



Ministry of Foreign Affairs and Trade

Faroese Parliament

Date: 28 February 2017
File No.: 16/00932
Caseworker: TP

Parliamentary Bill No. 72/2016: Proposed legislation governing the fourth licensing round for the exploration and exploitation of hydrocarbons.

**Proposed Bill
for an
Act of Parliament
Governing the Fourth Licensing Round
for the Exploration and Exploitation of Hydrocarbons**

§ 1. Pursuant to § 7, Clause 2 of Parliamentary Act No. 31, dated 16 March 1998, governing hydrocarbon activities, this Act stipulates the areas to be offered for licensing and the standard terms and conditions governing the granting of a license in the fourth licensing round for exploration and exploitation of hydrocarbons.

§ 2. The areas to be offered for licensing in the fourth licensing round are the following blocks and partial-blocks of the Faroese continental shelf:

- 1) 6004/1-9, 11-13, 16-17;
- 2) 6005/1-25;
- 3) 6103/1-9, 11-13, 16-17, 21, 25;
- 4) 6104/1-30;
- 5) 6105/3-5, 8-10, 13-15, 17-20, 21-30;
- 6) 6201/1-2, 6;

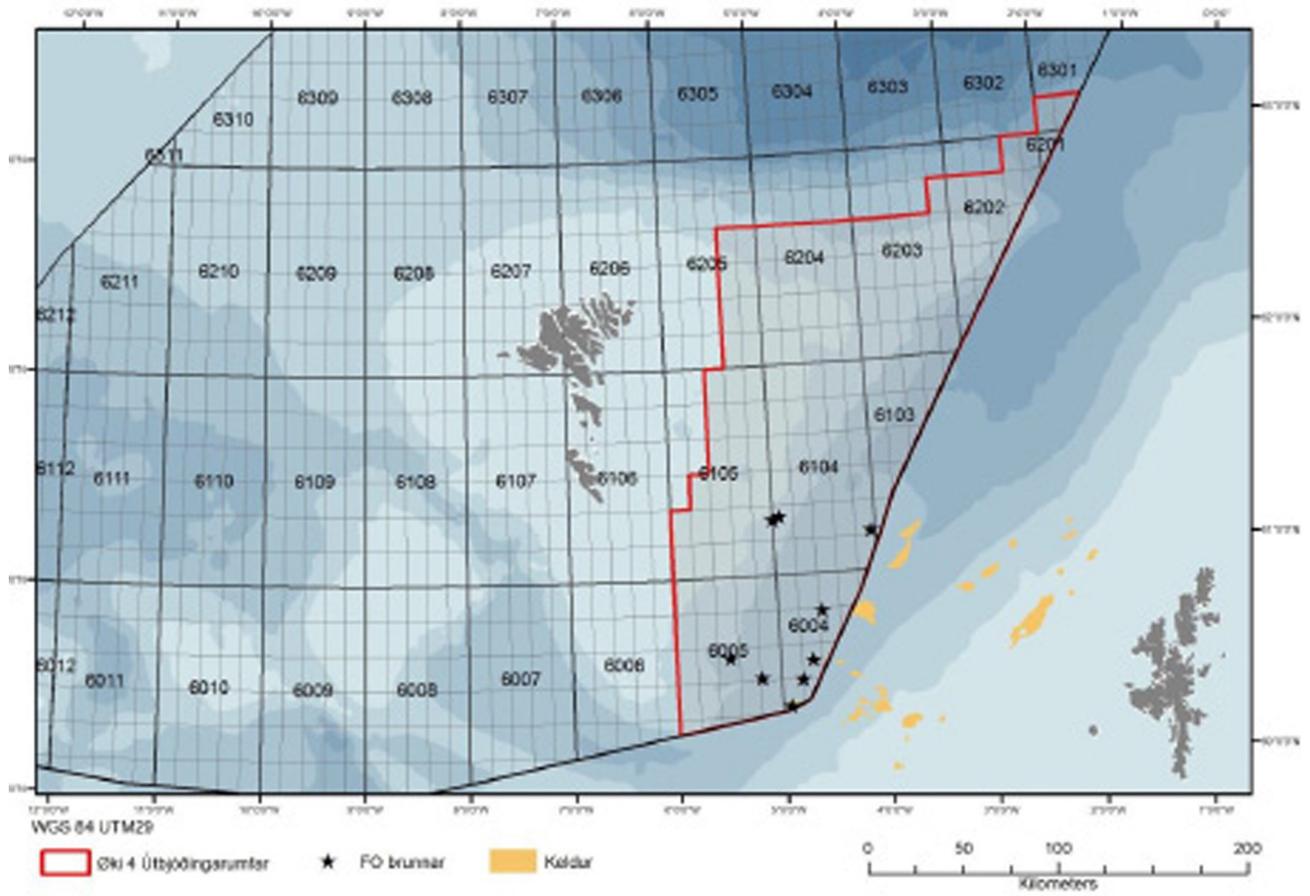
- 7) 6202/4-18, 21-22, 26;
- 8) 6203/10-30;
- 9) 6204/11-30;
- 10) 6205/14-15, 19-20, 24-25, 29-30;
- 11) 6301/26-28;

Stk. 2. Licensing area can be seen on the map, attached as Annex A.

§ 3. Pursuant to § 6 of the Hydrocarbon Activities Act, the Minister awards the licenses for the exploration and exploitation of hydrocarbons. The standard terms and conditions governing the granting of a license are stipulated in the Model License attached as Annex B.

§ 4. This Act shall enter into force the day after it is promulgated.

Fourth Licensing Round Licensing area



**MODEL LICENSE
FOR THE
EXPLORATION AND EXPLOITATION OF HYDROCARBONS
FOURTH LICENSING ROUND**

Jarðfeingi
Faroese Geological Survey

Pursuant to § 6 of Parliamentary Act No. 31, dated 16 March 1998, governing hydrocarbon activities [hereinafter, “the Hydrocarbon Activities Act”] and based on the information provided in the application of the Company, dated _____ and other information, the Minister (hereinafter, “the Minister”) hereby grants a license to engage in the exploration and exploitation of hydrocarbons in the area stipulated in § 2 hereof (hereinafter, “the License”) to the Company or Companies indicated below (hereinafter, “the Licensee”):

Company:

Business Registration No:

Registered Business Domicile:

Share: %

Company:

Business Registration No:

Registered Business Domicile:

Share: %

Company:

Business Registration No:

Registered Business Domicile:

Share: %

The License is subject to the following terms and conditions:

§ 1

In this License, the following terms shall mean:

“Hydrocarbons” – crude oil, condensate, natural gas and other hydrocarbons found naturally in the subsoil that can be extracted in a gaseous or liquid form.

“Hydrocarbon deposit” or *“deposit”* – a contiguous accumulation of hydrocarbons in the subsoil. The Minister shall resolve any question regarding what shall constitute a hydrocarbon deposit.

§ 2

The License is valid for the area(s) indicated on the attached map with relevant corner coordinates and block(s) set forth in Annex I.

2. The mapping and coordinate system implemented herein is based on the geographic latitude and longitude coordinates of the European Terrestrial Reference System 1989 (ETRS89). Each quadrant is labelled according to the south-eastern corner coordinates, e.g. 6105 (N 61°, W 05°). Each individual quadrant is subdivided into 30 blocks of 12 longitudinal minutes and 10 latitudinal minutes each. The blocks are labelled from 1 to 30, beginning in the north-western corner of each quadrant, e.g. 6103/1.

§ 3

The License grants to Licensee in the area(s) referenced in § 2 the sole and exclusive right to explore for and exploit any hydrocarbons, as defined in § 1. Hydrocarbons derived from, inter alia, the destructive distillation of coal, bituminous shale or other subsoil deposits are not included in this License.

2. The License granted herein shall not restrict the Minister, within the area governed by this License, from granting permission to a third-party (i) to undertake prospecting for hydrocarbons in the subsoil, (ii) to explore for and exploit any natural resources not covered by this License, (iii) to establish and operate pipeline facilities intended for activities falling within the scope of the Hydrocarbon Activities Act, (iv) to use the subsoil for storage or for purposes other than production, and (v) to conduct scientific investigations. The Licensee shall endeavour to ensure that the activities permitted under this License do not impede unnecessarily the third-party activities enumerated in the previous sentence, as well as any other hydrocarbon exploration and exploitation activities carried out under other licenses. Jarðfeingi (The Faroese Geological Survey) [hereinafter, “Jarðfeingi”] shall endeavour to ensure that the activities enumerated in the first sentence of this clause and the activities of other licensees provided for under other

licenses do not impede unnecessarily the activities granted to the Licensee under this License.

3. The Licensee shall endeavour to organise its activities and if necessary revise its operations to accommodate the fishing effort that normally occurs in the area. To comply with this requirement, the Licensee, prior to conducting any seismic or other investigations, shall submit to Jarðfeingi in a timely manner a detailed Work Programme for approval.

4. If the Licensee discovers any natural resources not within the scope of this License, the Licensee shall notify Jarðfeingi thereof.

5. In the event that other natural resources may be exploited at the same time as a necessary extension of hydrocarbon exploitation activity, the Licensee shall be entitled to said natural resources unless owned by a third party. The Minister reserves the right to impose upon the Licensee specific terms and conditions with respect thereto, including payment of a special surcharge in the event said additional exploitation is commercially viable.

§ 4

The License Term and Work Programme are stipulated in Annex II. The Licensee shall carry out the exploration programme and the other activities specified in Annex II during the License Term.

2. In the event of any discovery of hydrocarbons, the Licensee shall immediately communicate this fact to Jarðfeingi. No later than eight (8) months after the completion of the well in which the discovery is made, the Licensee shall submit a report on the discovery and a field appraisal programme detailing the work required to ascertain whether exploitation of the hydrocarbon deposit is technically feasible under the conditions present and that the discovery is commercially significant, consistent with best practices within the North Sea oil industry. The field appraisal programme shall include a time schedule and an outline of the work required to support the declaration to be submitted pursuant to § 5, Clause 2 herein no later than four (4) months before the expiry of the Exploration Term stipulated in § 4, Clause 1, (confer Annex II, § 1), or within any extension of the Exploration Term granted by the Minister pursuant to § 8, Clause 1 of the Hydrocarbon Activities Act. Jarðfeingi shall approve the appraisal programme.

§ 5

An extension of the License Term, pursuant to § 8, Clause 2 of the Hydrocarbon Activities Act, for production purposes shall be granted by the Minister for the area delimited pursuant to Clause 3 below for a period of thirty (30) years from the date the extension is granted. Extensions may be granted for one or more areas individually.

2. The extension of a license term, as referenced in § 5, Clause 1 above, is conditioned on that the Licensee (i) has fulfilled all its obligations, (ii) has verified a commercially exploitable hydrocarbon deposit, and (iii) has submitted an application for an extension of the license term no later than four (4) months before the expiry of the term specified in § 4, Clause 1 (confer Annex II, § 1). The application shall certify that a hydrocarbon deposit(s) has been demonstrated under such conditions that exploitation is deemed technically and commercially feasible, and that the Licensee intends to initiate such exploitation. The application shall further stipulate the specific area(s) for which the Licensee requests the extension. The Licensee shall designate the area(s) within the region stipulated in the application that the Licensee believes contains the hydrocarbon reservoir(s). The application shall be accompanied by a report that documents the appraisal of the deposit(s) on which the declaration is based. The report shall contain a description and an evaluation of the deposit(s) with respect to its geology and the technical aspects of the reservoir(s), plus a statement regarding the production technology and the economic assumptions upon which the Licensee's declaration is based.

3. The Minister shall delimit the area(s) for which an extended license term is granted for exploitation purposes, designated by geographical coordinates and depth. The specific hydrocarbon deposit(s) that the Minister deems to have been verified by the Licensee in connection with its request for a license term extension shall be further designated within said area(s). The depth of the delimited area(s) is deemed to extend to at least the end point of drilling and shall include without exception all hydrocarbon deposit(s) for which the extension is granted. If deemed necessary, the delimited area(s) may encompass several deposits. If it is not possible to delimit the size of the deposit(s) with reasonable certainty, the Minister shall take this fact into consideration when determining the extent of any additional area(s) to be covered under the license and their associated depth(s).

4. The area(s) for which the Licensee relinquishes the right in which to explore for and exploit hydrocarbons and the area(s) for which this right is preserved pursuant to § 4 Clause 1, as well as the area(s) for which a license term is extended pursuant to § 5, Clause 1 above shall be contiguous and shall be delimited by longitude and latitude, expressed in whole minutes.

§ 6

Any extension of the license term to be granted pursuant to § 5 above is subject to the following conditions, (i) that, prior to the deadline stipulated by the Minister with respect to the extension of the License, the Licensee shall submit a Field Development Plan for the designated hydrocarbon deposit(s) for approval by the Minister pursuant to § 15, Clause 2 of the Hydrocarbon Activities Act; and (ii) that the Licensee shall initiate production within the time stipulated in the approval.

2. The Minister may promulgate specific directives and regulations governing the content and form of an application, pursuant to § 15 of the Hydrocarbon Activities Act, as well as the information that shall be submitted with or subsequent to said application.

§ 7

On each License Date, the Licensee shall pay an annual fee (see Clause 3 below), based on the size of the licensed area(s). This Area and Environmental Impact Fee shall not be assessed on producing hydrocarbon deposit(s) delimited pursuant with § 5, Clause 3 above. In calculating the size of the area(s), the number shall be rounded up to the nearest whole square kilometre.

2. The Area and Environmental Impact Fee is:

Payment 1 – 6 (i.e., payments for license years 1 - 6)	DKK 750 pr. km ²
Payment 7	DKK 1.250 pr. km ²
Payment 8	DKK 1.750 pr. km ²
Payment 9	DKK 2.500 pr. km ²
Payment 10	DKK 3.750 pr. km ²
Payment 11	DKK 5.250 pr. km ²
Payment 12	DKK 7.750 pr. km ²
Payment 13	DKK 11.250 pr. km ²
Payment 14	DKK 17.250 pr. km ²
Payment 15	DKK 26.250 pr. km ²
Payment 16 and subsequent payments	DKK 39.250 pr. km ²

3. The Area and Environmental Impact Fee for each license year for the area(s) covered by the License shall be paid in advance on each License Date, which is defined as the calendar date on which this License was dated and issued (the “License Date”). If a payment is late, the Licensee shall pay interest at an annualized rate equal to the then current official discount rate set by the National Bank of Denmark (Danmarks Nationalbank), plus 6% from the date the payment is due and payable to the date of actual payment.

4. Of said Fee, 250 DKK per square kilometre shall be set aside for the required environmental impact assessment regarding hydrocarbon-related activities. Jarðfeingi shall administer these funds and shall consult with the relevant governmental authorities and the oil industry on how the funds may best be used.

§ 8

The Licensee shall pay a Hydrocarbon Production Royalty (hereinafter, “HP Royalty”) to be

calculated and paid pursuant to § 8, Clause 2 – 4 and §§ 9 and 10. The HP Royalty shall be paid in Danish Krone (DKK).

2. The amount of the HP Royalty shall be based on the quantity of hydrocarbons produced each quarter (1 January – 31 March; 1 April – 30 June; 1 July – 30 September; and 1 October - 31 December) of each calendar year. All produced hydrocarbons, including the hydrocarbons consumed during production activities, shall be included when calculating the quantities of hydrocarbons subject to the HP Royalty. Small quantities of hydrocarbons that are lost during production or any hydrocarbons reinjected back into the reservoir(s) prior to the measurement point shall not be included in the calculation of the HP Royalty, but such quantities shall be noted in the calculation report submitted to Jarðfeingi.

3. The HP Royalty is two percent (2%) of the value of the production, which is calculated pursuant to the provisions of this License.

4. As and when the Minister determines that the HP Royalty, wholly or partially, shall be paid in-kind, the Minister shall provide written notice to the Licensee of said decision. Within sixty (60) days following the date of said notice, the Minister and the Licensee shall agree on the basis, the location, the measurement procedures (pursuant to provisions governing similar in-kind payments), and the conditions of transfer. Said agreement shall be consistent with the governing principles stipulated in this License and such other usual and customary principles governing the payment of in-kind HP Royalty as the Minister may adopt. In no event shall the decision by the Minister to accept an in-kind HP Royalty payment affect then current HP Royalty payments until payment of the in-kind HP Royalty shall commence. Jarðfeingi shall not incur any costs relevant to the payment of the in-kind HP Royalty, except those that may occur subsequent to the transfer of the in-kind HP Royalty.

§ 9

Said HP Royalty, referenced in § 8, Clause 3, is levied on the value of the quantities of hydrocarbons on which each quarterly royalty is based. The value of the hydrocarbons subject to the HP Royalty shall be established based on the rules in the following Clauses 2 - 6.

2. The valuation of the hydrocarbons produced shall be based on the value at the following Transaction Points:

a) Produced hydrocarbons landed by ship: The value at the shore-based terminal, port or other off-loading point where the hydrocarbons are first landed, without any deduction for transport, handling or other costs incurred prior to such landing point.

b) Produced hydrocarbons landed via pipeline: The value at the point where the hydrocarbons are landed at a shore-based terminal or other land-based facility via a pipeline, without any deduction for transport costs prior to such landing point.

c) In the event that produced hydrocarbons are not landed as set forth in a) or b) above, the Minister, in approving the Field Development Plan, shall determine the relevant Transaction Point at which valuation shall be calculated.

3. If, prior to the date specified in § 10, Clause 1 for submission of the quarterly production statement, the quantity of hydrocarbons recovered during said quarter is sold to a third party pursuant to a binding sales agreement without any prior refining or other substantial processing, said quantity of hydrocarbons shall be valued at the sales price stipulated in the sales contract, if delivery is to be made to the purchaser at a Transaction Point that is governed by the valuation share under Clause 2 above.

4. If the Minister determines that the sales price of the hydrocarbons agreed to by the Licensee does not correspond to the price the Licensee could have obtained through a sale to a third party on the open market, the Minister shall stipulate the value of said hydrocarbons. In his valuation, the Minister shall apply the values assessed for the applicable quarter pursuant to Clause 3 above for similar hydrocarbon sales to third parties, provided that the Minister is able to conclude that such sales can be considered representative of the price level. Otherwise, the valuation shall be based on the prices obtained during the relevant period for the delivery of a similar grade and quality of hydrocarbons via third-party sales on the European open market.

5. The value of that portion of the hydrocarbons not sold to a third party within the date stipulated in Clause 3 above shall be stipulated by the Minister consistent with the provisions in Clause 4 above.

6. In the event that the nominal price for produced hydrocarbons is stipulated pursuant to the provisions of Parliamentary Act No. 26 of 21 April, 1999 on the taxation of income derived from hydrocarbon activities, the valuation of said produced hydrocarbons shall always be based on said representative nominal price, notwithstanding the provisions of this License.

7. If any information required for the calculation of the HP Royalty is not fully known at the time the production statement is to be submitted, a provisional production statement shall be issued pursuant to the provisions set forth under § 10 below. The provisional production statement shall be prepared in such a manner as to state, as closely as possible, the final HP Royalty obligation for the respective quarter. The Minister may promulgate specific rules regarding the basic principles to be followed in the preparation of a provisional production statement.

§ 10

The HP Royalty shall be calculated every quarter. No later than thirty (30) days after the end of each quarter, the Licensee shall submit to the Minister a Production Statement declaring the HP Royalty for the relevant quarter. In those situations governed by § 9, Clause 7, a provisional calculation of the HP Royalty shall be prepared, consistent with the rules in this section.

2. Along with the Production Statement, the Licensee shall submit to Jarðfeingi all information relevant to the calculation of the HP Royalty. The information provided shall include, but not be limited to, the quantities, quality, and grade of the hydrocarbons produced; the density of all liquids, the calorific value and the chromatographic analysis for all gaseous hydrocarbons; the disposition of the quantities produced, including the terms relating to prices, delivery and all other conditions agreed upon with the individual purchaser for a particular sale, and any other special circumstances that might have influenced said terms and conditions. The Minister may promulgate specific rules and regulations governing the submission of information, and may require supplementary information in individual cases.

3. In the event a final or provisional Production Statement is not timely submitted pursuant to Clause 1 above, or the information to be submitted pursuant to Clause 2 above is not furnished by the deadline stipulated by the Minister, the Minister shall determine the HP Royalty. In the event the Production Statement is not made in conformity with the then current rules and regulations, and is not revised by the deadline stipulated by the Minister, the Minister shall determine the HP Royalty. If the Minister determines the HP Royalty, the Minister shall further decide if the HP Royalty shall be considered final or provisional.

4. If a quarterly HP Royalty is deemed provisional, the final Production Statement shall be submitted with the Production Statement for the next subsequent quarter. In the event that any information deemed necessary for the final Production Statement is unavailable, the Minister shall stipulate the final HP Royalty, if said information is not produced prior to the deadline established by the Minister.

5. Provisional HP Royalties and HP Royalties due and payable pursuant to final Production Statements shall be paid to Jarðfeingi by the deadline for submission of the Production Statement stipulated in Clause 1 above. If the HP Royalty is fixed by the Minister pursuant to Clause 3 or 4 above, the HP Royalty deemed due and payable shall be paid no later than seven (7) days after the Licensee receives notice from the Minister of the amount of the HP Royalty.

6. If payment of the HP Royalty is made after the deadline stipulated in the second sentence of Clause 1 above for submission of the Production Statement, interest shall be charged at an

annual rate equal to the then current official discount rate set by the Danish National Bank (Danmarks Nationalbank), plus 6% from the date the payment is due and payable to the actual date of payment. If the Minister stipulates the amount of the Production Royalty pursuant to Clause 3 or 4 above, interest shall be charged at the same rate from the deadline in the second sentence of Clause 1 above. 7. The following rules shall apply if a provisional HP Royalty is paid and it is finally determined in the final Production Statement that the provisional Production Statement resulted in a calculation of an overpayment or an underpayment: In the event of an underpayment, interest shall be charged on the difference between the provisional HP Royalty and the final HP Royalty for each quarterly period from the date of payment of the provisional quarterly HP Royalty until payment is made pursuant to the final Production Statement. The rate of interest shall be an annual rate equal to the then current official discount rate set by the Danish National Bank (Danmarks Nationalbank), plus 2% from the date the payment is due and payable to the actual date of payment. If the final Production Statement demonstrates that an overpayment has been made and that the Licensee is due a refund, the Licensee may deduct said overpayment from the next subsequent payment of the HP Royalty.

§ 11

The Licensee hereby acknowledges and agrees to set aside and distribute 300,000 DKK at the beginning of each License Year as stipulated in Annex II toward meaningful projects related to future hydrocarbon exploration in the territory of the Faroe Islands. This provision is also applicable in the event that the License is extended.

§ 12

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

2. The Licensee has the responsibility to ensure that the provisions of § 12, Clause 1 above are followed by its employees, as well as its contractors, subcontractors or other third parties that provide services to the Licensee in connection with the performance of the activities stipulated in this License.

§ 13

The Licensee acknowledges and agrees to provide employment opportunities in the Faroes and

to endeavour to offer Faroese educational and research institutions and the Faroese business community in general the opportunity to participate in such research and development projects that may be undertaken in performance of the activities stipulated in this License. In this connection, the Licensee shall comply with such reporting procedures as may be specified by the Minister.

2. The Licensee acknowledges and agrees to encourage, promote and facilitate the execution of contractual agreements between Faroese companies and foreign contractors engaged in the provision of goods and services to the Licensee in order to augment the competence and technological know-how of Faroese companies in the delivery of said goods and services. In this connection, the Licensee shall comply with the directives and regulations on the submission of reports stipulated under § 33 of the Hydrocarbon Activities Act.

§ 14

The Licensee shall endeavour to develop Faroese competence in the industry and shall bear the costs of such efforts in compliance with the guiding principles that the Minister has promulgated or shall promulgate in the future. The Licensee hereby acknowledges and agrees to set aside and distribute 300,000 DKK at the beginning of each License Year as stipulated in Annex II of this License. This provision is also applicable in the event that said License is extended.

§ 15

Pursuant to § 11, Clause 1 of the Hydrocarbon Activities Act, the Licensee shall transport any and all equipment and passengers via a Faroese quay or a Faroese airport. In special cases, the Minister may issue an exception to this requirement.

§ 16

The Licensee's exploration and production activities shall be carried out from the Faroe Islands to the extent specified, consistent with Clause 2 and 3 below.

2. Within three (3) months after the License has been granted, the Licensee shall submit a plan to the Minister for approval on how and where the land-based activities of the Licensee shall be organized during the exploration phase.

3. A similar plan for the production phase shall be submitted for approval by the Minister along with the application for approval of the Field Development Plan, pursuant to § 15, Clause 2 of the Hydrocarbon Activities Act.

§ 17

If the License is granted to a consortium, said License is granted upon the condition that a Joint

Operating Agreement is prepared regarding the permitted activities within ninety (90) days of the granting of the License. Within thirty (30) days of the execution of the Joint Operating Agreement, said Agreement shall be submitted to the Minister, who may, within ninety (90) days of submission, require the Agreement to be amended to reflect certain obligatory changes and resubmitted prior to the deadline stipulated by the Minister.

2. Any amendment to, deviation from or supplement to said Joint Operating Agreement, including, but not limited to, the designation of a new operator, shall be submitted to the Minister in accordance with the rules stipulated in § 17, Clause 1 above.

§ 18

Pursuant to § 33, Clause 5 of the Hydrocarbon Activities Act, the representative of Jarðfeingi has the right to participate as an observer in the Joint Operating Committee created pursuant to the Joint Operating Agreement referenced in § 17 above.

2. Jarðfeingi shall be provided notice of said meetings with the same advance notice and shall receive the same documents and materials, including, but not limited to, the minutes of the meetings, as provided to the individual Licensees.

§ 19

Pursuant to § 33, Clause 4 of the Hydrocarbon Activities Act, the owner or user of an offshore installation, as well as any party acting on its behalf, shall be required to grant the staff of a governmental supervisory authority all the assistance required for their investigations. Moreover, when said supervisory authority so requests, the Licensee shall assume responsibility for the transportation of the representatives of said public authority from their place of work to and from the location of the relevant activities, and shall also provide accommodation. All associated expenses shall be borne by the Licensee.

§ 20

To ensure in-depth knowledge and oversight of the activities of the Licensee under this License, the Licensee(s) shall submit all information required about its prospecting, exploration and exploitation activities, as well as information about its financial condition, pursuant to the then current rules and regulatory schemes promulgated under § 30 of the Hydrocarbon Activities Act.

§ 21

Jarðfeingi staff, other public officials and individuals under contract with the aforementioned

governmental authorities have a duty of confidentiality pursuant to § 26 of the Faroese Public Administration Act and §§ 152 through 152 (f) of the Civil Penal Code regarding disclosure of confidential information and test samples, etc., as may be received from time to time from the Licensee pursuant to the Hydrocarbon Activities Act and this License.

2. Test samples and/or other confidential information or data covered under § 31 of the Hydrocarbon Activities Act are deemed to be the property of the Faroese people. The Licensee that has submitted said test samples and/or confidential information or data has no right to demand any payment for said test samples and/or confidential information or data that the Faroese governmental authorities may distribute subsequent to the expiry of the duty of confidentiality.

3. Test samples and/or other confidential information or data covered under § 31 of the Hydrocarbon Activities Act may be distributed to entities other than Faroese governmental agencies five (5) years after said confidential information becomes known and available to the Licensee. In the event that the License expires, or the Licensee abandons the License, or the License is totally or partially rescinded, said five-year period shall be reduced to two (2) years, relevant to the area for which the License is rescinded.

4. The provisions of Clause 1 above shall not prevent the disclosure of said confidential information or other data under the following conditions:

a) the dissemination of general information about circumstances surrounding the exploration and/or exploitation provided in due course by public statements, annual reports or the like, or

b) the distribution of confidential information pursuant to collaboration with governmental authorities in other countries, on condition that said country has a similar duty of confidentiality for said confidential information. Proprietary and/or confidential information or information that could reasonably be deemed to be proprietary or confidential received from the governmental authorities in other countries shall be subject to the provisions of Clause 1 above.

§ 22

1. In communications to individuals or to the public, the Licensee shall not, without the prior consent of the Minister, directly or indirectly quote or refer to any statements or communications from the Minister, the supervisory authorities, other public authorities or any person employed by or performing duties for these entities that specifically concern, but not limited to, the probability of discoveries, the size of hydrocarbon deposit(s), or the timing and nature of any hydrocarbon exploitation.

§ 23

Any equipment, procedures and/or measurement tools designed for the qualitative and quantitative measurement and analysis of recovered hydrocarbons shall be approved by the Minister. Measurements shall be taken consistent with usual and customary methods, and under the oversight of the Minister.

2. If it is determined that the methods or equipment used have provided too low a measurement, the shortfall shall be deemed to have existed since the previous inspection review took place, unless it can be documented that the shortfall has existed for a shorter or a longer period of time.

§ 24

If the License is granted to a consortium, each member of said consortium shall be jointly and severally liable for any compensation payable pursuant to Article 7 of the Hydrocarbon Activities Act and for any of the obligations held under this License towards the Faroese Government.

§ 25

To ensure that the Licensee complies with all the obligations under this License, including, but not limited to, any compensation for damages, the Licensee shall provide evidence of sufficient security within thirty (30) days from the issuance of said License in an amount and of a kind that is acceptable to the Minister, including a comfort letter guarantee from the parent company, unless the Minister exempts the Licensee of this requirement. The Minister may subsequently require upon 30-days' notice that such security be amended or supplemented.

§ 26

This License or any part thereof shall not be assigned or otherwise transferred, directly or indirectly, in whole or in part, to any third party or from one co-Licensee to another, without the prior written approval of the Minister. The same restrictions are applicable to the sale of company stock or other ownership interests that may have a direct consequence to the company or other entity that is a Licensee or co-Licensee, or to any agreements entered into by the Licensee or co-Licensee.

§ 27

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

2. In the event that the Term of the License is extended for one or more areas for the purpose of production, the Licensee may relinquish the right to similar areas subject to a one-year notice.

§ 28

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

2. In the event that any part of the Work Programme set forth in Annex II hereto is not performed, the Licensee shall, unless the Minister grants an exemption, pay Jarðfeingi an amount equal to the estimated cost of performing that relevant part of the Work Programme. Such cost shall be calculated in light of the expenses that would have been incurred if a third party were to perform the work on behalf of the Minister upon the expiry of the License.

3. Payment of the amount referenced in Clause 2 above is not conditioned upon the Minister arranging for the completion of the abandoned work.

4. Payment shall be made no later than 30 days after the Minister has submitted a demand for payment.

5. In the event of overdue payments, the Licensee shall pay interest at an annual rate equal to the then current official discount rate set by the Danish National Bank (Danmarks Nationalbank) plus 6% from the date the payment is due and payable to the actual date of payment.

§ 29

The Licensee shall indemnify and hold harmless the Government of the Faroe Islands, Jarðfeingi and all related and collateral parties from any and all disputes, actions, claims or causes of action (including attorneys' fee and costs) brought by a third party arising out of or in connection with the activities of the Licensee or co-Licensee undertaken pursuant to this License.

2. The Minister shall notify the Licensee of any claim falling within the scope of Clause 1 above. In the event that the Minister considers any such claim unjustified, the Minister shall reject the claim, if necessary by bringing the matter before the courts. The Licensee may join any action brought in respect of such claim in accordance with the applicable provisions of the Administration of Justice Act.

§ 30

This License and any activities undertaken pursuant to this License shall be subject to the then current laws in force in the Faroe Islands, including, but not limited to, subsequent amendments

to the Hydrocarbon Activities Act, or relevant regulations or directives. This License shall not be construed in any manner as to restrict the right of the Faroese Government to levy taxes or its authority to issue specific directives or regulations governing how exploration and production activities shall be carried out.

2. This License shall not exempt the Licensee from obtaining any other required licenses and/or approvals pursuant to the Hydrocarbon Activities Act or any other legislation.

§ 31

Licensees that do not have a subsidiary company or a branch registered in the Faroe Islands shall establish a subsidiary company or a branch no later than three (3) months after the License is granted.

§ 32

Any disputes or controversies arising out of or in connection with this License or with the activities of the Licensee undertaken pursuant to this License shall be resolved pursuant to the then current legislation in force in the Faroe Islands, and shall be brought before a Faroese or a Danish court.

2. The venue shall be Tórshavn.

3. Clause 1 and 2 above shall not prejudice the right of the Minister and the Licensee to decide, in any particular case, that a dispute or controversy referenced in Clause 1 shall be resolved by arbitration.

ANNEX I

MODEL LICENSE FOR THE EXPLORATION AND EXPLOITATION OF HYDROCARBONS FOURTH LICENSING ROUND

NOTE: Annex I is provided for illustration purposes only. Based on the offer of the applicant and the determination of the Minister, each individual License Area shall be specifically stipulated.

Area covered by the License (Confer § 2, Clause 1 of the License).

The License encompasses the area represented in block(s) _____,
as shown on the attached map, with the following coordinates

European Coordinate System: ETRS89

LATITUDE

LONGITUDE

Stig Min Sek

Stig Min Sek

-- -- --

-- -- --

-- -- --

-- -- --

-- -- --

-- -- --

ANNEX II

MODEL LICENSE FOR THE EXPLORATION AND EXPLOITATION OF HYDROCARBONS FOURTH LICENSING ROUND

NOTE: Annex II is provided for illustration purposes only. Based on the offer of the applicant and the determination of the Minister, each individual Work Programme shall be specifically stipulated.

License Term and the Stipulated Work Programme of the License (Confer § 4, Clause 1 of the License).

The following License Term and Work Programme cover the exploration activities that the Licensee shall undertake pursuant to § 4, Clause 1 of License No. for Exploration and Exploitation of Hydrocarbons, dated, which is effective for the License Area represented by block(s) See Annex I.

1. The License Term is years, divided into two parts: (i) an Initial License Term of years with a Fixed Work Programme, and (ii) a Secondary License Term of years with a Conditional Work Programme. In the event that the Licensee does not intend to undertake the Conditional Work Programme, the License shall terminate at the expiry of the Initial License Term.
2. No later than two (2) years after the License is issued, the Licensee shall have acquired km of its own 2D seismic data. Of this data, a minimum of km shall lie within the Licensee's block(s).
3. No later than years after the License is issued, the Licensee shall have drilled one exploration well, pursuant to the following conditions:
4. The exploration well(s) shall be drilled through/to (geological description) or to a maximum depth of metres, whichever is gained first. The decision to drill or to abandon the License shall be taken no later than
5. The acquisition of seismic data and the drilling of the well(s) shall be carried out in a manner consistent with industry best practices and pursuant to relevant governmental directives.
6. Prior to the commencement of the Work Programme, the Licensee may request the Minister to take a decision as to whether the work planned fully complies with the approved Work Programme. In the event that the Licensee relinquishes the license area, in whole or in part, the Licensee shall submit a final report to the Minister on the hydrocarbon potential of the area that the Licensee has abandoned.