

THE BAFFIN BAY LICENSING ROUND

**MODEL LICENCE
EXCLUSIVE LICENCE NO. YYYY/XX
FOR EXPLORATION FOR AND EXPLOITATION OF
HYDROCARBONS IN AN OFFSHORE AREA IN NORTH WEST
GREENLAND**



Government of Greenland
Bureau of Minerals and Petroleum
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EXCLUSIVE LICENCE FOR EXPLORATION FOR AND EXPLOITATION OF HYDROCARBONS

Under sections 7 and 11 of Act No. 335 of 6 June 1991 on Mineral Resources in Greenland (‘the Mineral Resources Act’), as amended, see Consolidated Act No. 368 of 18 June 1998, the Government of Greenland hereby grants the licensee indicated below an exclusive Licence for exploration for and exploitation of hydrocarbons. The provisions of the Mineral Resources Act and the terms set out below shall apply to the Licence.

The licensee is composed of the following companies, jointly, which hold the percentage shares indicated:

Company.....
reg. no. domiciled in town / country
percentage share: %

Company.....
reg. no. domiciled in town / country
percentage share: %

Company.....

NUNAOIL A/S
P.O. Box 579, DK-3900, Nuuk, Greenland
reg. no. A/S 68.116, domiciled in Nuuk, Greenland
percentage share: 12.5%.

Company..... is the Operator.

Article 1 Definitions

1.01 For the purpose of the Licence and the attached Appendices, the following terms shall have the meanings indicated below, unless otherwise apparent from the context:

- (a) ‘Greenland’ means the island of Greenland with surrounding islands, including the continental shelf, but not beyond a distance of 200 nautical miles from the baseline from which the maritime and the fishing territory is calculated.
- (b) ‘The BMP’ means the Bureau of Minerals and Petroleum; see section 5 of the Mineral Resources Act.
- (c) ‘Hydrocarbons’ means oil/condensate and natural gas, where
 - ‘oil/condensate’ means all hydrocarbons that are in a liquid state at standard atmospheric pressure (1.01325 bar) and temperature (15°C); and
 - ‘natural gas’ means all hydrocarbons that are in a gaseous phase at standard atmospheric pressure (1.01325 bar) and temperature (15°C). Non-hydrocarbon gas in association with and produced together with such gaseous hydrocarbons shall also be treated as natural gas under the terms of this Licence for the purpose of calculating royalty.
- (d) ‘Hydrocarbon Discovery’ means any indication of an accumulation of hydrocarbons penetrated by an Exploratory Well.
- (e) ‘Hydrocarbon Deposit’ means a continuous accumulation of hydrocarbons in the subsoil.
- (f) ‘Exploratory Well’ means a well that is drilled to investigate whether hydrocarbons are present in a formation or other unit within a geological structural or stratigraphic trap in which the presence of hydrocarbons has not previously been demonstrated. The reopening and redrilling of a well shall not be considered a new Exploratory Well unless where approved by the BMP.
- (g) ‘Exploration Licence’ means a Licence for exploration and exploitation granted by the Government of Greenland, as witnessed by its signature hereof.
- (h) ‘Exploitation Licence’ means an extension of the Exploration Licence for the purpose of exploitation in a specific, delimited area.
- (i) ‘Licence’ is used collectively for an Exploration Licence and an Exploitation Licence.
- (j) ‘DKK’ means Danish kroner.
- (k) ‘Joint Operating Agreement’ (JOA) means the agreement concluded between the companies holding shares in a Licence about the performance of the activities comprised by such Licence.
- (l) ‘Joint Operations’ means the joint operations performed under the JOA; see the definition hereof in the JOA.
- (m) ‘Joint Account’ means the joint account defined as Joint Account under the JOA; see the definition hereof in the JOA.

Article 2 Licence Area

- 2.01 The Exploration Licence covers an area delineated by the corner coordinates indicated in Appendix 1. A map of the area is attached; see Appendix 1.
- 2.02 At the end of the first and second sub-periods, respectively, of the exploration period, the licensee shall, as a minimum, relinquish the percentage shares of the Exploration Licence area indicated in Appendix 2. For the purpose of calculating the areas to be relinquished, any areas in the Exploration Licence area delineated in accordance with sections 6.06 and 8.05 below shall be excluded.
- 2.03 At any time after the end of the first sub-period of the exploration period, the licensee may relinquish parts of the Exploration Licence area. Such relinquishment shall not affect the exploration commitments for the second or the third sub-period. The relinquishment shall take effect from the date of the BMP's approval.
- 2.04 Relinquishment under sections 2.02 and 2.03 shall be approved by the BMP. The relinquished areas shall after each relinquishment consist of contiguous and compact units of a form and size that make them suitable for further exploration and exploitation.
- 2.05 The licensee's proposal for relinquishment pursuant to section 2.02 shall be submitted to the BMP for approval no later than 15 December in the last year of each individual sub-period, unless another time limit is approved by the BMP. The relinquishment shall take effect from the end of the calendar year in question. If proposals are not received in time, the BMP may determine which parts of the Exploration Licence area shall be relinquished.
- 2.06 An area comprised by an Exploitation Licence, see section 8.05, will cease to be comprised by the Exploration Licence with effect from the issuance of the Exploitation Licence; see section 8.03.
- 2.07 If the Licence area or parts thereof cease to be under Danish sovereignty, the licensee shall respect such change in the status of the area and shall have no claim against the Government of Greenland or the Danish State as a result of or in connection with such change.

Article 3 Licence Period

- 3.01 The Licence shall be valid for the exploration period indicated in Appendix 2. The exploration period is divided into sub-periods, as indicated in Appendix 2.
- 3.02 The Government of Greenland may extend the exploration period for the purpose of further exploration by up to three years at a time in accordance with section 11(1) of the Mineral Resources Act. Applications for any such extension shall be submitted to the BMP no later than 90 days before the expiry of the exploration period. Any extension will be granted as an addendum to the Licence.
- 3.03 The licensee may surrender the Exploration Licence with effect from the end of any year of the exploration period, provided that all exploration commitments for the sub-period in which the Licence

is surrendered have been fulfilled. Notice thereof shall be forwarded to the BMP no later than 15 December in the year in question.

- 3.04 As indicated in sections 8.01–8.05 below, the Government of Greenland will extend the Exploration Licence for the purpose of exploitation by a period of 30 years (the exploitation period) for parts of the Exploration Licence area. The Licence may be extended for one or more areas.
- 3.05 The Government of Greenland may extend the exploitation period in accordance with section 11(3) of the Mineral Resources Act, but the exploitation period cannot exceed 50 years.
- 3.06 The licensee may surrender an Exploitation Licence to the BMP subject to 12 months' notice, provided that the abandonment activities have been performed in accordance with sections 17.01–17.07 before the Licence is surrendered.

Article 4 Fees and Rentals

- 4.01 The licensee shall pay a fee of DKK 100,000 to the BMP for the issuance of the Exploration Licence; see section 7(6) of the Mineral Resources Act.
- 4.02 The licensee shall pay a fee of DKK 200,000 to the BMP upon each extension of the Licence for the purpose of exploitation in accordance with sections 8.01–8.05 below; see section 7(6) of the Mineral Resources Act.
- 4.03 For each Exploitation Licence, the licensee shall pay an annual rental of DKK 1,000,000 to the BMP; see section 8(1) of the Mineral Resources Act. The rental shall be payable regardless of the size of the Exploitation Licence area. The rental shall be paid no later than 1 April every year. For the first year, the rental shall be paid within 30 days after the issuance of the Exploitation Licence, and it shall be calculated proportionately for any part of a calendar year during which the Exploitation Licence is in force.
- 4.04 The fees and rentals payable according to sections 4.01–4.03 above shall be adjusted every year on the basis of the change in the Danish consumer price index from January 20YY to January in the year in question.
- 4.05 The fees and rentals payable according to sections 4.01 and 4.03 above shall be paid within 30 days after the issuance of an Exploration Licence or an Exploitation Licence, as the case may be.

Article 5 Third-Party Activities in the Licence Area

- 5.01 The licensee shall respect all existing rights, and the Exploration Licence shall not entail any restrictions in lawful activities carried out by third parties in the Exploration Licence area, including the activities mentioned in section 5.02 below.
- 5.02 Within the Exploration Licence area, third parties may:

- (a) be granted non-exclusive hydrocarbon prospecting Licences pursuant to Part 2 of the Mineral Resources Act, provided that a copy of the raw data (e.g. copies of seismic field tapes) acquired by such third parties within the Licence area is forwarded to the licensee free of charge;
- (b) be granted Licences for prospecting, exploration and exploitation of mineral resources other than hydrocarbons pursuant to Parts 2 and 3 of the Mineral Resources Act;
- (c) be granted approvals for the construction and operation of pipelines, installations, infrastructure, etc. for the purpose of carrying out activities under the Mineral Resources Act;
- (d) undertake scientific and practical surveys of a general nature and for the purpose of producing maps and charts regarding mineral resources; see section 2(2) and section 21 of the Mineral Resources Act.

In order to obtain approval of the activities referred to in section 5.02(a)-(d), the relevant third parties will be requested to carry out such activities so as not to interfere unnecessarily with the activities of the licensee under this Exploration Licence. Likewise, the licensee shall ensure that its activities do not interfere unnecessarily with such third-party activities in the Exploration Licence area.

Article 6 Exploration Commitments

- 6.01 The licensee shall carry out the exploration commitments set out in Appendix 3.
- 6.02 If the exploration period of the Licence is extended in accordance with section 3.02, exploration commitments or other types of work commitments will be stipulated for any such sub-period in the addendum to the Licence.
- 6.03 The exploration commitments shall be deemed to be fulfilled when the exploration work specified in Appendix 3 has been completed.
- 6.04 Any Exploratory Wells drilled during a sub-period in addition to the Exploratory Wells stipulated in Appendix 3 for the period in question may be credited against exploration commitments in subsequent sub-periods.
- 6.05 If a Hydrocarbon Discovery is made, the licensee shall:
 - (a) promptly notify the BMP thereof;
 - (b) submit a report to the BMP evaluating the discovery within six months after the completion of the discovery well; and
 - (c) if the discovery requires further evaluation, submit a programme to the BMP for the further work necessary according to good international oilfield practice under similar circumstances, to assess whether a commercially exploitable Hydrocarbon Deposit exists (an appraisal programme).

The appraisal programme shall include a time schedule for the work to be performed in order to provide a sufficient basis for submitting a declaration of commerciality for the relevant Hydrocarbon Deposit prior to the expiry of the exploration period. The appraisal programme shall be revised continuously on

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

6.06 During and after the planning and implementation of an appraisal programme in accordance with section 6.05, the licensee is entitled to delineate a reasonably sized contiguous area around the discovery well comprising the anticipated Hydrocarbon Deposit (the appraisal area). The delineation of such appraisal area is subject to approval by the BMP. If, during an entire sub-period, the Exploration Licence comprises appraisal areas only, the licensee shall not be obliged to drill Exploratory Wells in accordance with Appendix 3.

6.07 A commitment to drill an Exploratory Well cannot be replaced by other activities without the prior approval of the BMP. Other types of exploration activity, including seismic surveys, appraisal wells, delineation wells, production wells and other non-exploratory wells, do not qualify to fulfil such exploration commitment. The same applies to investigations, including those mentioned in sections 7.02–7.03 below, preparing for the construction of development and production facilities, installations, etc., unless approved by the BMP. However, further drilling from an appraisal well may count as an Exploratory Well, where this is approved by the BMP in advance.

6.08 In case the licensee has not fulfilled the exploration commitments for a sub-period, and provided that the BMP has decided not to revoke the Exploration Licence in accordance with section 24.01 below, the licensee is obliged to carry out the unfulfilled exploration commitments during the subsequent sub-period in addition to the exploration commitments stipulated in Appendix 3.

6.09 In case the licensee has not fulfilled the exploration commitments for a sub-period (including any exploration commitments transferred under the provisions of section 6.08 above), and provided that the Exploration Licence has terminated, the licensee shall at the BMP's request pay compensation to the BMP. In determining the amount of compensation payable, the BMP shall take into consideration the cost of meeting the unfulfilled commitments and allow for the expenses that would be incurred by having third parties perform the work for the BMP.

Payment of such compensation shall be made no later than 30 days after the BMP has made the pertinent request. Once the compensation has been paid, the licensee shall have no other obligations with respect to the unfulfilled exploration commitments.

Article 7 Technical, Environmental and Socio-economic Studies regarding Exploration and Exploitation

7.01 During drilling and production operations, including the transportation of hydrocarbons produced in the Licence area, the licensee shall have prepared a contingency plan for oil spills from the operations, based on physical and biological data for the areas that may be affected.

7.02 In connection with carrying out an appraisal programme under section 6.05, the licensee shall initiate technical, environmental and socio-economic studies as a basis for evaluating the possible exploitation of the deposit in question.

- 7.03 If the results of the exploration, including appraisal programmes, cause the licensee to initiate prefeasibility or feasibility studies regarding production, storage and transportation of hydrocarbons from the Licence area, the licensee shall conduct such technical, environmental and socio-economic studies as are necessary for the evaluations to be made by the licensee and the BMP in connection with their respective tasks; see sections 8.02(b) and 8.07(b) below.
- 7.04 Prior to initiating the studies referred to in sections 7.01–7.03 above, a programme for such studies shall be discussed with the BMP with respect to objectives, contents, planning, execution, timetable, etc. The BMP may demand that the licensee shall conduct such supplementary technical, environmental and socio-economic studies as are considered necessary by the BMP; see section 7.03. The BMP is entitled to monitor such studies, and the licensee shall submit periodic reports on results etc. to the BMP.

Article 8 Extension of the Licence for Exploitation

- 8.01 If the licensee has discovered and prepared a proposal for the delineation of one or more commercial Hydrocarbon Deposits that the licensee intends to exploit, and provided that the terms of the Exploration Licence have been complied with, the licensee shall be entitled, subject to compliance with section 7(3) of the Mineral Resources Act, to an extension of the Exploration Licence for the purpose of exploitation in accordance with section 11(2) of the Mineral Resources Act. The licensee shall forward a request for an extension to the BMP before the end of the exploration period; see section 3. The Exploration Licence will be extended for the purpose of exploitation as indicated in sections 8.02-8.05 below.
- 8.02 The licensee's request for an extension of the Exploration Licence for the exploitation of one or more Hydrocarbon Deposits shall be based on the results of one or more appraisal programmes and shall be accompanied by:
- (a) a declaration to the effect that the deposit or deposits are commercially exploitable and that the licensee intends to exploit the deposit(s);
 - (b) a feasibility study of the deposit(s) comprised by the declaration. The feasibility study shall contain a description and an evaluation of the deposits with respect to geology and reservoir technology, as well as a specification of the technical, financial, environmental and other conditions underlying the licensee's declaration;
 - (c) the licensee's proposal for the delineation of the Exploitation Licence area based on the deposit or deposits in question; see section 8.05(a)–(d).
- 8.03 The extension of the Exploration Licence for the purpose of exploitation will be issued as an Exploitation Licence, stating the name of the licensee, the exploitation period and the Exploitation Licence area, see sections 8.04–8.05, and stipulating that the terms of the Exploration Licence shall also apply to the Exploitation Licence.

- 8.04 The Exploitation Licence will be issued to a licensee appointed by the holder of the Exploration Licence, provided that such licensee fulfils the conditions stipulated in section 7(3) of the Mineral Resources Act; see also section 27(1) of the Mineral Resources Act.
- 8.05 The Exploitation Licence area will be delineated by the BMP by geographical corner coordinates according to the following principles:
- (a) The Exploitation Licence area will comprise the area in which commercially exploitable deposits have been demonstrated and delineated, according to the available seismic data and drilling data.
 - (b) The basis for the delineation mentioned in section 8.05(a) will be the deposits in question and their extent, as documented by the licensee to the satisfaction of the BMP in the feasibility study mentioned in section 8.02(b), with due regard being paid to the licensee's proposal under section 8.02(c).
 - (c) The Exploitation Licence area may consist of several subareas, each delineated as indicated above.
 - (d) Areas situated outside the Exploration Licence area cannot be included in the Exploitation Licence area, unless an Exploitation Licence for such areas is granted in pursuance of section 7 of the Mineral Resources Act.
- 8.06 Based on the feasibility study submitted in accordance with section 8.02, the BMP will stipulate a reasonable time limit for the submission of a development plan etc. (see section 8.07) when issuing an Exploitation Licence. An extension of the Exploration Licence for the purpose of exploitation, see section 8.01, is subject to the conditions that, within the above-mentioned time limit, the licensee shall submit a development plan for approval by the Government of Greenland in accordance with sections 10 and 19 of the Mineral Resources Act, and that the licensee shall initiate exploitation by the date stipulated in the approval of such development plan.
- 8.07 Following the issuance of an Exploitation Licence, the licensee shall submit a development plan etc. to the BMP, consisting of the following material:
- (a) A development plan describing all necessary activities, including development, production, storage and transportation activities, as stipulated by section 10 of the Mineral Resources Act, including a time schedule for the licensee's development activities.
 - (b) An environmental impact assessment, prepared in cooperation with the BMP, of the development plan mentioned in section 8.07(a). The BMP may demand that the assessment be amended or amplified if it is considered inadequate by the BMP.
 - (c) An abandonment plan as stipulated by section 19 of the Mineral Resources Act. The plan shall include cost estimates for the abandonment activities; see section 17.03.
- 8.08 Prior to the start up of development and production, the plans mentioned in section 8.07 shall have been approved as stipulated by sections 10 and 19 of the Mineral Resources Act.

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

Article 9 Coordination

9.01 If a Hydrocarbon Deposit extends into the Licence areas of several licensees, such licensees shall coordinate their activities in accordance with section 13(1) of the Mineral Resources Act.

9.02 If the licensees wish to coordinate the exploitation of two or more Hydrocarbon Deposits covered by several Exploitation Licences, agreements to this effect are subject to approval by the BMP.

Article 10 Processing, Storing and Transporting Hydrocarbons in Greenland

10.01 Whenever hydrocarbons present in Greenland are extracted from the Licence area, the following activities, whether performed by the licensee or on its behalf, shall be deemed to form part of the activities encompassed by the Licence:

- (a) any processing of such hydrocarbons for the purpose of transportation, including the liquefaction of natural gas; and
- (b) the storage and transportation of such hydrocarbons, including liquefied natural gas.

10.02 The licensee shall ensure that, when sailing, anchoring and/or lightering in the Greenland territorial sea or Greenland continental shelf area, ships used for:

- transporting hydrocarbons in connection with activities performed under the Licence; or
- transporting hydrocarbons produced under the Licence

comply with, and are used in accordance with and not in contravention of,

- all applicable national, regional and international rules and regulations for ships of a gross tonnage exceeding 500 engaged in international trade;
- Regulation (EC) No. 417/2002 on the accelerated phasing-in of double-hull or equivalent design requirements for single hull oil tankers as amended by Regulation (EC) No. 1726/2003 and Commission Regulation (EC) No. 2172/2004;
- EC Directive 2005/35/EC on ship-source pollution and on the introduction of penalties for infringements and the supplementing Council Framework Decision 2005/667/JHA to strengthen the criminal-law framework for the enforcement of the law against ship-source pollution;
- applicable Guidelines for Ships operating in Arctic Ice-covered Waters approved by the IMO;

- one or more applicable industry standards, codes and guidelines for lightering operations, bunkering, etc which are relevant under arctic conditions and are acceptable to the BMP, acting reasonably.

The licensee shall ensure that the said ships are classified with a classification company approved by the EU and, as a minimum, meet the requirements applying to Polar Class 5 (as defined in the IMO Guidelines for ships operating in arctic ice-covered waters of 23 December 2002) or similar classification unless otherwise accepted by the BMP.

The licensee shall also ensure that the age of the said ships do not exceed 15 years from the original year of construction.

Article 11 Royalties

- 11.01 Accounting policies for items included (and not included) in the determination of the value (the calculation basis) on which surplus royalty is calculated under Article 11 are described in Appendix 6.
- 11.02 Subject to the provisions of sections 11.03–11.18, the licensee shall pay royalties to the BMP on the production from Exploitation Licences issued under this Exploration Licence. The royalties, which shall be determined and paid separately for each individual Exploitation Licence, shall consist of the following:
- (a) A surplus royalty of 7.5 per cent of the calculation basis determined according to sections 11.07 and 11.08 shall be paid.
 - (b) In addition to the royalty payable according to section 11.02(a), a surplus royalty of 10 per cent of the calculation basis determined according to sections 11.07 and 11.09 shall be paid.
 - (c) In addition to the royalty payable according to section 11.02(a) and (b), a surplus royalty of 12.5 per cent of the calculation basis determined according to sections 11.07 and 11.10 shall be paid.
- 11.03 For the purpose of calculating royalty for an Exploitation Licence, hydrocarbons shall be regarded as extracted when they have been exported from the production facility onto a tanker or export pipeline for shipping and/or export (i.e. have passed the metering point); see section 11.18 (b). Hydrocarbons shall also be regarded as extracted if they have been consumed in the production activities; see section 11.18 (b).
- 11.04 The value shall be fixed at the price obtainable from sale in the free market in Europe at the time of transfer of risk to a purchaser independent of the seller (the time of delivery). If the BMP finds that a recognised sales price does not correspond to this value, the BMP shall, after consulting the licensee, determine the value of the volume in question under this principle.
- 11.05 If the price obtained from sale in the free market in Europe cannot be regarded as representative of the market price, another quotation/pricing shall apply. Such change shall be subject to approval by the BMP.

11.06 Hydrocarbons extracted that have been delivered to an independent purchaser subsequent to year end shall be included in the calculation basis for the year at their value at 31 December. The calculation basis for subsequent years shall include the difference between the value determined at 31 December and the value determined at the time of delivery. If the sale has taken place in a foreign currency, the value shall be determined on the basis of the exchange rate applicable at the time when the risk of the goods sold passes to the purchaser. However, the valuation shall be based on the exchange rate at 31 December in the event that the risk is transferred after such time. The calculation basis for subsequent years shall include the difference between the value calculated at the exchange rate at 31 December and the value calculated at the exchange rate at the time of delivery.

11.07 The value (calculation basis) to be used for determining the surplus royalty payable according to section 11.02(a), (b) and (c) shall be calculated as follows:

- (a) the sum total of the value of oil/condensate and/or the value of natural gas determined according to sections 11.03 – 11.06, with the addition of any income recorded in accordance with the accounting policies described in Appendix 6;
- (b) less any investment and operating costs recorded in accordance with the accounting policies described in Appendix 6. Any surplus royalty payable according to section 11.02(a) may be deducted from the calculation basis for surplus royalty according to section 11.02(b), and any surplus royalty payable according to section 11.02(a) and (b) may be deducted from the calculation basis for surplus royalty according to section 11.02(c).

The calculation basis shall be determined separately for each individual Exploitation Licence for every calendar year; see section 8.03. The calculation basis shall be determined for the first time in the calendar year in which the licensee requests an extension of the Licence for the purpose of exploitation, see section 8.02, and shall include all income and expenses recorded for that year after the date of the above-mentioned request for an extension. If the basis of calculation is negative for a calendar year, the amount may be carried forward for setoff against the basis of calculation for a subsequent year. In the year when production under an Exploitation Licence is discontinued and in subsequent years, any costs associated with implementing the abandonment plan approved by the BMP, see section 8.07, that exceed the income for the year, see section 11.07(a), may be transferred to the cost statement mentioned in section 11.15.

11.08 If the calculation basis determined according to section 11.07 for the surplus royalty payable under an Exploitation Licence according to section 11.02(a) is negative and has not been positive in any preceding year, the amount to be carried forward to the next year shall be increased by a percentage supplement. The percentage rate for calculating such supplement shall be determined as follows: the sum total of 21.75 per cent and the time-weighted average of the official discount rate fixed by Danmarks Nationalbank for the year from which the negative balance is to be carried forward. The percentage rate determined shall then be used to calculate the supplement to the negative calculation basis for the relevant calendar year.

- 11.09 If the calculation basis determined according to section 11.07 for the surplus royalty payable under an Exploitation Licence according to section 11.02(b) is negative and has not been positive in any preceding year, the amount to be carried forward to the next year shall be increased by a percentage supplement. The percentage rate for calculating such supplement shall be determined as follows: the sum total of 29.25 per cent and the time-weighted average of the official discount rate fixed by Danmarks Nationalbank for the year from which the negative balance is to be carried forward. The percentage rate determined shall then be used to calculate the supplement to the negative calculation basis for the relevant calendar year.
- 11.10 If the calculation basis determined according to section 11.07 for the surplus royalty payable under an Exploitation Licence according to section 11.02(c) is negative and has not been positive in any preceding year, the amount to be carried forward to the next year shall be increased by a percentage supplement. The percentage rate for calculating such supplement shall be determined as follows: the sum total of 36.75 per cent and the time-weighted average of the official discount rate fixed by Danmarks Nationalbank for the year from which the negative balance is to be carried forward. The percentage rate determined shall then be used to calculate the supplement to the negative calculation basis for the relevant calendar year.
- 11.11 The surplus royalty payable according to section 11.02(a) shall be calculated on an annual basis for each individual Exploitation Licence at the rate of 7.5 per cent of the calculation basis determined according to sections 11.07 and 11.08. Royalty shall only be calculated for an Exploitation Licence in years when the calculation basis is positive. A negative calculation basis ceases to be available for setoff upon the termination of the Exploitation Licence, without any compensation being payable to the licensee.
- 11.12 The surplus royalty payable according to section 11.02(b) shall be calculated on an annual basis for each individual Exploitation Licence at the rate of 10 per cent of the calculation basis determined according to sections 11.07 and 11.09. Royalty shall only be calculated for an Exploitation Licence in years when the calculation basis is positive. A negative calculation basis ceases to be available for setoff upon the termination of the Exploitation Licence, without any compensation being payable to the licensee.
- 11.13 The surplus royalty payable according to section 11.02(c) shall be calculated on an annual basis for each individual Exploitation Licence at the rate of 12.5 per cent of the calculation basis determined according to sections 11.07 and 11.10. Royalty shall only be calculated for an Exploitation Licence in years when the calculation basis is positive. A negative calculation basis ceases to be available for setoff upon the termination of the Exploitation Licence, without any compensation being payable to the licensee.
- 11.14 The surplus royalty payable according to section 11.02(a), (b) and (c) shall be paid annually in DKK to the BMP 120 days, at the latest, after the end of the relevant calendar year. At the same time, the licensee shall send the BMP a specification describing how the royalty was calculated, accompanied by

all relevant information, including information about income, investments and expenses recorded in accordance with the accounting policies described in Appendix 6. This specification and accompanying information shall be submitted even though the calculation basis is negative for the year in question and there is thus no liability to pay royalty.

11.15 If surplus royalty has been paid for an Exploitation Licence according to the provisions of section 11.02(a), (b) or (c), the licensee may submit to the BMP a final statement of the below-mentioned costs of implementing the abandonment plan approved by the BMP; see section 8.07. This cost statement shall be received by the BMP within six months after the end of the year in which all parts of the abandonment plan, excepting the monitoring programme, have been implemented, and shall include any costs determined in accordance with the accounting policies described in Appendix 6 that have not previously been deducted under section 11.07(b). The BMP's approval and the terms hereof shall be available within six months of the BMP's receipt of the cost statement and all relevant information. No later than 30 days after approving the cost statement, the BMP shall pay an amount to the licensee to be determined as follows:

- (a) 7.5 per cent of the costs, however not exceeding the amount of surplus royalty for the relevant Exploitation Licence that has been paid according to section 11.02(a), plus
- (b) 10 per cent of the costs after deducting the amount calculated according to section 11.15(a) above, however not exceeding the amount of surplus royalty for the relevant Exploitation Licence that has been paid according to section 11.02(b), plus
- (c) 12.5 per cent of the costs after deducting the amounts calculated according to section 11.15(a) and (b) above, however not exceeding the amount of surplus royalty for the relevant Exploitation Licence that has been paid according to section 11.02(c).

No interest shall be payable on the above amount.

11.16 If a royalty statement has not been filed by the deadline stipulated in section 11.14 or if information relating to the statement is not submitted within the time limit fixed by the BMP, the BMP shall determine the royalty payable. If the statement is not prepared in accordance with the applicable rules and the matter is not rectified within the time limit fixed by the BMP, the BMP shall determine the royalty payable.

11.17 Where the royalty has been determined by the BMP according to section 11.16, the royalty due shall be paid no later than seven days after the licensee has received the BMP's notification of the amount of royalty payable.

11.18 For the purpose of the BMP's control of royalty payments according to section 11.02, the licensee shall submit the following information to the BMP:

- (a) The volumes and qualities of oil/condensate and natural gas shall be determined using the methods and equipment generally accepted in the petroleum industry. Such methods and equipment are subject to the BMP's approval and control. If it is ascertained that the methods or

equipment used has resulted in a metering that leads to underpayment of royalty, see section 11.01, this situation will be deemed to have existed since the last control, unless the licensee demonstrates that the situation has lasted for a shorter or longer period of time.

- (b) Information on the volumes and qualities of oil/condensate and natural gas that have passed the metering point, see section 11.18(a), in any one month shall be submitted monthly no later than 15 days after the end of a month. In determining the volume of hydrocarbons on which royalty is payable, the licensee shall include all hydrocarbons produced, including the hydrocarbons consumed in the production activities, regardless of whether their energy content was utilized. Hydrocarbons that are reinjected or are otherwise lost before passing the metering point shall not be included, but the BMP shall be notified of the volume of such hydrocarbons.
- (c) Any information relating to the calculation of royalty shall be submitted to the BMP at its request. In accordance with existing legislation, the BMP shall keep confidential all submitted information relating to the calculation of royalty.

The licensee shall have a state authorised public accountant perform an annual audit of the accounting records that form the basis of calculating the surplus royalty. The BMP shall be entitled to perform an independent audit.

The audit for any calendar year shall be completed within 120 days of the balance sheet date, and an auditors' report on the calculation of surplus royalty shall be issued at such time or before.

The costs of auditors shall be payable by the licensee.

Article 12 NUNAOIL's Participation in Exploration and Exploitation Activities

12.01 NUNAOIL shall participate in the Licence, as specified in section 8(2) of the Mineral Resources Act and in sections 12.02–12.04. The size of NUNAOIL's percentage share may be changed in accordance with the terms of the Joint Operating Agreement and section 23.01 below.

12.02 NUNAOIL shall have the rights and obligations attaching to the Exploration Licence in proportion to its percentage share, but NUNAOIL's share of costs, expenses, obligations and liability in damages regarding activities performed under the Exploration Licence, including expenses for the fulfilment of obligations and terms stipulated in the Exploration Licence or pursuant to the Exploration Licence, shall be borne solely by the other parties participating in the Exploration Licence ('a carried interest') unless NUNAOIL is not carried under the Joint Operating Agreement.

However, the carried interest of NUNAOIL shall cease 120 days after the BMP's receipt of an adequate request for an extension of the Licence for the purpose of exploitation, as described in section 8.02, or upon the issuance of such Exploitation Licence, whichever date is the earlier, in respect of activities in the area covered by the request or Exploitation Licence.

12.03 NUNAOIL shall participate on equal terms with the other parties holding shares in the Exploitation Licence, with the rights and obligations pertaining to its percentage share.

- 12.04 Notwithstanding the provisions of sections 12.02–12.03, NUNAOIL shall not bear its share of costs, expenses, obligations and liability in damages regarding wells drilled for the purpose of evaluating or delineating the Hydrocarbon Deposit in question after the cessation of NUNAOIL’s carried interest according to section 12.02 (last sentence), provided that such wells have been spudded before approval of the development plan etc. in accordance with section 8.08, regardless of whether such wells are later used for production. Such costs, expenses, obligations and liability in damages shall be borne by the other parties holding shares in the Licence.
- 12.05 The percentage share of NUNAOIL in a Licence may be transferred to other parties in accordance with the Joint Operating Agreement and section 23.01 below.
- 12.06 The licensee shall cooperate with NUNAOIL in order to develop the know-how and expertise of NUNAOIL; see Appendix 4.

Article 13 Obligation to Buy NUNAOIL’s Share of Production

- 13.01 At the request of NUNAOIL, the other companies holding shares in an Exploitation Licence shall buy all or part of NUNAOIL’s share of the hydrocarbons produced under the Exploitation Licence. Such request shall be made at least six months in advance, in respect of a specific period of at least 90 days. Each of the other companies shall have an obligation to buy such hydrocarbons in proportion to their percentage shares of the Exploitation Licence, and they shall buy the hydrocarbons at a fair market price and on usual terms of delivery.

Article 14 Agreement on Further Training

- 14.01 During the period of exploration, the licensee shall be obliged to reimburse the BMP for annual expenses of up to DKK 250,000 for the further training etc. of the BMP’s employees in accordance with the terms stipulated in Appendix 5. In connection with any extension of the Exploration Licence for the purpose of exploitation, see section 8.03, an agreement shall be made regulating the licensee’s obligations with respect to the further training etc. of BMP employees during the period of exploitation.

Article 15 Approval etc. of Activities

- 15.01 The licensee shall submit plans for its activities, including
1. exploration plans;
 2. health, safety and environmental plans;
 3. plans for socio-economic studies, including plans according to Article 21 hereof;
 4. development plans;
 5. production, storage and transportation plans;
 6. plans for abandonment activities; and

7. plans mentioned in section 8.07

for the BMP's approval. All plans shall include an oil spill contingency plan. An activity may not be initiated until approval has been granted. In its approval, the BMP may determine that specific equipment and material may not be used or that the activities may not be carried out in specific areas and periods. Likewise, the BMP may order the licensee to monitor biological and physical conditions in the areas affected by the activities.

15.02 The licensee may establish buildings, production facilities, installations, pipelines, storage and transportation facilities, etc. within and outside the Licence area, provided that they are approved by the BMP; see sections 10 and 25(1) of the Mineral Resources Act. However, in addition to the BMP's approval, the establishment of such buildings, production facilities, installations, pipelines, storage and transportation facilities onshore requires a permit under other legislation applicable to Greenland, including legislation on land use.

15.03 The licensee shall take all necessary measures to ensure that the activities do not endanger persons or third-party property. Likewise, the licensee shall take measures to minimize the risk of pollution and the risk of harmful effects on health and environment, both in and outside the Licence area.

15.04 If the licensee's activities endanger persons or third-party property or if the risk of pollution or harmful effects on health and environment exceeds a level acceptable to the BMP, the BMP may order the licensee to make any necessary changes to such activities within a time limit set by the BMP. If considered necessary, the BMP may further order the licensee to suspend the activities, in whole or in part, until the licensee has carried out the necessary changes. The BMP may also, to a reasonable extent, order the licensee to remedy any health and environmental damage falling within the scope of the licensee's liability under section 26.01, within a time limit set by the BMP.

Article 16 Supervision

16.01 The BMP will supervise the licensee's activities under the Licence and may appoint other parties to carry out such supervision; see section 25(2) of the Mineral Resources Act. The supervision personnel shall be entitled to monitor all the licensee's activities in every way and to demand all information relating to the licensee's activities under the Licence. The supervision personnel shall have access at all times to any part of the activities, without a prior court order, to the extent required for them to carry out the supervision.

16.02 The supervision personnel may take samples from geological material that has been obtained as part of the licensee's activities.

16.03 The supervision personnel may call attention to any infringement of legislation or other provisions applicable to the licensee's activities and may issue such orders, as they deem necessary.

16.04 In connection with inspections by supervision personnel, the licensee shall provide transport of the supervision personnel between the place of inspection and the nearest airport or heliport in Greenland

with scheduled flights and shall arrange for such transport to be provided in accordance with any reasonable requirements of the supervision personnel. The same applies to accommodation for supervision personnel at the inspection site and transport within the Licence area, if necessary.

- 16.05 Any costs and expenses of the BMP and its supervision personnel, including personnel from other authorities and external consultants, in connection with supervision and inspection of activities under the Licence shall be reimbursed by the licensee in accordance with the provisions of article 19. The reimbursement under article 19 shall include, but not be limited to, any costs and expenses in connection with any supervision, investigation, consultancy and inspection and, in relation to such activities, with any transport of supervision personnel and their equipment etc. and accommodation of supervision personnel.

Article 17 Obligations upon Termination of the Activities

- 17.01 Upon the termination of the activities under the Exploration Licence or the Exploitation Licence, the licensee shall:

- (a) remove all buildings, production facilities, installations, pipelines, storage and transportation facilities, etc. in and outside the Licence area that have been established for the activities comprised by the Licence, unless the non-removal of such buildings, facilities, etc., has been approved by the BMP in the abandonment plan or otherwise;
- (b) carry out final clean-up and restoration in the affected areas, subject to the BMP's approval.

If installations etc. have served their purpose before the termination of an Exploration or Exploitation Licence, measures shall be taken for these installations and the affected areas according to sections 17.01(a) and 17.01(b) immediately upon termination of use. If an abandonment plan has been prepared according to section 8.07(c), the above measures shall be carried out in accordance with such plan.

If the licensee does not comply with orders to implement the measures indicated above within the time limit set by the BMP, such measures may be carried out at the licensee's expense and risk; see section 18(3) of the Mineral Resources Act. If the implementation of such measures results in a third-party claim for compensation against the Government of Greenland or the Danish State, the licensee shall indemnify the Government of Greenland or the Danish State for any such claims.

- 17.02 The abandonment plan mentioned in section 8.07(c) shall be regularly updated and shall furthermore be revised to reflect any substantial changes in the exploitation activities. Amendments to the abandonment plan are subject to approval by the BMP; see section 19(4) and section 18(2) of the Mineral Resources Act. The BMP may request the licensee to submit a revised abandonment plan for the BMP's approval, subject to 12 months' notice.
- 17.03 The abandonment plan mentioned in section 8.07(c) shall include a plan for the financing of the abandonment activities, including:

- (a) the accounting principles to be used as a basis for calculating the annual provisions to be made for this purpose; and;
- (b) principles aimed at ensuring that the accumulated provisions are intact when the abandonment activities are initiated.
- 17.04 As part of the reporting required according to section 18.02, the licensee shall every year submit a statement showing the provisions made in respect of the abandonment plan. This statement is subject to the BMP's approval.
- 17.05 Any suspension of the exploitation activities for a period of time with a view to later resumption of the activities requires the approval of the BMP in accordance with section 20 of the Mineral Resources Act.
- 17.06 At any time prior to the start-up of abandonment activities, the licensee is entitled to sell or otherwise transfer the buildings, facilities, installations, etc. established for the activities performed under the Licence to any other parties, including Greenland or Danish authorities. Any such sale or transfer is subject to the BMP's approval and subject to the condition that the transferees assume abandonment obligations corresponding to the licensee's obligations, unless the BMP approves any changes to such obligations. Buildings, facilities, installations, etc. whose sale or transfer is approved shall be excluded from the licensee's abandonment plan.
- 17.07 The accumulated provisions shall belong to the licensee, but may only be used for abandonment purposes. If the cost of the abandonment activities is lower than the accumulated provisions, the remaining provisions shall be at the licensee's disposal when the abandonment activities have been carried out. If the cost of the abandonment activities exceeds the accumulated provisions, the licensee shall pay the excess cost.

Article 18 Reporting

- 18.01 For all activities performed under the Exploration Licence, the licensee shall submit data, reports, etc. to the BMP regarding all geological, geochemical, geophysical, technical, environmental, health, financial, including socio-economic, and other investigations that are carried out in respect of the Licence area; see section 25(4) of the Mineral Resources Act and section 18.04 hereof. At the BMP's request, the licensee shall submit geological samples to the BMP, including drill cores.
- 18.02 For all activities performed under an Exploitation Licence, the licensee shall submit reports to the BMP in accordance with section 18.04.
- 18.03 If the licensee discovers mineral resources other than those covered by the Licence, this shall be reported to the BMP.
- 18.04 The BMP may lay down rules and regulations concerning reporting on activities performed under an Exploration Licence, including reporting on financial matters, as well as the types of data, interpretations and other information to be included in the reports. The BMP may also define the form

and media for submitting such data. The BMP may demand further information from the licensee concerning the activities performed under a Licence.

18.05 All expenses for the preparation and submission of reports and samples under a Licence shall be paid by the licensee.

Article 19 The Licensee's Reimbursement of the BMP's Expenses for Administration

19.01 As regards activities performed under a Licence, the licensee shall reimburse the BMP's expenses for the administration described in Articles 15–18 relating to these activities in accordance with section 25(5) of the Mineral Resources Act.

19.02 The expenses to be reimbursed by the licensee under section 19.01 will be calculated and administered on the basis of rules laid down from time to time by the Government of Greenland in accordance with section 25(5) of the Mineral Resources Act. These rules include the Government of Greenland's executive order no. 24 of December 30, 2003 on the reimbursement of expenses associated with authority administration in connection with mineral resource activities, and any subsequent amendments thereto.

Article 20 Confidentiality

20.01 All data and any reports submitted in accordance with sections 18.01–18.02 shall be treated as confidential by the BMP for a period of five years from the date when the relevant reports should have been received by the BMP. However, the period of confidentiality will terminate:

- (a) for areas relinquished under sections 2.02 and 2.03: upon relinquishment;
- (b) for areas not covered by an Exploitation Licence: upon termination of the Exploration Licence;
- (c) for an Exploitation Licence: upon termination of the Licence.

20.02 Notwithstanding the provisions of section 20.01, the BMP shall be entitled to:

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

Prior to publishing any material under section 20.02 (b) and (c), the BMP shall notify the licensee hereof. The licensee shall notify the BMP prior to publishing the contents of Appendices 1-5 to this licence.

Article 21 Manpower, Supplies, etc.

- 21.01 In carrying out activities under a Licence, the licensee shall as a point of departure employ manpower from Greenland or Denmark. However, to the extent necessary for its activities, the licensee may employ personnel from other countries if manpower with similar qualifications does not exist or is not available in Greenland or Denmark.
- 21.02 In carrying out activities under a Licence, the licensee shall as a point of departure use Greenland contractors and subcontractors, suppliers and service providers. However, the licensee may contract with other enterprises for such contract work, supplies and services, if Greenland enterprises are not technically or commercially competitive. Greenland enterprises are defined as enterprises domiciled in Greenland whose commercial activity in the country gives them genuine ties to the Greenland community.
- 21.03 The BMP may lay down rules and regulations regarding recruitment of personnel in accordance with section 21.01, as well as rules and regulations for inviting tenders for supplies and services for the licensee's activities with a view to giving Greenland enterprises an opportunity to carry out contracts and subcontracts; see section 9 of the Mineral Resources Act and section 21.02 hereof. Further, rules and regulations may be laid down on the submission of information about the matters referred to in sections 21.01–21.02.

Article 22 Joint Operating Agreement

- 22.01 The joint operation of the activities by the companies holding shares in the Licence, including NUNAOIL, shall be regulated by a Joint Operating Agreement, which shall be signed by the parties within four months of the Exploration Licence being granted.
- The companies holding percentage shares in the Licence shall, by making and signing the Joint Operating Agreement, establish a joint venture for the purpose of engaging in joint hydrocarbon activities, including exploration and exploitation of hydrocarbons, under, and in accordance with, the Licence. The companies' percentage shares in the joint venture shall at all times be identical to the percentage shares specified in the Licence, unless otherwise provided in the Joint Operating Agreement's provisions on sole risk operations and development by less than all parties.
- The provisions on partnerships between public limited companies and/or private limited companies in the Act on Commercial Enterprises' Presentation of Financial Statements etc. and the Bookkeeping Act shall apply correspondingly to the joint venture established by the Joint Operation Agreement. The Operator shall, on behalf of the joint venture, provide financial statements, reports and information and keep books and records etc. in accordance with the provisions of the said acts.
- 22.02 The Joint Operating Agreement and any additions or amendments to the agreement shall be approved by the BMP.

- 22.03 The withdrawal of an operator and the appointment of a new operator are subject to the BMP's approval.
- 22.04 The BMP is entitled to attend as an observer at the meetings of the joint operating committees etc. set up under the Joint Operating Agreement. The BMP shall receive the same convening notice and the same material as the other participants in such meetings. Expenses incurred by the BMP in connection with such participation shall be reimbursed in the same manner as for supervision; see section 16.04.

Article 23 Transfer of a Licence

- 23.01 A Licence or any part thereof can neither directly nor indirectly be transferred to any other parties, unless such transfer is approved in accordance with section 27 of the Mineral Resources Act.
- 23.02 A Licence cannot be made the subject of any legal proceedings; see section 27(2) of the Mineral Resources Act.
- 23.03 If a lender financing the licensee's development and exploitation of hydrocarbons stipulates as a condition for granting the loan that this Licence or any part hereof shall be transferable to such lender at a later date, the BMP may, in accordance with section 27 of the Mineral Resources Act, grant its prior approval of such transfer subject to specific conditions, without any amendments to the terms of this Licence.

Article 24 Revocation of a Licence

- 24.01 A Licence may be revoked in the following instances; see section 28 of the Mineral Resources Act:
- (a) If the licensee fails to fulfil the exploration commitments; see section 6.01 and Appendix 3. The revocation shall not apply to those Licence areas that are comprised by an appraisal programme or an Exploitation Licence.
 - (b) If the licensee otherwise breaches the terms of the Licence or the provisions laid down pursuant to the Mineral Resources Act or pursuant to the Licence, or if the licensee fails to meet specified time limits.
 - (c) If the licensee fraudulently misrepresents facts to the BMP.
 - (d) If one or more of the companies holding shares in the Licence suspend their payments, request the opening of negotiations for a compulsory composition, are declared bankrupt, go into liquidation or are in a similar situation.
- 24.02 A Licence shall not be revoked pursuant to section 24.01(b) if the licensee remedies the breach within a reasonable time limit stipulated by the BMP. If the breach has not been remedied within the time limit stipulated, the Licence may be revoked without further notice.
- 24.03 If a breach under section 24.01(a) and (b) is attributable to the licensee being prevented from fulfilling the relevant commitments or provisions etc. due to circumstances beyond the licensee's reasonable

control that could not reasonably have been foreseen and/or reasonably overcome by the licensee (force majeure), the Licence shall not be revoked due to such breach for as long as the licensee's performance is affected by force majeure, provided that the licensee resumes activities in order to fulfil such commitments or provisions as quickly as possible, and to the extent possible. Any lack of funds shall not be considered force majeure. If, due to force majeure, the licensee is unable to meet the Licence terms etc. in whole or in part, the licensee shall promptly give written notice to that effect to the BMP, stating the nature, extent and expected duration of such force majeure.

24.04 In any of the situations referred to in section 24.01(d), the BMP will be prepared to approve the transfer of the relevant party's percentage share to one or more of the other parties holding shares in the Licence, provided that the licensee continues to have the necessary expertise and financial resources for the activities performed under the Licence. In that case, the Licence shall not be revoked in pursuance of section 24.01(d).

Article 25 Interest on Amounts Owed

25.01 If the licensee fails to pay royalties, rentals, fees or other outstanding amounts in due time, the licensee shall pay annual interest on the amount owing. The rate of interest shall be determined in accordance with the legislation on interest on overdue payments, etc applicable from time to time; see Consolidation Act no. 583 of 1 September 1986.

25.02 If royalties have been paid on the basis of a preliminary calculation, interest shall be payable on the underpaid or overpaid amount. Interest shall be paid on the difference between the preliminary and the final royalties for the period from the preliminary payment and until final settlement. The rate of interest shall be determined in accordance with the legislation on interest on overdue payments, etc applicable from time to time; see Consolidation Act no. 583 of 1 September 1986.

Article 26 Liability in Damages and Insurance

26.01 The licensee shall pay compensation for any damage caused by activities performed under the Licence, regardless of whether the damage can be considered accidental and whom the damage affects. If the injured party has contributed to the damage with intent or gross negligence, the claim for compensation may be reduced or extinguished.

26.02 The licensee's activities under the Licence shall be covered by insurance, including third-party liability insurance, which shall always provide reasonable cover for any insurance risks. At the end of each calendar year or on request, the BMP shall be informed of the existing insurance cover and the main insurance terms. The BMP may require the licensee to submit all insurance terms and to take out additional insurance. The licensee shall also be obliged to comply with any rules and regulations regarding insurance cover laid down by the BMP.

26.03 The licensee shall ensure that the following requirements are met when ships used for transporting hydrocarbons produced under the Licence call at or leave a port, offshore terminal or any other loading

or discharging berth or place in Greenland or in the Greenland territorial sea or Greenland continental shelf area or otherwise sail or are present in those areas:

- (a) The ship shall meet the requirements specified in section 10.02 above.
- (b) The ship shall be registered in a state that has acceded to the International Convention on Civil Liability for Oil Pollution Damage, 1992 ('1992 Liability Convention'), the International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage, 1992 ('1992 Fund Convention') and the Protocol of 2003 to the International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage, 1992 ('Supplementary Fund Protocol').
- (c) The registered owner of the ship shall arrange and maintain insurance cover (or similar guarantee cover) of the owner's liability for oil pollution and other damage and loss in accordance with the rules applicable from time to time on the legal obligation to insure under the 1992 Liability Convention and other conventions acceded to by Denmark.
- (d) The ship shall have a valid certificate showing that liability insurance (or similar guarantee) is effective, and that it covers the owner's liability for oil pollution and other damage and loss in accordance with the rules applicable from time to time on the legal obligation to insure under the 1992 Liability Convention and other conventions acceded to by Denmark.
- (e) The managing owner of the ship (the shipping company) shall arrange and maintain insurance cover ('P & I insurance') of the shipping company's other liability for damage and loss arising from or in connection with the operation or use of the ship, with salvage or with raising, removal, destruction or demolition of the ship, its cargo or other objects that have been on board. The liability insurer shall be a member of the International Group of P & I Clubs unless the BMP permits departure from this requirement. The cover shall be on customary and complete terms.
- (f) The managing owner of the ship (the shipping company) shall have a valid certificate or similar document showing that the above liability insurance ('P & I insurance') of the shipping company's other liability for damage and loss has been arranged and is effective.

The licensee shall compensate any damage and loss arising as a consequence of, or in connection with, one or more of the above requirements not being met. This shall apply irrespective of whether the damage or the loss may be regarded as accidental if the non-compliance with the above requirements is disregarded, irrespective of whether the registered or managing owner of the ship or other parties may (also) be held liable for the damage or loss, in part or in full, and irrespective of whether the damage or loss is suffered by the BMP, the Government of Greenland, the Danish State or other public or private parties.

The licensee shall on 1 April of each year prove to the BMP that the above requirements have been met in the past year. This shall be effected by forwarding any relevant documents, including documents containing information on the fulfilment of the requirements specified in section 10.02 in relation to

each ship used in the past year as well as information on classification and insurance of the ships. The relevant documents shall always include copies of class and insurance certificates.

26.04 The licensee shall ensure that the following requirements are met when vessels used in connection with activities performed under the Licence call at or leave a port, offshore terminal or any other loading or discharging berth or place in Greenland or in the Greenland territorial sea or Greenland continental shelf area or otherwise sail or are present in those areas:

- (a) The managing owner of the ship (the shipping company) shall arrange and maintain insurance cover ('P & I insurance') of the owner's liability for damage and loss arising from or in connection with the operation or use of the vessel, with salvage or with raising, removal, destruction or demolition of the vessel, its cargo, equipment or other objects that have been on board. The liability insurer shall be a member of the International Group of P & I Clubs unless the BMP permits departure from this requirement. The cover shall be on customary and full terms for the type of vessel in question.
- (b) The managing owner of the ship (the shipping company) shall have a valid certificate or similar document showing that the above liability insurance ('P & I insurance') of the owner's liability for damage and loss has been arranged and is effective.

The licensee shall compensate any damage and loss arising as a consequence of, or in connection with, one or more of the above requirements not being met. This shall apply irrespective of whether the damage or the loss may be regarded as accidental if the non-compliance with the above requirements is disregarded, irrespective of whether the registered or managing owner of the ship or other parties may (also) be held liable for the damage or loss, in part or in full, and irrespective of whether the damage or loss is suffered by the BMP, the Government of Greenland, the Danish State or other public or private parties.

26.05 The licensee shall indemnify the Government of Greenland and the Danish State for any claims made by third parties against the Government of Greenland or the Danish State as a consequence of activities under the Licence, provided that the licensee was given an opportunity in due time to participate in the defence against such claims and that the matter was decided by:

- (a) a settlement previously approved by the licensee;
- (b) a final judgment; or
- (c) an arbitral award, provided that the party making the claim was entitled to refer disputes to arbitration prior to the occurrence of the damage.

Article 27 Joint and Several Liability and Guarantees

- 27.01 If more than one party holds shares in the Licence, such parties shall be jointly and severally liable for the fulfilment of any obligation under the Licence, including the obligation to pay compensation for any damage caused by activities performed under the Licence, regardless of the size of the parties' shares in the Licence.
- 27.02 In order to ensure fulfilment of the licensees' obligations under the Licence, each company holding a share in the Exploration Licence, with the exception of NUNAOIL, shall provide guarantees within 30 days of the Exploration Licence being granted. Such guarantees shall be approved by the BMP. The guarantees shall cover the fulfilment of all obligations towards Greenland and Danish public authorities as well as any liability in damages pursuant to section 26.01. If a company holding a share in the Licence is owned by other companies, the BMP will usually require a guarantee from the ultimate parent company of each individual company holding a share in the Licence, and/or from other companies that are ultimate owners of material holdings of shares of the participating company. Guarantors are generally required to be jointly and severally liable with the participating companies; see 27.01. Upon approving plans for the exploitation activities in accordance with section 8.07, the BMP may request that the guarantees be changed or supplemented, subject to six months' prior notice.

Article 28 Relationship to Other Legislation

- 28.01 The Licence is subject to the rules of law from time to time in force in Greenland. Thus, this Licence shall not restrict the general right of the Government of Greenland to levy taxes or lay down general provisions concerning more specific aspects of the exploration and exploitation activities. The Licence shall not exempt the licensee from obtaining such approvals and permits as are required pursuant to the Mineral Resources Act and other legislation.

Article 29 Arbitration

- 29.01 Decisions to be made at the discretion or on the order of the Government of Greenland or the BMP according to the Licence terms cannot be submitted to arbitration. This provision does not preclude ordinary judicial review by Danish courts.
- 29.02 Any other disputes arising between the Government of Greenland and the licensee out of or in connection with the Licence shall be decided finally and conclusively by an arbitration tribunal pursuant to sections 29.03–29.06.
- 29.03 The arbitration tribunal shall consist of three members and shall sit in Copenhagen. Danish law shall be applicable.
- 29.04 Of the three members of the arbitration tribunal, the Government of Greenland and the licensee shall appoint one member each. The Government of Greenland and the licensee shall jointly appoint the umpire of the arbitration tribunal. If a party has not appointed its member within 30 days of the other

party appointing its member, then the President of the Danish Supreme Court shall appoint such member. If the parties fail to reach an agreement on the choice of umpire within 60 days of a party proposing an umpire, the President of the Danish Supreme Court shall appoint the umpire. The umpire of the arbitration tribunal shall be a Danish citizen.

29.05 The arbitration tribunal shall make its decision by a majority of votes. The arbitration tribunal shall lay down its own rules of procedure for hearing the case, including the rules on producing evidence of a technical nature, and shall make an order as to the parties’ payment of costs in the arbitration.

29.06 The right to submit a dispute to arbitration pursuant to the Licence shall remain in force after its termination.

Article 30 Obligations on Termination of the Licence

30.01 The termination of this Licence shall not release the licensee from fulfilling the obligations imposed by legislation, the Exploration Licence and any Exploitation Licences or other applicable provisions, conditions or orders.

30.02 Following the termination of the Exploration Licence in the event that no Exploitation Licence has been or is in the process of being issued under sections 8.01–8.05, or following the termination of an Exploitation Licence, the licensee shall keep all data, drill cores and other samples acquired by the licensee or on its behalf in respect of the Licence area for a period of at least one year. Before the destruction or disposal of such data, drill cores and other samples, they shall be offered to the BMP free of charge.

30.03 The BMP's right to take over data, drill cores and other samples pursuant to section 30.02 may be postponed if an agreement is made between the licensee and the BMP regarding satisfactory safekeeping of and third-party access to the relevant data, drill cores and other samples.

Article 31 Translations

31.01 The Licence has been drawn up in the Danish language, and any translations hereof shall have no validity.

Company

Government of Greenland

NUNAOIL A/S

APPENDIX 1

Licence area; see Article 2, section 2.01

The Licence area is delineated by the following corner coordinates:

- 1:(coordinate).....
- 2:(coordinate).....
- 3:(coordinate).....
- 4:(coordinate).....

All longitudes and latitudes (including the calculation of Licence area) are in UTM projection zone 21 with geodetic reference to the World Geodetic System datum 1984 (WGS-84). If possible the Licence area is delineated by connecting the corner coordinates in the above mentioned order by latitudes or longitudes. Otherwise the points are connected by geodetic lines.

The Exploration Licence area covers xxxxx square kilometres.

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

Map of the Licence area.

Exploration and Exploitation Licence no. 2010/xx

APPENDIX 2

Exploration Licence period; see Article 3, section 3.01

The Exploration Licence is valid for an exploration period reckoned from the granting of the Exploration Licence until 31 December(year)....., but see below. The period from the granting of the Exploration Licence until 31 December(year).... will count as year 1 and the calendar years(year).... -(year)....will count as years 2 –(year).....

The exploration period is divided into the following sub-periods:

1. First sub period: Year 1 –(year_z)....
2. Second sub period: Year(year_{z+1}).... -(year_x)....
3. Third sub period: Year(year_{x+1}).... -(year_y)....

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

Relinquishment of areas; see Article 2, section 2.02

At the end of the first sub-period, at least 30 per cent of the area shall be relinquished. At the end of the second sub-period, at least 30 per cent of the total area at the start of the first sub period shall be relinquished.

Relinquishment shall take place in accordance with sections 2.02, 2.04 and 2.05.

APPENDIX 3**Exploration commitments; see Article 6**

The following work programme covers the exploration activities that the licensee shall carry out according to Article 6:

- 1 During the first sub-period, the licensee shall carry out the following activities:
The licensee shall by the end of(year).... procure an up-to-date seismic coverage of the entire Licence area.
This corresponds to line kilometres.
- 2 During the second sub-period, the licensee shall carry out the following activities:
.... Exploratory Well(s) shall be drilled through/to(geologic formation)..... or a total depth of ...metres, whichever is reached first.
The Exploration Well shall be spudded no later than ...(time)...
- 3 During the third sub period, the licensee shall carry out the following activities:
.....
- 4 The wells shall be drilled in an appropriate manner that comports with good exploration practice, which shall include core drilling, the extraction of samples and production testing, and that otherwise conforms with the guidelines laid down by the BMP in connection with the approval of each individual drilling programme.
- 5 Satisfactory analyses and interpretations of acquired data shall be carried out. The licensee shall comply with any instructions issued by the BMP in this respect.
- 6 Prior to the commencement of the work, the licensee may obtain the BMP's opinion as to whether the exploration activities planned will constitute fulfilment of the work programme.
- 7 When the Exploration Licence for an area terminates, the licensee shall submit a final report to the BMP on the hydrocarbon potential in the relinquished area.

APPENDIX 4

The licensee's cooperation with NUNAOIL; see section 12.06

The objective of the cooperation is, among other things, to help facilitate the Licence groups activities in Greenland, and to assist NUNAOIL with developing know-how and experience with respect to exploration, development and production of Hydrocarbons, and during development and production to actively involve NUNAOIL as Co-operator with regard to the performance of the operatorship. The details for the cooperation during the development and exploitation periods shall be determined in a separate Cooperation Agreement, which shall be annexed to and form part of the Joint Operating Agreement.

During the exploration period Operator shall, with cooperation from and in consultation with NUNAOIL, represent the Licence group in Greenland. NUNAOIL shall be entitled to take part in the Licence groups information activities to the Greenlandic society.

During the exploration phase, the cooperation between the Operator and NUNAOIL shall in all respects be mutually agreed upon on a case by case basis and subject to the foregoing:

- Operator shall make reasonable efforts to agree with NUNAOIL on appropriate terms for any services, equipment or materials that NUNAOIL may provide to the Operator, pursuant to Operator's request;
- Operator shall make reasonable efforts to agree with NUNAOIL on appropriate involvement of NUNAOIL with respect to selected parts of the Work Programme;
- Operator will promptly advise NUNAOIL of all meetings with the Government of Greenland, the Bureau of Minerals and Petroleum, other local authorities and/or the public and consult with NUNAOIL regarding communications with such authorities and the public;
- Operator shall coordinate and work with NUNAOIL in order to ensure that meetings are satisfactorily arranged in Greenland in order to inform the applicable entities and the public about planned activities under the Licence;
- Operator will provide NUNAOIL with access to relevant courses, in-house as well as external. Operator shall provide NUNAOIL with a listing of such relevant courses. The number of employees of NUNAOIL attending such courses shall be mutually agreed upon between Operator and NUNAOIL within a reasonable period of time following the receipt of the course listing by NUNAOIL. The licensee shall reimburse expenses incurred in connection with the above courses up to an annual maximum limit of DKK 250,000. Expenses include travel, local transport, meals and accommodation as well as insurance and attendance fees, etc.

APPENDIX 5

Further training obligations during the exploration period; see Article 14.

For each year of the exploration period, see sections 3.01-3.06 and Appendix 2, the licensee shall contribute to the further training etc. of the employees of the BMP, as set out below.

Further training

The licensee shall reimburse DKK 250,000 of expenses annually for further training etc. in connection with exploration, development, production and maintenance. Such further training shall be targeted at employees with a technical or scientific education or employees with an administrative, legal or financial background. The further training shall consist of the following elements:

- Participation in courses, in-house as well as external.
- On-the-job training at (name of company with a share in the Licence). On-the-job training shall be defined as full-time employment that includes the performance of tasks commensurate with the trainee's education and background and representative of the oil and gas industry.

If the expenses for further training are less than DKK 250,000 in any one year, the unutilised funds can be transferred to the next year. No later than two months after the end of every year, the BMP shall forward a statement of the unutilised funds that it intends to carry forward to the following year.

Expenses

Expenses associated with the BMP's participation in courses or on-the-job training, includes travel, local transport, meals and accommodation, as well as insurance and attendance fees, the cost of the trainee's gross salary etc., as documented by the trainee's contract of employment with the Government of Greenland, etc. Expenses for travel, local transport, meals and accommodation shall be paid in accordance with the rules established by the Government of Greenland for the payment of per diem allowances on official trips. The BMP shall forward invoices for the amounts to be reimbursed. Payment shall be effected 30 days at the latest after the invoice date.

Period

The training obligations assumed hereunder shall be upheld until they have been fulfilled, regardless of whether the Exploration and/or Exploitation Licence terminates prior to their fulfilment.

Confidentiality

The persons participating in activities under this agreement shall sign a confidentiality agreement where this is required due to the nature of the job. However, the participants shall subsequently be entitled to unrestricted use of the expertise acquired.

APPENDIX 6

Accounting principles for accounting items included (and not included) in the value (calculation basis) to be used for determining the surplus royalty according to Article 11.

This description of accounting principles comprises the following main categories:

1. INCOME
2. INVESTMENTS AND EXPENSES
3. TRANSLATION OF FOREIGN CURRENCY

The annual filing of the calculation basis shall include a specification of items comprising as a minimum those items, which are specified in the enclosed appendix 7. BMP can require additional specifications and information from the licensee.

1 INCOME

1.1 Sales of hydrocarbons

The value of extracted hydrocarbons is calculated according to section 1103 - 1106.

Hydrocarbons are considered as extracted when exported from the production facility, i.e. having passed the metering point on the production facility.

No deduction of transport costs is allowed relating to the transport of hydrocarbons.

As described in section 1104 the value of sales is calculated by applying the price on sales to independent buyers in Europe at the point in time where risk is transferred to an independent buyer (time of risk transfer). As the primary reference for sales in Europe the "Brent (DTD)" (average of low and high quotation) according to Platts Crude Oil Marketwire shall be applied. To the extent that Brent (DTD) cannot be regarded as a representative market price, a different quotation / price fixing should be applied according to section 1105. Such a change is subject to BMP's approval.

The value in Danish Kroner shall be translated at the foreign exchange rate at the date of risk transfer.

If at the date of risk transfer no official quotation is available the following day's official quotation is applied.

Financial income and expenses deriving from forward contracts relating to sales of hydrocarbons, such as derivatives in the shape of sales futures, sales options or similar, is not included in the value of sales in the surplus royalty

– statement and such income or expenses are not included in the calculation basis, as described in the sections below relating to financial income and financial expenses.

Extracted hydrocarbons for which risk has not transferred at the end of the year (31 December) are included in the calculation basis for the year at the value at 31 December. The value is defined as the price on sales to independent buyers in Europe (or other quotation as approved by BMP) at 31 December. The value in Danish Kroner is translated at the foreign exchange rate at 31 December. The difference between the value so included in the calculation basis as at 31 December and the subsequently, at the time of risk transfer, calculated value is included in the calculation basis in the year where risk transfers.

1.2 Other income booked by the licensees

Any other income booked by the licensees is included in the calculation basis, cf. section 1107.a.

Other income is included in the calculation basis when realized. Income has been realized, when the usual criteria for recognizing income in accordance with international accounting standards have been fulfilled (IAS 18).

According to IAS 18 income is recognized by an entity, when

- a) the significant risks and rewards of ownership are transferred to the buyer;
- b) the entity has relinquished managerial involvement and effective control over the goods;
- c) the revenue has a cost or value that can be measured reliably;
- d) it is probable that any future economic benefit associated with the revenue will flow to the entity; and
- e) the costs incurred or to be incurred can be measured reliably.

Other income comprises the following items (not exhaustive):

1.2.1. Disposals

Any amounts realized from the disposal of material or other joint property. Disposal of material to the operator shall be valued according to the principles described in section 2.2.6. (b) below.

1.2.2. Material and Property

Any amounts realized as a result of the return of material or other property.

1.2.3. Sole Risk Credits

Any amounts realized from third parties or from parties engaged in sole risk activities for services or for use of joint property.

1.2.4. Insurance

Any amounts realized pursuant to insurance claims made by the operator in respect of insurance carried for the

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benefit of all the parties.

1.2.5. Claims

Any amounts realized pursuant to claims made by the operator on behalf of the parties and any other event-giving rise to a receipt (including interest) by the operator on behalf of the parties.

1.2.6. Financial income

Any interest income realized in connection with Joint Operations. Interest income is accrued. Accordingly, calculated accrued interest income is included regardless of whether the interests have been received in cash.

Other financial income, including currency exchange gains and gains on derivatives relating to hydrocarbons, investments, material, foreign currency etc. is not included in the calculation basis. However, any currency gains relating to income included in the calculation basis on hydrocarbons where risk has not transferred at 31 December, which are realized in a subsequent year where risk transfers, cf. section 1.1 is included in the calculation basis. Furthermore, currency gains relating to accruals as described in section 3 are included as described in this section 3.

1.2.7. Other

Any other amounts of revenues or credits, except for certain financial items stipulated above in section 1.2.6, which accrue in connection with the Joint Operations.

2 INVESTMENTS AND EXPENSES

General criteria

Investments and operating expenses are chargeable to the calculation basis as described in section 1107.b.

Expenses held in the exploration period are not chargeable to the calculation basis.

Only investments and expenses held after the issuance of the Exploitation Licence as described in section 804 are chargeable to the calculation basis, and only such investments and expenses as comprised by the development plan approved according to §§ 10 and 19 of the Mineral Resources Act are chargeable.

Provisions for abandonment are not chargeable to the calculation basis on a current basis.

Transportation costs, financial expenses and corporate and withholding taxes are not chargeable to the calculation basis. Reference is made to the detailed description of these items in section 2.1 and 2.2 below.

2.1 Investments

Investments can be defined as expenditures held in accordance with a development plan approved by the operating committee and BMP, comprising property, production facilities, installations, pipelines, storage facilities etc., and which are recorded in the Joint Account.

Investments (CAPEX) are included in the calculation basis at the time of delivery (risk transfer) and amounts in

foreign currency are translated to Danish Kroner at the exchange rate at the time of risk transfer.

For contracts with defined installments relative to milestones, the installments are included in the calculation basis, when the terms for raising the installment invoice have been fulfilled.

For invoicing of hours (services) it is a requirement that the hours invoiced have been used, and for invoicing of hardware, that the hardware has been delivered to the platform or facility under construction on shore.

Prepayments do not constitute a delivery. A prepayment does not qualify as chargeable to the calculation basis. Any currency gain or loss arising between the time of prepayment and delivery is regarded as a financial item, which cannot be regarded in the calculation basis.

2.2 Expenses

Expenses are chargeable to the calculation basis on the basis of a normal accrual principle, unless other terms are mentioned in the sections 2.2.1 - 2.2.16 below.

According to the accrual principle transactions and other events are included in the calculation basis in the period where they occur, regardless of the time of payment.

Subject to the limitations hereinafter set forth the operator shall, with proper documentation, charge the Surplus Royalty Statement with the following items of expenditure in so far as the expenditure has been duly authorized, relates to and is necessary for the conduct of the Joint Operations, and, finally, are recorded in Joint Account.

Below a more detailed description is provided for the individual main types of expenses.

2.2.1. Licence Fees

Licence fees incurred by the operator on behalf of the parties in connection with the Joint Operations.

2.2.2. Damages and Losses

All expenses incurred for the repair or replacement of damaged or lost joint property, provided that all insurance coverage shall be appropriately credited. Documentation for such expenses shall be made available to BMP on request.

2.2.3. Offices and Field Expenses

The net cost of establishing and operating offices, field offices, warehouses, shore bases and other facilities used for the Joint Operations. If any such facilities serve more than the Joint Operations, the costs shall be allocated in an equitable manner. The principles applied for such allocation shall be documented and the documentation shall be made available to BMP on request.

2.2.4. Insurance and Third Party Claims

Premiums incurred for insurance coverage obtained in accordance with the Joint Operating Agreement, and

– expenditures, excluding related interest expenses, incurred in settlement of claims from third parties.

2.2.5. Legal Costs

All legal costs and expenses arising from the handling of claims and disputes in connection with the Joint Operations except those arising in connection with disputes among the Parties.

2.2.6. Material

Material is based on consumption. Accordingly, an inventory ledger shall be kept and material shall be charged to the Surplus Royalty Statement on the basis of purchases in the year with the addition of the value of inventory at the beginning of the year and the deduction of the value of inventory at the year-end.

(a) Material purchased by the operator from third parties for use in the Joint Operations shall be charged at cost after deducting all trade and discounts received. Transport costs and handling, insurance, duties and other direct related costs are also chargeable.

(b) Material transferred from the operator or its affiliates for use in the Joint Operations shall be charged at a value determined as follows:

New material - Condition "A"

Material, which has not been used and is in a new condition, shall be classified as Condition "A" and charged at direct cost (stipulated in (a) above) to the Operator, but not exceeding the current market value (replacement value).

Used material - Condition "B"

Material which has been used, but is in sound and serviceable condition and suitable to be reused without repair, shall be classified as Condition "B" and charged at seventy-five per cent (75%) of what its value would be if it were in Condition "A".

Used material - Condition "C"

Material, which is suitable for use after reconditioning, shall be classified as Condition "C" and charged at fifty per cent (50%) or less of what its value would be if it were in Condition "A". After reconditioning the material shall not exceed the Condition "B" value.

Material - Condition "D"

Material, which is not usable for its original purpose, shall be priced at a value commensurate with its use.

(c) Obsolete material in inventory is expensed at the time of returning, disposing or physically scrapping of the inventory items.

(d) Accumulation of surplus stocks of material shall be avoided.

- (e) Material, which will be used partially or on a temporary basis shall never exceed market rates available through third parties for comparable material.
- (f) When material is supplied through the operator, the operator shall promptly credit for material returned to the operator or with any rebates or other adjustments received from a supplier or manufacturer.
- (g) The operator shall be entitled to make a reasonable charge to cover storage cost of drawing material from the operator's stock. The calculation of such charge, including the underlying principles, shall be documented and the documentation shall be made available to BMP on request.

2.2.7. Administrative costs

No administrative overhead costs relating to the operator's direct costs, charged to the Surplus Royalty Statement, are chargeable to the Surplus Royalty Statement.

Direct expenses charged from the operator or the operator's affiliated companies shall be documented and the documentation shall be made available to BMP on request.

2.2.8. Personnel

All costs for the operator's and affiliates' personnel directly engaged for the benefit of the Joint Operations on an equitable basis. The computation of costs on an equitable basis should take into consideration the percentage of the total cost of each such employee to the operator that is equivalent to the percentage of such employee's entire working time that is spent on the Joint Operations.

For the avoidance of doubt, the total cost of such employees to the operator shall take into consideration allowances and benefits, retirement benefits, relocation expenses and similar costs.

The cost of personnel of other parties or third parties who are working under the direct control of the operator shall be chargeable to the Surplus Royalty Statement. Any travel and relocation expenses incurred by such personnel and required for the conduct of the Joint Operations are also chargeable to the calculation basis for surplus royalty.

2.2.9. Services

The costs of services and facilities provided by the operator or its affiliates shall be chargeable to the Surplus Royalty Statement on an arm's length basis, provided that such charges shall not exceed the rates for comparable services available to the Joint Operations from third parties. The cost of such services shall be documented and the documentation shall be made available to BMP on request.

2.2.10. Taxes

Taxes, duties and other governmental levies except for corporate income taxes and withholding taxes on dividends etc., which have been incurred and paid by the operator on behalf of the Joint Operations, are chargeable to the calculation basis for surplus royalty. For the avoidance of doubt, royalties and direct taxes imposed on the parties are

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not chargeable to the calculation basis for surplus royalty.

2.2.11. *Transportation other than of hydrocarbons*

(a) Travel and relocation expenses, when these are required for the conduct of the Joint Operations. All charges shall be in accordance with the operator's normal practice, and include expenses for families and households, when appropriate. Relocation expenses at the termination of work for the Joint Operations will be based on a return to the home of record, except if the employee is relocated for the benefit of another operation, in which case the costs shall not be charged to the calculation basis for surplus royalty.

(b) All costs to transport and handle Material for use in the Joint Operations, unless otherwise chargeable under this description of accounting principles.

2.2.12. *Sole Risk Charges*

No expenditures in connection with sole risk operations shall be charged to the Surplus Royalty Statement without the prior approval of BMP.

2.2.13. *Hydrocarbon transport costs*

Transport costs relating to hydrocarbons are not chargeable to the calculation basis. Loading charges, storage charges etc. on the first or subsequent points of delivery are not chargeable to the calculation basis either.

2.2.14. *Financial expenses*

Financial expenses, including interest expenses, financial levies, foreign currency losses, losses on accounts receivable from sales of hydrocarbons and losses on derivatives relating to hydrocarbons, investments, material, foreign currency etc. are not included in the calculation basis. However, any currency losses relating to income included in the calculation basis on hydrocarbons where risk has not transferred at 31 December, which are realized in the subsequent year on risk transfer, cf. section 1.1 is included in the calculation basis. Furthermore, currency losses relating to accruals as described in section 3 are included as described in this section 3.

2.2.15. *Other Expenditures*

Any other expenditure not covered by the expenditures otherwise described in this accounting procedure, except for costs excluded according to this section 2, which the operator in accordance with the Joint Operating Agreement incurs and which are necessary and proper for the Joint Operations, is chargeable to the calculation basis for surplus royalty subject to BMP's approval.

2.2.16. *Abandonment expenses*

Abandonment expenses as approved by BMP may result in repayment of surplus royalty from BMP as described in section 1115 of the Licence. The expenses shall be included according to the accounting principles described in section 2.2.1 - 2.2.15 of this appendix.

– Provisions made for abandonment on a current basis are not chargeable to the calculation basis for surplus royalty.

3 TRANSLATION OF FOREIGN CURRENCY

Transactions in foreign currency are during the year included at the currency exchange rate on the transaction date. Gains and losses arising between the currency exchange rate on the transaction date and the currency exchange rate on the date of payment are not chargeable to the calculation basis for surplus royalty.

Assets and liabilities in foreign currency, including accruals, receivables, short-term debt and other monetary items, such as prepayments relating to purchases of material, investments etc., which have not been settled at the balance sheet date (year-end of the royalty year) are translated at the currency exchange rate at the balance sheet date or the subsequent day's exchange rate if no official quotation is available at the balance sheet date. This gives rise to a financial gain or loss. In those cases, where the transaction date relating to a receivable or a short-term debt etc. is in advance of the balance sheet date, and in those cases, where subsequent to the balance sheet date a difference is realized between the currency exchange rate at the balance sheet date and the payment date such financial gains or losses are not chargeable to the calculation basis.

Receivables, short-term debt and other monetary items, which have not previously been charged to the calculation basis on a balance sheet date, e.g. prepayments that do not qualify as chargeable to the calculation basis at the balance sheet date, are charged according to the currency exchange rate of the transaction date / the balance sheet date, when the terms for being chargeable to the calculation basis have been fulfilled.

Accruals in foreign currency, such as accrued expenses or accrued receivables, where no transaction date has yet occurred, are charged to the calculation basis on the basis of translation at the currency exchange rate on the balance sheet date. Subsequent differences between the currency exchange rate at the balance sheet date and the currency exchange rate at the transaction date are chargeable to the calculation basis in the year, where the transaction occurs.

APPENDIX 7**Items in annual surplus royalty statement.****1 INCOME**

- 1.1 Sales of hydrocarbons
- 1.2 Other income booked by the licensees
 - 1.2.1. *Disposals*
 - 1.2.2. *Material and Property*
 - 1.2.3. *Sole Risk Credits*
 - 1.2.4. *Insurance*
 - 1.2.5. *Claims*
 - 1.2.6. *Financial income*
 - 1.2.7. *Other*

2 INVESTMENTS AND EXPENSES

- 2.1 Investments
- 2.2 Expenses
 - 2.2.1 *Licence Fees*
 - 2.2.2 *Damages and Losses*
 - 2.2.3 *Offices and Field Expenses*
 - 2.2.4 *Insurance and Third Party Claims*
 - 2.2.5 *Legal Costs*
 - 2.2.6 *Material*
 - 2.2.7 *Administrative costs*
 - 2.2.8 *Personnel*
 - 2.2.9 *Services*
 - 2.2.10 *Taxes*
 - 2.2.11 *Transportation other than of hydrocarbons*
 - 2.2.12 *Sole Risk Charges*
 - 2.2.13 *Currency exchange losses relating to accruals*
 - 2.2.14 *Other Expenditures*
 - 2.2.15 *Abandonment expenses*