

**Act
on Prospecting, Exploration and Production of Hydrocarbons
No. 13, 13th March 2001**

as Amended by Act No. 49, 27th March 2007

CHAPTER I

Scope and Definitions

Art. 1

Scope

This Act applies to prospecting, exploration and production of hydrocarbons and transport of hydrocarbons through piping systems outside 115 meters from the shore and within Icelandic territorial waters and economic zone and on the Icelandic continental shelf. The Act also applies to offshore installations unless otherwise determined in legislation or rules based on this Act.

Art. 2

Definitions

Hydrocarbons in this Act means mineral oil, natural gas or other types of hydrocarbons found naturally in strata under the seabed and which can be exploited in a gaseous or liquid form.

Offshore installations in this Act means:

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

Prospecting in this Act means investigating general conditions for the formation and conservation of hydrocarbons, delimiting areas where such conditions are favourable and searching for hydrocarbon accumulations by measurements from air, land, sea or the seabed or by taking samples from the seabed top strata, e.g. with shallow drilling or taking cores.

Exploration in this Act means:

1. Prospecting for hydrocarbons.
2. Evaluation of size, position and production properties of a hydrocarbon accumulation by drilling exploration wells and borehole measurements.

Production in this Act means production of hydrocarbons from a hydrocarbon accumulation, including drilling of production wells, pumping or conduction of hydrocarbons to the surface, pumping down hydrocarbons and other materials, treatment and storage of hydrocarbons for transport, loading of hydrocarbons as well as constructing, installing, operating and decommissioning an offshore installation meant for such a production.

CHAPTER II

Ownership of Hydrocarbons

Art. 3

The Icelandic state owns hydrocarbons according to Art. 1. A holder of a production license may be conveyed the ownership of hydrocarbons produced by him. The Minister of Industry is the sovereign authority regarding matters pertaining to this Act. The Minister of

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Industry may authorize the National Energy Authority to grant licenses and take other official decisions according to this Act.

CHAPTER III

Prospecting

Art. 4

License to Prospect

The National Energy Authority grants licenses for prospecting for hydrocarbons for the purpose of exploration and production.

The National Energy Authority shall consult the Ministry of Fisheries and the Ministry for the Environment before a license is granted.

Art. 5

Application

An application for a license to prospect for hydrocarbons shall state clearly the purpose of obtaining a license along with detailed information about the applicant's intended operations as determined by the National Energy Authority.

Art. 6

License Duration and Conditions

A license to prospect for hydrocarbons shall be granted for a period of three years at a time unless a shorter duration is indicated in the license.

A license to prospect for hydrocarbons does not give the licensee a right to drill for hydrocarbons, produce hydrocarbons or priority to obtaining such a license later. Such a license can, however, include a permission to drill for the purpose of obtaining information about general conditions for the formation and conservation of hydrocarbons.

The Minister of Industry sets rules with conditions for granting licenses to prospect for hydrocarbons, i.a. clauses on payment of cost due to evaluation of applicants and the granting of licenses, duty of information and duty of public notification regarding the progress of and results from prospecting, the delivery of data and confidentiality.

CHAPTER IV

Exploration and Production

Art. 7

Exploration and Production License

The National Energy Authority grants licenses for the exploration and production of hydrocarbons in specific areas which include exclusive rights for the exploration and production of hydrocarbons. Such a license gives the licensee exclusive rights for exploration and production. Duties and research obligations of the licensee shall be further defined in the exploration and production license.

In the case of the holders of a license being more than one, they shall prepare and submit a cooperation contract for approval by the National Energy Authority. All changes in such a contract, or annexes there to, are subject to an approval by the National Energy Authority. A license for the exploration and production of hydrocarbons may only be granted to applicants which are considered to have the requisite expertise, experience and financial capacity to undertake these activities.

The National Energy Authority shall consult the Ministry of Fisheries and the Ministry for

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the Environment before granting a license for exploration and production, permission or a license for particular activities according to Art. 14-18.

An exploration license given in accordance with this law includes a permission to explore a hydrocarbon resource in a given area during the license period with the provisions given by this law, in the license itself, and as determined more specifically by the National Energy Authority. The National Energy Authority may divide the license period into sub-periods, with further specifications of the rights and obligations of the licensee within each individual period.

A production license given in accordance with this law includes a permission for the licensee to produce and utilize a given hydrocarbon resource during the license period in such a volume and by other restrictions given in this law, in the license itself and as the National Energy Authority considers to be necessary.

The licensee shall pay a yearly fee to the state treasury for the utilization of an exploration and/or production area. For the first six years that the license is valid the licensee shall pay a yearly fee of 50.000 ISK for each square kilometre of license area, but after that the fee shall increase by 10.000 ISK per year. The fee shall in spite of this never become higher than 150.000 ISK per year.

Art. 8

Granting of licenses

A public notice inviting applications shall normally be issued prior to the granting of license for the exploration and production of hydrocarbons.

The notice shall be published in the National Gazette and the Official Journal of the European Community. The deadline for the application shall be indicated in the notice and be no shorter than 90 days. The notice shall also i.a. define the area to which the license applies and other conditions of the license.

There shall be no discrimination between applicants in the granting of a license and the equality of rights shall be observed. The license shall be granted on the grounds of objective criteria which have been made public. At the same time due consideration shall be given to production that has already started or has been applied for in the surroundings. The National Energy Authority may decide to reject all license applications submitted following a public notice.

Decisions on granting a license for exploration and production shall mainly be based on considerations of the financial and technical capacity of applicants, that the production from a given resource is viable by measures of the national economy, and in which ways a submitted exploration plan may reach a given goal. If the National Energy Authority considers two or more applications equal by the measure of the criteria given above, the National Energy Authority is permitted to rate applications by other criteria.

It is permitted to grant licenses for the exploration and production of hydrocarbons without public notice, if the given license area:

- a. is available on a permanent basis; or
- b. has previously been subject to a public notice without any license being given consequently; or
- c. has been given back by a company, without automatically belonging under provisions given by item a.

Before such a license is granted an advertisement shall be placed in the National Gazette and the Official Journal of the European Community, giving the limits of the given area together with a notice on where to find further information on license granting in the area. Any considerable changes in this information shall immediately be announced by a new advertisement. Before a

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license is granted under the provisions of this paragraph, licensees in adjacent areas shall also be given the opportunity to apply for a license for exploration and production in the area concerned. However, applications for licenses under this paragraph can not be deliberated nor licenses granted until the appropriate advertisement has been published in the National Gazette and the Official Journal of the European Community.

The National Energy Authority may demand payment of cost due to evaluation of applicants and the granting of licenses according to Art. 7.

Art. 9

Application

An application for a license for exploration and production shall state clearly the purpose of obtaining the license along with detailed information on the location, magnitude, nature and timing of the applicant's intended activities as more precisely determined by the National Energy Authority.

If the National Energy Authority considers that an application for a license for exploration does not fulfil the requirements given in paragraph one, the National Energy Authority may reject the granting of an exploration license or prescribe special provisions to be met in the exploration license due to this.

Art. 10

License Duration and Conditions

A license for exploration shall be granted for a period up to 12 years, which term may be prolonged for up to two years at a time. However, the maximum duration of a license may not exceed 16 years. The duration of a license shall depend on the magnitude of the exploration activity and the nature of the hydrocarbon resource.

When the conditions for a license for exploration have been fulfilled the licensee shall have priority for an extension of the license for the production of hydrocarbons for up to 30 years. An application for the prolongation of the license shall arrive at the National Energy Authority no later than 90 days before a valid license expires. The National Energy Authority may require the licensee to relinquish a certain part of the license area before prolonging the license, in which case the licensee's proposal for such a relinquishment shall arrive at the National Energy Authority no later than 90 days before a valid license expires. Further requirements on the relinquishment of areas shall be put forward in the exploration license. If the National Energy Authority does not receive any relinquishment proposal from the licensee, the National Energy Authority is free to decide on the relinquishment of areas.

If a licensee stops production for a continuous three year period, the license becomes invalid after that.

A license may be withdrawn if the licensee is filed for bankruptcy or if the licensee files a plan of reorganization under a bankruptcy code.

A licence for production according to Art. 2, shall apply at least to the area where the licensee intends to begin production and is economically suitable for exploitation according to the Minister of Industry's assessment.

Art. 11

Content of the License for Exploration and Production

A license for exploration and production shall state i.a. the following points:

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1. Duration of the license. It shall be specially mentioned when the activities shall start at the latest and when they shall be terminated.
2. The geographical limits of the exploration or production area that the license applies to.
3. The licensee's obligations with regard to the production of hydrocarbons, i.a. provisions on the location and depth of boreholes for production and recharge and on production rates.
4. The licensee's duty of reporting and notification to the National Energy Authority, including the duty to deliver samples and data and how this delivery is to take place.
5. Provisions for safety and environmental protection, as appropriate.
6. The licensee's purchase of insurance at a recognized insurance company, banker's indemnity or other collateral that the National Energy Authority considers equal, to cover possible liability for damages caused by activity of the licensee.
7. Disposal of production systems and equipment at the end of the license term.
8. Closure of offshore installations and bases that have been used for exploration or production activities.
9. Appropriate maps and figures to be submitted by the applicant.

A provision may be set for the license to be re-evaluated within a set period of time, given that the preconditions for the provisions of the license have changed.

The Minister of Industry may by regulation decide on further stipulations regarding licenses for exploration and production.

Art. 12

Licensee's Obligations at the End of the License Term

The National Energy Authority may stipulate that obligations according to an exploration and production license remain after the license period is over, the license returned or withdrawn. If the licensee does not meet his obligations according to an exploration and production license the National Energy Authority may demand that the licensee pay the cost associated with meeting the obligation, in part or in full.

Art. 13

Duty of Caution

When exploring for and producing hydrocarbons every measure of safety shall be taken and the activity shall be in accordance with good international practice for similar situations. The activity shall not endanger or hinder needlessly communication, fisheries or other activities.

Art. 14

Drilling

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

Art. 15

Offshore Installations

The building and installation of an offshore installation and the production of hydrocarbons requires the consent of the National Energy Authority.

If a licensee wants to commence such an activity he shall present a field development and production plan the National Energy Authority for approval.

The National Energy Authority may alter a previously approved field development and production plan in order to ensure that the activity is safe and economical or if it is in the public

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interest to demand it.

Art. 16

Decommissioning of an Offshore Installation

Decommissioning of an offshore installation, including cessation of maintenance, is subject to the consent of the National Energy Authority. A licensee shall present to the National Energy Authority for approval a plan for decommissioning an offshore installation containing i.a. information on how the decommissioning will take place.

At the decommissioning of an offshore installation it will normally be removed as a whole or partly. The National Energy Authority can, however, agree to its continued use for exploration and production of hydrocarbons or other kind of use.

If there is reason to assume that a licensee does not have the financial ability to pay for the cost of decommissioning an offshore installation the National Energy Authority can at any time demand of the licensee that he prove his ability to pay or provide necessary guarantees.

Art. 17

Piping Equipment

The construction and operation of a piping equipment for the production or transportation of hydrocarbons is subject to the permission of the National Energy Authority. A permission shall i.a. include conditions on the organisation of the equipment, the use of the equipment by others and payment for the use.

The provisions of Paragraph 1 do not apply to local piping equipment that belongs to an offshore installation and is only used for production from one accumulation of hydrocarbons.

If piping equipment belonging to a licensee reaches the territory or continental shelf of another state, and an agreement of co-operation regarding the construction and operation of the piping system has been reached between that state and the Icelandic state, the National Energy Authority can impose the obligation on the licensee of the Icelandic part of the piping equipment to take part in the co-operation and set further conditions for the participation.

Art. 18

Piping Equipment of a Foreign State

The construction and operation of a piping equipment on behalf of another state for the transportation of hydrocarbons across the Icelandic continental shelf is subject to the consent of the National Energy Authority.

Art.19

Division of a Hydrocarbon Accumulation

Where an accumulation of hydrocarbons extends into areas where two or more parties have a license to explore and produce the licensees must make an agreement of co-operation regarding exploration and production from the accumulation. The agreement of co-operation is subject to the consent of the National Energy Authority. If the licensees do not reach an agreement within a suitable time the National Energy Authority may decide its contents.

If an accumulation of hydrocarbons extends into another state's continental shelf and an agreement of co-operation regarding exploration of and production from the hydrocarbon accumulation has been reached between that state and the Icelandic state the National Energy Authority may oblige licensees on the Icelandic continental shelf to take part in the co-operation and set further conditions regarding the participation.

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Art. 20

Co-exploitation of Accumulations of Hydrocarbons

If the National Energy Authority deems it sensible to exploit two or more accumulations of hydrocarbons together due to economic considerations he can, having consulted the licensee, demand such a co-exploitation.

The National Energy Authority may oblige the licensee to allow other licensees, for payment, access to equipment and transportation with such a co-exploitation in mind. If the licensees do not reach an agreement about payments for the use the payments shall be decided by the National Energy Authority.

CHAPTER V

Environmental Protection, Working Conditions and Safety Measures

Art. 21

Environmental Aspects

When granting a license according to chapters III and IV the exploitation of resources shall take into consideration environmental aspects, national economical interests and exploitation already started in the vicinity.

Art. 22

Safety Measures

Utmost safety measures shall be taken in hydrocarbon activities and it shall be verified that the activities comply with general demands for hydrocarbon activities at any given time, i.a. regarding technical equipment and work processes.

The licensee and others involved in hydrocarbon activities shall work to provide good and healthy conditions, as well as workplace safety and actively control that the working conditions comply with the legislation that is in force.

The licensee shall take the necessary measures to prevent damage or reduce the consequences of damage which has occurred, including measures aimed to bring the environment back to its former state.

Art. 23

Special Safety Zone

A special safety zone shall be set up around offshore installations. The Minister of Industry sets further rules about safety zones in accordance with international practice, including communication and fisheries in the area and he can ban the traffic of unauthorized ships and aircraft in the area. The Minister of Industry can also set rules for reasons of safety limiting the right of ships to anchor and fish near piping equipment.

CHAPTER VI

Supervision, Resorts and Providing Information

Art. 24

Supervision

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The National Energy Authority supervises in areas where a license has been granted for prospecting, exploration and production of hydrocarbons. The National Energy Authority reports to the Minister of Industry on prospecting, exploration and production according to further instructions from the Minister.

The National Energy Authority may demand payment of cost due to supervision in areas where licenses have been granted for prospecting, exploration and production.

Art. 24 a.

Authority of the National Energy Authority

The National Energy Authority may demand from the licensee all the information and data that are necessary for supervision according to this act. Such data and information shall be delivered within reasonable time limits as decided by the National Energy Authority. The National Energy Authority may also impose regular reporting from the licensee on the matters that are important for the supervision.

The National Energy Authority may in relation with its supervisory role demand information and data from other governmental bodies, notwithstanding their obligations of confidentiality.

Art. 24 b.

Resorts of the National Energy Authority

If the licensee does not comply with the requirements by this act, by regulations based on this act, by the exploration and production license, or by other governmental authority, the National Energy Authority shall give written notice of warning to the licensee with an ample time limit for remedies but daily penalties pending. If the licensee takes no heed of the notice by the National Energy Authority within the set time limits, the National Energy Authority may withdraw or change the license. In the case of a serious infraction or negligence, or if it is clear that the licensee can not fulfil obligations given by the license, the National Energy Authority may withdraw the license without warning.

Penalties can be 50.000-500.000 ISK per day. When deciding on the order of daily penalties, the nature of negligence or infraction against given interests may be of influence. A decision on daily penalties shall be announced by a letter to the payer in a certifiable way. Daily penalties constitute an enforceable claim, as well as the costs associated with collecting them. Collected penalties less costs associated with collecting them go to the state treasury. Non-compliances with the requests of the National Energy Authority shall be reported to the Minister.

Art. 25

Gathering of Data

The National Energy Authority shall gather all data on the continental shelf that is produced in activities according to this Act.

The National Energy Authority keeps information on hydrocarbon resources in a database. This database will contain data that have been collected by prospecting, exploration, production and supervision, as well as filed obligatory data from licensees.

Art. 26

Reporting by a Licensee

A holder of a license for prospecting or exploring and producing shall at least once a year and at the end of his license period send the National Energy Authority a report with information

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on the progress and results of prospecting, exploring and producing, information on the nature and magnitude of a hydrocarbon accumulation, the total amount and an estimate of the value of the hydrocarbons that have already been produced and other points according to clauses in the license in question. The licensee must also deliver data and send samples of material if the National Energy Authority wishes.

Art. 26 a.

Confidentiality

Information kept by the National Energy Authority under the provisions of this act shall be exempted from public scrutiny according to the Act on Information during the period of validity of an exploration license.

The employees of the National Energy Authority that perform supervisory duties under this act shall be obliged to uphold confidentiality. They are forbidden to disclose confidential material on the business and management of those that they are supervising to an impertinent party, at the risk of liability according to the stipulations of the general criminal code on infraction of a public servant. The same goes for specialists performing supervisory work on behalf of the National Energy Authority, as i.a. employees of registered inspectorates and supervisory bodies. Confidentiality shall continue to be upheld after employees have taken their leave.

Information given by licensees to the National Energy Authority under the present act shall be kept by the National Energy Authority. After the period of confidentiality according to par. 1 having expired, the National Energy Authority is free to pass on that information or use it for the purposes of further licensing.

Confidentiality of Icelandic authorities by law shall not prevent their giving all necessary information to the EFTA Surveillance Authority in connection with fulfilling the obligations of the EEA Agreement.

In spite of the provisions on confidentiality the employees of the National Energy Authority are free to negotiate with the exploration licensee on clearance for less strict stipulations regarding access to or uses of exploration data.

Provisions on confidentiality shall not prevent the National Energy Authority, or other authorities designated by the Minister of Industry, from giving general information to the public on prospecting, exploration and production areas and activity in these areas, as i.a.:

1. Giving general information in connection with public announcements, yearly reports and similar matters in relation with hydrocarbon activities.
2. Handing over information in connection with cooperation on hydrocarbon activities with another state, given that similar stipulations on confidentiality are in force in that state.
3. Using the information for increased knowledge about the geology and resources of the bottom of the sea.

Further stipulations may be given on confidentiality in the licenses for prospecting, exploration and production.

CHAPTER VII

Clauses on Expropriation and Compensation

Art. 27

Expropriation

The Minister of Industry may expropriate real estate in order to allow activities according to this

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Act. The expropriation and determination of compensation shall be according to provisions in legislation on the execution of expropriation.

Art. 28

Compensation

Licensees are according to this Act liable for any damage from a hydrocarbon activity, 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 lowered or cancelled when it is considered proven that the damage was caused by natural catastrophe or other uncontrollable events for which the licensee cannot be held accountable.

Art. 29

General Rules of the Law of Tort

The provisions of Art. 28 by no means limit the right to damages derived from general rules.

CHAPTER VIII

Miscellaneous Provisions

Art. 30

License Transfer

Licenses according to this Act, or parts thereof, cannot be transferred, directly or indirectly, to a third party or a co-licensee without the permission of the National Energy Authority. In addition, the transfer of equities or other titles of property in such a volume, that it may change the ruling majority in a company holding or co-holding a license, or making contracts to the same effect, is not permitted without the consent of the National Energy Authority.

The National Energy Authority may demand a fee for permitting transfer of licenses according to par. 1. Provisions for such a fee may be given in a license.

Art. 30 a.

Fees for the issue of licenses and for supervision

In order to defray the costs of preparing and issuing licenses according to the present act the following fees shall be paid to the licensor:

1. For a prospecting license for hydrocarbons with the intention of subsequent exploration and production, re. Art. 4, a fee of 750.000 ISK shall be paid.
2. For an exploration license for hydrocarbons, re. Art 7, a fee of 1.000.000 ISK shall be paid.
For a production license for hydrocarbons, re. Art 7, a fee of 1.500.000 ISK shall be paid.

A licensee for an exploration and production license shall pay a yearly fee of 1.000.000 ISK for defraying the costs of supervision, preparation and safekeeping of data according to the present act.

Art. 31

Regulation

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The Minister of Industry may set with regulation further provisions on the execution of this Act.

Art. 32

Penalties

Offences against this Act are punishable by fines, unless a more severe punishment is indicated pursuant to other legislation. Both legal entities and individuals may be subjected to fines for offences against this Act. A legal entity may be fined for violation of this Act regardless of culpability of the legal person's representative or employee.

Art.33

Validation

This Act becomes valid immediately.