

RULES

on prospecting, exploration and production of hydrocarbons

SECTION I

Scope and definitions

Article 1

Scope

These Rules apply to the prospecting, exploration and production of hydrocarbons and transport of hydrocarbons through pipeline systems outside the 110-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 hydrocarbon accumulations and have not been pumped back into a hydrocarbon accumulation.

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 edge of the economic zone or to the outer edge 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.

Hydrocarbons Regulation: Regulation No. 38/2009 on the prospecting, exploration and production of hydrocarbons.

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-licencee: 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 the Hydrocarbons 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

Licence to prospect for hydrocarbons

Article 3

Application

An application for a prospecting licence according to Article 5 of the Hydrocarbons Regulation shall present in a clear manner:

1. The name of the applicant or applicants, if there are co-applicants, address and nationality. In the case of their being legal entities, official registration papers should accompany the application.
2. The boundaries of the area for which a licence is being sought.
3. The purpose of obtaining a licence, including the nature and purpose of investigations.
4. A detailed explanation of the applicant's intended activities, including the nature and purpose of investigations, *i.a.* research methods, including the name, size, model and type of vessels and a description of research instruments.
5. A confirmation of payment of the application fee, in accordance with Article 30 of the Hydrocarbons Act.

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

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

Article 4

Scope of licence

A licence entitles the holder to prospect for hydrocarbons in accordance with Article 8 of the Hydrocarbons Regulation using the following methods:

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

The National Energy Authority may upon a licensee's request permit other types of survey.

Article 5

Notification of a planned prospecting survey

Every prospecting survey for hydrocarbons in or above Icelandic waters shall, in accordance with Article 10 of the Hydrocarbons Regulation, be notified to the National Energy Authority no later than 5 weeks before it starts. The National Energy Authority may grant dispensation from the specified deadline.

A shipborne survey shall also be notified to the Icelandic Coast Guard within the deadline given in Para. 1. A notification shall include the following:

1. That the survey is aimed at prospecting for hydrocarbons according to a license.
2. Information regarding the licensee, the survey contractor, the survey ship and how these parties may be contacted.
3. Whether it is intended to make use of service or auxiliary vessels or aircraft in carrying out the survey.
4. Short description of the purpose of the survey.
5. Corner coordinates of the survey area.
6. Information regarding the minimum area required to operate the ship during surveying.

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

1. That the survey is aimed at prospecting for hydrocarbons according to a licence.
2. Information regarding the licensee, the survey contractor, the survey aircraft and how these parties may be contacted.
3. Whether it is intended to make use of service or auxiliary vessels or aircraft in carrying out the survey.
4. Short description of the purpose of the survey.
5. Corner coordinates of the survey area.
6. Information regarding flight altitude during surveying.

Article 6

Notification that a shipborne prospecting survey is about to begin

A shipborne survey shall be notified to the National Energy Authority and the Icelandic Coast Guard. A notification shall include the following:

1. That the survey is aimed at prospecting for hydrocarbons according to a licence.
2. Name of licensee.
3. Name of contractor.
4. Name of ship and port of registry.
5. Registry.
6. Radio call sign.
7. Inmarsat numbers for telephone, telefax and e-mail communications.
8. Type.
9. Date.
10. Time.
11. Position.
12. Last port of call prior to entering Icelandic waters (port and country).
13. First port of call after leaving Icelandic waters (port and country).
14. Estimated time and position of arrival in the survey area.
15. Information on planned portcalls in Icelandic ports (ports and estimated times of arrival).
16. Name and address of agent in Iceland.

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

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

Calls in Icelandic ports shall be notified to the Icelandic Coast Guard and other Icelandic authorities at least 24 hrs. in advance, preferably through the licensee's agent.

Article 7

Notification that an airborne prospecting survey is about to begin

An airborne survey shall be notified to the National Energy Authority, the Icelandic Civil Aviation Administration and the Icelandic Coast Guard.

A notification shall include the following:

1. That the survey is aimed at prospecting for hydrocarbons according to a licence.
2. Name of licensee.
3. Name of contractor.
4. Registry.
5. Call sign.
6. Date.
7. Time.
8. Position.
9. Estimated time and position of arrival in the survey area.

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

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

Article 8

Notification of arrival and departure from a survey area

Arrival and departure of a survey vessel or aircraft and its service or auxiliary vessels or aircraft from a survey area shall be notified to the National Energy Authority. An airborne survey shall also be notified to the Icelandic Civil Aviation Administration and the Icelandic Coast Guard, whereas a shipborne survey shall be notified to the Icelandic Coast Guard.

A notification shall include the registry, call sign and position of a vessel or aircraft. In case of arrival in a survey area, a notification shall also include information on the planned movements of a vessel or aircraft during the next 24 hrs. In case of a shipborne survey, a notification may include a request to the Icelandic Coast Guard to issue a warning about a planned survey to other vessels or aircraft in the survey area.

Article 9

Daily notification

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

SECTION III

Exploration and production licence

Article 10

Exploration and production licence

An exploration licence pursuant to the Hydrocarbons 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 laws, in the Hydrocarbons Regulation, in the licence itself and as considered necessary by the National Energy Authority.

When conducting surveys in a licence area under the provisions and during the period of validity of an exploration and production licence, with the same methods as permitted for prospecting according to Art. 4 of the present rules, the provisions of Art. 5 to Art. 9 shall be valid for their execution.

Article 11
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, as further specified by the National Energy Authority.

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

An application shall at least contain the following items:

1. Information on the registration of the applicant in a national register in Iceland.
2. Geographical limits of the area applied for.
3. Prioritisation of areas, if applying for more than one area.
4. Detailed information on the intended activity of the applicant, including information on the financial capacity of the applicant for conducting such activity.
5. Geological appraisal of the area applied for and of the cost effectiveness of the intended hydrocarbons activity in the area.
6. Financial evaluation of the area, or areas, in which an exploration and production licence is applied for.
7. Information on the prior experience of prospective licensees and their technical competence in relation to their intended activities in the area for which an exploration and production licence is applied for. Detailed information shall be given about the experience and competence of prospective operators.
8. Information on the organisation and expertise of the manpower that an applicant has access to in Iceland, as well as elsewhere, for conducting his intended operations in the area, or areas, for which an exploration and production licence is applied for.
9. Confirmation of payment of an application fee, as specified in Art. 30 a of the Hydrocarbons Act.

An applicant shall submit the appropriate drawings and maps.

The National Energy Authority may grant dispensation from the provisions given in Par. 1, besides asking for further information beyond the items mentioned there.

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

SECTION IV
Extraction of hydrocarbons, etc.

Article 12

Further description of the production schedule and execution plan

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

A production schedule and execution plan shall contain the following items, according to circumstances:

- a) A plan for the construction, installation and operation of offshore facilities, *cf.* further instructions in the Hydrocarbons Regulation.
- b) A description of the operation and production plan, with information on the underlying fundamental aspects governing it, as well as a description of later stages of operation and production, if any, together with possible co-operation on unitisation of hydrocarbon resources, as applicable.
- c) A description of geological and civil-engineering aspects regarding hydrocarbon resources.
- d) An extraction plan.
- e) A description of technical solutions, including solutions aimed at stopping or diminishing emission or vapourisation that may be harmful for the environment.

- f) Information on how the licensee intends to ensure that his activity and employees follow the laws and regulations governing the operation.
- g) Information on operative matters and maintenance.
- h) Information on economical aspects.
- i) Information on the permits that have been applied for, approval that has been sought or will be sought, and if it is intended to place any equipment or facilities owned by a third party on land or on the bottom of the sea.
- j) Information on the intended decommissioning of offshore facilities, production structures and production equipment, if hydrocarbon activities are finished.
- k) Information on the construction and operation of pipelines for the production and transport of hydrocarbons, that requires the permission of the National Energy Authority according to Article 17 of the Hydrocarbons Act.
- l) Information on how the hydrocarbons will be marketed.
- m) Description of technical arrangements for emergency preparedness.
- n) Information on other factors that are important for hydrocarbon resources management.
- o) Other information that is required according to the safety and security legislation valid at the time being.

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

Article 13

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 economic, technological, environmental and security aspects. Furthermore, such plans shall take account of the scope of the project.

The plans shall contain information on the following details as necessary according to the judgement of the National Energy Authority:

- a) Location, size and transport capacity of pipelines.
- b) Ownership of offshore facilities.
- c) Technical solutions, including solutions aimed at stopping or diminishing emission or vapourisation that may be harmful for the environment.
- d) How the licensee intends to ensure that his activity and employees follow the laws and regulations governing the operation.
- e) Operation and maintenance of offshore facilities, production structures and production equipment.
- f) Economic aspects.
- g) Permits that have been applied for, approval that has been sought or will be sought, and if it is intended to place any equipment or facilities owned by a third party on land or on the bottom of the sea.
- h) Intended decommissioning of offshore facilities, if hydrocarbon activities are finished.
- i) Description of technical arrangements for emergency preparedness.
- j) Other factors that are important for hydrocarbon resources management.
- k) Other information that is required according to the safety and security legislation valid at the time being.

The National Energy Authority is permitted to deviate from the requirements on contents of the plans and can require other solutions be taken into account.

SECTION V

Decommissioning of offshore facilities

Article 14

Information to be submitted with a schedule for the decommissioning of offshore facilities

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

- a) The production of hydrocarbons in the area;
- b) Location, depth and nature of offshore facilities;
- c) Possibilities for continued production;
- d) Alternative methods for decommissioning of offshore facilities;

- e) Other items of importance in connection with the selection of methods for decommissioning of offshore facilities;
- f) Recommendation of the licensee on a method for decommissioning, including a schedule for its implementation.

The National Energy Authority may request the licensee to document that the planned schedule satisfies the requirements of the safety, security and environmental legislation that is valid at any given time.

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

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

The National Energy Authority may grant exemptions from the requirements regarding the contents of the schedule, and may furthermore require further information and evaluations to be made in addition.

SECTION VI

Assignment and pledging

Article 15

Transfer of title due to the rights of a third party

If the scope of the pledge is of such a nature, in the opinion of the National Energy Authority, that the pledged assets are at the same time necessary and sufficient to continue the hydrocarbon activities in which the licensee is engaged in accordance with the licence in question, the National Energy Authority may, by reference to Article 52 of the Hydrocarbons Regulation, demand that the lien holder provide written approval, in a manner that the National Energy Authority considers acceptable, permitting the licensee to continue the hydrocarbon activities in accordance with the conditions of the licence, the Hydrocarbons Act and this Regulation for up to 60 days.

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

Notwithstanding the provisions of the second paragraph of this Article, the National Energy Authority shall have the authority, by reference to Article 52 of the Hydrocarbons Regulation and at the request of the new licensee, to provide for a longer term of validity for the new licence but not, however, for longer term than 4 additional years.

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

Article 16

Involvement of a new partner due to the enforcement of the rights of a third party

If the pledged assets are necessary for the continued hydrocarbon activities in which the licensee is engaged in accordance with the licence in question, but are not on their own sufficient to ensure the continuance of such activities in the opinion of the National Energy Authority, i.e. the licensee would, despite the calling of the pledge retain assets that are necessary to maintain the hydrocarbon activities, the National Energy Authority may, by reference to Article 52 of the Hydrocarbons Regulation, approve that the lien holder be granted a time limit of 60 days to find an interested party to enter into a partnership agreement with the licensee, as provided for in Article 30 of the Hydrocarbons Act.

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

From the time that the lien holder calls the pledge until the National Energy Authority has finally approved the involvement of the new party in the hydrocarbon activities of the licensee, the National Energy Authority may, by reference to Article 52 of the Hydrocarbons Regulation, demand that the lien holder provide written approval, in a manner that the National Energy Authority considers acceptable, permitting the licensee, and moreover obligating the licensee, to continue the hydrocarbon activities in accordance with the terms of the licence, the Hydrocarbons Act and this Regulation.

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

Article 17

Pledge substitute collateral

If the object of the pledge is of such a nature, in the opinion of the National Energy Authority, that the licensee could take pledge substitute collateral, e.g. obtain a substitute item to replace that which the lien holder has called, the National Energy Authority may, by reference to Article 52 of the Hydrocarbons Regulation, limit its approval for the pledge to the condition that the lien holder provide written approval granting the licensee a time limit of 60 days to execute the pledge substitution before taking the object of the pledge into custody or limiting the licensee's disposal rights in another manner.

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

SECTION VI

General provisions

Article 18

Entry into force

These Rules are issued by the National Energy Authority in accordance with Article 31 of the Hydrocarbons Act and Article 57 of the Hydrocarbons Regulation and shall enter into force immediately.

The National Energy Authority, 21 January 2009