

MODEL LICENSE

FOR EXPLORATION
AND PRODUCTION OF HYDROCARBONS

ORKUSTOFNUN

The National Energy Authority, Iceland

TABLE OF CONTENTS

Section 1 – Definitions	5
Section 2 – License Area.....	6
Section 3 – License Period	6
Section 4 – Exploration Commitments.....	7
Section 5 – Conditions of the Extension for the purpose of Production	8
Section 6 – Development and operation plan.....	9
Section 7 – Rights of the Licensee	10
Section 8 – Third-Party Activities in the Licence Area.....	10
Section 9 – Coordination and Unitisation	11
Section 10 – Fees.....	11
Section 11 – Extraction levy	12
Section 12 – Payment obligation.....	12
Section 13 – Reference price.....	13
Section 14 – Levy rate, levy base and amount	13
Section 15 – Payment of the extraction levy	13
Section 16 – Miscellaneous provisions regarding the extraction levy	14
Section 17 – The Hydrocarbons Research Fund and Icelandic participation.....	14
Section 18 – Joint Operating Agreement.....	15
Section 19 – Supervision.....	15
Section 20 – Reporting.....	16
Section 21 – Confidentiality.....	17
Section 22 – Methods and equipment	18
Section 23 – Damages and indemnity	18
Section 24 – Joint and Several Liability.....	18
Section 25 – Guarantee.....	19

Section 26 – Transfer of a License 19

Section 27 – Legislation 19

Section 28 – Disputes 19

APPENDIX 1 20

APPENDIX 2 21

APPENDIX 3 22

Pursuant to Article 7 of Icelandic Parliamentary Act No. 13 of 13 March 2001, on prospecting, exploration and production of Hydrocarbons (**the Hydrocarbons Act**), as amended by Act No. 49 of 27 March 2007 and Act No. 166 of 20 December 2008, and the rules laid down by the Regulation No. 38/2009 (**the Hydrocarbons Regulation**) of the Ministry of Industry, Energy and Tourism (**the Ministry**) as well as by the accompanying Rules (the Hydrocarbons Rules) of the National Energy Authority (**the NEA**), and based on the information provided in the Application[s] and other information disclosed, the NEA hereby grants an exclusive license for exploration for and production of hydrocarbons within the area indicated in Article 2 hereof (**the License**) to the following company or companies jointly (**the Licensee**), which hold the percentage of shares in the License as indicated:

1. [Company, Reg. no., address, Iceland, with [•]% of shares in the License];
2. [Company, Reg. no., address, Iceland, with [•]%of shares in the License];
3. [Company, Reg. no., address, Iceland, with [•]%of shares in the License, as the Operator];

(in this License the above companies in 1 – 3 are together also referred to as the co-Licensees).

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

Section 1 – Definitions

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

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

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

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

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

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

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

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

Joint Operating Agreement (JOA): the agreement concluded between the companies holding shares in the License governing their relationship and performance of the activities comprised by [the/such L/license].

License Year: each year this License is in effect.

Section 2 – License Area

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

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

Section 3 – License Period

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

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

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

Subject to the conditions specified in Section 5 of this License, the relevant provisions of the Hydrocarbons Act and Regulations, the NEA shall grant the Licensee an extension of the License for the purpose of production by a period of 30 years (the production period) for parts of the License area. Extensions may be granted separately for one or more areas.

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

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

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

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

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

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

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

Section 4 – Exploration Commitments

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

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

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

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

If a hydrocarbon discovery is made, the Licensee shall:

- a) immediately notify the NEA;
- b) no later than eight (8) months following the completion of the well in which the discovery is made, submit a report on the discovery; and
- c) submit for the approval of the NEA a field appraisal programme detailing the further work required according to good international oilfield practice under similar circumstances, to

ascertain whether a hydrocarbon deposit has been demonstrated under conditions such that exploitation of the hydrocarbon deposit is technically feasible and commercially viable;

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

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

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

A commitment to drill an exploratory well cannot be replaced by other activities without prior approval of the NEA. Other types of exploration activity, including seismic surveys, appraisal wells, delimitation wells, production wells, and other non-exploratory wells, do not qualify to fulfil such exploration commitment. The same applies to investigations preparing for the construction of development and production facilities, installations, etc., unless approved by the NEA. However, further drilling from an appraisal well may count as an exploratory well, where this is approved by the NEA in advance.

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

Section 5 – Conditions of the Extension for the purpose of Production

If the Licensee has discovered and prepared a proposal for the delimitation of one or more commercial hydrocarbon deposits that the Licensee intends to exploit, and provided that the terms of the License have been complied with, the Licensee shall be entitled to an extension of the License for the purpose of production in accordance with Article 10(2) of the Act. The Licensee shall forward a request for an extension to the NEA no later than [3] months before the end of the exploration period.

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

- a) a declaration to the effect that
 - i. one or more hydrocarbon deposit(s) have been demonstrated;
 - ii. the hydrocarbon deposit(s) have been demonstrated under such conditions that exploitation is deemed technically and commercially feasible; and
 - iii. the Licensee intends to exploit the deposit(s);

- b) a feasibility study of the deposit(s) comprised by the declaration. The feasibility study shall contain a description and an evaluation of the deposits with respect to geology and reservoir technology, as well as a specification of the technical, financial, environmental and other assumptions upon which the Licensee's declaration is based; and
- c) the Licensee's proposal for the delimitation of the area for which the Licensee requests the extension

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

- a) The extended License will comprise the area in which commercially exploitable deposits have been demonstrated and delimited, according to the available seismic data and drilling data or other relevant data.
- b) The basis for the delimitation will be the deposits in question and their extent, as documented by the Licensee to the satisfaction of the NEA in the above mentioned feasibility study, with due regard being paid to the Licensee's proposal, cf Section 5(2)(c) hereinabove.
- c) The depth of the delimited area shall be considered to extend at least to the point penetrated by drilling and in any case shall include all hydrocarbon deposits for which the extension is granted.
- d) Where conditions so require, a delimited area may include more than one deposit
- e) If the delimitation of the deposit cannot be established with a major degree of certainty, the NEA shall take this into account in determining the extent of any additional area falling under the License (and the associated depths.)

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

Section 6 – Development and operation plan

Any extension of the license term pursuant to Sections 3 and 5 above is subject to the condition that prior to a deadline set by the NEA in granting the extension, the Licensee shall submit a plan for developing and handling production from the designated hydrocarbon deposits(s) (plan for development and operation) that meets with the approval of the NEA pursuant to section 15(2) of the Hydrocarbons Act, and subject to the condition that the Licensee shall initiate production at the time provided for in the approval.

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

- a) development, including a plan for drilling
- b) production, handling, storage and transportation
- c) navigation, fishing, scientific investigations, practical surveys, other lawful third-party activities
- d) decommissioning plan

Furthermore, the plan for development and operation shall contain:

- a) A development plan describing all necessary activities, including development, production, storage and transportation activities, as stipulated by Article 15 of the Act, including a time schedule for the Licensee's development activities;
- b) An approved environmental impact assessment by the ministry of the environment, pursuant to the Environmental Assessment Impact act no. 106/2000 of the development plan mentioned in section 1. The NEA may demand that the assessment be amended or amplified if it is considered inadequate by the NEA;
- c) An abandonment plan as stipulated in Article 16 of the Hydrocarbons Act, which shall include cost estimates for the abandonment activities; and
- d) any other information or reports required by the Hydrocarbons Regulation.

In its evaluation of the proposed plan, pursuant to Section 6(1) the NEA will review the plan's components and the activities contemplated thereby from a technical, financial, health, safety, environmental and Icelandic socio-economic perspective.

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

Section 7 – Rights of the Licensee

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

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

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

Section 8 – Third-Party Activities in the Licence Area

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

Within the License area third parties may:

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

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

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

Section 9 – Coordination and Unitisation

Pursuant to Article 19 of the Hydrocarbons Act, in the event a Hydrocarbon deposit extends into the license areas of two or more licensees, such licensees shall coordinate their activities by entering into a co-operation agreement of unitisation which is subject to the approval of the NEA. In the event such licensees do not promptly conclude a co-operation agreement the NEA may determine the terms and conditions of such an agreement to which the Licensee and other licensees shall be bound.

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

Section 10 – Fees

The Licensee shall pay a fee of ISK 850,000 to the NEA for a License issued under Section 3(1).

Should the License be extended for the purpose of production, the Licensee shall pay a fee of ISK 1,350,000 for [each] such extension.

The Licensee shall pay an annual area fee, based on the size of the License area, i.e. the number of square kilometres the License covers, on each anniversary of the License. Such rental shall not be charged for producing hydrocarbon deposits delimited in accordance with clause 5(3) above. In calculating the size of the area, the figure shall be rounded up to the nearest whole square kilometre.

The area fee is:

License year	ISK pr. km²
Payment 1 - 6 (i.e., payments for license years 1 – 6)	10,000
Payment 7	20,000
Payment 8	30,000
Payment 9	40,000
Payment 10	50,000
Payment 11	60,000
Payment 12	70,000
Payment 13	80,000
Payment 14	90,000
Payment 15	100,000
Payment 16	110,000
Payment 17	120,000
Payment 18	130,000
Payment 19	140,000
Payment 20 and subsequent payments	150,000

The fees payable according to this Section shall be adjusted every year on the basis of the change in the Icelandic consumer price index from January [•] to January in the year in question.

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

Section 11 – Extraction levy

Act No. 170/2008 on the Taxation of Hydrocarbon Extraction (the “Hydrocarbons Taxation Act”) is applicable to the Licensees operations under this License.

Section 12 – Payment obligation

According to clause 5 of the Hydrocarbons Taxation Act the Licensee is liable for the payment of a special extraction levy.

The extraction levy is calculated on the quantity of hydrocarbons, counted in barrels, which the Licensee processes each year on the basis of his licensed hydrocarbon activities.

Extraction means all hydrocarbons delivered from the resource, including those destined for further processing and for the Licensee’s own use. Extraction levy shall not be calculated on the first 10 million barrels, or their equivalent, in each income year.

Section 13 – Reference price

According to clause 6 of the Hydrocarbons Taxation Act a committee of three persons appointed by the Minister of Finance determines a reference price for hydrocarbons. The committee determines at the beginning of each month, a reference price for hydrocarbons for the past month based on the average price of hydrocarbons on a recognized international market trading in comparable hydrocarbon products and also taking into account the cost of sales and the point of delivery. Decisions by the reference price committee are not subject to appeals to any other authority or administrative body.

Section 14 – Levy rate, levy base and amount

According to clause 7 of the Hydrocarbons Taxation Act the extraction levy increases in steps corresponding to the quantity of hydrocarbons processed by the Licensee.

The levy rate, as a percentage, is determined based on quantities in millions of barrels or their equivalent: $(\text{Processed quantity, in millions of barrels} - 10 \text{ million barrels}) / 1,000,000 * 0.5$.

The levy base of the extraction levy, is based on the value of the total processed by the Licensee each year, and is determined as product of the processed quantity and the reference price.

The amount of the extraction levy is the product of the levy rate and the levy base.

Section 15 – Payment of the extraction levy

According to clause 8 of the Hydrocarbons Taxation Act, each settlement period for the extraction levy is one month.

The Licensee who is liable for taxation of extraction levy shall send the Internal Revenue Directorate an estimate of the total quantity of hydrocarbons expected to be processed in the coming year. Such estimate shall be accepted by the NEA and revised every quarter and amendments are subject to the approval of the NEA. The estimate serves to determine the levy rate, levy base and the amount of the extraction levy that is paid at source until a final assessment has been made.

Monthly payments of at source of the extraction levy are based on one twelfth of the estimated total quantity of hydrocarbons. By the end of each settlement period the Licensee (the parties liable for taxation) shall on its own initiative pay to the collection agents of the Treasury the extraction levy he is obliged to pay in accordance with a statement in a form determined by the Internal Revenue Directorate.

The payment date of the extraction levy is the first day of each month, with the final due date 14 days later. In other respects, the payment at source of the extraction levy is subject to the Act on Payment of Public Levies at Source, No. 45/1987.

Parallel to the assessment of national income tax according to the Income tax Act, No 90/2003 a final settlement and assessment of the extraction levy shall be made for the preceding year and the final processed quantity is settled at the average reference price for the year.

Section 16 – Miscellaneous provisions regarding the extraction levy

According to clause 14 of the Hydrocarbons Taxation Act the extraction levy may be regarded as a prior payment of the assessed hydrocarbon tax.

According to clause 18 of the Hydrocarbons Taxation Act the Licensee who pays the extraction levy shall distinguish in his accounts, between income and expenses of the activities covered by the license and income and expenses covered by other activities.

Section 17 – The Hydrocarbons Research Fund and Icelandic participation

Pursuant to Article 10(8) of the Hydrocarbons Act and regulation of the Ministry no. 38/2009(**the Hydrocarbons Research Fund Regulations**) establishing the Hydrocarbons Research Fund (**the Fund**), a special training and research fund in the field of hydrocarbon activity, the Licensee shall pay an initial capital contribution to the Fund in the amount of ISK [to be specified by the applicant]. Furthermore, during the lifetime of the License, the Licensee shall pay an annual contribution towards the Fund in the amount of ISK 5.000.000.

The Fund's board will be constituted by representatives of the Licensee and other license holders as well as a representative of the Icelandic government, appointed by the Ministry, who shall have the right of veto pertaining to resolutions and decision of the board deemed to be contrary to the Fund's role and objectives as defined in the Hydrocarbons Research Fund Regulations. The Energy Fund (Orkusjóður), under the supervision of the NEA, is responsible for the daily administration of the Fund.

The initial capital contribution pursuant to paragraph 1 of this Section 17 is payable on the date this License is issued, with the annual contribution payable on each license date, that is the day and month on which this License is dated. In the event of overdue payments, the Licensee shall pay interest on any such amounts, at an annual rate equal to the official discount rate set by the Central Bank of Iceland (Seðlabanki Íslands) from time to time, plus 6% from the date the payment is due to the date of actual payment.

Pursuant to Article 10(7) of the Hydrocarbons Act the hydrocarbon activities and related activities of the Licensee must be operated from a base in Iceland. The Ministry may issue more detailed regulations regarding the operations of such bases, for example regarding the distance from exploration and production areas

The Licensee acknowledges and agrees to provide Icelandic companies genuine opportunities, in free and open competition with others, to obtain primary contracts or subcontracts to provide goods and services in connection with the performance of the activities stipulated by this License. In this context, the Licensee shall comply with any procedures stipulated by the Ministry pertaining to reporting of initiatives intended by this License to be undertaken by the Licensee related to the tendering of work regarding the performance of the activities stipulated under the License, as well as to reporting of the terms and conditions governing the contracts to provide said goods and services.

The Licensee shall ensure that the provisions of the preceding paragraph are adhered to by its employees, as well as its contractors, subcontractors or other third parties that provide services to the Licensee in connection with the performance of the activities stipulated in this License

The Licensee acknowledges and agrees to provide employment opportunities in Iceland and to endeavour to offer Icelandic educational and research institutions and the Icelandic business community in general the opportunity to participate in such research and development projects that may be undertaken in performance of the activities stipulated in this License. In this connection, the Licensee shall comply with such reporting procedures as may be specified by the Ministry.

The Licensee acknowledges and agrees to encourage, promote and facilitate the execution of contractual agreements between Icelandic companies and foreign contractors engaged in the provision of goods and services to the Licensee in order to augment the competence and technological know-how of Icelandic companies in the delivery of said goods and services. In this connection, the Licensee shall, upon the NEA's request, submit information and/or reports in relation to the above, as required pursuant to Article 26 i.f. of the Hydrocarbons Act.

Section 18 – Joint Operating Agreement

Where the shares of the Licensee are held by several parties jointly, the Licensee's performance of the activities covered by the License shall be regulated by a Joint Operating Agreement (JOA) between the parties in question. The JOA shall take effect no later than 90 days following granting of the License. At least 30 days prior to the intended implementation, the JOA shall be submitted to the NEA for approval. The NEA can demand, within a time limit of 90 days that the agreement be modified on specific points prior to a deadline fixed by the NEA.

Any amendment of, deviation from or supplement to such JOA, including the appointment of a new operator, shall be submitted to the NEA for approval according to the procedure outlined in paragraph (1) above.

Representatives of the NEA shall be entitled to participate as observers in meetings of the board of directors of the Licensee and joint committees set up pursuant to the JOA. The NEA shall be convened subject to the same notice and shall receive the same material, including minutes of meetings, as the parties to the JOA. Expenses incurred by the NEA in connection with such participation shall be reimbursed in the same manner as for supervision, see Article 24(3) of the Hydrocarbons Act.

In the event of the Norwegian government determining to exercise the rights of the Norwegian state pursuant to the Agreed Minutes concerning the Right of Participation pursuant to Articles 5 and 6 of the Agreement of 22 October 1981 between Iceland and Norway on the continental shelf in the area between Iceland and Jan Mayen, the JOA shall contain voting rules which in a balanced manner both reflect the participating interest and protect a minority interest. The joint venture agreement shall contain provisions allowing a participant to individually decide whether or not to take part in a particular field development plan for hydrocarbon deposits, and the right to assign a participating interest subject to prior consultation and in accordance with the Hydrocarbons Act, cf. section 26 below.

Section 19 – Supervision

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

Pursuant to Article 24 of the Hydrocarbons Act, the NEA shall supervise the Licensee's activities under the License and may appoint other parties to carry out such supervision. The supervision personnel shall have the right to:

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

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

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

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

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

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

Section 20 – Reporting

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

Discovery by the Licensee of mineral resources other than those covered by the License shall be reported to the NEA.

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

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

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

Section 21 – Confidentiality

All data and any reports received from the Licensee under the provisions of the Hydrocarbons Act and this License shall be treated as confidential by the NEA, and other public authorities and persons performing duties on a contractual basis for the NEA, for a period of five years from the date when such information was produced and available to the Licensee. Should the License expire or be relinquished or revoked, in whole or in part, such period of confidentiality shall be terminated with respect to information relating to the area no longer covered by the License.

Notwithstanding the provisions of paragraph (1) above the NEA shall be entitled to:

- a) make general statements concerning the licence area and the activities performed under the Licence, based on the material submitted by the Licensee.
- b) use and publish, without any restrictions and conditions, data of an environmental, health, socio-economic, technical, navigational, meteorological and glaciological nature, including bathymetric maps, if this is considered to be in the general interest of the community in the NEA's opinion, but excluding any material in the process of being patented
- c) use and publish material submitted by the licensee regarding general geological and geophysical conditions, including generalized interpretations.

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

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

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

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

Section 22 – Methods and equipment

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

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

Section 23 – Damages and indemnity

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

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

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

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

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

Section 24 – Joint and Several Liability

The co-Licensees together are jointly and severally liable for any damages or compensation payable pursuant to Section 23 above, and for the satisfaction of any and all other obligations towards the Icelandic government under this License.

Section 25 – Guarantee

In order to ensure the Licensee's performance of all of its obligations and liabilities under this License, it shall within a period of 30 days from the granting hereof provide guarantee in amount and of a kind, including in the form of a parent company guarantee (performance bond) or a bank guarantee, that is acceptable to the NEA. The guarantees shall cover the fulfilment of all obligations towards Icelandic public authorities as well as any liability in damages pursuant to Sections 23 and 24 hereinabove. Upon 30 days' notice, the NEA may subsequently require that such guarantee be changed or supplemented. The requirement of a guarantee applies equally to all parties to the License, cf. Section 24 above.

Section 26 – Transfer of a License

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

Section 27 – Legislation

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

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

Section 28 – Disputes

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

The venue shall be Reykjavík

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

APPENDIX 1¹

MODEL LICENSE

FOR THE

EXPLORATION AND PRODUCTION OF HYDROCARBONS

1ST LICENSING ROUNDArea covered by the licence, cf. Section 2 of the License

The License encompasses the area represented in block(s) or parts of block(s) _____ , with the following coordinates:

World Geodetic System 1984: WGS-84

LATITUDELONGITUDE

Degree

Minutes

Seconds

Degree

Minutes

Seconds

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

The License covers [•] square kilometres.

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

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

APPENDIX 2²
 MODEL LICENSE
 FOR THE
 EXPLORATION AND PRODUCTION OF HYDROCARBONS
 1ST LICENSING ROUND

License period for the purpose of exploration pursuant to Section 3

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

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

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

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

Relinquishment shall take place in accordance with Section 3.

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

APPENDIX 3³
 MODEL LICENSE
 FOR THE
 EXPLORATION AND PRODUCTION OF HYDROCARBONS
 1ST LICENSING ROUND

Work Programme for the License, pursuant to Section 4 of License No

The following work programme covers the exploration activities that the Licensee shall carry out pursuant to Section 4 of License No for Exploration for and Production of Hydrocarbons, dated, (relating to the license area (*in blocks(s)*,) see Appendix 1.

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

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

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

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

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

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

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