

Regulation

on Prospecting, Exploration and Production of Hydrocarbons

No. 884/2011

SECTION I

Scope and Definitions.

Article 1

Scope.

This Regulation applies to the prospecting, exploration and production of hydrocarbons and transport of hydrocarbons through pipeline systems outside the 115-metre zone and within Icelandic territorial waters and the exclusive economic zone and on the Icelandic continental shelf.

Article 2

Definitions.

Economic zone: Iceland's economic zone is the area outside the Icelandic territorial waters, which is defined by a line which everywhere extends 200 nautical miles from the base line of the territorial waters, as provided for in Act No. 41/1979 on territorial waters, the economic zone and the continental shelf. Between Iceland on the one hand and the Faeroe Islands and Greenland on the other, where there is less than 400 nautical miles between base lines, the Icelandic economic zone and the continental shelf of Iceland is determined by the centreline.

Transport: Transport of hydrocarbon from offshore facilities by pipelines or by other means.

Extraction: Removal of material from strata.

Produced hydrocarbon: Hydrocarbons that have been pumped up from a hydrocarbon reservoir and have not been pumped back into a hydrocarbon reservoir.

Offshore facility:

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

Icelandic waters: The waters from the low tide mark to the outer edges of the economic zone or to the outer edges of the continental shelf where the shelf extends outside the economic zone.

Hydrocarbons: Mineral oil, natural gas or other types of hydrocarbons found naturally in strata under the seafloor and which can be exploited in a gaseous or liquid form.

Hydrocarbon resource: Hydrocarbons on or in hydrocarbon reservoirs.

Hydrocarbon reservoir: Geologically defined area under the seafloor that contains hydrocarbons.

Hydrocarbons Act: Act No. 13/2001 on the prospecting, exploration and production of hydrocarbons, as amended.

Hydrocarbon activities: Activities involving undersea hydrocarbon resources, such as research and processing, including plans for such activities but not, however, oil transportation by vessel.

Continental shelf: The seafloor and the undersea area outside the territorial waters, which are an extension of the land, up to the outer limits of the continental shelf, up to, however, the 200-nautical-mile distance from the baseline of the territorial waters where the outer limits of the continental shelf do not reach such distance, as provided for in Act No. 41/1979 on territorial waters, the economic zone and the continental shelf. Between Iceland on the one hand and the Faeroe Islands and Greenland on the other, where less than 400 nautical miles are between base lines, the Icelandic economic zone and continental shelf are determined by the centreline.

Icelandic territorial waters or territorial waters: The area defined by a line that which everywhere extends 12 nautical miles from the baseline drawn in accordance with the Act on territorial waters, the economic zone and the continental shelf.

Prospecting: Investigating general conditions for the formation and conservation of hydrocarbons, delimiting areas where such conditions are favourable and searching for hydrocarbon resources by measurements from air, land, sea or the seafloor or by collecting samples from the top strata of the seafloor, e.g. with shallow drilling or by taking cores.

Prospecting Licensee: A party who has received a licence to prospect for hydrocarbons according to Chapter III of the Hydrocarbons Act.

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

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

Exploration: Evaluation of the size, location and production properties of a hydrocarbon reservoir by drilling exploration wells and making borehole measurements in addition to prospecting for hydrocarbons by geophysical methods.

Pilot well: Well not intended for the production of hydrocarbons.

Production: Hydrocarbon production from a hydrocarbon reservoir, including drilling of production wells, pumping or conduction of hydrocarbons to the surface, pumping down hydrocarbons and other substances, treatment and storage of hydrocarbons for transport, loading of hydrocarbons as well as constructing, installing, operating and decommissioning offshore facilities intended for such production.

SECTION II

Ownership of Hydrocarbons.

Article 3

Ownership of Hydrocarbons.

The Icelandic State is the owner of all hydrocarbons pursuant to Article 1. An agreement may be reached with the holder of the exploration and production licence that the licensee becomes the owner of the hydrocarbon that he produces.

The Minister of Industry, Energy and Tourism is the supreme authority in matters pertaining to this Regulation.

SECTION III

Licence to Prospect for Hydrocarbons.

Article 4

Licence to Prospect.

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

Article 5

Application.

An application for a prospecting licence shall present in a clear manner:

1. The name of the applicant and address. In the case of their being legal entities, official registration papers should accompany the application.
2. The boundaries of the area for which a licence is being sought.
3. The purpose of obtaining a licence.
4. A detailed explanation of the applicant's intended activities, including the nature and purpose of investigations and research methods. In addition, the application should

include information on the name, size, model and type of vessels to be used during the prospecting and a description of research instruments.

5. A confirmation of payment of the application fee, in accordance with Article 30 of the Hydrocarbons Act.

The National Energy Authority may request information beyond that which is specified in Paragraph 1.

An application to the National Energy Authority for a licence may be in Icelandic or in English.,

Article 6

Procedure.

Prior to issuing a prospecting license, the National Energy Authority shall consult with the Ministry of Fisheries and Agriculture and the Ministry for the Environment. Moreover, the National Energy Authority shall obtain the opinion of the local authorities involved when applications that are submitted cover areas that are within 1 nautical mile from the 115--metre zone.

Article 7

Area of Prospecting Licence.

The area to which a prospecting licence applies shall be defined in the prospecting licence.

Prospecting licences do not apply in areas for which an exclusive exploration or production licence is valid under the Hydrocarbons Act, except with the permission of the licensees and the National Energy Authority.

Article 8

Authorisations of Prospecting Licence.

A prospecting licence allows the use of the following methods:

1. Magnetic methods.
2. Electromagnetic Resistivity methods.
3. Gravimetric methods.
4. Seismic methods.
5. Heat-flow methods.
6. Radiometric methods.
7. Geochemical methods.
8. Geological sampling of the seabed without drilling.
9. Drilling for samples from the seabed to a depth of 25 meters below the seafloor.

The National Energy Authority may upon a prospecting licensee's request permit other methods.

A licence includes permission to drill for the purpose of obtaining information about general conditions for the formation and conservation of hydrocarbons. If prospecting includes drilling to a depth greater than 25 metres below the seafloor, a separate application shall be sent to the National Energy Authority with such information as the Authority deems necessary.

A prospecting licence does not give the right to drill for hydrocarbons, produce hydrocarbons or give a priority to obtain such a licence later.

Article 9

Term of Prospecting Licence.

A licence to prospect for hydrocarbons shall be issued for a period of up to three years.

The prospecting licensee may surrender the licence at any time with written notice to the National Energy Authority.

Article 10

Notifications Regarding Prospecting.

The National Energy Authority shall be notified of every prospecting survey for hydrocarbons in or above Icelandic waters no later than 5 weeks before the prospecting begins. The National Energy Authority may under special circumstances grant an exemption from this time limit.

The Icelandic Coast Guard must be notified of a ship-borne survey within the deadline given in Paragraph 1. The notification shall include the following:

1. Information on the prospecting licence, the survey contractor, the survey ship(s) and how these parties may be contacted.
2. Whether it is intended to make use of service or auxiliary vessels in carrying out the survey.
3. Short description of the purpose of the survey.
4. Corner coordinates of the survey area.
5. Information regarding the minimum area required to operate the ship during the data acquisition.

An airborne survey shall also be notified to the Icelandic Civil Aviation Administration and the Icelandic Coast Guard within the deadline given in Paragraph 1. The notification shall include the following:

1. Information on the license, the survey contractor, the survey aircraft and how these parties may be contacted.
2. Whether it is intended to make use of service or auxiliary vessels or aircraft in carrying out the survey.
3. Short description of the purpose of the survey.
4. Corner coordinates of the survey area.
5. Information regarding flight altitude during surveying.

Article 11

Notification of Beginning of Shipborne Prospecting Survey.

The notification shall include the following:

1. Information on the prospecting licence.
2. Name of ship and port of registry.
3. Registry.
4. Radio call sign.
5. Inmarsat numbers for telephone, telefax and e-mail communications.
6. Last port of call prior to entering Icelandic waters (port and country).
7. First port of call after leaving Icelandic waters (port and country).
8. Estimated time and position of arrival in the survey area.
9. Information on planned port-calls in Icelandic ports (ports and estimated times of arrival).
10. Name and address of agent in Iceland.

If a survey is launched outside Iceland or is carried out with a foreign vessel, notification of the survey shall be given when entering Icelandic waters, *i.e.* at the outer boundary of the economic zone or at the outer boundary of the continental shelf where it extends beyond the economic zone. Otherwise, notification of a survey shall be given when leaving an Icelandic port.

The notification may include a request to the Icelandic Coast Guard to issue a warning about the planned data acquisition to other vessels in the survey area.

Calls in Icelandic ports shall be notified to the Icelandic Coast Guard and other Icelandic authorities at least 24 hrs. in advance.

Article 12

Notification of Beginning of Airborne Prospecting Survey.

The notification shall include the following:

1. Information on the licence.

2. Registry and call sign.
3. Estimated time and position of arrival in the survey area.

If a survey is launched outside Iceland or is carried out with a foreign aircraft, notification of the survey shall be given when entering Icelandic waters, i.e. at the outer boundary of the economic zone or at the outer boundary of the continental shelf where it extends beyond the economic zone. Otherwise, notification of a survey shall be given when leaving an Icelandic airport.

If a survey is to be conducted within the Icelandic flight information region (OCA/BIRD), a flight plan shall be submitted to the Icelandic Civil Aviation Administration no later than one hour before entering the region.

Article 13

Daily Notification.

Every day between 11:00 and 15:00 hrs. Greenwich meantime the position and planned movements of a survey vessel or aircraft during the next 24 hrs. shall be notified. Notification shall be given to the Icelandic Civil Aviation Administration and the Icelandic Coast Guard in case of an airborne survey, but to the Icelandic Coast Guard in case of a shipborne survey.

Specific notification shall be given on the departure from the area

Article 14

Reporting and Submission of Data.

During a survey, the prospecting licensee shall submit a weekly report to the National Energy Authority by telefax or e-mail accurately summarising the prospecting activities.

No later than two months after a survey has been completed, the prospecting licensee shall submit a survey report to the National Energy Authority. The report shall contain an accurate overview of the survey, including a description of the prospecting activities, the equipment, data acquisition and sample-collection.

For every calendar year, the prospecting licensee shall submit reports to the National Energy Authority on all geological, geophysical and geochemical investigations that have been made in the licence area. The reports shall be sent to the National Energy Authority as soon as possible and no later than 1 April in the year after the investigations were carried out. The reports shall be accompanied by copies of data, analyses and results of data processing in accordance with more detailed instructions issued by the National Energy Authority. The prospecting licensee shall submit samples to the National Energy Authority should the Authority so request.

The National Energy Authority may grant exemptions from the deadline given in Paragraph 3.

A prospecting licensee shall meet all requirements according to this Article without charge to the National Energy Authority.

SECTION IV

Exploration and Production Licence.

Article 15

Exploration and Production Licence.

The National Energy Authority grants licences for the exploration and production of hydrocarbons. Such a licence gives the licensee exclusive rights for exploration and production. The duties and research commitments of the licensee may be further defined in the exploration and production licence.

In cases where there are more than one licence holders of an exploration and production licence, they shall prepare and submit a Joint Operating Agreement for approval by the National Energy Authority. Any alterations to such an agreement or new annexes thereto, are subject to approval by the National Energy Authority. A licence for the exploration and production of hydrocarbons may be granted only to applicants who are considered to have the requisite expertise, experience and financial capacity to undertake these activities. More stringent requirements may apply to operators.

An exploration licence pursuant to this Regulation gives authorisation to explore a hydrocarbon resource in a given area during the licence period under the terms and conditions laid down in this Regulation, in laws, in the licence, and as determined more specifically by the National Energy Authority. The National Energy Authority may divide the licence period into sub-periods, with further specifications of the rights and obligations of the licensee within each individual period. When the conditions for an exploration licence have been fulfilled, the licensee shall have a priority to obtain an extension of the licence for the production of hydrocarbons for up to 30 years. After having received an extension of a licence to produce, the exploration and production licence includes permission for the licensee to produce and utilise the hydrocarbon resource in question during the licence period in such volumes and under the requirements specified in this Regulation, in laws, in the licence itself and as considered necessary by the National Energy Authority.

When conducting surveys in a licence area under the provisions, and during the period of validity of, an exploration and production licence, with the same methods as authorised for prospecting according to Article 8 of the present Regulation, the provisions of Article 10 to 13 of the Regulation shall be valid for their execution.

Article 16

Application.

An application for a licence for exploration and production shall state clearly the purpose of obtaining the licence together with detailed information on the location, scope, nature and timing of the applicant's intended activities according to the further determination by the National Energy Authority.

If the National Energy Authority considers that an application for a licence for exploration does not fulfil the requirements given in Paragraph 1, the National Energy Authority may refuse to grant an exploration licence or prescribe special conditions in the exploration licence for this reason.

An application shall at least contain the following items:

1. Information on the registration of the applicant in a national register in Iceland.
2. Geographical coordinates of the outer limits of the application area.
3. Prioritisation of areas, if more than one application area.
4. Detailed information on the intended activity of the applicant, including information on the financial capacity of the applicant for conducting such activity.
5. Geological appraisal of the application area and of the cost effectiveness of the intended activities.
6. Financial evaluation of the research commitments for the application area or areas.
7. Information on the prior experience of prospective licensees, technical competence, experience of the staff, organisation and other expertise with regards to the intended activities in the application area. This information shall be specifically detailed for the prospective operators.
8. Confirmation of payment of the application fee, as specified in Article 30 a of the Hydrocarbons Act.

The applicant shall submit appropriate drawings and maps.

The National Energy Authority may grant dispensation from the provisions given in Paragraph 3, and, in addition, the Authority may request further information beyond what is mentioned in the aforementioned paragraph.

An application for a licence for exploration and production shall be submitted to the National Energy Authority in Icelandic or English.

Article 17.

Procedure.

Prior to issuing an exploration and production licence, the National Energy Authority shall obtain the opinions of the Ministry of Fisheries and Agriculture and the Ministry for the Environment. Moreover, the National Energy Authority shall obtain the opinions of local

authorities involved when applications include areas that are within 1 nautical mile from the 115-metre zone.

Article 18

Granting of Licences.

The National Energy Authority may only base the conditions for the granting and use of exploration and production licences with the necessity in mind to ensure that hydrocarbon activities within the licensed area are carried out in the best manner.

The National Energy Authority may at any given time place conditions and make requirements with respect to the manner in which the licensed activities are carried out, *i.a.* based on national security, public security, public health, transportation security, environmental protection, protection of biological resources and national treasures that have artistic, historical and archaeological value, building security and the safety of workers, organised control of hydrocarbon resources, e.g. how fast hydrocarbon is used or the need to guarantee tax income and ensure the nationally economic utilisation of hydrocarbon resources.

Decisions on granting a licence for exploration and production shall be based principally on considerations concerning the financial and technical capacity of applicants, that the production from a given resource is viable by the measures of the national economy and the manner in which a submitted work programme may reach a given goal. If a particular applicant is a former holder of an exploration and production licence, the National Energy Authority may also take into consideration whether the applicant has previously shown sufficient efficiency or whether the applicant has displayed unsatisfactory conduct as a licence holder in the view of the National Energy Authority. If the National Energy Authority considers two or more applications equal according to the criteria given above, the National Energy Authority is permitted to rate applications by other objective criteria.

Article 19

Content of Exploration and Production Licence.

An exploration and production licence shall *i.a.* include provisions for:

1. Duration of the licence. Provisions on when the activities shall start at the latest and when they shall be terminated.
2. Information on the operator for the licence.
3. The geographical limits of the exploration or production area.
4. How to carry out the exploration and production of hydrocarbons, *i.a.* requirements regarding the location and depth of boreholes for production and recharge and on production rates.
5. The implementation of technical solutions and requirements concerning equipment.
6. The licensee's duty to provide information and send notifications to the National Energy Authority, including the duty to deliver samples and data and the manner in which this delivery must be carried out.
7. Surveillance by the National Energy Authority and by other public agencies as appropriate.
8. Confidentiality and data secrecy.
9. Health, safety, security and environmental protection measures as appropriate.
10. The licensee's purchase of a liability insurance from a recognised insurance company, banker's indemnity insurance, performance bonds or other insurance policies that the National Energy Authority considers equivalent, to cover possible loss or damage caused by the activities of the licensee.
11. Disposal of offshore facilities, production facilities and production equipment at the end of the license term.
12. Closure of offshore facilities and bases that have been used for exploration or production activities.

13. Initial contribution as well as an annual fee to the Hydrocarbon Research Fund of the licensee.

14. Fee collection for the exploration and production of hydrocarbons.

An exploration and production licence may stipulate that the licence will be reviewed within a defined period of time, given that the preconditions for the licence requirements have changed.

Article 20

Duration and Conditions of Licence.

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

When the requirements for exploration in the exploration and production licence have been fulfilled, the licensee has a priority right to have the licence extended for the production of hydrocarbons for up to 30 years. An application for an extension of the licence shall be delivered to the National Energy Authority no later than 90 days before a valid exploration and production licence expires. The National Energy Authority may require the licensee to surrender a certain part of the licence area before the exploration and production licence is extended, in which case the licensee's proposal for such surrender shall be delivered to the National Energy Authority no later than 90 days before a valid exploration and production licence expires. Further requirements on the surrender of areas shall be laid down in the exploration licence. If the National Energy Authority does not receive any proposition from the licensee, the National Energy Authority is free to decide on the surrender of areas.

If a licensee discontinues production for a continuous three-year period, the licence is suspended.

An exploration and production licence may be withdrawn if the licensee becomes subject to bankruptcy proceedings or if the licensee seeks composition.

A production licence pursuant to Article 2 shall apply at least to the area where the licensee intends to commence the production of hydrocarbon and is economically suitable for exploitation according to the assessment of the National Energy Authority. The licensee shall ensure that the hydrocarbon activities take place in a responsible manner and in accordance with the Legislation that is in effect at any given time. The hydrocarbons activities shall take into account the utilisation of the resource as well as safety and public interests. The measures of the Licensee regarding the planning and size of the activities shall be such that the Licensee can at any time make informed decision on its hydrocarbon activities. To ensure follow-up of the measures of the Licensee, the NEA may, if the NEA consider this necessary judging from the scale of the hydrocarbon activities of the Licensee, put forward specific requirements on the measures of the Licensee and the placement of the bases of the Licensee. The Ministry may issue more detailed regulations regarding the operations of such bases, for example regarding the distance from exploration and production areas.

Article 21

Commitments.

An exploration and production licence granted by the National Energy Authority may provide for further obligations on the part of the licensee during the validity of the licence, in excess of the obligations provided for in this Regulation, such as regarding research and research drilling of a certain number of wells down to a certain depth. The exploration and production licence in question shall state the contents, the scope and time limits for fulfilling the relevant obligations.

The National Energy Authority may grant exemptions from such obligations. In the event that an exploration and production licence is extended, there must be provisions for obligations on the side of the licensee along with such an extension.

SECTION V

Extraction of Hydrocarbons, etc.

Article 22

Practical Extraction Methods.

The extraction of hydrocarbons shall be carried out in a manner providing the highest level of hydrocarbon production possible from each hydrocarbon reservoir. The extraction shall proceed in accordance with generally accepted technical and economic criteria, and an effort shall be made to avoid wasting hydrocarbons or other energy sources.

The licensee shall, on a regular basis, re-evaluate extraction methods and technical solutions for the extraction and shall take the necessary measures to achieve the above goal.

Article 23

Drilling Into Strata.

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

The National Energy Authority may issue further provisions regarding such drilling, *i.a.* on applications, registration, data collection, reporting and schedules.

Article 24

Hydrocarbon Resource Evaluation.

Within eight months from the time the existence of a hydrocarbon resource has been confirmed by drilling, the licensee shall deliver plans for further exploration as well as the results of the exploration of the hydrocarbon resource.

If the probability of a hydrocarbon reservoir containing exploitable hydrocarbon has been established through testing, sample-collection or by other means, the licensee shall furthermore indicate the size of the hydrocarbon accumulation and submit plans for continuing operations.

The National Energy Authority may request that the licensee submit further evaluation and information regarding the hydrocarbon resource.

Article 25

Statement That Production Will not Begin.

No later than two years after the last pilot well has been drilled, the licensee shall notify the National Energy Authority in writing that he has made a decision not to initiate the production of hydrocarbons from a hydrocarbon reservoir. Such a notice must be accompanied by a report stating the reasons for the decision and a summary of the main information regarding the hydrocarbon resource, such as technical and economical issues, in addition to the exploration already carried out, or planned for the purpose of determining whether the hydrocarbon resource is or can become economically viable.

Article 26

Field Development and Production Plan.

If the licensee has found exploitable hydrocarbon resources and if such licensee intends to begin production, the licensee must, before any such production is begun, present a field development and production plan to the National Energy Authority for approval, cf. Paragraph 2 of Article 15 of the Hydrocarbons Act.

The field development and production plan must contain a description of the planned activities and production. The National Energy Authority may demand that the licensee provide information regarding the means by which he intends to finance the activities and production according to the plan.

The National Energy Authority shall state the reasoning for its decision to accept or refuse the production schedule and execution plan.

The National Energy Authority must be notified of all important changes and deviations from the original plan. In such instances, the National Energy Authority may demand that a new or adjusted schedule be submitted.

When important national economic interests so require, the National Energy Authority is permitted to change the terms and conditions of field development and production plans.

Article 27

Description of Field Development and Production Plan.

A description of the field development and production plan, with appended documentation, shall be adapted to the magnitude of the development and production. The description shall take into account information on the hydrocarbon resources, as well as economic, technical, environmental and safety aspects of the development and production.

A field development and production plan shall conditionally contain the following items:

- a) A plan for the construction, installation and operation of offshore facilities.
- b) A well founded field development and production strategy.
- c) Description of later stages of operation and production, if any, together with possible co-operation on unitisation of hydrocarbon resources, as applicable.
- d) A description of geological and civil-engineering aspects regarding hydrocarbon resources.
- e) An extraction plan.
- f) A description of technical solutions, including solutions aimed at stopping or diminishing emission or vapourisation that may be harmful for the environment.
- g) Information on how the licensee intends to ensure that his activity and employees follow the laws and regulations governing the operation.
- h) Information on operative matters and maintenance.
- i) Estimate of costs and gains.
- j) Information on the permits that have been applied for, approval that has been sought or will be sought, and if it is intended to place any equipment or facilities owned by a third party on land or on the bottom of the sea.
- k) Plan for the intended decommissioning of offshore facilities, production structures and production equipment, when hydrocarbon activities are finished.
- l) Information on the construction and operation of pipelines for the production and transport of hydrocarbons, that requires the permission of the National Energy Authority according to Article 17 of the Hydrocarbons Act.
- m) Information on the transport of hydrocarbons from the extraction site.
- n) Description of technical arrangements for emergency preparedness.
- o) Other information that is required according to the safety and security legislation valid at any given time.

The National Energy Authority may request that alternative solutions be considered.

Article 28

Plan for Construction, Instalment and Operation of Offshore Facilities.

The field development and production plan shall include the construction, instalment and operation of offshore facilities together with an environmental impact assessment.

The National Energy Authority may precondition its approval of the field development and production plan on additional requirements in the plan for the construction, instalment and operation of offshore facilities and may *i.a.* stipulate the co-usage of offshore facilities, that the capacity of the offshore facility be increased or that an offshore facility be altered so that it can be used for types of hydrocarbons other than those which the plan originally provided for.

The costs resulting from the above shall be borne by the party or parties benefiting from such requirements.

Article 29

Content of Plan for Construction, Instalment and Operation of Offshore Facilities.

The plan for the construction, instalment and operation of offshore facilities shall take views on the hydrocarbon resource into account, along with economical, technological,

environmental, safety and security aspects. Furthermore, the plan shall be adjusted to the scope of the project.

The plan shall contain information on the following details depending to what the National Energy Authority deems necessary:

- a) Location, size and transport capacity of pipelines.
- b) Ownership of offshore facilities.
- c) Operation and maintenance of offshore facilities, production structures and production equipment.
- d) Description of technical arrangements for emergency preparedness.
- e) Other factors that are important for hydrocarbon resources management.
- f) Other information that is required according to the safety and security legislation valid at any given time.

The National Energy Authority is permitted to deviate from the requirements for the contents of the plan.

Article 30

Conditions Applicable to Extraction Plan.

Before or concurrent with the National Energy Authority accepting the field development and production plan, the approval of the National Energy Authority is necessary for an extraction plan. The National Energy Authority shall, in its approval, provide for the volume of material which the licensee may produce, reinject or emit during certain periods. The National Energy Authority shall base such a decision on a submitted extraction plan unless new information regarding the hydrocarbon resource or other circumstances require otherwise.

The National Energy Authority may issue more detailed instructions on the content of an extraction plan.

Article 31

Information on Delivery of Hydrocarbons.

The licensee shall, within 30 days from the end of each quarter, provide the National Energy Authority with information on binding agreements concerning deliveries of hydrocarbons from the continental shelf of Iceland. These shall contain exhaustive information regarding the agreed amount of hydrocarbons in addition to a description of the principal terms and conditions of agreements including, but not limited to, information on the counterparty, and, if applicable, on the agreed price for the volume of hydrocarbon which it was agreed to deliver during the previous quarter.

The National Energy Authority may decide other time limits for the delivery of information than mentioned above.

Article 32

Area Report.

The National Energy Authority may demand that a licensee prepare a special report regarding areas covered by a licence, and the licensee shall be granted a time limit of at least six months to prepare such report unless special circumstances provide a reason for a shorter time limit.

Article 33

Specific Actions for Information Gathering.

The National Energy Authority may demand specific actions for the purpose of gathering information if it is considered necessary to make an assessment of whether the operation of hydrocarbon resources is carried out by reasonable means or to initiate collaboration between several licensees with the view to jointly utilise hydrocarbon resources.

Article 34

Measurement of Hydrocarbons.

The licensee must measure and analyse all produced and extracted hydrocarbons in accordance with generally accepted methods. The equipment and the methods must be approved by the National Energy Authority.

If there is reason to expect that the volume of produced or extracted hydrocarbons was incorrectly calculated, the licensee must provide the National Energy Authority with access to all data and equipment in order to verify the calculations.

Article 35

Monitoring Hydrocarbon Reservoirs and Production During Extraction Period.

The licensee must monitor hydrocarbon reservoirs during extraction, including pressure- and flow conditions, volume produced and reinjected into each well, area and reservoir as well as the chemical composition of the hydrocarbons. Area in this Article means a part of a hydrocarbon reservoir which can be viewed as a separate part of a hydrocarbon reservoir because of different pressure and permeability.

The total extraction and reinjection volumes per area must be prorated per well on a monthly basis based on predetermined criteria.

The production conditions shall be attuned to attaining maximum extraction results.

Article 36

Approval to Initiate and Continue Activities.

The licensee shall obtain the specific approval of the National Energy Authority before initiating drilling into strata under the seafloor as well as other required permits. The approval shall apply to the equipment, drilling schedule and working arrangements. Moreover, the construction and operation of pipeline systems for the production and transportation of hydrocarbons is subject to the approval of the National Energy Authority.

Furthermore, the licensee must obtain the specific approval of the National Energy Authority in the following cases:

- a) Before an offshore facility or a part thereof is taken into use.
- b) Before an offshore facility or a part thereof is taken into use following extensive reconstruction or alterations or before changes are made to the original purpose of the facility.
- c) Before an offshore facility is used in excess of the period originally intended or in a manner other than specified in the field development and production plan, the plan for the instalment and operation of offshore facilities or the plan for the decommissioning of offshore facilities.

Article 37

Research in Preparation for Laying of Pipeline Systems and Sediment Surveys.

The licensee shall, no less than five weeks prior to beginning research in preparation for the laying of pipeline systems and performing sediment surveys, submit information on the following to the National Energy Authority:

- a) The object of the studies.
- b) Duration and location of the studies.
- c) Research methods.
- d) Type of vessels used.
- e) Depth of drilling.

Drilling to depths greater than 200 m under the seafloor is not permitted during investigations relating to the laying of pipeline systems and soil surveys.

Article 38

Plan for Decommissioning of Offshore Facilities.

A plan for the decommissioning of one or more offshore facilities shall meet the conditions of Article 16 of the Hydrocarbons Act, the provisions of the applicable exploration and production licence as well as this Regulation. The plan shall be submitted to the National Energy Authority for approval and the Authority issues further conditions for its content. Decommissioning may not be initiated before the approval of the National Energy Authority has been granted.

A plan for the decommissioning of offshore facilities according to Article 16 of the Hydrocarbons Act shall contain information on the following items:

- a) The extraction of hydrocarbons in the area.
- b) Location and nature of offshore facility.
- c) Possibilities for continued production.
- d) Recommendation of the licensee on a method for decommissioning, including an implementation schedule.
- e) Alternative methods for decommissioning an offshore facility.
- f) Other items of importance in connection with the selection of methods for decommissioning an offshore facility.

The National Energy Authority may request the licensee to document that the plan is in accordance with the requirements of the safety, security and environmental legislation that is valid at any given time.

The plan shall take the following considerations into account regarding any method considered for the decommissioning of offshore facilities:

- a) Technical, security, safety, environmental and economic aspects.
- b) Evaluation of the impact on fisheries and navigation.

The National Energy Authority may grant exemptions from the requirements regarding the contents of the plan, and may also require additional information and evaluations than are stated in the plan.

In the event of a change in the criteria for the plan for the decommissioning an offshore facility, such changes must be immediately notified to the National Energy Authority and a new plan for the decommissioning an offshore facility submitted as soon as possible to the Authority for approval.

SECTION VI

Fees.

Article 39

Prospecting Licence Fees.

Before an application for a prospecting license is taken under consideration, the applicant shall pay an application fee of ISK 150,000 to the National Energy Authority.

To meet the cost of preparing and issuing a prospecting licence, the applicant shall pay ISK 600,000 to the National Energy Authority upon the issue of a licence.

The licensee shall pay a fee of ISK 500,000 for monitoring, arrangement and storage of data for each year that the licence remains in effect. The first due date shall be fifteen days after the prospecting licence is issued and subsequently annually on the same date. A license will lapse if the monitoring fee is not paid on time.

Article 40

Fees for Application and Issuing of Licences for Exploration and Production.

Before an application for a licence for the exploration and production of hydrocarbons is processed, the applicant shall pay an application fee of ISK 150,000 to the National Energy Authority.

The National Energy Authority may not accept an application for processing if the fee pursuant to Paragraph 1 has not been paid.

To defray the cost of preparing and issuing an exploration and production licence, the applicant shall pay the following fees to the National Energy Authority upon the issuing of the licence:

- a. A fee of ISK 850,000 shall be paid for a hydrocarbons exploration licence.
- b. A fee of ISK 1,350,000 shall be paid for a hydrocarbons production licence.

The licensee shall pay a fee of ISK 1,000,000 for monitoring, arrangement and storage of data for each year that the licence remains in effect. The first due date shall be fifteen days after the exploration and production licence is issued and subsequently annually on the same date. A license will lapse if the monitoring fee is not paid on the due date.

Article 41

Area Fees.

Area fees pursuant to Paragraph 7 of Article 7 of the Hydrocarbons Act shall be paid to the Treasury. The due dates of area fees shall be defined in the exploration and production licence.

Article 42

Penalty Interest.

The National Energy Authority may calculate penalty interest on unpaid amounts in accordance with legislation on interest rates as applicable at any given time.

SECTION VII

Information and Data Delivery Requirements.

Article 43

Annual Report of On-Site Status of Areas.

The holder of a prospecting licence or an exploration and production licence shall, once a year and at the end of his licence period, send the National Energy Authority a report containing information on the progress and results of the prospecting, exploration and production; information on the nature and scope of the hydrocarbon resource; the total volume and an estimate of the value of the hydrocarbons already produced; and other details according to provisions contained in the licence in question. The licensee must also deliver data and send samples of substances if the National Energy Authority so requests.

The National Energy Authority may issue more detailed instructions on the content and structure of the report.

Article 44

Information on Produced Hydrocarbons, etc.

The National Energy Authority requires the licensee to deliver to the Authority information on the nature, volume and composition of produced hydrocarbons and other matters relating thereto on a quarterly basis at least.

Moreover, information shall be given on all hydrocarbon production. The information shall be based on measurements.

The National Energy Authority may establish more detailed Rules for the report submission.

Article 45

Information on Sale and Use of Hydrocarbons.

Within fifteen days from the end of each quarter, the licensee shall provide the National Energy Authority with information on the volume sold and the price obtained. Moreover, information shall be provided on the volume taken for the licensee's own use or for other use, such as processing, refining or delivery to related companies, and the contractual price of which account was taken.

Article 46

Information on Business plan and Budget.

As soon as the licensee's business plan and budget for the coming year have been prepared, a copy of such documents shall be sent to the National Energy Authority without undue delay. Substantial changes to such plans must be notified, and additional information may be required.

The licensee is under obligation to grant the National Energy Authority access to annual reports and financial statements relating to the operation. This also applies to the owners of the licensee.

Article 47

Information on Research and Development Projects.

The National Energy Authority may require the licensee to provide information on planned, current or previous research and development projects in connection with hydrocarbon activities according to the exploration and production licence.

Article 48

Information from Areas Outside the Icelandic Continental Shelf.

The licensee shall deliver to the National Energy Authority, free of charge, geological, geophysical and geochemical information on the area outside the Icelandic continental shelf which has been purchased or obtained in connection with operations pursuant to the exploration and production licence on Icelandic territory and which the National Energy Authority considers necessary for the understanding of the geology near or on the Icelandic continental shelf.

Article 49

Delivery of Information and Data.

The National Energy Authority determines the form and the means by which information and data shall be delivered to the Authority.

The data and information which the National Energy Authority may require to be submitted extends also to the software used to process the data. The licensee shall pay the cost of transferring the data to user software to the extent considered reasonable.

Article 50

Data Preservation.

The licensee shall, for security reasons, preserve necessary information and data to ensure that the National Energy Authority can verify whether the hydrocarbon activities are performed in accordance with laws and regulations.

In the event that data that has been acquired under a prospecting licence or exploration and production licence is reprocessed, the licensee shall, within two months from completion of the reprocessing, submit a report on the reprocessing together with a copy of the reprocessed data to the National Energy Authority in accordance with more detailed instructions issued by the Authority. This obligation remains in effect after a licence expires.

A prospecting licensee and licensee shall keep all original data that has been acquired under a prospecting licence or exploration and production licence for at least one year after a license expires.

Should a prospecting licensee or licensee decide to discard the original data after this period, he shall offer the data to the National Energy Authority for preservation before it is destroyed. In the event of such delivery, other important documents connected to such data and information shall also be delivered.

A prospecting licensee and licensee shall submit to the National Energy Authority information as to whom reports or data according to this Article have been sold or handed over should the Authority so request.

A prospecting licensee and licensee shall meet all requirements according to this Article at no expense to the National Energy Authority.

SECTION VIII

Assignment and Pledging.

Article 51

Transfer Authorisations.

Licences to explore and produce pursuant to this Regulation, or any part of such licence, may not be assigned, directly or indirectly, to a third party or to a co-licensee without the agreement of the National Energy Authority. Moreover, the transfer of equities or other property rights in volumes that could change the ruling majority of the company which is the holder of or co-holder of a licence, or the entering into agreements to the same effect, is not permitted without the approval of the National Energy Authority.

The National Energy Authority may require the licensee to pay any costs that arise due to the assignment of licences according to the first paragraph. Provisions for such fees may be issued in a licence.

Article 52

Pledging Rights to Offshore Facilities.

The National Energy Authority may limit its approval for the construction and instalment of offshore facilities under Article 15 of the Hydrocarbons Act and the operation of pipelines with equipment for the production and transportation of hydrocarbons in accordance with Article 17 of the Hydrocarbons Act, to the condition that approval by the National Energy Authority must be obtained for any form of pledging or any other direct or indirect ownership rights, including option rights or other such rights, of a third party to offshore facilities, partially or wholly, that are connected to the licensee's hydrocarbon activities.

The National Energy Authority may issue more detailed conditions for its approval, pursuant to Paragraph 1. The conditions shall be based on general objective criteria, such as national security aspects, public interest views, transportation security, environmental protection, protection of biological resources and national treasures having artistic, historical or geological value, the security of facilities and safety of workers, systematic resource management or the necessity of ensuring financial income.

All pledges for which the National Energy Authority has granted its approval, pursuant to the Paragraph 1 of this Article, shall without fail be officially registered in the appropriate registry in accordance with the provisions of Act No. 39/1978 on registration, as soon as possible after the National Energy Authority has granted its approval and never later than within 8 weeks from the granting of approval by the National Energy Authority.

Article 53

Responsibility for Execution and Cost of Decommissioning Offshore Facilities due to Rights of Third Party.

If the object of the pledge, in the opinion of the National Energy Authority, is of such a nature that it would, if the pledge were called, have the effect that the licensee would be unable to meet obligations pursuant to the Hydrocarbons Act, this Regulation or a licence granted hereunder, the National Energy Authority may set the condition for its approval, in accordance with the provisions of Article 52 of this Regulation, that the lien holder must undertake to guarantee, in a satisfactory manner, the execution and payment of costs resulting from the decommissioning of offshore facilities, as provided for in Article 16 of the Hydrocarbons Act, in the event pledge is called.

Article 54

Transfer of Title due to Rights of Third Party.

If the scope of the pledge is of such a nature, in the opinion of the National Energy Authority, that the pledged assets are at the same time necessary and sufficient to continue the hydrocarbon activities in which the licensee is engaged in accordance with the licence in

question, the National Energy Authority may demand that the lien holder provide written approval, in a manner that the National Energy Authority considers acceptable, permitting the licensee to continue the hydrocarbon activities in accordance with the conditions of the licence, the Hydrocarbons Act and this Regulation for up to 60 days.

The lien holder shall, within the grace period stated above, find an interested party to take over the licensee's licence. In the event that such a party is found within the grace period and fulfils the requirements demanded for licensees in the Hydrocarbons Act, this Regulation and the licence itself, and if such party pledges to undertake all the obligations provided for in the licence, the National Energy Authority may revoke the licensee's licence and issue a new licence to the new party on the same basis and with the same term of validity as the revoked licence.

Notwithstanding the provisions of the Paragraph 2 of this Article, the National Energy Authority shall have the authority at the request of the new licensee, to provide for a longer term of validity for the new licence but not, however, for longer term than 4 additional years.

In the event that no interested party can be found to take over from the licensee, the licence shall be revoked in accordance with the provisions of the third sentence of the Paragraph 1 of Article 24 b of the Hydrocarbons Act. The same applies in the event that the National Energy Authority declines to issue a new license to the new party.

Article 55

Involvement of New Partner due to Enforcement of Rights of Third Party.

If the pledged assets are necessary for the continued hydrocarbon activities in which the licensee is engaged in accordance with the licence in question, but are not on their own sufficient to ensure the continuance of such activities in the opinion of the National Energy Authority, i.e. the licensee would, despite the calling of the pledge retain assets that are necessary to maintain the hydrocarbon activities, the National Energy Authority may approve that the lien holder be granted a time limit of 60 days to find an interested party to enter into a partnership agreement with the licensee, as provided for in Article 30 of the Hydrocarbons Act.

If such a party is found within the time limit and if such party meets the requirements set for a licensee under the Hydrocarbons Act, this Regulation and the licence itself, and he promises to undertake, in partnership with the licensee, all the obligations attached to the licence, and if the National Energy Authority approves the involvement of the new party, the hydrocarbon activities may continue on the basis of the licence.

From the time that the lien holder calls the pledge until the National Energy Authority has finally approved the involvement of the new party in the hydrocarbon activities of the licensee, the National Energy Authority may demand that the lien holder provide written approval, in a manner that the National Energy Authority considers acceptable, permitting the licensee to continue the licensed activities and the licensee shall, moreover, be obligated to continue the hydrocarbon activities in accordance with the terms of the licence, the Hydrocarbons Act and this Regulation.

In the event that no interested party can be found to take over the pledge object and enter into a partnership with the licensee in accordance with the provisions of this Article, the licence shall be revoked in accordance with the provisions of the third sub-paragraph of Paragraph 1 of Article 24 b of the Hydrocarbons Act. The same applies if the National Energy Authority does not approve the involvement of the new party.

Article 56

Pledge Substitute Collateral.

If the object of the pledge is of such a nature, in the opinion of the National Energy Authority, that the licensee could take pledge substitute collateral, e.g. obtain a substitute item to replace that which the lien holder has called, the National Energy Authority may precondition its approval for the pledge to the requirement that the lien holder provide approval to grant the licensee a time limit of 60 days to execute the pledge substitution before

taking the object of the pledge into custody or limiting the licensee's disposal rights in another manner.

If the licensee is unable, within the time limit stated in the first paragraph, to execute the pledge substitution, the National Energy Authority shall, as provided for in the Paragraph 1 of Article 24 b of the Hydrocarbons Act, give written notice of warning to the licensee with a suitable time limit to remedy the situation under the penalty of daily fines. If the licensee fails to respond to the warning of the National Energy Authority within the set time limits, the National Energy Authority may revoke or change the licence. In the event of serious violation or negligence, or if it is clear that the licensee cannot fulfil obligations in accordance with the licence, the National Energy Authority may revoke the licence without warning.

SECTION X

General Provisions.

Article 57

Notification Requirement.

The licensee shall immediately notify the National Energy Authority of any event or circumstances that could lead to the discontinuation of offshore facilities, reduced extraction of hydrocarbons or have an effect on activities stipulated in administrative decisions made on the basis of the Hydrocarbons Act or this Regulation.

Article 58

Access to Vessels and Offshore Facilities.

The licensee is under obligation, at all times, to provide the representatives of the National Energy Authority and the consultation group supervising prospecting, exploration and production of hydrocarbon in Iceland, as provided for in Article 24 of the Hydrocarbons Act, access to vessels, offshore facilities and other installations connected with the hydrocarbon production of the licensee. The same applies to data, samples and other information as deemed necessary by the National Energy Authority or the consultation group to enable these entities to carry out their monitoring role and to meet administrative goals of developing knowledge in the field of hydrocarbon production. Moreover, the representatives shall be entitled to monitor exploration activities and production carried out on the basis of the licence.

The licensee shall permit the above representatives to remain onboard vessels and offshore facilities as long as necessary.

The licensee shall be responsible for transferring the above representatives appropriately between the workplace of the representative in question to the vessel or offshore facility and back, as well as for ensuring the appropriate accommodation and boarding during their stay.

Article 59

Penalty Provisions.

Violations of this Regulation are punishable by fines, unless a more severe punishment is indicated pursuant to other legislation. Fines may be imposed for violations of this Regulation upon both legal persons and natural persons. A legal person may be fined for violations of this Regulation without regard to culpability on the part of a representative or employee of the legal person.

Article 60

Professional Secrecy.

Professional secrecy shall be governed by the provisions of the Hydrocarbons Act.

Article 61

Entry into Force.

This Regulation is issued in accordance with Article 31 of Act No. 13/2001, as amended, shall enter into force immediately. At the same time, Regulation No. 38/2009 on Prospecting, Exploration and Production of Hydrocarbons and Rules No. 351/2009 on the same subject are cancelled.

Licences granted under Regulation 38/2009 and Rules No. 351/2009, and which are valid when this Regulation enters into force, shall remain in effect.

Ministry of Industry, Energy and Tourism, 29 September 2011.