

THE CABINET OF MINISTERS OF THE REPUBLIC OF LATVIA

Regulations No. 51 of February 8th, 2000

**REGULATIONS FOR PRE-INVESTIGATION, EXPLORATION AND PRODUCTION
OF HYDROCARBONS**

Amendments: Regulations of the Cabinet of Ministers No. 98 of 06.03.2001 (Latvijas Vestnesis, 08.03.2001, No. 38); Regulations of the Cabinet of Ministers No. 155 of 08.04.2003 (Latvijas Vestnesis, 15.04.2003, No. 58); Regulations of the Cabinet of Ministers No. 476 of May 6, 2004 (Latvijas Vestnesis, 11.05.2004, No. 73); Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004 (Latvijas Vestnesis, 17.12.2004, No. 201).

(minutes No.7, Paragraph 11)

Issued in compliance with the law 'On the Subsoil',
Item 4, Part 4 and Item 10, Parts 2 and 4
(as amended by the Regulations of the Cabinet of Ministers
No. 155 of 08.04.2003, which came into force on
16.04.2003).

I. General issues

1. Terms used in these regulations:
 - 1.1. **permit (licence)** – document which entitles to carry out correspondingly either pre-investigation or exploration and production activities of hydrocarbons within a License area;
 - 1.2. **discovery** - a new hydrocarbon deposit, found as a result of the exploration of hydrocarbons;
 - 1.3. **block** – territory, defined in the contest regulations for petroleum activities and in the Permit (licence), situated within the offshore territories, continental shelf and the exclusive economic zone of the Republic of Latvia, and bounded by meridians and parallels with definite coordinates of geographical latitude and longitude, as well as by borders of states, their economic zones and coast lines;
 - 1.4. **Operator** – a person designated as a manager of the joint activities of petroleum, considering proposals of the physical persons and legal entities to whom a Joint permit (license) has been awarded;
 - 1.5. **deposit** - spatially bounded accumulation of hydrocarbons in the subsoil;
 - 1.6. **Joint Operating Agreement** – contract concluded for organizing a mutual collaboration between the legal entities or physical persons to whom a common Permit (licence) for the exploration and production of hydrocarbons has been awarded;

- 1.7. **Licensee** - physical person or legal entity or several such persons or entities to whom a Permit (licence) has been awarded according to the procedure established by law;
 - 1.8. **measurement point** - a point of a hydrocarbon production equipment where petroleum or natural gas reaches the measuring device (meter) connected to the outlet flange of a drilling-well;
 - 1.9. **petroleum** – crude oil and gas condensate;
 - 1.10. **petroleum activities** - pre-investigation, exploration or production operations of hydrocarbons or other combinations of the aforementioned operations;
 - 1.11. **hydrocarbon field** (commercial deposit) a natural deposit of hydrocarbons or a group of such deposits, discovered as a result of exploration activities and suitable for practical use;
 - 1.12. **production of hydrocarbons** - activities performed for the purpose of extracting hydrocarbons from a Licence area, including the drilling of wells, pumping of petroleum, injection of gas or water, any gathering, preliminary processing and storage of hydrocarbons for transportation by ship, any transport of the same to the shipment point, as well as the placing or constructing and operating of installations for the purposes of hydrocarbon production;
 - 1.13. **exploration for hydrocarbons** - geological, geophysical, geochemical and technical activities, carried out in order to discover a hydrocarbon field, evaluate its extent and value, the type of the natural reservoir and its reaction to the hydrocarbon production. These operations may also include the drilling of exploration wells, the documenting of wells, and processing and evaluating the data obtained;
 - 1.14. **pre-investigation (prospecting) for hydrocarbons** - geological, geophysical and geochemical activities, as well as processing and evaluating the data obtained during the aforementioned activities.
2. These Regulations define provisions for hydrocarbon pre-investigation, exploration and production within the territory and exclusive economic zone of the Republic of Latvia, as well as the fee for a permit (licence) for the use of subsoil and procedures of its payment.
(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).
- 2¹. A licence area is defined:
- 2¹.1. onshore – over one or several adjacent subsoil areas;
 - 2¹.2. offshore – over one or several adjacent blocks.
- (As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).*
- 2². An onshore licence area is defined:
- 2².1. for hydrocarbon pre-investigation – with an area at least 1,000 ha;
 - 2².2. for hydrocarbon exploration and production – with an area at least 15 ha.
- (As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).*
- 2³. If a hydrocarbon deposit is a field, the licence area is defined over the whole hydrocarbon field area.
(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).
3. Petroleum operations shall be commenced and carried out exclusively when a permit (licence) has been obtained according to the procedure under these regulations.
4. Permits (licences) of the following types may be issued for petroleum activities:
- 4.1. Permit (licence) for hydrocarbon pre-investigation;

- 4.2. Permit (licence) for the exploration and production of hydrocarbons.
5. Prior to receiving the Permit (licence), an applicant shall submit to the Ministry of Economics the evidence to prove the applicant's capability to cover the possible damages which may be unlawfully caused to the environment, people and to the financial interests of third persons as a result of petroleum activities, or that a third party, providing a guarantee (warranty), has assumed the liability risk.
6. Compensation guarantees against losses may be as follows:
 - 6.1. insurance providing a reasonable indemnity, taking into consideration a risk exposure, which pertains to the activity of a Licensee, and premium costs;
 - 6.2. evidence submitted by the Licensee that the Licensee has a sufficient financial resources to indemnify for the possible damage (self-security);
 - 6.3. guarantee (warranty) given by a parent company, a recognized bank or other third party ensuring compensation for the possible damage.

II. General procedures for awarding the Permits (licences) for areas within the territorial waters and the exclusive economic zone of the Republic of Latvia

7. Permits (licences) are issued based on a competition.
(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).
8. The announcement and process of the competition are regulated by the legal and administrative acts regarding the competitions for licensing hydrocarbon activities of pre-investigation, exploration and production.
- 8¹. *Deleted by the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004, which came into force on 12.05.2004).*
9. If a Latvian state share is envisaged in the permit (licence), the Cabinet of Ministers, in order to manage that state share, by its decision, designates a company (commercial enterprise), where 100% of the capital belongs to the Latvian state. In that case, the applicants for the permit (licence) informs about their consent to co-operate with the above-mentioned enterprise. If the Cabinet of Ministers has not designated the respective company (commercial enterprise), the Latvian state share is managed by the Latvian Investment and Development Agency.
(As amended by the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).
10. Both a consolidated petition of several applicants and an individual application including a notification of willingness to co-operate with other applicants, are admissible.
(As amended by the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).
11. If a joint permit (licence) is granted to several applicants, a licensor shall appoint the operator according to the proposals of such applicants.
12. The permits (licences) may be awarded without a contest in case a licensee applies for a supplementary territory situated next to the license area, and for which no permit (licence) has been issued to any licensee, and the award of such an additional territory is based on the

location of the petroleum deposit specified later in the previously granted permit (licence). If another licensee applies for the aforementioned supplementary territory with a similar reason, the Ministry of Economics shall decide on awarding the permit (licence) for utilising the supplementary territory subsequent to negotiations with both interested licensees.

13. If a joint permit (licence) is issued to several physical persons or legal entities, they shall sign a Joint Operating Agreement within 180 days after the approval of the Work Supervisor (Operator), pursuant to the provisions of Section XIV of these Regulations.

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

III. Permit (licence) for pre-investigation of hydrocarbons

14. The permit (licence) for pre-investigation of hydrocarbons is non-exclusive. Several permits (licences) for the same licence area may be awarded simultaneously.

15. The permit (licence) for hydrocarbon pre-investigation entitles the licensee to pre-investigate hydrocarbons within the licence area. A special permit should be obtained from the Ministry of Economy for drilling.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

16. While performing offshore seismic investigations, the licensee shall be authorized to continue the seismic measurements in the contiguous area but not exceeding 2000 meters in depth. The time period of these operations should be co-ordinated with the licensee of the respective territory.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

- 16¹. While performing onshore seismic investigations, the licensee has the right to continue the seismic measurements in the contiguous area but not exceeding 500 m, if a written agreement is concluded with the respective landowner for conducting the above operations and their schedule. A copy of the agreement between the landowner and the licensee is submitted to the Ministry of Economics within 14 days from the date of its signing (presenting the original).

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

17. A permit (licence) for the exploration of other natural resources within the same license area may be issued, besides the permit (licence) for pre-investigation of hydrocarbons. In such cases the licensees should mutually coordinate the activities to be carried out within the license areas.

18. The award of the permit (licence) for pre-investigation of hydrocarbons gives no preference to the receipt of the permit (licence) for hydrocarbon exploration and production.

19. The permit (licence) for pre-investigation of hydrocarbons shall be granted for a period of two years. This validity period may be extended but not exceeding five years.

IV. Procedure for pre-investigation of hydrocarbons

20. The licensee shall submit to the Ministry of Economics a schedule for the execution of pre-investigation activities not later than 30 days before the start of the relevant operations.

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

21. The Ministry of Economics shall consider the submitted schedule within 30 days.
22. If the Ministry of Economics considers the schedule as inadequate it shall, within 30 days of receiving the schedule, provide the Licensee with a written notice by indicating due grounds thereof. The Licensee shall make the required alterations to the schedule within 60 days following the receipt of that notice.
23. In case the activities of hydrocarbon pre-investigation envisaged in the schedule are related to the navigation of aircraft, helicopters and ships, the Licensee shall, not later than 30 days before the commencement of these operations, submit to the Ministry of Economics the following information:
 - 23.1. investigation area, grid references thereof;
 - 23.2. planned commencement and completion dates of pre-investigation activities;
 - 23.3. reference to the helicopters, ships, aircraft and other large-size mobile objects to be used in pre-investigation, indicating their registration state, place of stationing, ships' name and speed.
24. The Ministry of Economics shall communicate the information provided in Paragraph 23 to the competent authorities of the Republic of Latvia, shipping and fishing services, as well as to the mass media.
25. During the pre-investigation activities, the Licensee shall furnish the Ministry of Economics and the State Geological Survey with a report on the course of activities according to the approved schedule and the procedure for submission of the information and samples obtained during petroleum activities.

V. Permit (licence) for exploration and production of hydrocarbons

26. The permit (licence) for the exploration and production of hydrocarbons confers upon the Licensee exclusive rights to explore for and to produce hydrocarbons within the License area.
27. The permit (licence) for the exploration and production of hydrocarbons shall be granted for a period up to 30 years, inclusive of up to five years for exploration. If the permit (licence) for hydrocarbon exploration and production is awarded for a shorter period of time, the Ministry of Economics is empowered to prolong the term of the permit (license) for a period up to 30 years, inclusive of the period previously determined. Hydrocarbon exploration may be subdivided into several stages of operations, if it is envisaged by the provisions of the permit (licence).

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

28. A request for extension of the term of the permit (licence) for exploration and production of hydrocarbons shall be submitted not later than 180 days prior to the expiry date of the permit (licence).
29. During the validity period of the permit (licence) for exploration and production of hydrocarbons, the licensee may relinquish a license area or its part by giving a 90 days' written notice thereof. The Ministry of Economics may require that removal of installations and other duties connected with the cessation of operations are performed, a Geological Report on the accomplished operations is submitted, as well as other liabilities under the permit (licence) are discharged prior to the abandonment of the licence area.

29¹. The Licensee may submit to the Cabinet of Ministers an application aimed at making changes in the subdivision of the licence partners' shares between the existing or newly invited partners in the licence. The Ministry of Economics considers the application within 30 days. If the Licensee's application is approved, the Ministry of Economics submits to the Cabinet of Ministers a draft Order regarding the change in the subdivision of the licence partners' shares.

(As amended by the Regulations of the Cabinet of Ministers No. 476 of May 6, 2004).

30. The award of the permit (licence) for exploration and production of hydrocarbons to the licensee shall not exclude the granting of rights to third persons to explore for and produce other natural resources within the same license area, as well as to carry out the pre-investigation of hydrocarbons therein on condition that such operations do not cause unsubstantiated inconvenience to the respective licensee at the performance of petroleum activities. The licensees shall agree on the nature, sequence and duration of the activities to be performed and coordinate the aforementioned issues with the Ministry of Economy within 90 days of awarding the permit (licence) to the third party.

31. If a discovery is made of any other natural resources within the area covered by the permit (licence) for exploration and production of hydrocarbons, and further operations aimed at their development cannot be performed without interrupting oil exploration and production operations, carried out by the licensee pursuant to the permit (licence), the Ministry of Economics in collaboration with the interested state authorities and the landowner shall decide, which operations are to be suspended or postponed to a later time and, if necessary, to what extent. Making such a decision the following should be taken into consideration: the nature of the new discovery, investments hitherto made, stage of activities, duration and volume of operations, their economic and social impact, impact on the activities carried under the permit (licence) for exploration and production of hydrocarbons, as well as damages to be paid to the licensee.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

32. If, as a result of exploration activities, it is discovered that the prospective oil deposit extends beyond the licence area, the licensees should enter into an Unitisation agreement (providing for united exploitation of the deposit in case the borders of a licence area divide the deposit into several parts). In case the licensees of all the portions of that deposit fail to enter into the aforementioned agreement within 180 days, the Ministry of Economics has the right to require the licensees to sign the agreement on unitised exploitation of the common deposit on terms proposed by the Ministry of Economics after consultations with all the respective licensees.

32¹. If, as a result of onshore exploration, it is discovered that the prospective oil deposit is larger than the determined licence area, and there is no other licensee in the respective part of the oil deposit, the licensee concludes a subsoil use agreement with the landowner regarding the extra part of the oil deposit. In order to increase the licence area, the licensee submits to the Ministry of Economics a substantiated written application about the extension of the licence area, corresponding to the area of the relevant part of the oil deposit. The following is attached to the application:

32¹.1. an agreement with the landowner (except the State) for the use of subsoil or lease of land (notarised or certified copies) for the additional part of the oil deposit;

32¹.2. a map of the licence area issued by the State Land Survey, with co-ordinates in the LKS92TM system and certificate regarding plots of land existing in the licence area, with landowners and land cadastre numbers indicated;

32¹.3. a document confirming land ownership (certified copy);

32¹.4. substantiation of geological prospectivity of the additional licence area.

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

32². If, as a result of exploration, it is discovered that the prospective oil deposit is smaller than the determined licence area, the area may be reduced as necessary, but it cannot be smaller than 15 ha. In order to reduce the licence area, the licensee submits to the Ministry of Economics a substantiated written application about the reduction of the licence area. The following is attached to the application:

32².1. geological and technical substantiation for the reduction of the licence area;

32².2. a map of the licence area issued by the State Land Survey, with co-ordinates in the LKS92TM system and certificate regarding plots of land existing in the licence area, with landowners and land cadastre numbers indicated.

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

33. The licensee, whose action is suspended in a licence area due to the conditions indicated in Paragraph 31 of these Regulations, may request to extend the validity period of the permit (licence) for the duration of such delay. If the activity which may be carried out pursuant to the permit (licence) is suspended regarding only a part of its territory, the Ministry of Economics may prolong the permit (licence) for a shorter period of time, not prolong it at all or prolong it only in a part of the territory covered by the permit (licence).

34. The third person to which rights have been given to perform operations in the licence area should cover the losses arising out of the suspension or reduction of operations to the licensee.

VI. Procedures for exploration and production of hydrocarbons

35. In order to commence exploration of a specific oil deposit, the licensee shall submit a Plan for the exploration of the oil deposit to the Ministry of Economics. The Plan must include the programme of additional investigations, and dates and deadlines for such operations.

(As amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

36. Such a Plan should contain technical, safety, as well as environmental impact assessments of exploration activities pursuant to the law 'On the environmental impact assessment'. In the event of some installation to be placed in an offshore or onshore territory outside the license area in the course of exploration, additional suggestions should be furnished in the Plan thereof.

37. On working out the Plan for exploration of the petroleum deposit, the licensee shall be subject to the Minimum Work Programme for exploration, which has been submitted together with the applicant's application for the contest and is an inalienable part of the permit (licence). If any part of the aforementioned Work Programme has not been fulfilled, the licensee shall, within 60 days following the expiry of a due date of the operations fixed in the Programme, pay in cash in the State Budget an amount equal to the costs of the operations he/it failed to perform.

38. The Ministry of Economics shall approve the Plan for hydrocarbon exploration within 30 days of the submission thereof. According to the law ‘On the environmental impact assessment’, the Ministry of Environment is authorised to require the licensee to submit information relevant to the exploration and production of hydrocarbons.
(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003 and the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).
39. If the Ministry of Economics considers the Plan submitted by the licensee as unsatisfactory, the licensee should make the necessary amendments to the Plan within a period of 120 days following the receipt of the notice thereof.
40. Subsequent to the fulfilment of the Plan for exploration, the licensee submits to the Ministry of Economics, within sixty 60 days, a Report on the discovery together with a preliminary evaluation of the discovery, indicating whether the licensee considers feasible further appraisal of the discovery.
41. Should the licensee consider the deposit worthy of commencing the appraisal, he shall submit an Appraisal plan for the discovery to the Ministry of Economics within 60 days after the submission of the report under Paragraph 40 of these Regulations. The Ministry shall approve the aforementioned plan within 30 days of receiving that plan.
42. The licensee shall, within 60 days after the completion of the Appraisal plan for the discovery, furnish the Ministry of Economics with a Report on whether the discovery should be deemed a hydrocarbon field or not.
43. If the licensee states in the Report on the evaluation of the discovery that the discovery is not considered a hydrocarbon field, he should submit a Report on the future activity to the Ministry of Economics within 60 days.
44. If the licensee states in the Report on the evaluation of the discovery that the discovery is a hydrocarbon field, he shall submit a Plan for Hydrocarbon Field Development and Petroleum Production to the Ministry of Economics within 200 days.
45. The Work Programme for Field Development and Petroleum Production should contain the following:
- 45.1. the territory of field development and production;
 - 45.1¹ a calculation of reserves and their parts within the limits of properties, which belong to each landowner, endorsed by the landowners, if it is discovered during the exploration operations that the potential oil find transcends the boundaries of property of a single landowner.
 - 45.2. preliminary activities: wells to be drilled for hydrocarbon production and gas or water injection, installation of gathering lines, installation of platforms and equipment; installation of separators, cisterns, pumps and other production and injection equipment, installation of the necessary devices and pipelines for the initial processing and transportation of hydrocarbons, other activities necessary for the preparation and implementation of hydrocarbon production according to generally accepted international petroleum industry practices. This part of the programme shall incorporate information regarding the planned number of wells, methods of quantitative and qualitative measurements of oil and gas, measurement instruments and locations, as well as regarding production and storage and other equipment;
 - 45.3. Suggestions about the organizing of hydrocarbon transportation:

- 45.3.1. conclusion of the necessity to construct pipelines from the place of oil production to the shipment point of petroleum,
 - 45.3.2. Plan for the construction of pipelines comprising a special part on the environmental safety issues,
 - 45.3.3. Plan for the extension of the pipeline system,
 - 45.3.4. Plan for the abandonment or removal of pipelines,
 - 45.3.5. conditions concerning the access of third parties to pipeline exploitation;
 - 45.4. order for transportation of hydrocarbons to the shipment point;
 - 45.5. the estimated amount of petroleum and gas production and the prospective duration of exploitation of the hydrocarbon deposit;
 - 45.6. the amount of capital investments and other expenditures;
 - 45.7. safety measures to be taken in the course of preliminary (development) and production activities, including emergency measures;
 - 45.8. Report on the environmental impact assessment, Plan for the environment protection, Plan for ecological monitoring;
 - 45.9. circumstances which can influence negatively the licensee's capability to complete a plan for development (preliminary) activities;
 - 45.10. Schedule for the field development and petroleum production, deadlines;
 - 45.11. Plan for the cessation of activities and the abandonment of the hydrocarbon field.
(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).
46. The Ministry of Economics shall consider the Plan for Field Development and Petroleum Production within 30 days and request from the competent state authorities (the Ministries of Interior, Finance, Welfare, Transport and Environment) opinions regarding the submitted Plan for Field Development and Petroleum Production. After the endorsement and approval of the Plan, the Ministry of Economics permits to commence the relevant operations.
(According to the text of the Regulations of the Cabinet of Ministers No. 98 of 09.03.2001, amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003 and the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).
47. The licensee shall measure the volume and determine the composition of the extracted hydrocarbons according to practice accepted within the oil industry of Western Europe. The Ministry of Economics and the licensee shall agree upon the suitability of measuring devices and measuring methods. The Ministry or its designated institution has the right to test the operation of measuring devices and the accuracy of measurement readings.
(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).
48. During these activities the licensee shall submit to the Ministry of Economics and the State Geological Survey with a report on the process of activities according to the approved schedule and the procedure for submission of the information and samples obtained during petroleum activities.
49. The licensee is entitled to use for technological purposes, free of charge, the amount of hydrocarbons extracted from the area covered by the permit (licence), which is necessary for implementing petroleum activities.

50. The licensee, at least 30 days prior to the planned commencement of the commercial petroleum production, shall inform the Ministry of Economics and the Ministry of Environment thereof.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

51. During a war or in the case of a real threat of war, the Cabinet of Ministers may establish that the licensee should sell petroleum produced to the Republic of Latvia in whole or in part at a price not lower than world market prices for petroleum.

VII. Proprietary rights to hydrocarbons and the geological data

52. Petroleum and gas produced pursuant to the permit (licence) become the licensee's property from the moment the petroleum or gas cross the measurement point.

53. The licensee is an owner of the data obtained during pre-investigation, exploration and production activities of petroleum, and authorized to dispose of such data according to Paragraph 65 herein.

VIII. Involvement of Latvian companies (commercial enterprises) in the activities. and training of the local personnel

(The title of this section is as amended by the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).

54. The licensee should provide the Latvian companies and (commercial enterprises) with equal opportunities in competition with other enterprises and companies (commercial enterprises) to enter into turnkey, purchasing, vendor and other contracts for participating in the fulfilment of the program under the Permit (licence).

(As amended by the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).

55. The Ministry of Economics is empowered to require the licensee to furnish data on the announcement of tenders for supplies, works and services, on the results of such tenders, and the contracting partners nominated.

56. Taking into consideration the proposals of the applicants, the permit (licence) may include conditions on the amount of the licensee's funds to be assigned for the training of Latvian residents in various issues of petroleum industry, for working out and implementing a training program, and financing scientific research. The Ministry of Economics shall, within 90 days following the end of each permit (licence) year, provide the licensee with a report on the use of these funds.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

IX. Control and inspection

57. The Ministry of Economics shall perform the administrative supervision of pre-Investigation, Exploration and Production of hydrocarbons and control petroleum activities (approving a Work Programme and Budget for the succeeding year, approving the Exploration Plan, coordination of exploration wells, receipt of the Report on the discovered petroleum field, approving the Plan for Development and Production and alterations in the Production Plan, coordination of activities of the final phase of petroleum production, coordination of production cessation operations and abandonment of the licence area).

57¹. The State Geological Survey carries out geological supervision of hydrocarbon pre-investigation, exploration and production operations (geological expert evaluations of work programmes, geological control during the implementation of projects and preparation of expert conclusions).

(As amended by the Regulations of the Cabinet of Ministers No. 98 of 06.03.2001, which came into force on 09.03.2001).

58. Institutions, which, according to the law, are authorised to control and inspect activities relevant to the pre-investigation, exploration and production of hydrocarbons, shall submit a Plan for control and inspections for the following year to the Ministry of Economics before October 20 each year. The Ministry of Economics shall prepare a united plan for control and inspections by taking into account the plans submitted, and coordinate that Plan with the licensee. The licensee should cooperate with persons executing the control and inspection

and provide transportation of the respective persons to the oil rigs and arrange their stay there during the planned inspections.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

59. When conducting the control and inspection, the state authorities have no right to interrupt unreasonably the licensee's operations. The Ministry of Economics shall inform the licensee on the planned inspection at least 48 hours in advance. Officials of the Ministry of Economics may also participate in the inspections.

X. Procedures for the use of information

60. The information obtained during pre-investigation, exploration and production activities of hydrocarbons should be classified into:

60.1. information of limited access (business secret);

60.2 information of public access.

61. Information of limited access (business secret) is the data disclosure or loss of which may cause an economic harm to the lawful interests of the owner of that information. The licensee (applicant for the permit (licence) may disclose the *information of limited access* (business secret) exclusively to the competent authorities of the Republic of Latvia by indicating its confidential status, but the State authorities may disclose the information of limited access exclusively to the licensee [applicant for a permit (licence)].

62. State bodies may disclose the information of limited access (business secret) received from the applicant for the permit (licence) or the licensee to their employees and other State bodies to such an extent only that is necessary for the purposes of licensing, supervision and control of petroleum activities. The institution, which has received the information from the applicant for the permit (licence) or the licensee, shall be responsible for maintaining the respective information (business secret) confidential.

63. The information of limited access (business secret) received from the government by the licensee may be divulged to the licensee's employees and affiliated companies (parent or subsidiary enterprises), particular contractors and subcontractors to the extent such information is necessary for implementing petroleum activities, or credit institutions to the extent such information is required to settle financial matters.

64. Divulgence of information to the extent prescribed by the laws and regulations of the state authorities binding upon the licensee shall not be deemed disclosure of the information of limited access (business secret). The licensee shall be responsible for maintaining the respective information of limited use (business secret) confidential.

65. The licensee shall have exclusive rights to petroleum exploration data throughout five years after obtaining thereof. The licensee should submit the geological data obtained during petroleum activities to the State Geological Survey and sign an agreement on the use of that information in compliance with legislation and resolutions.

66. The information of limited access (business secret) must be kept confidential for 5 years of its obtainment unless there is another agreement reached thereof.

XI. Cessation of petroleum activities

67. In case the licensee relinquishes the permit (licence), the permit (licence) expires or the use of some installation should be terminated partly or in whole, the licensee shall submit a Plan for cessation of activities to the Ministry of Economics. The plan should contain assessment of the equipment and information on the prospective utilization of the equipment, which is necessary for making decision pursuant to Paragraphs 69 and 73 hereinafter.
68. The plan for cessation of activities should be submitted not later than 1 year prior to the expiry of the permit (licence), observing item 45.3.4. herein. In case the licensee relinquishes the permit (licence) or anticipates terminating the use of installation due to unforeseen circumstances, the plan should be submitted at least 180 days before the aforementioned activities.
69. Upon the consideration of the plan for cessation of operations, the Ministry of Economics shall decide, within 60 days, upon the further exploitation (utilisation) or removal of the stationary installed equipment by taking into account technical, safety, environmental and economic aspects, as well as the interests of landowners and other users of the subsoil.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

70. If the Ministry of Economics makes a decision on further exploitation (utilization) of the installation it shall determine the next user and a date and procedure for assigning the installation, as well as acquit the licensee from every obligation and responsibility in connection with the further utilization of such an installation.
71. These Regulations do not apply to a complete or partial removal or abandonment of a private offshore or onshore installation provided for the purposes other than specific petroleum operations.
72. The State or landowner has the right to take over the licensee's stationary installed equipment (provided the licensee agree with) in the following cases:
- 72.1. the expiry of the permit (licence);
 - 72.2. the licensee relinquishes the permit (licence);
 - 72.3. the use of the subsoil is interrupted pursuant to Item 16 of the law 'On the Subsoil';
 - 72.4. the exploitation of the installation is terminated.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

73. Based on proposals by the Minister of Economics, the Cabinet of Ministers shall make a decision on granting the licensee compensation for the equipment alienated by the state.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

74. If the Ministry of Economics decides to take over the stationary installed equipment on behalf of the State, the alienation should be performed within 180 days after the occurrence of the circumstances under Paragraph 72 of these Regulations.

75. In case the landowner or the state does not use his/its rights to take possession of the equipment the licensee shall have a duty to dismantle them in compliance with the safety and environmental standards and good practice within the oil industry in Western Europe,

pursuant to the respective normative documents issued by the Ministry of Environment and the Ministry of Welfare.

(As amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

XII. Fee for the Permit (licence)

(This section - as amended by the Regulations of the Cabinet of Ministers No. 155 of 08.04.2003, which came into force on 16.04.2003).

76. The fee for the permit (licence) for pre-investigation of hydrocarbons is 2000 Lats. The fee must be paid prior to receiving the permit (licence); it is transferred to the principal state budget.
77. The fee for the permit (licence) for offshore exploration and production of hydrocarbons is 75000 Lats. The fee for the permit (licence) for onshore exploration and production of hydrocarbons is 1000 Lats for 1 square kilometre, but at least 2000 Lats for one licence. In case of a change of the subsoil user (joint holder of the permit (licence), the fee for the issue of a new permit (licence) is 250 Lats. The fee for the permit (licence), as well as the fee for the new permit (licence) in case of a change of the subsoil user (joint holder of the permit (licence), must be paid prior to receiving the permit (licence); it is transferred to the principal state budget.

(As amended by the Regulations of the Cabinet of Ministers No. 476 of 06.05.2004).

XIII. Force Majeure

78. The licensee is not responsible for the failure to fulfil the obligations determined in the permit (licence) or for the delay of the fulfilment insofar as the failure or the delay arises from Force Majeure.
79. Force Majeure as used herein shall include conditions that are extreme and uncontrollable by the licensee and impede the implementation of the obligations stated within the permit (licence). The following should be regarded as Force Majeure: acts of God, storms, floods, fires that have not been caused by the licensee, as well as war, civil disturbances, strikes, restrictions acts of governmental authorities and other calamities that prevent or delay the licensee to perform petroleum activities or access to the territory covered by the permit (licence).
80. The Licensee should immediately inform the Ministry of Economics about the Force Majeure and attach all the information at his disposal about the nature and the consequences caused by these circumstances, and should take all the possible actions in order to reduce the consequences.
81. If Force Majeure interrupts, delays or makes the petroleum activities impossible, the expiry date of the permit (licence) and the due date for particular activities stated within the permit (licence) must be extended for a time period equal to the period of the Force Majeure and the time required for resuming the activities.
82. If the objectives of the permit (licence) cannot be achieved due to Force Majeure, the Ministry of Economics together with the licensee should decide upon the modifications in

the terms and conditions of the permit (licence) or the interruption of the activities under the permit (licence).

XIV. Basic principles of co-operation of the Licensees

83. If a joint permit (licence) for hydrocarbon exploration and production is granted to several legal entities or physical persons, their mutual collaboration should be organized by signing a Joint Operating Agreement.
84. The following issues are to be adjusted by the Parties (participants) in the Joint Operating Agreement:
- 84.1. management institution of collaboration, procedures of its meetings, powers, voting rules;
 - 84.2. the functions, rights and duties of a Work Supervisor (Operator);
 - 84.3. the working-out of Work Programmes and Budget;
 - 84.4. ensuring consolidated accounting and payments according to the legislation of the Republic of Latvia;
 - 84.5. mutual obligations and responsibility of participants and liability in relations with third persons, sole risk activities.
85. A stipulation should be provided for in the Joint Operating Agreement that each Party casting its vote for the cooperation issues has the number of votes corresponding to the Participating Interest of a Party. The Agreement may provide for the issues which require more than fifty (50%) percent of votes of the participants and for the issues requiring a qualified majority of votes or unanimous decision.
86. The Joint Operating Agreement should be submitted to the Ministry of Economics within 14 days of its signing.

XV. Final provisions

87. *(Deleted according to the Regulations of the Cabinet of Ministers No. 98 of 09.03.2001, which came into force on 09.03.2001).*

88. Prior to making the final decision in accordance with Paragraphs 19, 35, 38, 39, 40 and 69 of these Regulations, the Ministry of Economics shall co-ordinate the issues in connection with the rational use of subsoil and geological supervision of the activities with the State Geological Survey.

Information reference to the European Union Directive

(The reference - as amended by the Regulations of the Cabinet of Ministers No. 1009 of December 14, 2004).

These Regulations contain legal provisions, which comply with the 94/22/EC Directive of the European Parliament and Council of May 30, 1994 as regards the provisions for the issue and use of permits for hydrocarbon pre-investigation, exploration and production.

Prime Minister A.Skele

For the Minister of Economics - Minister of Finance E.Krastins