee

1. The undersigned Company hereby undertakes financial liability as surety for the following obligations which may arise for  
..... (organisation No:.....)

in connection with the operations of this company concerning exploration for and exploitation of subsea hydrocarbon resources, including storage and transportation by any means other than by ship, on the Icelandic Continental Shelf.

- a) The obligations which the above-mentioned company has assumed or may assume to the Icelandic State or other Icelandic public institution.
- b) Any liability, including liability for any recovery claim, which may be imposed on the above-mentioned company under Icelandic law for pollution damage and for personal injury, to the Icelandic State, an Icelandic municipality or other Icelandic public institutions, or to private persons, including companies, foundations and other associations.

The Company undertakes to pay any costs incurred by the public authorities or others in connection with the performance of work which ought to have been performed by or on behalf of the above-mentioned companies, and to cover any claim incurred by the public authorities in consequence of the operations of the above-mentioned company.

This surety applies to all present and future claims whether they pertain to public or private law.

2. Any dispute relating to this declaration will be settled with final effect under Icelandic law and is subject to Icelandic legislation.

The Reykjavík District Court is accepted as due venue, unless another venue or arbitration will apply according to the next paragraph or is prescribed under Icelandic law.

If the Icelandic State or the third party in question should wish to involve the undersigned Company in any arbitration or law proceedings against the above-mentioned companies, the Company accepts the competence of the Icelandic court of law or arbitration court in question as regards any issue relating to the present surety.

3. The Company accepts that any court decision or arbitral award pronounced against the Company in connection with any dispute arising from the present declaration may be enforced against the assets of the Company wherever they may exist.

Place and date

Name of company signing the guaranty declaration