



Licence for Exploration and Production of Hydrocarbons

No. 2013/01

Pursuant to Act No. 13/2001 on prospecting, exploration and production of hydrocarbons (**the Hydrocarbons Act**), with later amendments, Regulation No. 884/2011 (**the Hydrocarbons Regulation**) as well as information provided in the application for an exclusive licence and other information provided by the applicants, the National Energy Authority (NEA) grants hereby an exclusive licence for exploration and production of hydrocarbons within the area specified in Section 2 of the licence to the following companies as licensees in proportions which are specified as follows:

1. Íslenskt Kolvetni ehf., ID No. 670312-1350, Höfðatún 2, 105 Reykjavík, as licensee. Percentage shares in licence: 7.5 %
2. Petoro Iceland AS, Branch in Iceland, ID No. 681212-1400, Efstaleiti 5, 103 Reykjavík, as licensee. Percentage share in licence: 25%
3. Faroe Petroleum Norge AS, Branch in Iceland, ID No. 531112-0910, Stórhöfði 21, 110 Reykjavík, as licensee and operator of the licence. Percentage shares in licence: 67.5 %

Petoro Iceland AS, Branch in Iceland, is licensee on behalf of the Norwegian state in accordance with the agreement between Iceland and Norway from 1981 on the continental shelf in the area between Iceland and Jan Mayen and the agreed minutes on the aforementioned agreement dated 3 November 2008 in respect of participation rights according to Articles 5 and 6 of the agreement.

Petoro Iceland AS, Branch in Iceland, assumes all encumbrances and obligations of the Norwegian state under the licence and as party to the collaboration agreement on the execution of the licence.

Reykjavík, 4 January 2013



Guðni A. Jóhannesson

Director General

Enclosures: Licence terms, Appendix 1 –Licence area, Figure 1 – Map of licence area, Appendix 2 – Licence period for exploration , Appendix 3 – Work programme, Appendix 4 – Parent company guarantees and Cooperation agreement on execution of licence.

Enclosure 1: Licence terms

Section 1 – Definitions

The following definitions shall apply to the licence and its enclosures unless otherwise apparent from the context.

Application: application for an exclusive licence for exploration and production of hydrocarbons which is submitted by the licensees.

Licensee: a company registered in Iceland, one or more, which holds a share in the licence.

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

Exploration period: the part of the licence period during which exploration takes place, i.e. before the licence may be extended for the purpose of hydrocarbon production.

Exploratory well: a well that is drilled to explore whether hydrocarbons are present in geological formations or some other unit within an oil trap in sedimentary layers where presence of hydrocarbons has not been demonstrated before. Re-drilling in an older well is not considered a new exploratory well without a specific approval by the NEA.

Hydrocarbons: mineral oil, natural gas or other types of hydrocarbons found naturally in geological layers under the seabed and which is utilisable in gaseous or liquid form.

Hydrocarbon reservoir: a geologically demarcated area under the seabed which contains hydrocarbons.

Hydrocarbon deposit: hydrocarbons in a hydrocarbon reservoir.

Hydrocarbon resource: utilisable hydrocarbon deposit.

Hydrocarbon discovery: indications of a hydrocarbon deposit within an exploratory well.

A cooperation agreement on licence execution: a mutual agreement entered into by the parties to a licence, if more than one, which stipulates the role and obligations of each party in the context of the licence and its execution.

Licence year: each year the licence is in effect.

Production period: the period covered by the extension of the licence for production purposes under Paragraph 2 of Article 10 of the Hydrocarbons Act.

Section 2 – Licence area

The licence covers the area shown in Figure 1 of Enclosure 3. The corner coordinates of the licence area set forth in Appendix 1.

The coordinate system used in the licence is World Geodetic System 1984 (WGS-84). The identifier

of each quadrant begins with IS followed by two digits for the degree of latitude plus two digits for the degree of longitude for the quadrant's south-eastern corner, e.g. IS6708 (67°N, 08°W). Each individual quadrant is divided into three blocks of 20 longitudinal minutes and four blocks of 15 latitudinal minutes, for a total of 12 blocks. The blocks are labelled from 01 to 12, with the lowest number in the block in the north-western corner of each quadrant, e.g. IS6708/01, with increasing numbers from west to east and from north to south (01, 02, 03 northernmost, 04, 05, 06 to the south of that etc., cf. Figure 1 of Enclosure 3).

Section 3 – Licence period

The licence period and sub-periods thereof are specified in Appendix 2.

The NEA may extend the exploration period for up to two years at a time, cf. Paragraph 1 of Article 10 of the Hydrocarbons Act. However, the maximum licence period may not exceed 16 years. Applications for such extension of the licence shall be sent to the NEA not later than 90 days before the expiry of the exploration period. Each extension will be granted as an addendum to this licence.

The licensee, the registered companies together, can relinquish the licence at any time within the exploration period, according to Article 3.3 of Special Provisions of Enclosure 7. If the licensee does not fulfil his obligations under the licence, the NEA may demand that the licensee pay in part or in full any costs associated with fulfilling the obligations, cf. Article 12 of the Hydrocarbons Act.

The licensee, having fulfilled the conditions of the licence, shall have a priority right to an extension of the licence for the purpose of production of hydrocarbons for up to 30 years (see Section 6 and the relevant conditions in the Hydrocarbons Act and the Hydrocarbons Regulation). An extension may be granted separately for one or more areas.

The licensee may relinquish a part of the licence area after the end of each sub-period of the exploration licence, according to Article 3.3 of Special Provisions of Enclosure 7. Such relinquishment shall not affect exploration obligations during later sub-periods for the remaining area.

Each relinquishment is subject to approval by the NEA. Following relinquishment, the remaining licence area shall be contiguous and clearly defined in terms of shape and size which makes it suitable for continued exploration and production. The same applies to an area for which the licence is extended for production purposes, cf. Paragraph 2 of Article 10 of the Hydrocarbons Act. The relinquishment enters into force as of the date of the NEA's approval.

The NEA may require the licensee to relinquish a certain part of an exploration area before extending the licence for the purpose of production and the licensee's proposal for such relinquishment shall be received by the NEA no later than 90 days before the licence expires. If the NEA does not receive a relinquishment proposal from the licensee, it is free to decide on the relinquishment of areas.

At the end of the licence period, or at its revocation or transfer, the licensee shall have fulfilled all decommissioning and abandonment activities relating to installations, facilities or equipment used for the production of hydrocarbons, cf. Article 16 of the Hydrocarbons Act, or as the NEA may require.

Section 4 – Operator

Faroe Petroleum Norge AS (Icelandic Branch) is the operator of the licence on behalf of the licensee.

Section 5 – Exploration commitments

The licensee undertakes to carry out the exploration which is set forth in Appendix 3.

If the exploration period is extended, cf. Paragraph 2 of Section 3, additional exploration commitments for new sub-periods will be specified in a new appendix to the licence.

When the exploration has been concluded in accordance with the plan in Appendix 3, the exploration commitments shall be deemed to have been fulfilled.

Any exploration well drilled during a given sub-period in addition to wells specified in the work programme for the sub-period in question may be enumerated, with the approval of the NEA, as part of the exploration commitments of subsequent sub-periods.

If a hydrocarbon deposit has been confirmed through drilling, the licensee shall:

- a) Notify the NEA of the discovery immediately.
- b) Submit a report to the NEA on the results of further exploration of the hydrocarbon deposit within eight months after the completion of the drilling which confirmed its existence.
- c) Submit a plan for further exploration comparable to that generally undertaken in the oil industry under similar circumstances to determine whether a hydrocarbon resource is at issue, i.e. whether exploitation of the deposit is technically feasible and commercially viable.

The plan shall include time limits which permit the preparation of a schedule of field development and production to be submitted to the NEA no later than 90 days before the end of the exploration period.

The assessment plan for the hydrocarbon deposit shall be revised in light of the results of further exploration. Changes in this plan and additions thereto require confirmation by the NEA. Exploration which is undertaken in accordance with the plan is not considered part of the exploration which the licensee is required to undertake in accordance with Appendix 3.

The licensee may define a reasonably sized contiguous area around the well where the hydrocarbon deposit was discovered as an assessment area for purposes of the plan's organisation and execution. The delimitation of such an assessment area requires approval by the NEA.

A substitute for a commitment to drill an exploratory well is not possible without prior approval by 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 preparatory research for the construction of production infrastructure etc., unless approved by the NEA.

The NEA may stipulate that obligations under the licence remain in force after the licence period ends or the licence is returned or revoked, cf. Article 12 of the Hydrocarbons Act. If the licensee does not fulfil his obligations under the licence, the NEA may demand that the licensee pay in part or in full the necessary cost of fulfilling the obligations. Such payments shall be made no later than 30 days after they are demanded by the NEA. Once the cost has been paid the licensee has no further obligations on account of unfulfilled exploration commitments.



Section 6 – Conditions for licence extension for production of hydrocarbons

If the exploration according to the licence has led to the discovery of a hydrocarbon deposit and a proposal has been submitted for the delimitation of one or more hydrocarbon resource(s) which the licensee plans to utilise, and provided that other conditions of the licence have been fulfilled, the licensee shall have pre-emptive rights to an extension of the licence for the purpose of production of hydrocarbons, cf. Paragraph 2 of Article 10 of the Hydrocarbons Act. The licensee shall submit a request for such an extension to the NEA no later than 90 days before the expiry of the exploration period.

The licensee's request for an extension for the purpose of production of hydrocarbons at one or more hydrocarbon resources shall be based on the results of one or more plans for an assessment of hydrocarbon deposits and include:

- a) Notification that
 - i. the existence of one or more hydrocarbon deposits has been demonstrated.
 - ii. it has been confirmed that the conditions of the hydrocarbon deposit are such that its exploitation is deemed technically and commercially feasible.
 - iii. the licensee intends to utilise the hydrocarbon resource.
- b) A feasibility study of the commercial utilisation of the hydrocarbon deposit. The feasibility study shall include a description of the resource and its assessment with respect to geology and reservoir technology. Technical, financial, environmental and other assumptions underlying the notification shall be specified in the feasibility study.
- c) The licensee's proposal for the delimitation of the area for which an extension is being applied for.

The NEA decides on the delimitation of the area or areas covered by the extension of the licence for the purpose of production. The delimitation shall be specified in terms of geographical co-ordinates and by depths based on the following factors:

- a) An extended licence will cover an area where the existence of a hydrocarbon resource has been demonstrated and its delimitation will be based on the results of geophysical measurements and drillings and on other relevant data.
- b) The basis for the delimitation of an extended licence area will be the outlines of the deposits in question and their extent as proposed by the licensee in the aforementioned feasibility study and stated in the licensee's request for an extension, cf. Paragraph 2 of this Section.
- c) The depth range of the delimited area shall include all hydrocarbon deposits covered by the extended licence.
- d) A delimited area may include more than one deposit depending on circumstances.
- e) In the delimitation of additional areas and associated depth ranges, the NEA takes into account possible difficulties in delimiting the deposit with great precision.

The licence areas which remain after the relinquishment of an area during the exploration period shall be contiguous and well defined, cf. Paragraph 6 of Section 3. The same applies to an area covered by a licence which is extended for the purpose of production of hydrocarbons, cf. the present Section.

Section 7 – Field development and production plan

The extension of a licence for the purpose of production of hydrocarbons is subject to the submission by the licensee to the NEA for its approval of a field development and production plan for the hydrocarbon resource in question, cf. Paragraph 2 of Article 15 of the Hydrocarbons Act. The plan shall be submitted within time limits specified by the NEA, but no later than 90 days before the expiry of the exploration period. The extension is also subject to the condition that the licensee shall begin production within agreed time limits.

The field development and production plan shall include a description of all operations which are planned, such as:

- a) Development activities, including a drilling plan.
- b) Production, handling, storage and transportation.

The timing of development activities shall be set forth in the plan. Moreover, the field development and production plan shall include:

- a) The production's connections with other operations, such as sailing routes, fisheries, scientific investigations, practical surveys and other legitimate third party activities in the licence area.
- b) The opinion of the National Planning Agency of the environmental impact of planned development activities, as required by the Environmental Impact Assessments Act, No. 106/2000. The NEA can demand changes or additions to the environmental impact assessment if it deems the assessment not to be satisfactory.
- c) A preliminary plan for decommissioning offshore installations once hydrocarbon activities are ended, cf. Article 16 of the Hydrocarbons Act. The plan shall include a cost estimate for the decommissioning activities.
- d) Any other information and reports which the NEA requires in accordance with applicable legal provisions.

In its evaluation of a field development and production plan submitted to it, the NEA will take into account technical, financial, health, safety, environmental and macroeconomic viewpoints.

The licensee shall endeavour to observe time limits agreed under the field development and production plan and begin utilisation within set time limits, unless otherwise agreed by the NEA.

Section 8 – Rights of licensees

This licence grants the licensee exclusive rights to explore and produce hydrocarbons within the licence area, cf. Paragraph 1 of Article 7 of the Hydrocarbons Act.

The licensee shall notify the NEA if he discovers minerals not covered by the licence.



The licensee may utilise other natural resources if that is a necessary extension of the production of hydrocarbons unless the natural resources in question are owned by a third party. The NEA reserves the right to impose upon the licensee terms for such utilisation, including the payment of fees if the additional utilisation or production is financially viable.

Section 9 – Third party activities within the licence area

The licensee shall respect all existing rights of others and shall not restrict any legitimate activities by a third party within the licence area or prevent such parties from being authorised to:

- a) undertake prospecting for hydrocarbons in geological layers, provided that the licensee be provided, free of charge, with copies of raw data (e.g. copies of raw data from seismic tapes) acquired by such third parties within the licence area.
- b) explore for and produce other minerals not covered by the licence.
- c) construct and operate pipeline facilities, installations etc. which are used for operations which fall within the scope of the Hydrocarbons Act.
- d) use geological layers for storage or for purposes other than production of hydrocarbons.
- e) undertake scientific research and practical surveys of a general nature and for the purpose of producing maps over mineral resources.

The licensee shall endeavour to ensure that his licensed activities do not needlessly hinder activities which are referred to in a through e or exploration and production operations being carried out under other licences. The NEA shall endeavour to ensure that such activities and activities under other licences do not needlessly impede the activities of the licensee.

The licensee shall endeavour to organise his activities and reorganise his operations if necessary in order not to impact fishing within the licence area. To comply with this requirement the licensee shall notify the NEA in a timely manner of planned seismic surveys or other investigations.

Section 10 – Division of a hydrocarbon resource

If a hydrocarbon resource extends from the licence area into an area where others are licensed to explore and produce, the licensees must enter into a co-operation agreement regarding exploration and production from the resource, cf. Paragraph 1 of Article 19 of the Hydrocarbon Act. The co-operation agreement is subject to approval by the NEA. If the licensees fail to reach an agreement within a reasonable time period, the NEA may stipulate its contents.

If a hydrocarbon resource extends over into the continental shelf of another state, the licensee shall comply with the instructions of the NEA in accordance with Paragraph 2 of Article 19 of the Hydrocarbon Act. Furthermore, a reference is made to the agreement between Iceland and Norway concerning transboundary hydrocarbon deposits, dated 3 November 2008.

Section 11 – Fees

A fee of ISK 850,000 shall be paid to the NEA for an exploration licence for hydrocarbons in accordance with Point 2 of Paragraph 3 of Article 30(a) of the Hydrocarbons Act.



If the licence is extended for production purposes, the NEA shall be paid ISK 1,350,000 in accordance with Point 3, Paragraph 3 of Article 30 of the Hydrocarbons Act.

An annual fee of ISK 1,000,000 shall be paid to the NEA for the licence in accordance with Paragraph 5 of Article 30(a) of the Hydrocarbons Act.

An annual fee shall be paid to the Treasury for use of the licence area. The area fee is based on the size of the area in accordance with Paragraph 7 of Article 7 of the Hydrocarbons Act. An area fee shall not be paid for a hydrocarbon resource which is already being exploited and has been delimited in accordance with Paragraph 3 in Section 6 above. In calculating the size of the licence area the size shall be rounded up to the next whole square km.

The area fee is:

Licence year	ISK per km ²
1st-6th. payment (i.e.. payments for 1st-6th licence year)	10.000
7th payment	20.000
8th payment	30.000
9th payment	40.000
10th payment	50.000
11th payment	60.000
12th payment	70.000
13th payment	80.000
14th payment	90.000
15th payment	100.000
16th payment	110.000

The area fee shall be paid annually, for the first time at the issuance of the licence and yearly thereafter. If the fee is not paid on the due date, the licensee shall pay interest according to the Central Bank's policy rate at any given time plus 6% interest which shall accrue from the due date until the payment is made.

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

Section 12 – The Hydrocarbon Research Fund

During the licence validity period an initial contribution of ISK 1,000,000 shall be paid as well as an annual contribution of ISK 5,000,000 to a special educational and research fund in accordance with Paragraph 8 of Article 10 of the Hydrocarbons Act and Regulation No. 39/2009 on a Hydrocarbon Research Fund, with later amendments.

The aforementioned initial contribution shall be paid at the issuance of the licence and the annual fee shall be paid for the first time at the issuance of the licence and annually thereafter. If the fee is not

paid by the final due date, the licensee shall pay interest according to the Central Bank's policy rate at any given time plus 6% interest which shall accrue from the due date until the payment is made.

Amounts and other terms regarding the hydrocarbon research fund are subject to changes in the Hydrocarbon Act and Regulation No. 39/2009.

Section 13 – Co-operation agreement on licence execution

In instances where the licensees number more than one, there shall be submitted to the NEA as an enclosure to the licence a co-operation agreement regarding execution of the licence for exploration and hydrocarbon production in accordance with Paragraph 2 of Article 7 of the Hydrocarbon Act, but such agreement shall comprise the following:

Enclosure 7:

- Special provisions.
- Appendix A. A cooperation agreement on licence execution.
- Appendix B. An agreement on accounting rules.

The agreement shall be on record at the issuance of a licence.

All changes in such a contract or appendices thereto, including the appointment of a new operator, are subject to approval by the NEA

In the event that the Kingdom of Norway decides to exercise its rights, care shall be taken that the aforementioned co-operation agreement will include voting rules which reflect balance between the participating interest, on the one hand, and ensure the rights of a minority interest, on the other hand, in accordance with the agreement between Iceland and Norway on the continental shelf between Iceland and Jan Mayen from 22 October 1981 and the agreed minutes of 3 November 2008 in respect of Articles 5 and 6 of the agreement on implementation of mutual sharing of licences. The co-operation agreement shall contain provisions which ensure that each licensee can take an independent decision on participation in specific operational and production plans for hydrocarbon resources and provisions which ensure the rights of licensees to transfer shares in the licence with the approval of the NEA in accordance with Article 30 of the Hydrocarbon Act, see also Section 21 below.

Section 14 – Supervision

In accordance with Paragraph 7 of Article 10 of the Hydrocarbon Act, a licensee shall see to it that the hydrocarbon activities are carried out in a responsible manner and in accordance with applicable legislation at any given time. The activities shall take into account the utilisation of the resource as well as safety and the public interest. Any measures taken by the licensee in respect of organisation and size of the activities shall be such that the licensee can at any time take informed decisions regarding his hydrocarbon activities. To ensure follow-up on the licensee's measures, the NEA can make specific demands for measures by the licensees and the location of their stations if it deems it necessary because of the scope of the licensees' hydrocarbon activities.

The NEA will monitor a licensee's operations to ensure that they conform to the Hydrocarbon Act and the licence, cf. Paragraph 1 of Article 24 of the Hydrocarbon Act. The licensee shall repay the NEA costs incurred in monitoring the licence if such repayment is demanded by the NEA. If the licence is granted to several parties jointly, they shall be severally and jointly responsible vis-a-vis

the NEA for such payments.

Representatives of the NEA and a consultation group comprising parties who supervise prospecting, exploration and hydrocarbon production activities in Iceland, cf. Article 24 of the Hydrocarbon Act, shall have the right to:

- a) access vessels, off-shore facilities and other installations connected to the licensees' production of hydrocarbons. The same applies to data, samples and other information regarding the hydrocarbon activities.
- b) stay aboard vessels or other installations as long as they deem it necessary.
- c) review, summarise or copy all documents, such as reports, organisational data, maps and accounting data which the licensee is required to maintain or prepare.
- d) carry out supervision or to install equipment which the NEA has the right to use after consultation with the licensee.
- e) receive indications of violations of laws or other terms which apply to the activities of the licensee and to give instructions in this connection. The licensee is required to follow instructions which are given under this paragraph.
- f) halt activities temporarily in the event of serious or repeated violations.

The NEA can decide and instruct that mobile installations shall be moved to an Icelandic harbour or another harbour for inspection.

The licensee is required to provide the aforementioned representatives all necessary assistance in their supervisory work.

The licensee is required to provide the aforementioned representatives access to relevant data which are in the possession of parties other than the licensee.

The licensee shall be responsible for transferring the above representatives appropriately from their workplace to any relevant vessel or offshore facility and back, and for ensuring them reasonable accommodation and boarding during their stay. The associated costs shall be paid by the licensee, cf. Paragraph 4 of Article 24 of the Hydrocarbon Act.

The aforementioned conditions also apply to aircraft including helicopters.

Section 15 – Provision of information and data surrender requirement

In order to ensure insight into the licensee's operations under this licence and the geology of the Icelandic continental shelf, the licensee shall provide the NEA with required information and data on hydrocarbon activities and other information relating to the licensee's activities under the licence. The licensee must also deliver data and send samples of material such as drill cores at the NEA's request.

If the licensee's exploration leads to the discovery of mineral resources other than those covered by the licence, the NEA shall be notified thereof immediately.

In order to ensure detailed knowledge and overview of the licensee's activities under this licence, the licensee shall deliver to the NEA all information about its exploration and production which is

subject to a surrender requirement, among other things information about its financial position as well as other data, interpretations and other applicable information pursuant to legislation and regulations in force at the time.

Moreover, the licensee is required to deliver to the NEA all information requested by it in accordance with Articles 24(a) and 26 of the Hydrocarbon Act.

The licensee shall bear all costs of preparing and delivering data, reports and samples required under the terms of this licence.

Section 16 – Confidentiality

Information provided by the licensee to the NEA under this licence shall be exempt from access by the general public in accordance with the Information Act during the validity period of the licence, cf. Article 26(a) of the Hydrocarbon Act. Employees of the NEA's are obliged to maintain confidentiality as are specialists who perform supervisory work on behalf of the NEA as well as employees of accredited inspection and supervisory bodies. Should the licence expire, be relinquished or revoked, in whole or in part, the confidentiality obligation is cancelled with respect to information about areas which are no longer part of the licence.

Despite the confidentiality provisions, the employees of the NEA may negotiate with the exploration licensee authorisation for expanded access to and use of exploration data by others.

The confidentiality provisions shall not prevent the NEA or other authorities from making public general information about the licence area and projects in this area, among other things:

- a) to provide general information in connection with official notifications, annual reports or the like concerning hydrocarbon activities.
- b) to hand over information as part of cooperation on hydrocarbon activities with another state, provided that similar rules for ensuring the information's confidentiality apply in the state in question.
- c) to utilise information to promote knowledge about geological layers and resources of the seabed.

In its communications with individuals or the general public, the licensee shall not without the approval of the NEA refer directly or indirectly to notifications or instructions by the NEA, supervisory bodies or other official institutions or parties who work for or carry out obligations for such institutions, which relate to the likelihood of a hydrocarbon discovery, the size of hydrocarbon deposits or timing and arrangements for hydrocarbon production.

Section 17 – Measuring hydrocarbons

The licensee is required to measure and analyse all produced and processed hydrocarbons in accordance with generally accepted methods. The equipment and the methods used must have been approved by the NEA.

If there is reason to believe that the volume of produced or processed hydrocarbons has been calculated incorrectly, the licensee must provide the NEA with access to all data and equipment for the purpose of verifying the calculations.

Section 18 – Compensation

In accordance with Article 28 of the Hydrocarbon Act, the licensee is liable for damages for any kind of loss caused by hydrocarbon activities, including environmental damage, regardless of whether or not the loss may be traced to culpable conduct. Compensation for physical injury or loss of provider may be reduced or cancelled if the party who suffered loss or died was himself partly responsible for the loss either intentionally or through gross negligence. Compensation for material loss may be reduced or cancelled if the party who suffered the loss was himself partly responsible for loss either intentionally or through gross negligence.

Compensation for environmental damage may be reduced or cancelled when there is proof that the damage was caused by a natural catastrophe or by other uncontrollable events for which the licensee cannot be held liable.

The NEA and the Icelandic state shall not be liable for damages (including costs of litigation) for any events connected to the licensee's activities which affect a third party.

The NEA shall notify the licensee about claims which fall under Paragraph 3 of this Section. If the NEA considers such a claim unjustified, the institution will deny the claim and, if necessary, refer the case to the courts. The licensee has the right to participate in litigations concerning such claims in accordance with the relevant Articles of Act No. 91/1991, on Civil Procedure.

The above does not limit an injured party's right to damages under general rules.

Section 19 – Joint and several liability of licensees

With reference to Paragraph 2 of Article 28 of the Hydrocarbons Act the licensees are jointly and severally liable for loss or damages which may arise in accordance with Section 18 above, and for the fulfilment of all other obligations to the Icelandic state under this licence.

Section 20 – Insurance

The licensee shall purchase liability insurance from a recognised insurance company, bank guarantees or other insurance which the NEA deems equivalent and pay compensation for any loss which the licensee may cause through his activities, cf. Point 6 of Article 11 of the Hydrocarbons Act. The insurance shall as a minimum cover:

- a) damages to installations.
- b) losses due to pollution and compensation to third parties.
- c) removal of ruins or shipwrecks and clean-up after accidents.
- d) drilling of exploratory, appraisal or production wells.
- e) employees of the licensee who work on his hydrocarbon activities.

The licensee shall ensure that contractors and sub-contractors, who participate in the hydrocarbon activities, purchase insurance for their employees that are comparable to those which the operator purchases for his employees.



In purchasing insurance cf. Points a to e of Paragraph 1 of this Section, the licensee shall provide acceptable insurance which takes into account the risks taken by employees and insurance fees. The NEA can approve use by the licensee of some other form of insurance.

The licensee shall notify the NEA of active insurance contracts together with information about their principal terms at the end of each year. The NEA can request that further insurance be obtained.

All sub-companies of parent companies are required to sign a parent company insurance contract (Appendix 4).

The licensee shall submit to the NEA a parent company insurance contract, Appendix 4, at the issuance of the licence. If a licensee does not have a parent company, then the licensee shall submit additional insurance or a bank guarantee approved by the NEA. The parent company insurance contract, the additional insurance contract or the bank guarantee shall cover all obligations towards the Icelandic state as well as any liability on account of a loss in accordance with Sections 18 and 19 above. On 30 days notice, the NEA can request that such insurance contracts or guarantees shall be amended or improved. A request for insurance extends equally to all licensees, cf. Section 19 above.

Section 21 – Transfer of a licence

Transfer of the licence or any part thereof, directly or indirectly to a third party or a co-licensee, is not permitted without the prior approval of the NEA, cf. Article 30 of the Hydrocarbons Act. Also, it is not permitted except with the prior approval of the NEA to transfer shares or other ownership rights in such quantity as would alter the controlling position in a company which is a licensee or a co-licensee, or to enter into agreements which would have the same effect.

The NEA may charge a fee for the transfer of licences in accordance with Paragraph 2 of Article 30 of the Hydrocarbons Act.

Section 22 – Legislation

The licence and all activities of the licensee are subject to Icelandic laws and regulations in force at any given time. Accordingly, the licence does not limit the general right of the Icelandic state to impose taxes nor the authority of the state to propose general provisions in respect of specific aspects of hydrocarbon activities.

The licence does not exempt the licensee from obtaining other licences and approvals which are necessary according to the Hydrocarbons Act or other applicable legal provisions.

Section 23 – Handling of disputes, appeal procedures

The decisions of the NEA in respect of the granting, review or revoking of licences pursuant to the Hydrocarbons Act may be appealed to the Appeals Committee for Environmental and Resource Matters, cf. Article 30(b) of the Hydrocarbons Act. Participation, appeal deadline, appeal procedures and other issues relating to the appeal shall be in accordance with the Appeals Committee Act No. 130/2011.

Administrative decisions of the NEA which cannot be appealed to the Appeals Committee for Environmental and Resource Matters may be appealed to the Minister. An appeal to the Minister shall be in writing. In other respects, the procedure of an appeal to the Minister shall be subject to the provisions of the Government Administration Act No. 37/1993.

Any dispute which may arise on account of this licence that cannot be resolved through the Appeals Committee for Environmental and Resource Matters, such as the licensee's performance etc., shall be handled in accordance with Icelandic laws and be submitted to Icelandic courts of law.

The venue shall be Reykjavik.

The provisions of Paragraphs 1 and 3 of this Section do not affect the right of the NEA and the licensee to decide in particular cases that a dispute between them shall be resolved through arbitration.



Enclosure 2: Appendix 1 – Licence area

The licence area, cf. Section 2 of Enclosure 1.

The licence covers the area which is within blocks IS6808/8, 9, 10, 11, 12 and delimited with the following coordinates in the WGS-84 geodetic system:

Point No.	Latitude	Longitude
1	68°30'00"N	8°40'00"W
2	68°30'00"N	8°00'00"W
3	68°00'00"N	8°00'00"W
4	68°00'00"N	8°20'00"W
5	67°45'00"N	8°20'00"W
6	67°45'00"N	9°00'00"W
7	68°15'00"N	9°00'00"W
8	68°15'00"N	8°40'00"W

The licence area is delimited by connecting the corner coordinates by longitudes and latitudes in the order indicated.

The licence area is 2,704 km².

The location of the licence area is shown in Figure 1 of Enclosure 3.

Enclosure 3: Figure 1 – Map of licence area

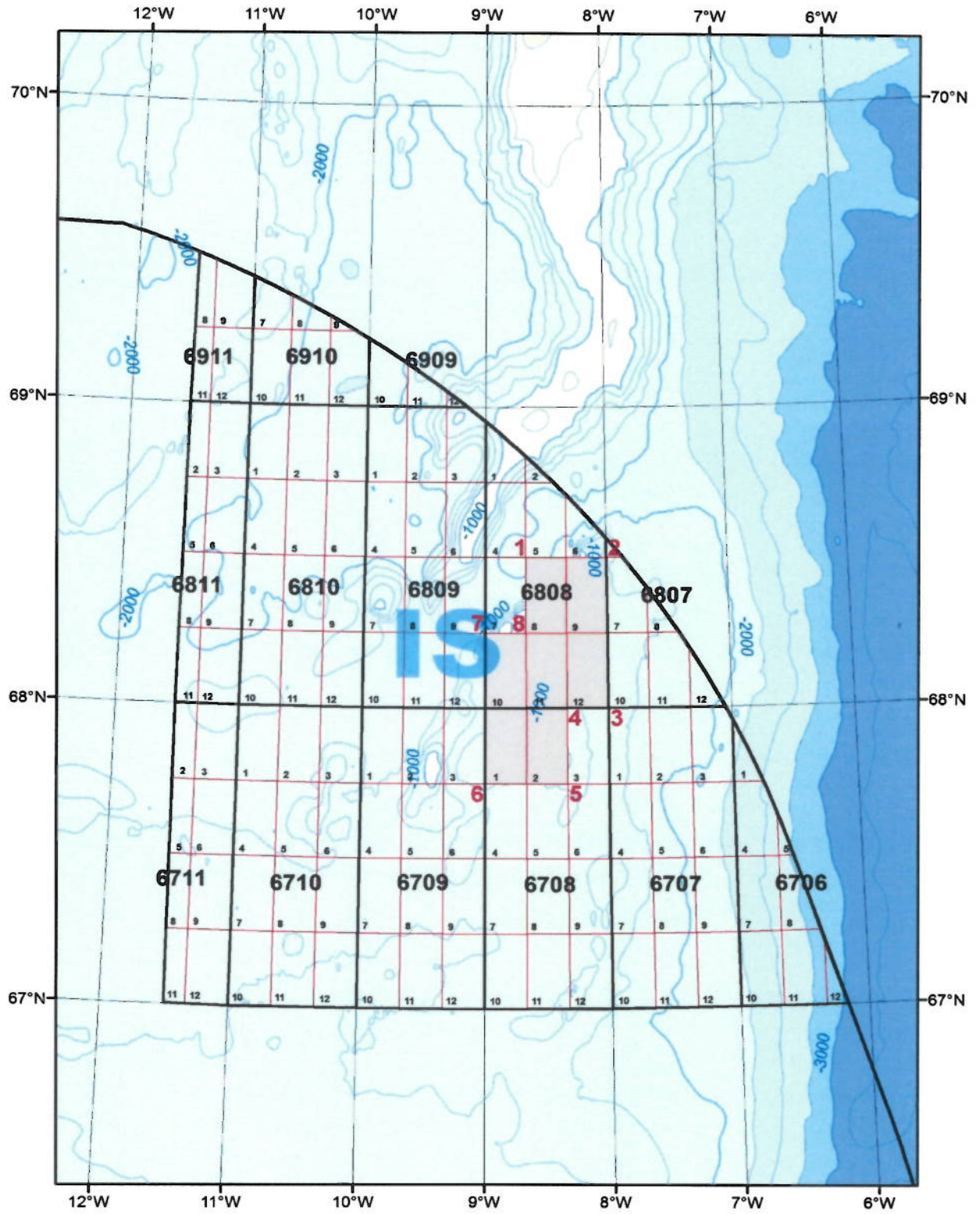


Figure 1: Map of the licence area, gray shaded, along with numbers of corner points.

Enclosure 4: Appendix 2 – Licence period for exploration

The licence period for exploration, cf. Section 3 of Enclosure 1

The licence period for exploration is 7 years and it is divided into the following sub-periods:

First sub-period:	04.01.2013	–	04.01.2015
Second sub-period:	04.01.2015	–	04.01.2017
Third sub-period:	04.01.2017	–	04.01.2020

After completion of all exploration envisaged for the first sub-period according to the exploration schedule in Appendix 3 and before the end of the first sub-period, the licensee shall notify the NEA whether he will undertake the exploration envisaged for the second sub-period or else relinquish the licence. The same applies at the end of the second sub-period when all exploration therein shall have been completed as scheduled and the licensee is required to notify the NEA whether he will undertake exploration as envisaged during the third sub-period or else relinquish the licence.

The licensee may relinquish a part of the licence area after the end of each sub-period of the exploration licence cf. Section 3 of Enclosure 1. Such relinquishment shall not affect exploration obligations during later sub-periods for the remaining area.



Enclosure 5: Appendix 3 – Work programme

The work programme for the licence, cf. Section 5 of Enclosure 1

1. During the first sub-period of the exploration licence the licensee shall complete the following activities:
 - A. Reprocess at least 500 km of key 2D seismic lines.
 - B. Further analysis of selected seismic data, such as AVO-analysis and analysis of special attributes of the data.
 - C. Assessment of the area's formation, among other things taking regional uplift into account.
 - D. Assessment of the top seal and its sealing ability in respect of leaky cracks.
 - E. Reassessment of the area's tectonic plate drift and formation of hydrocarbon reservoirs.
 - F. Environmental studies to be used for environmental impact assessment.
 - G. Incorporate available results of studies of geological samples in the assessment of the area.
 - H. Incorporate available satellite studies in the assessment of the area.

Points G and H are contingent on the results of studies under Points A to F.

2. During the second sub-period the licensee shall complete the following activities:
 - A. Acquire at least 500 km of 2D seismic data.
 - B. Acquire seabed samples and carry out geological studies on them.
3. During the third sub-period the licensee shall complete the following activities:

Drill an exploratory well.
4. The wells shall be drilled in an appropriate manner in accordance with good exploration practice, which shall include core drilling, sample extraction and production testing. The methods shall be in accordance with the instructions and conditions of the NEA which will be set separately for each drilling in accordance with applicable legal provisions.
5. Exploration data which are acquired shall be analysed and interpreted in a manner which the NEA deems to be satisfactory.
6. Before commencing exploration activity, the licensee is required to seek the opinion of the NEA whether the scheduled exploration activity fulfils requirements under the exploration schedule.
7. Upon relinquishment of an area the licensee shall submit to the NEA the exploration results for the area concerned.

