

REGULATION

on prospecting, exploration and production of hydrocarbons

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.

Co-licensee: One individual or legal entity from the group of shareholders of a licence to explore and produce hydrocarbons, their being more numerous than one.

Licensee: A party registered in Iceland who has been granted permission to prospect, explore and/or process hydrocarbons in accordance with the provisions of this Regulation.

Operator: The individual or legal entity from the group of co-licensees that is responsible for the day-to-day management of 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

Applications for prospecting licences shall be submitted no later than six months before exploration begins. The substance of the application shall be in accordance with Rules established by the National Energy Authority.

Article 6

Procedure

Prior to issuing a prospecting license, the National Energy Authority shall consult with the Ministry of Fisheries 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 covered by the licence

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

Prospecting licences do not apply to areas for which an exclusive exploration or production licence has already been granted or may be granted at a later date under the Hydrocarbons Act, except with the permission of the holder of the exclusive rights and the National Energy Authority.

Article 8

Authorisations based on a licence

A licence entitles the licence holder to prospect for hydrocarbons using the methods accepted under the Rules of the National Energy Authority.

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 licence to prospect for hydrocarbons does not entitle the licensee to drill for hydrocarbons, produce hydrocarbons or give him priority to obtain such a licence later.

Article 9

Term of licence and language

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

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

Licences to prospect shall be issued in Icelandic or English.

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 Icelandic Civil Aviation Administration and the Icelandic Coast Guard must also be notified of an airborne survey within the time limit given in paragraph 1.

The substance of notifications pursuant to paragraphs 1–3 as well as other notices in connection with prospecting, shall be laid down in the Rules of the National Energy Authority.

In case of aircrafts carrying a special airworthiness certificate, the party responsible for the aircraft (owner/aircraft operator) shall send a copy of the certificate and of the aircraft's insurance certificate to the Icelandic Civil Aviation Administration within the time limit given in paragraph 1.

Article 11

Reporting and submission of data

During a prospecting survey in a survey area, a 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 prospecting survey has been completed, a 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, prospecting equipment, data acquisition and taking of samples.

For every calendar year, the 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 licensee shall submit geological, geophysical and geochemical 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 licensee shall meet all requirements according to this Article without charge to the National Energy Authority.

SECTION IV

Exploration and production licence

Article 12

Exploration and production licence

The National Energy Authority grants licences for the exploration and production of hydrocarbons outside the 115-metre zone within the territorial waters, the economic zone and the continental shelf of Iceland. 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 licence implementation co-operation contract for approval by the National Energy Authority. Any alterations to such contracts, 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.

An exploration licence pursuant to this Regulation includes initially permission 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.

Article 13

Advertisement

A public notice inviting applications shall generally be issued prior to the granting of licence for the exploration and production of hydrocarbons by means of an advertisement published in the Legal Gazette and the official Journal of the European Union. The deadline for the application shall be indicated in the notice and be no shorter than 90 days. The notice shall also, *i.a.* define the area to which the licence applies and other conditions of the licence.

The National Energy Authority shall decide the presentation of the advertisement. If an advertisement is changed in any way or the terms for the granting of a licence are changed according to such advertisement after its appearance, the National Energy Authority shall notify those who have already submitted an application or who are certain to submit an application, within the pre-announced deadline for application.

Article 14

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. The National Energy Authority may set rules providing further details for the contents of applications.

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.

Article 15

Procedure

Prior to issuing an exploration and production licence, the National Energy Authority shall obtain the opinions of the Ministry of Fisheries 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 16

Granting of licences

There shall be no discrimination between applicants in the granting of an exploration and production licence, and the equality principle must be observed. The exploration and production licence shall be granted according to objective criteria which have been made public. At the same time, due consideration shall be given to production that has already commenced or that has been applied for in the surrounding area. The National Energy Authority may decide to reject all applications for exploration and production licences that are submitted following a public notice.

The National Energy Authority may only base the conditions for the granting and use of exploration and production licences on views regarding the necessity of ensuring that hydrocarbon activities within the area covered by the licence 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 activities according to the exploration and production licences 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, organized control of hydrocarbon resources, e.g. how fast hydrocarbon is used or the need to guarantee tax income and ensure the economic utilization of hydrocarbon resources form the aspect of national economy.

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 exploration plan may reach a given goal. If a particular applicant is a former holder of an exploration licence and a production licence, the National Energy Authority may also take into consideration whether the applicant has shown sufficient efficiency or whether the applicant has displayed unsatisfactory conduct in the position of a licence holder in the view of the National Energy Authority. If the National Energy Authority considers two or more applications equally qualified according to the criteria given above, the National Energy Authority is permitted to rate applications by other objective criteria.

Licences may be granted for the exploration and production of hydrocarbons without public notice, if the given licence area:

- a. is available on a long-term basis;
- b. has previously been subject to procedures involving public notice without the subsequent granting of a licence; or
- c. was surrendered by a company, provided that the area does not automatically fall under item a.

Before an exploration and production licence is granted, an advertisement shall be placed in the Legal Gazette and the Official Journal of the European Community, providing information on the boundaries of the area in question, together with instructions on where further information can be found regarding the granting of licences in the area. Any substantial changes to this information shall be announced without delay by the publishing of a new advertisement. Before a licence is granted under the provisions of this paragraph, licensees in adjacent areas shall also be given the opportunity to apply for a licence for exploration and production in the relevant area. However, applications for licences under this paragraph can neither be deliberated nor granted until the appropriate advertisement has been published in the Legal Gazette and the Official Journal of the European Community.

Article 17

Content of an exploration and production licence

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

1. Duration of the licence. Provisions for when the activities shall start at the latest and when they shall be terminated.
2. The geographical limits of the exploration or production area.

3. 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.
 4. The implementation of technical solutions and requirements concerning equipment.
 5. 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.
 6. Surveillance by the National Energy Authority and by other public agencies as appropriate.
 7. Confidentiality and data privacy.
 8. Health, safety, security and environmental protection measures as appropriate.
 9. 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.
 10. Disposal of offshore facilities, production facilities and production equipment at the end of the licence term.
 11. Closure of offshore facilities and bases that have been used for exploration or production activities.
 12. The licence holder's initial contribution as well as an annual fee to the Hydrocarbon Research Fund.
 13. 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 18

Term of effect, conditions and language

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

Exploration and production licences shall be issued in English.

Article 19

Location of land-based facilities connected with hydrocarbon activities

When selecting the location for land-based facilities that are linked to the exploration and production of hydrocarbons, the distance from the exploration and production areas shall be the reference criterion which would be acceptable with respect to safety, security, environmental and efficiency aspects in the view of the National Energy Authority.

Article 20
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 an exploration and production 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 relevant exploration and production licence 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 21

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 22
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 shall issue further provisions regarding such drilling *i.a.* applications, registration, data collection, reporting and schedules.

Article 23
Hydrocarbon resource evaluation

Within eight months from the time the existence of a hydrocarbon resource has been confirmed by drilling, the licensee shall deliver written 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 24
Statement to the effect that production will be discontinued

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 25
Information relating to the 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 26

Production schedule and execution 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 production schedule and execution plan to the National Energy Authority for approval, cf. paragraph 2 of Article 15 of the Hydrocarbons Act.

The production schedule and execution plan must contain a description of the planned activities and production. Further description of the production schedule and execution plan shall appear in the Rules issued by the National Energy Authority.

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 production schedules and execution plans.

Article 27

Conditions applicable to the extraction schedule

Before or concurrent with the National Energy Authority accepting the production schedule and execution plan, the National Energy Authority must approve a extraction schedule. The National Energy Authority shall, in its approval, provide for the volume of material which the licensee may produce, pump back down or emit during certain periods. The National Energy Authority shall base such a decision on a submitted extraction schedule 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 a extraction schedule.

Article 28

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 29

Specific actions for information gathering

The National Energy Authority may demand specific action 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 30

Measurement of hydrocarbon

The licensee must measure and analyse all produced and processed hydrocarbon in accordance with generally accepted methods. The equipment and the method are subject to Rules established by the National Energy Authority in consultation with the Ministry of Finance and must be approved by the National Energy Authority.

If there is reason to expect that the volume of hydrocarbon production or processed hydrocarbon was incorrectly calculated, the licensee must provide the National Energy Authority with access to all data and equipment for the purpose of making it possible to arrive at the correct calculations.

Article 31

Monitoring hydrocarbon reservoirs and production during the extraction period

The licensee must monitor hydrocarbon reservoirs during extraction, including pressure- and flow conditions, volume produced and pumped back 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 leakage.

The total extraction and volume pumped back per area must be prorated per well on a monthly basis based on predetermined criteria.

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

Article 32

Plan for the construction, instalment and operation of offshore facilities

Production schedules and execution plans shall cover the construction, instalment and operation of offshore facilities together with an environmental impact assessment.

The National Energy Authority may limit its approval of the production schedules and execution plans to further conditions as regards the plan on the construction, instalment and operation of offshore facilities and may, among other things, 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 conditions.

Article 33

The content of plans for the construction, instalment and operation of offshore facilities

Plans for the construction, instalment and operation of offshore facilities shall take account of views relating to the hydrocarbon resource, together with economical, technological, environmental, safety and security aspects. Furthermore, such plans shall take account of the scope of the project.

The National Energy Authority shall issue Rules detailing the contents of such plans.

Article 34

Approval to initiate activities and to continue activities

The licensee shall obtain the specific approval of the National Energy Authority before initiating drilling into strata under the seafloor. 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 production schedule and execution plan, the plan for the instalment and operation of offshore facilities or the offshore facility decommissioning schedule.

Article 35

Investigations relating to the laying of pipeline systems and soil surveys

The licensee shall, no less than five weeks prior to beginning investigations relating to the laying of pipeline systems and performing soil surveys, submit information on the following to the National Energy Authority:

- a) the object of the investigations;
- b) date, duration and location of the investigations;
- c) research methods;
- d) type of vessels used;
- e) at what depth drilling will take place.

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.

SECTION VI

Fees

Article 36

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. The applicant shall pay the above fee on 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 37

Application fees and fees for the issue of licences for exploration and production of hydrocarbons

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 the first paragraph has not been paid.

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

- 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 applicant shall pay fees pursuant to Item a or Item b above on the issue of the 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 38

Area fees

Area fees pursuant to paragraph seven 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 39

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

Decommissioning of offshore facilities

Article 40

Schedule for the decommissioning of offshore facilities

A schedule 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 schedule shall contain information on the manner in which the decommissioning shall be executed together with the effect of the decommissioning. The schedule shall be submitted to the National Energy Authority for approval. The Authority will issue further conditions for its content. Decommissioning may not be initiated before the approval of the National Energy Authority has been granted.

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

SECTION VIII

Provision of information and data surrender requirement

Article 41

Annual report on the on-site status of production areas

A 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 42

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 43

Information on the sale 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 44

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 45

Information on exploration and development projects

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

Article 46

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 47

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 equipment to the extent considered reasonable.

Article 48

Data storage

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

SECTION IX

Assignment and pledging

Article 49

Transfer authorisations

Licences 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 50

Pledging of 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 the first paragraph, in Rules that 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 (e.g. production volume or efficiency of production processes) or the necessity of ensuring financial income.

All pledges for which the National Energy Authority has granted its approval, pursuant to the first paragraph 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 51

Responsibility for execution and cost of discontinuing offshore facilities due to the rights of a 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 50 of this Regulation, that the lien holder must undertake to guarantee, in a satisfactory manner in the opinion of the National Energy Authority, the execution and payment of costs resulting from the discontinuation of offshore facilities, as provided for in Article 16 of the Hydrocarbons Act, in the event pledge is called.

Article 52

Rules governing third-party rights

The National Energy Authority may establish Rules for further conditions for granting approval for the enforcement of the rights of a third party to, and the use of a third party and the licensee of offshore facilities, partially or wholly, which are connected to the hydrocarbon activities of the licensee, following such enforcement.

SECTION X
General provisions

Article 53

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 54

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 55

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 56

Professional secrecy

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

Article 57

Rules

Rules established by the National Energy Authority on the basis of authorisations granted in this Regulation shall be confirmed by the Minister of Industry, Energy and Tourism.

Article 58

Entry into force

This Regulation is issued in accordance with Article 31 of the Hydrocarbons Act and shall enter into force immediately. At the same time, Rules No. 553/2001 on the granting of licences for hydrocarbon prospecting is cancelled.

Licenses granted under Rules No. 553/2001 and which are in effect on the entry into force of this Regulation shall remain in effect.

Ministry of Industry, Energy and Tourism, 21st of January, 2009

Össur Skarphedinsson.

Kristján Skarphédinsson