

KINGDOM OF MOROCCO
MINISTRY OF ENERGY AND MINES

ENERGY DEPARTMENT

THE HYDROCARBON CODE

Law no. 21-90 amended and completed by Law no. 27-99

2003



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(Unofficial translation)

Law no. 21-90 relating to the exploration for and the exploitation of hydrocarbon deposits enacted by Dahir no. 1-91-118 of 27 ramadan 1412 (1st April, 1992) , published in edition no. 4146 of 11 chaoul 1412 (15th April, 1992) of the "Bulletin Officiel" (official gazette), amended and completed by Law no. 27-99 enacted by Dahir no. 1-99-340 of 9 Kaada, 1420 (15th February, 2000), published in edition no. 4778 of 9 Hija 1420 (16th March, 2000) of the “ Bulletin Officiel ”.

CHAPTER 1

General Provisions

SECTION 1

Natural hydrocarbon deposits constitute part of the public property of the State.

The reconnaissance, exploration for and exploitation of natural hydrocarbons in the land and offshore sectors, together with activities ancillary thereto, are regulated by the provisions of this Law.

SECTION 2

In the provisions of this Law

- 1) "hydrocarbons" shall mean natural hydrocarbons whether liquid, gaseous or solid other than bituminous shale, and shall include crude oil and natural gas;
- 2) "crude oil" shall mean all hydrocarbons that are liquid in their natural state, or obtained by the condensation or separation of natural gas, and asphalt;
- 3) "natural gas" shall mean all gaseous hydrocarbons obtained from an oil or gas well together with gas that is the residue of the process of separation of liquid hydrocarbons;

4) "reconnaissance works" shall mean works of a geological, geochemical or geophysical nature and aerial surveys carried out with a view to determining the petroliferous nature of the sub-soil, but shall exclude works with a scientific purpose and any exploratory drilling;

5) "exploration works" shall mean all exploration and evaluation operations seeking to establish the existence of hydrocarbons in commercially exploitable quantities;

6) "development and exploitation works" shall mean any operation relating to and carried out in any exploitation concession and, in particular, geological and geophysical works, the drilling of development wells, the production of hydrocarbons, the installation of collection pipes and the operations necessary for the maintenance of pressure and for primary or secondary recovery;

7) "ancillary activities" shall mean the operations relating to the separation, preparation, loading and transport of extracted hydrocarbons, for the purpose of making such hydrocarbons marketable, together with the development of such installations as are necessary for this purpose. However, the following activities are excluded from this definition :

- operations relating to the transformation of liquid hydrocarbons, such as refining;
- operations relating to the production or the transformation of energy when these are not intended principally for the use of the concession holder;
- distribution to the public of liquid or gaseous fuels;

8) "regular production" shall mean any production of hydrocarbons undertaken on an exploitation concession equipped with production infrastructure comprising in particular gas pipes, processing and storage facilities, and delivered by the holder or the co-holder of the exploitation concession to a third party in a commercial sales transaction .

SECTION 3

The provisions of this Law are applicable to the activities of reconnaissance , exploration for, and exploitation of hydrocarbons which take place in the two sectors defined below :

- the "land sector", which shall mean the territory delineated:

* to the West by the Atlantic Ocean and to the North by the Mediterranean Sea;

* to the East and to the South by the frontiers of the Kingdom ;

- the "offshore sector" which shall mean the sea-bed and the sub-soil of the regions adjacent to the Moroccan coastline extending to the point where the depth of the water permits the exploitation of the hydrocarbon deposits of such regions but without prejudice to :

* international conventions duly ratified by the Moroccan State; and

* particular geographical or geomorphological circumstances in which, taking account of all relevant factors and in accordance with the principles of equity recognized by international law, the delineation of territorial waters is determined by agreement between States.

SECTION 4

The geological, geochemical or geophysical reconnaissance, the exploration for hydrocarbon deposits and their exploitation are subject respectively to the obtaining of a reconnaissance license, an exploration permit or an exploitation concession.

The granting of an exploration permit is subject to the conclusion of a petroleum agreement with the State. This agreement shall stipulate that the State shall hold an interest in the exploration permit and the exploitation concession, the fixed rate of which, in such agreement, cannot exceed 25 % of such permit and such concession.

However, when an exploration permit is requested by a governmental agency the petroleum agreement can only be concluded between the latter and the State at the time of the award of the exploitation concession.

SECTION 5

The existence of a reconnaissance license, an exploration permit or an exploitation concession of hydrocarbons does not prevent the granting of mining permits for the exploration for or exploitation of mineral substances other than natural hydrocarbons, in the same way , the existence of mining permits for the exploration for and the exploitation of mineral substances, other than hydrocarbons is no obstacle to the granting of a reconnaissance license, an exploration permit or an exploitation concession for hydrocarbons.

SECTION 6

The exploration permit and the exploitation concession create titles of a limited duration which do not confer on their holder any proprietary right over either the ground itself or the sub-soil.

The sites, buildings, construction works, machinery, equipment and engines of any sort used in the exploitation of the concession constitute the dependencies of the concession.

On its expiry, the concession, together with its dependencies, will revert, free of all charges, to the State. This reversion will take place by an administrative act.

The concession holder is required to turn over the dependencies of the concession in such a state as to allow the continuation of normal exploitation of the deposit.

If the continuation of the exploitation of the deposit is no longer justified, the concession holder is bound to clean the site in such a ways as is generally accepted in the oil industry.

SECTION 7

The holder of an exploration permit or an exploitation concession, who has carried out its obligations relating to its exploration permit or its

exploitation concession within the stipulated time limit, has the right to withdraw either in part or in total.

When the permit or the concession are assigned jointly to several holders, the withdrawal of one or several of them does not entail the partial or total cancellation of the permit or the concession if one or the other holders take responsibility for all liabilities previously assumed by the one or those withdrawing.

However, as regards the concession, the State benefits from a pre-emptive right over the use of part or all of the part relinquished. This right of priority must be exercised within three (3) months from the date of notification of the withdrawal to the administration.

If the State decides to take back part or all of the relinquished concession, the installations, plant and sites necessary for the exploitation will be turned over freely to it in such a state as to allow the continuation of normal exploitation of the deposit.

If the State does not exercise the pre-emptive right mentioned in this section and the holder or the other holders of the concession do not take responsibility for the relinquished part, then the withdrawing concession holder must clean the site, at his own expense, in such a way as is generally accepted in the oil industry. In such case, the immovable property resulting from the exploitation works, such as dams, canals, water pipes, reservoirs, tanks, warehouse facilities, pipelines, warehouses, offices and fixed site premises, ports, docks, harbours, dikes, jetties, breakwaters, underwater landing stages, railways, roads, bridges and other transport facilities, equipment for oil wells, automatically become State property, free of charge, to the extent that the concession holder does not intend to use such property or works for other exploitation in Morocco.

SECTION 8

The total or partial transfer of interests in an exploration permit or in an exploitation concession must relate to the whole of the area covered by this permit or concession. It is subject to the prior consent of the administration.

Transfer of the concession will not be authorized if it does not include all sites, installations and equipment necessary for the exploitation of the deposit.

The transferee takes responsibility for all liabilities assumed by the transferor.

Where the transfer is made in favor of a third party other than the parent company or an affiliate of the transferor, the State may exercise a right of pre-emption.

The mode of exercise of this right of pre-emption is determined by regulations.

SECTION 9

The leasing, partial or total, of an exploration permit or an exploitation concession is subject to the prior consent of the administration.

The leasee of an exploration permit or an exploitation concession is subject to the obligations deriving from such permit or concession.

SECTION 10

Contracts relating to any rentals of sites used for the purposes of an exploitation concession must include a clause reserving to the State the right to substitute itself for the concession holder either in the event of the latter's withdrawal or in the event of the concession being taken away, or if the normal expiry date of the concession should occur during the term of the contract.

SECTION 11

No exploration or exploitation activity may be undertaken at ground level within a zone of fifty meters (50 m) around properties enclosed by walls or by other means, villages, dwelling places, wells, religious edifices, burial places, transportation routes, water pipes and, in general, all constructions of public utility or public works, except with the consent of the owner as regards private property or of the administration or of the relevant local

district authorities as regards the public sector, constructions of public utility or public works of art.

SECTION 12

Safety areas of appropriate size may also be established by the administration in all places where it is judged necessary in the public interest.

Within these areas, no underground or surface reconnaissance, exploration or exploitation may be undertaken or continued except with the agreement of the administration.

SECTION 13

The existence of an exploration permit or an exploitation concession may not prevent the carrying out of works of public utility within the area covered by the exploration permit or the exploitation concession, nor the opening or the exploitation of quarries.

In the event that the operations, installations and equipment belonging to the holder of the exploration permit or the exploitation concession holder, as the case may be, are impeded or damaged due to the above-mentioned works or by the exploitation of such quarries, the damages sustained will be compensated, including, if necessary, the benefits which might have been legitimately derived from such operations, equipment or installations if the above-mentioned works had not been carried out or if the quarries had not been opened.

SECTION 14

The holder of a reconnaissance license, an exploration permit or an exploitation concession may, in the absence of an amicable agreement with the landowners, be permitted by the administration to occupy temporarily the areas situated within the reconnaissance license, the exploration permit, or the exploitation concession which are needed for the exploration, the exploitation and transport of hydrocarbons or for the establishment of railways, workshops and ancillary industries.

Sites mentioned in Section 11 and 12 above are specifically excluded from the scope of such occupation.

The administrative act authorizing temporary occupation is made after a bilateral reconnaissance of the site with the owner and the holder of the reconnaissance license, the exploration permit or the exploitation concession, in the presence of representatives of the administration, the local authority and the president of the district council concerned.

The temporary occupation of the premises may only take place if the beneficiary has paid to the landowner the first annual compensation determined by the Court of First Instance. The decision of the Court is enforceable notwithstanding any right of appeal.

In the event that the presumed owners cannot show good title or if the title does not appear in order, the occupation may take place, notwithstanding that any resulting litigation has not been settled by the courts, as soon as the beneficiary has deposited with the clerk of the Court of First Instance, in the name of the presumed owners specified in the above-mentioned administrative act, the amount of the first annual compensation determined by the Court of First Instance as indicated above.

In such case, notices displayed by the local authorities shall make known the premises occupied, the names of the presumed owners and the amount of the compensation. If, within a year following this publicity, no opposition has been made, the compensation is awarded by the clerk to the presumed owners. In the event that the true owner can show title during this period of one year, the deposited compensation is paid to him immediately.

In the event of opposition, the compensation remains on deposit until a legal decision is taken determining the beneficiary of the compensation.

If the occupation lasts more than three (3) years or the site is no longer suitable, after the works, for the use to which it was formerly put, the landowner may oblige the holder of the reconnaissance license, the exploration permit or the exploitation concession to purchase the site at a price which, in the absence of an amicable agreement between the parties, is determined by the Court of First Instance. This price shall not be lower than the value of the site before the date of occupation.

The right of occupation is effective for as long as the reconnaissance license, the exploration permit, or the exploitation concession is valid, on

condition that the sites are actually used for the purpose provided for in this section. However, this right does not prevent the application of the provisions of Law no.7-81 relating to compulsory purchase for the purposes of public utility and temporary occupation laid down by Dahir no. 1-81-254 of 11 Rejeb 1402 (6 th May, 1982).

SECTION 15

As an exception to the legal provisions in force relating to the occupation of public property and to the water system, the authorities are entitled firstly, to fix rules according to which the holder of a reconnaissance license, an exploration permit or exploitation concession may carry out operations normally in the field of public services, benefit from particular provisions as regards water catchment or temporary occupation of the public property of the State, and secondly, impose particular restrictions on the holder of a reconnaissance license, an exploration permit or an exploitation concession.

SECTION 16

All works and improvements carried out by the holders of reconnaissance licenses, exploration permits and exploitation concessions may be declared by the administration to be of public utility.

The declaration of public utility mentioned above, creates a right, for the benefit of the holders of a reconnaissance license, an exploration permit and an exploitation concession, to acquire by compulsory expropriation order in conformity with the regulations in force.

SECTION 17

The demarcation of an exploitation concession may be required by the administration. This may be carried out or supervised, at the expense of the concession holder, by the administration.

The holder of an exploitation concession must at all times maintain in good order the boundary posts stipulated in the minutes of demarcation together with those whose installation was prescribed at the time of creation of the concession.

SECTION 18

The exploration and exploitation of hydrocarbons are considered as commercial acts.

SECTION 19

Only written evidence is accepted in matters covered by the laws and regulations relating to hydrocarbons.

CHAPTER II Reconnaissance

SECTION 20

The reconnaissance license issued by the administration may only be granted for areas which are not covered by hydrocarbon exploration permits or exploitation concessions. Periods of validity, the conditions applicable to the giving and repayment of guarantees and deposits, the holder's obligations and the limits within which the license is valid, are determined in the license.

The reconnaissance license is granted for a maximum initial period of one year from the date of its notification and may be extended for one or several periods of maximum duration of one year each and either for part of or for the same area, on condition that liabilities undertaken during the first period have been fulfilled.

Several reconnaissance licenses may be granted concurrently over the same area except where the first license confers exclusive rights on its holder.

Reconnaissance licenses are non-transferable.

SECTION 21

The reconnaissance license confers on its beneficiary the right to carry out all activities necessary for the satisfactory conclusion of the reconnaissance works defined in Section 2.4 above.

All the results of the reconnaissance works are communicated to the administration free of charge according to the terms determined in the license.

CHAPTER III Exploration

SECTION 22

The exploration permit may only be granted to a legal entity or, on a joint basis, to several legal entities. It is assigned by an administrative act which is notified to the interested party and published in the Official Gazette.

None may obtain an exploration permit if the technical skills and financial means, necessary for the satisfactory conclusion of the exploration are not demonstrated and if a commitment to carry out a minimum programme of works accompanied by a corresponding financial commitment is not given. This programme must be accompanied by a provisional schedule for its fulfillment.

The exploration permit may include an obligation on the part of the holder to provide a deposit in order to guarantee its contractual obligations.

The conditions relating to the filing of applications for obtaining or extending exploration permits are specified by regulations .

SECTION 23

The exploration permit confers on its holder, according to the condition provided for in this Law, the exclusive right to prospect for deposits of hydrocarbons in the territory to which it relates.

SECTION 24

The total period of validity for an exploration permit cannot exceed eight (8) consecutive years divided into periods, the duration of which are determined by the administrative act referred to in Section 22 above. Each extension is accompanied by a reduction in the area of the permit. The total area relinquished is returned land which is again available for exploration.

However, when hydrocarbons are discovered during the last year of validity of the permit, its duration may be extended by the administration for an exceptional period which may not exceed two (2) years in order to evaluate such discovery.

SECTION 25

The surface area of an exploration permit may not be less than 200 square kilometers nor greater than 2.000 square kilometers.

A legal entity may not, subject to rights acquired before the coming into force of this Law, directly or indirectly hold exploration rights relating to a surface area greater than 10.000 km² in the land sector and 20.000 km² in the maritime sector, except as a derogation granted by the administration with regard to permits located in sectors not greatly explored.

SECTION 26

In the event that a legal entity should come to hold rights over areas greater than those authorized by Section 25 above, it shall be formally notified by the administration to reduce these areas. If this has not taken place within one (1) month following such notification, the administration shall automatically proceed with the reduction of the areas to the limits stipulated in Section 25.

CHAPTER IV

Exploitation

SECTION 27

The holder of an exploration permit who has fulfilled its legal and contractual obligations, has the right, in the event of a discovery of a commercially exploitable hydrocarbon deposit, to obtain an exploitation concession over this deposit.

This concession is granted by an administrative act, notified to the interested party and published in the Official Gazette. This act cancels that part of the area of the exploration permit covered by the concession and definitively rules on the assignment, the limits and the scope of the exploitation concession.

SECTION 28

A discovery of hydrocarbons is considered as commercial if, after the implementation of an adequate programme of evaluation drillings in conformity with the particular provisions of the petroleum agreement described in Chapter V below, the holder of the permit proves that this discovery reveals potentially recoverable hydrocarbon reserves, which

could give rise to an economically profitable exploitation which the holder undertakes to develop.

SECTION 29

The period of validity of an exploitation concession may not exceed twenty-five (25) years. However, a single exceptional extension, which may not exceed ten (10) years, may be granted by an administrative act if the reasonable and economical exploitation of the deposit justifies it.

SECTION 30

When a deposit extends beyond the limits of one or several adjoining exploration permits, its development and exploitation must be effected, if necessary, through a so-called unitization agreement between the holders of such licenses, according to terms which must be approved by the administration.

If such an agreement cannot be concluded between the holders of the adjoining exploration permits, the dispute will be resolved by technical rules laid down by the administration, taking into account, in particular, the extent of the deposit and its conservation.

In the event where there are no adjoining permits, the holder of the exploration permit where the initial discovery was made, may in the context of a new petroleum agreement, extend its application for an exploitation concession to cover all of the area of the deposit.

SECTION 31

In the event of forfeiture of the concession for one of the reasons referred to in Section 40 below, the administration will issue an invitation to tender in which the forfeiting concession-holder may not take part.

The proceeds, after deduction of expenses incurred by the administration and, if necessary, of unpaid duties and taxes, is returned to the forfeiting concession-holder or set aside for distribution to rightful claimants and possible creditors.

The State may, during the month following the auction, exercise a right of pre-emption.

If no tenderer is accepted at the time of the auction, an administrative act cancels the concession and declares its return to the State, free of all charges, including its dependencies such as defined in Section 6 above.

CHAPTER V

Petroleum Agreements

SECTION 32

The petroleum agreements mentioned in Section 4 above define, in accordance with the provisions of this Law and the texts relating to its implementation, the conditions relating to the exercise of the exploration and, if relevant, the exploitation activity within the areas covered by the exploration permit or the exploitation concession. They also determine the terms and conditions of the State's participation in such activities.

They include, in particular, provisions relating to the following matters :

- the boundary of the exploration permit, the relinquished areas;
- works undertakings and the corresponding financial undertakings;
- the commercial discovery;
- the percentages of the interests of the parties in the exploration permit and, if relevant, in the exploitation concession;
- the management of the operations;
- the procedures for control by the administration;
- the applicable royalty and surface rentals ;
- the transfer and repatriation of capital and profits;
- the determination of hydrocarbon prices to be taken into consideration for the application of such agreements;
- the allocation of production;
- the supply to the domestic market;
- the professional training programmes;
- the settlement of disputes;
- the respect of the environment;
- the facilities which may be granted by the administration, in

compliance with the legal provisions in force, to holders of licenses and concessions as regards, in particular, ancillary installations, the use of existing public equipment, licenses or concessions other than hydrocarbon exploitation concessions, water catchment and supply, the use of railways and systems of maritime loading and unloading.

SECTION 33

The petroleum agreements may provide for recourse to arbitration when one of the parties is a foreign legal entity. In the event that use is made of this option, the agreements determine a procedure in accordance with international practice for oil arbitration. In such case, it must be specified that the applicable law is Moroccan law.

SECTION 34

All petroleum agreements must be approved by the administration.

CHAPTER VI

Obligations of holders of reconnaissance license,
exploration permit or exploitation concession

SECTION 35

The holder of a reconnaissance license, an exploration permit or an exploitation concession is bound to repair the damage that its works cause to landowners as well as to neighbouring exploration and exploitation works;

SECTION 36

In the event of termination, for any reason whatsoever, of the rights of a holder of a reconnaissance license, an exploration permit or an exploitation concession over all or part or the area of the reconnaissance, the exploration permit or the exploitation concession, the holder is bound to restore such area according to conditions set by regulations.

SECTION 37

The holder of a reconnaissance license, an exploration permit or an exploitation concession must contribute to the professional training of national executives and technicians of the oil industry by involving them in the reconnaissance, exploration and exploitation operations and to make them benefit from suitable training programmes.

SECTION 38

Legislation and regulations in force relating to security and public health, the environment, security and hygiene of personnel, accommodation, most effective use and conservation of deposits, protection of springs, public highways and buildings and, as regards maritime exploration, protection of marine life, of the environment and the safeguard of navigation may in no way be waived at the time of delivery of a reconnaissance license, an exploration permit and an exploitation concession.

SECTION 39

On risk of forfeiture of the exploration permit declared by an administrative act, the holder of such permit is required :

- a) to commence implementation of the works programme within a time limit fixed by the administrative act granting the permit and not to interrupt such work without valid reason;
- b) to carry out, in accordance with best practice the agreed exploration work programme;
- c) to abide by any particular undertakings given at the time of the granting of the permit;
- d) to notify the administration in writing of all discoveries of hydrocarbons or other mining resources within a time limit of three days;
- e) to communicate to the administration within the time limits settled by regulations all information, documents and studies of any kind relating to its exploration operations;

f) to store in Morocco the cores as well as all samples concerning hydrocarbons and mining products;

g) to effect without delay appraisal drillings to permit an evaluation of all potentially commercial discoveries.

SECTION 40

On risk of forfeiture of the concession declared by an administrative act, the holder of such concession is bound :

a) to commence the development and the putting in production of the deposit without delay, abiding by the good oil field practices of the industry;

b) to carry out the agreed development programme in accordance with good oil field practices and in a continuous manner;

c) to exploit the deposit in a reasonable manner and in accordance with good oil field practices;

d) to abide by any particular undertakings given at the time of allocation of the concession ;

e) to notify to the administration in writing within the time limits determined by regulations all useful information relating to the progress of the works, the results obtained and any additional exploration;

f) to store in Morocco the cores as well as all samples concerning hydrocarbons and mining products;

SECTION 41

The holder of an exploitation concession must, before contemplating export of its share of production, contribute to the needs of the local market according to the conditions defined in the petroleum agreement.

CHAPTER VII

Provisions relating to tax, customs, international

trade and foreign exchange

SECTION 42

The holder or, as the case may be, each of the co-holders of an exploitation concession benefits of a total exemption from corporate income tax for a ten consecutive year-period for each exploitation concession starting at the date of commencement of regular production from each such exploitation concession.

SECTION 43

Any legal entity, other than a State organization must, for any exploration permit demand and its extension, pay to the State an institution fee in accordance with the rates and procedures provided by regulations.

The holder or, as the case may be, each of the co-holders of an exploitation concession must pay to the State, in accordance with the rates and procedures provided by regulations, an annual surface rental proportional to the surface of the exploitation concession.

SECTION 44

The holder or, as the case may be, each of the co-holders of a concession must pay to the State, in accordance with the scales, rates and procedures provided by regulations, an annual royalty on its share of the production of hydrocarbons originating from the concession, payable, in accordance with petroleum agreement provisions, either in cash or in kind, or partly in cash and partly in kind.

For the calculation of the royalty, quantities of hydrocarbons used within the limits of the concession for the needs of direct or assisted exploitation of the deposit are not taken into consideration.

SECTION 45

The holder or, as the case may be, each of the co-holders of an exploitation concession may, if he wishes, make an allowance for the depletion of hydrocarbon deposits that shall be exempted from corporate income tax.

This allowance must be used to undertake hydrocarbon reconnaissance, exploration and development works.

The allowance is subject to the provisions of Law no. 24-86 instituting corporate income tax that relate to depletion allowance for mineral deposits.

SECTION 46

The hydrocarbons prices used for the calculation of the corporate income tax shall be the actual prices obtained in direct sales of hydrocarbons to national or foreign third parties who are independent from the concession holders or, in absence of such prices, the prices shall be based on the published prices of crude oil on the international market, adjusted in particular to account for differences in quality and transport.

For the calculation of the royalty paid in cash, the price to be used is the average value of the sales prices weighted by volumes sold during the period taken into consideration as defined by regulations. Such prices are those defined in the above alinea less all expenses relating to sales commissions, transportation and/or delivery costs incurred between the point of production and the point of sales.

SECTION 47

(A) For the purposes of this Law, taxable profits shall mean the difference between,

on the one hand :

- the gross proceeds consisting of the value of the share of the hydrocarbons received by the concession-holder in respect of the relevant financial year, determined in accordance with Section 46 above.

and on the other hand, the sum of :

- the costs, charges and depreciation incurred in the same financial year as are defined by Law no. 24 86 relating to corporate tax mentioned above ; and
- the prior losses that may be carried forward in accordance with Section 49 below.

(B) Deductible expenses and costs include in particular :

1/- The initial expenses relating to the establishment of the organization and the commencement of petroleum operations in Morocco;

2/- The costs of reconnaissance, exploration and development, the non-compensated drilling costs, the costs incurred in drilling wells which do not produce oil or natural gas in commercially exploitable quantities;

The holder of the concession may elect each year to treat the costs referred to in 1 and 2 above as either deductible costs in relation to the financial year during which they were incurred or as capital expenditure to be depreciated and deducted during the term fixed by the petroleum agreements provided that this term does not exceed ten (10) years.

3/ The costs of exploitation;

4/The surface rental and the royalty.

(C) For the calculation of corporate income tax, the holder or, as the case may be, each of the co-holders of any exploitation concession could consolidate proceeds, charges and results originated from any exploration permit or any exploitation concession in which he is the holder or the co-holder.

SECTION 48

For the implementation of Section 47 above,

(A) The expression "costs of reconnaissance and of exploration" refers to all the expenses incurred for the reconnaissance of the area or the exploration operations, or at the time of such activities, but shall not include the costs relating to the installations, plant and equipment for which the period of use is greater than one year;

These installations, plant and equipment may be depreciated using the straight line method over their normal period of use in accordance with the rates in use within the profession.

(B) The expression "non-compensated drilling costs" refers to all the purchases of materials, fuel and other consumable products, all expenses relating to repairs, handling and transport or other similar expenses, all personnel expenses incurred for the purpose of the drilling, cleaning, maintenance, extension of the wells, together with, more generally, all expenses related to these operations, with the exception of the costs relating to the installations, plant and equipment for which the period of use is greater than one year.

These installations, plant and equipment may be depreciated using the straight line method over their normal period of use in accordance with the rates in use within the profession.

SECTION 49

If, during a financial year, the total of the deductions made in the way of costs, charges and depreciation in accordance with Section 48 above exceeds the gross proceeds of the same financial year, the difference constitutes a loss that may be carried forward to the fiscal results of the following fiscal years, up to a maximum of four(4) years.

However, provisions of the 2nd alinea of section 11 of Law no. 24-86 instituting the corporate income tax shall apply to the portion of the loss related to amortization of fixed assets referred to in the 2nd alinea of Section 47 above.

SECTION 50

Holders of reconnaissance licenses, exploration permits and exploitation concessions, their contractors and sub-contractors benefit from an exemption from all duties and taxes on the importation of equipment, materials and consumable products intended for use in the reconnaissance, the exploration and the exploitation of hydrocarbons and in activities ancillary thereto.

However, the above exemption will not be granted if such equipment, materials and consumable products can be supplied by the local market at

a price within a maximum excess of 10% of the CIF price and on equivalent conditions of quality and terms of delivery.

The personal property, effects and other personal objects in use belonging to the personnel of the company that is the partner of the State, its contractors or sub-contractors, in the reconnaissance, exploration and exploitation of hydrocarbons recruited from abroad, are imported free of all duties and taxes in accordance with the legislation in force.

New objects may be imported under the regime of temporary importation.

The list of such equipment, materials, consumable products, personal property, effects and objects is cleared by the administration.

Vehicles subject to the registration procedure which are the property of such personnel benefit from the regime of temporary importation provided by Sections 145 et seq. of the Customs and Indirect Taxes Code.

SECTION 51

Except for derogations granted by the administration, the equipment materials and consumable products that have benefited from the regime provided by this Chapter may not be put to uses other than those for which they were imported. The holder of a reconnaissance license, an exploration permit or an exploitation concession may be subject to administrative controls. The goods benefiting from the regime contained in this Chapter may only be transferred after payment of the duties and taxes which are due on import.

SECTION 52

The holders of reconnaissance license, exploration permit and exploitation concession, their contractors and subcontractors have the benefit of temporary importation, by way of exemption from the fee payable under Section 148 of the customs code and from all duties and taxes for all pieces of equipment, materials and consumable products intended for use in reconnaissance, exploration and exploitation of hydrocarbons and works related thereto. The list of such pieces of equipment is cleared by the administration.

SECTION 53

The duty on actual capital contributions is fixed at 0.50% as regards contributions made at the time of incorporation or increases in capital of companies whatever the nature of the assets contributed.

The application of the above-mentioned capital duty leads to an exemption from the transfer duty relating to the taking over of liabilities, as the case may be.

SECTION 54

Individual foreign holders of a reconnaissance license and companies which are holders of a reconnaissance license or an exploration permit which are not incorporated as Moroccan companies must provide for all their requirements in foreign currency.

SECTION 55

Foreign holders of an exploitation concession may retain outside Morocco the proceeds of their sales of hydrocarbons made outside Morocco.

The export of hydrocarbons from Moroccan territory must be carried out in accordance with the conditions and formalities required by the regulations in force.

Foreign holders of exploitation concessions must periodically provide, in the form required by exchange regulations, a statement of their assets held outside Morocco derived from export sales of hydrocarbons, together with the payments made with these assets for the operations relating to their activities as holders of a hydrocarbon exploitation concession.

SECTION 56

Notwithstanding the provisions of Section 55 above, foreign concession holders are required to return to Morocco such funds in foreign currency as are necessary to cover their local expenses and their financial and fiscal obligations, in additions to the proceeds of their sales in the local market.

SECTION 57

Unless otherwise stated to the contrary by authorization of the administration, which may be granted in order to meet requirements for foreign currency outside Morocco for the purpose of their activities of exploration for and exploitation of hydrocarbons, Moroccan legal entities which are holders of an exploitation concession are required to repatriate to Morocco the proceeds of their sales of hydrocarbons made outside Morocco.

The export of hydrocarbons must take place in accordance with the condition and procedures required by the regulations in force.

SECTION 58

The transfer of the net proceeds of assets sale is guaranteed if the investment is made by a foreigner. This guarantee relates to :

- the capital contribution made by way of transfer to BANK AL MAGHREB of convertible foreign currencies,
- the net capital gain on the assets sale.

SECTION 59

The profits and dividends of the holders of an exploitation concession and those of the shareholders of concessionary companies are exempt from the tax on income from shares, capital rights and similar revenues, introduced by the Law no.18-88 promulgated by the Dahir no.1-89-145 of the 22nd Rebia I,1410 (23rd October, 1989).

SECTION 60

The guarantee of transfer of profits and dividends set out in Section 59 above, after payment of the taxes that are due, is granted without limitation to foreign holders of an exploitation concession.

SECTION 61

Holders of reconnaissance license, exploration permit or exploitation concession, their contractors and subcontractors are exempted, as

regard to the goods and services that they acquire in the local or foreign market required for their activities ,from the value added tax introduced by the Law no. 30-85 promulgated by the Dahir no. 1-85-345 of the 7th Rebia II, 1406 (20th December, 1985) subject to provisions of the 2nd alinea of Section 50 above.

The procedures for the application of this exemption are defined by regulations.

SECTION 62

Holders of an exploration permit or an exploitation concession benefit from the exemption from :

- business activity tax ("Impôt des patentes");
- the urban tax introduced by the Law no. 37-89 promulgated by the Dahir no.1-89-228 of the 1st Joumada II, 1410 (30th December, 1989) other than the municipal tax (édilitéé) ;
- the tax on non-developed urban areas introduced by the Law no.30-89 relating to the tax regime for local communities and their groupings, promulgated by the Dahir no.1-89-187 of the 21 Rebia II,1410 (21st November, 1989).

SECTION 63

The provisions of Section 63 of the Law no. 21-90 are abrogated by the Law no. 27-99.

CHAPTER VIII

Exceptional provisions

The provisions of Sections 64, 65, 66 and 67 of the Law no. 21-90 are abrogated by the Law no. 27-99.

CHAPTER IX

Sanctions

SECTION 68

Breaches of this Law and of its implementing texts will be the subject of legal proceedings and penalties provided for by law, without prejudice, as regards the holders of exploration permits or exploitation concessions, to the other sanctions provided for in this Law such as, as the case may be, the forfeiture of the exploration permit or the exploitation concession.

The administration may decide that a person who has been the subject of a sanction in accordance with the first paragraph above may not obtain a reconnaissance license or an exploration permit or an exploitation concession throughout a period up to a maximum of five years from the date of the sanction, if it is administrative, or from the date upon which the sentence becomes irrevocable if it is a judicial sanction.

To this effect, an extract of all judgments containing a sentence is addressed to the administration.

SECTION 69

All work undertaken contrary to the provisions of this Law and the texts concerning its application may be suspended by administrative measures without prejudice to the application of the provisions of Section 68 above.

SECTION 70

Breaches of the provisions of this Law and of its implementing texts are certified by police officers and the agents authorized to do so by the administration. These officers and agents have free right of access at all times to the installations and sites of the holders of reconnaissance licenses, exploration permits or exploitation concessions.

The holders of such reconnaissance licenses, exploration permits or exploitation concessions are required to provide to them any documents and information necessary to the performance of their functions, and to have them accompanied during their visit, if they so request, by the employees and supervisors whose assistance is judged necessary.

CHAPTER X

Miscellaneous Provisions

SECTION 71

The State may delegate to a governmental agency to perform on its behalf the following functions :

- the conclusion of petroleum agreements with oil companies ;
- the holding of the participation in the exploration permits or exploitation concessions reserved for the State by Section 4 above ;
- the exercise of the right of pre-emption in the conditions set out in paragraphs 3 and 4 of Section 7 above;
- the exercise of the rights of pre-emption contained in Sections 8 and 31 above ;
- to substitute itself for the concession-holder in the circumstances provided for in Section 10 above.

SECTION 72

The present Law repeals the Dahir no.1-58-227 of the 4th Moharrem,1378 (21st July, 1958) containing the code relating to the exploration for and exploitation of hydrocarbons together with the provisions of the Dahir of the 9th Rejeb ,1370 (16th April, 1951) containing mining regulations, as modified and supplemented, concerning permits of the fourth category.

SECTION 73

The exploitation concessions that are valid or in the process of renewal at the date of the publication of the Law no.27-99 in the Official Gazette remain subject to legal provisions in force at the time of their granting until their expiry.

Legal entities that are holders of exploration permits at the date of the publication of the Law no.27-99 in the Official Gazette have a period of one hundred and eighty (180) days from the date of the publication of regulatory provisions mentioned in Sections 22, 43, 44 and 46 of the Law no.21-90 as they are modified by the Law no.27-99, to elect either to stay governed by the provisions stipulated in their petroleum agreements,

or to benefit from the provisions of the aforesaid Law no.21-90 as modified and completed by the Law no.27-99. In this latter case, the aforesaid petroleum agreements must be put in conformity with the provisions of the above-mentioned Law and approved in accordance with its section 34 .

The terms “ tax on professional profits” and “tax on products and services” used in agreements concluded before the date of publication of this law in the Official Gazette, are replaced respectively by the terms “corporate tax” (CT) and “value added tax” (VAT).

SECTION 74

The records of plant, materials and consumable products imported by virtue of the aforesaid Dahir no. 1-58-227 of the 4th Moharrem, 1378 (21st July, 1958) , which are in the process of being audited at the date of publication of the Law no 21-90 as amended and completed by the Law no 27-99 in the Official Gazette will be modified to conform with the provisions of this Law.

Decree no.2-93-786 dated 18th Jomada I, 1414 (3rd November 1993) for the implementation of Law no.21-90 relating to the exploration for and the exploitation of hydrocarbon deposits, as amended and completed by Decree no. 2-99-210 of 9 Hija, 1420 (16th March, 2000) for the implementation of Law no. 27-99 .

CHAPTER I

Reconnaissance Licenses and Exploration Permits

SECTION 1

Applications for a reconnaissance license or an exploration permit must be filed with the Ministry in charge of Energy.

Applications sent by post will not be considered.

SECTION 2

Applications must be accompanied by documents evidencing the applicants' technical and financial capabilities.

They must provide the following information :

A - The company name of the applicant(s), its or their Memorandum and Articles of Association and its or their registered office;

B - For "sociétés anonymes" (Public limited companies), the names of the chairman and the members of the board of directors;

C- For "sociétés en commandite par actions" (limited partnerships with share capitals) and "sociétés à responsabilité limitée" (Private limited companies), the names of the managers and the members of the supervisory board;

D- For "sociétés en nom collectif" (general partnerships) and "sociétés à responsabilité limitée" (Private limited companies), which do not have a supervisory board, the names of all the shareholders;

E - For all companies, the names of those executive officers who are empowered to sign documents on behalf of the company;

F - Where an application is submitted on behalf of a company which is in the process of being set up, it must make reference thereto and must give all known information as to the ultimate permit or license holder;

G - The name and address of the applicant's agent or representative in Morocco;

H - Where an application for a reconnaissance license is submitted by an individual, the information provided for above is replaced by the surname, forename, profession, nationality and domicile of the applicant and, if appropriate, his agent or representative in Morocco.

I - Details of reconnaissance licenses or exploration permits, whether expired or not, which have already been granted.

J -The exact coordinates of the area covered by the requested reconnaissance license or exploration permit, together with an extract from a topographic map to the scale of 1/250.000 or to any convenient scale

indicating the boundaries of the area by lines running from north to south and from east to west, in accordance with the Lambert or geographic coordinates system.

For off-shore permits, one of the boundaries may be the Moroccan coastline.

If the surface contained within the area is off-shore, the extract from the above mentioned map is replaced by a hydrographic map indicating precisely the boundaries of the relevant off-shore area, together with information enabling the possibilities for carrying out the intended works to be assessed.

Three original copies of the map must be supplied.

K - The overall programme and timetable for the works which the applicant intends to carry out during the period of validity of the reconnaissance license or during the various periods of the exploration permit, as well as the minimum financial investment which it undertakes to allocate to the carrying out of such works.

As regards the exploration permit, the application must indicate the method by which the total period of validity of the permit will be split into successive periods, stating, for each period, the minimum work programme which the applicant undertakes to carry out, together with the corresponding minimum financial investment.

SECTION 3

Where the application is made by an agent or representative, such agent or representative must supply documents which provide him with the necessary authority and which prove his identity.

SECTION 4

The reconnaissance license will be granted by a decision of the Minister in charge of Energy which will be notified to the applicant.

An application for renewal must be filed at least one (1) month prior to the expiry of the preceding period.

SECTION 5

In accordance with Section 21 of the above-mentioned Law no.21-90, all results of the reconnaissance works must be communicated to the Minister in charge of Energy or his representatives, free of charge, in accordance with the conditions laid down by him in the decision granting the license.

SECTION 6

To be receivable, each application for an exploration permit and for an extension period is accompanied by a receipt of payment to the treasury ("Trésorerie Générale") of the institution fee as stated in Section 43 of the above mentioned Law no. 21-90 and which amount is fixed at 1000 Dirhams.

The application for exploration permits or extension period is entered in a special register held at the Ministry in charge of Energy and a receipt thereof is delivered to the applicant.

SECTION 7

Exploration permits will be attributed within sixty days of the date on which applications are filed, by way of an administrative order given by the Minister in charge of Energy which will be notified to the applicant and published in the "Bulletin Officiel" (official gazette).

SECTION 8

To be accepted, the area covered by a permit must be demarcated by straight lines running from North to South and from East to West.

SECTION 9

Exploration permits, the validity of which may not exceed a total of eight (8) years, in accordance with the provisions of Section 24 of the above-mentioned Law no.21-90, shall consist of an initial period which may be followed by one or two (2) additional successive periods if the permit holder has fulfilled its undertakings.

SECTION 10

Pursuant to Section 24 of the above-mentioned Law no.21-90, the initial surface area of the permit will be scaled down n times 10% upon the first of the permit's additional periods, referred to in Section 9 above, " n " being the number of years constituting the initial period of the said permit. For the second additional period, the permit's surface area will, as appropriate, be scaled down such that it is reduced to a maximum of 50% of its initial surface area.

SECTION 11

Pursuant to Section 24, paragraph 2 of the above-mentioned Law no.21-90 a special extension of the exploration permit may be granted by an order of the Ministry in charge of Energy.

SECTION 12

In accordance with Section 7, paragraph 1 of the above-mentioned Law no.21.90, the holder of an exploration permit may, at any time, partly or totally relinquish its exploration permit, provided that it has fulfilled its work commitments and corresponding financial obligations.

The sector covered by the permit which has been voluntarily relinquished will be deducted from the surface area which the permit holder must surrender in accordance with the provisions of Section 10 above.

SECTION 13

The scaling down of the surface area covered by the permit, in accordance with Section 10 above, together with the partial or total relinquishment of the exploration permit, shall make the permit in question, or part thereof, free for further exploration.

SECTION 14

Where it is appropriate to scale down the surface area covered by the exploration permit, the permit holder must inform, the Minister in charge of Energy of the part (s) of the territory which it intends to surrender. The part (s) retained must, as far as possible, form a continuous surface area which is demarcated by straight lines running from North to South and from East to West, in accordance with the coordinates system defining the exploration permit.

SECTION 15

Any application for an additional period during the period of validity of the exploration permit must be filed with the Ministry in charge of Energy no later than two months prior to the expiry of the current period.

Only applications which are filed in return for a receipt will be considered.

The application must indicate the exploration permit concerned. It must also supply the information referred to in the first paragraph and in subparagraphs A, B, C, D, E, F and G of the second paragraph of Section 2 above and must indicate the demarcated area (s), as provided under Section 8 above, which the permit holder seeks to retain.

SECTION 16

The application referred to under Section 15 above must be accompanied by:

1/ - a detailed memorandum indicating the works which have already been carried out, the results thereof, the expenditures which have already been incurred pursuant to undertakings made, and must state to what extent the targets indicated in the initial application have been reached or modified, giving reasons for the choice of the area(s) which the holder seeks to retain;

2/ - a map in triplicate on a scale of 1/50.000 or any other suitable scale, on which the said area (s) is (are) reproduced;

3/ - a programme of the works which the holder undertakes to carry out during the period requested, indicating the timetable for the said works as well as the minimum financial investment required for the completion thereof.

SECTION 17

The application referred to under Section 15 above will be entered in a special register held at the Ministry in charge of Energy.

A notice which must be published in the press, at the expense of the applicant, during the month following the filing of the application shall, as the case may be, announce the relinquished surface areas in respect of which applications for exploration permits may be filed.

SECTION 18

An administrative order given by the Minister in charge of Energy will determine the duration of the additional period requested and will define the area of the exploration permits retained by the holder. This will then be notified to the party concerned within fifteen days of signature of the order, and will be published in the "Bulletin Officiel" (official gazette).

SECTION 19

In accordance with Section 8 of the above-mentioned Law no.21-90, any partial or total transfer of an exploration permit will be subject to prior authorization by the Minister in charge of Energy;

An administrative order given by the Minister in charge of Energy will declare the part or whole permit which is transferred in favor of the transferee.

SECTION 20

In accordance with the provisions of Section 9 of the above-mentioned Law no. 21-90, the partial or total sub-licensing of an exploration permit is subject to prior authorization by the Minister in charge of Energy.

SECTION 21

Pursuant to the provisions of Section 39 of the above-mentioned Law no.21-90, the forfeiture of an exploration permit may be pronounced by an administrative order by the Minister in charge of Energy, setting out the reasons for such a decision, if no action is taken to make good the default within thirty days of formal notice having been served.

CHAPTER II

Exploitation Concessions

SECTION 22

Applications for concessions must be filed with the Ministry in charge of Energy no later than three months prior to the expiry of the period of validity of the exploration permit pursuant to which the application is submitted. On the date on which the application is filed, it is entered in a special register held at the Ministry in charge of Energy. A receipt is remitted to the applicant upon filing the application, and a notice is published in the press on five (5) consecutive days during the thirty (30) days following the said registration.

Applications sent by post will not be considered.

The cost of publishing a notice in the press will be borne by the applicant.

SECTION 23

The application must give the information required under paragraphs 1 and 2 sub-paragraphs A, B, C, D, E, F, G, and I of Section 2 hereof, and must indicate the exploration permit which gave rise to the discovery of the hydrocarbons and pursuant to which the application is submitted.

The application must be accompanied by the following documents :

- a map in triplicate on a scale of 1/10,000 on which the boundaries of the requested concession are reproduced, together with a map showing, inter alia, the works and drilling carried out;
- a technical report giving details of the exploration and appraisal works carried out and comprising studies completed and results showing the existence and size of the hydrocarbon deposits, for the exploitation of which the concession application is made;

- the programme of the development works which the applicant undertakes to complete, together with the timetable corresponding thereto, with a view to launching the commercial production of the deposits;
- an economic and commercial study relating to the exploitation of the deposit discovered.

SECTION 24

In accordance with the provisions of Section 27 of the above-mentioned Law no. 21-90, the concession is granted by decree upon the proposal of the Ministry in charge of Energy and is notified to the party concerned and published in the "Bulletin Officiel" (official gazette).

The decree granting the concession will be entered in the register of hydrocarbon exploitation concessions which is held at the Ministry in charge of Energy and which may be disclosed to any applicant.

SECTION 25

Applications for special extension, referred to under Section 29 of the above-mentioned Law no. 21-90, must be filed with the Ministry in charge of Energy at least two (2) years before the expiry of the period of validity of the concession.

Applications must contain the same information, updated, as that supplied in respect of the application for the concession.

The concessionaire must prove the existence of hydrocarbon reserves justifying the extension, and must communicate the anticipated programme for production and any further works.

The extension is granted by decree upon the proposal of the Minister in charge of Energy.

The decree states the length of the extension of the concession which may not exceed ten (10) years. The decree is then notified to the concessionaire and published in the "Bulletin Officiel" (official gazette).

SECTION 26

In accordance with Section 7, paragraph 1 of the above-mentioned Law no. 21-90, the concessionaire may relinquish part or all of its exploitation concession, provided that it has fulfilled its work commitments and corresponding financial obligations, and that both the concession and its dependencies are free of any encumbrance or charge.

This decision, which must be notified in writing to the Minister in charge of Energy, takes effect at the end of a period of three (3) months from the date on which it is notified, except where an earlier date is expressly agreed by decree.

A decree made upon the proposal of the Minister in charge of Energy defines, as the case may be, the area retained by the concessionaire, together with what is to be done with the concession that has been partly or wholly relinquished.

Where, in accordance with Section 7 of the above -mentioned Law no.21-90, the State elects to take back all or part of the relinquished concession, the documents and papers necessary for the continuance of the exploitation will be remitted to it under the conditions laid down in the petroleum agreements.

SECTION 27

In accordance with the provisions of Section 8 of the above-mentioned Law no.21-90, any total or partial transfer of the exploitation concession is subject to prior authorization under the following condition:

The concessionaire must notify the Minister in charge of Energy, by registered letter with acknowledgment of receipt, of its intention to enter into a deed of transfer, indicating the company name and registered office of the transferee and the price and the exact clauses and terms and conditions of the transfer.

The transfer is authorized, as the case may be, by decree upon the proposal of the Minister in charge of Energy.

The pre-emptive right referred to in Section 8 of the above-mentioned Law no. 21-90 is valid for a period of one hundred and twenty (120) days as from the date of notification provided for under the second paragraph above.

SECTION 28

The partial or total sub-licensing of an exploitation concession must receive prior authorization under the prescribed procedure for transfers of concessions.

SECTION 29

The reversion of an exploitation concession and its dependencies to the State, which is referred to in Section 6 of the above-mentioned Law no. 21-90, is pronounced by decree upon the proposal of the Minister in charge of Energy, and is published in the "Bulletin Officiel" (official gazette).

SECTION 30

Pursuant to the provisions of Section 40 of the above-mentioned Law no. 21.90, the forfeiture of an exploitation concession may be pronounced, upon the proposal of the Minister in charge of Energy, by decree, giving reasons for the decision, if no action is taken to make good the default within ninety (90) days of formal notice having been served. The decree is notified to the party concerned and published in the "Bulletin Officiel" (official gazette).

SECTION 31

When an invitation to tender, referred to in Section 31 of the above-mentioned Law no. 21-90, does not produce any results, a decree, setting out reasons for the decision, upon the proposal of the Minister in charge of Energy will cancel the concession or pronounce its return to the State, free of charge and restriction including its dependencies, such as they are defined in Section 6 of the said Law.

CHAPTER III

Obligations of holders of reconnaissance licenses,
exploration permits or exploitation concessions

SECTION 32

The holder of a reconnaissance license, an exploration permit or an exploitation concession must conduct its operations in compliance with hygiene and health and safety standards in respect of both its employees and neighbouring populations so as to cause as little ecological and social nuisance as possible, and must make all efforts not to cause any damage to public and private properties. The holder should particularly take precautions with a view to :

- protecting road traffic,
- protecting sea traffic,
- protecting national marine life and preventing the pollution of seas, lakes, beaches, rivers and expanses of water,
- protecting forests, agricultural lands and agricultural plantations.

The holder is also required to take out insurance against any damage caused to the environment.

SECTION 33

The holder of a reconnaissance license, an exploration permit or an exploitation concession must report any serious accident to the local authorities and the Ministry in charge of Energy, which will notify the relevant departments.

Medicine and safety equipment necessary for workers must be kept on the premises in sufficient quantities.

SECTION 34

In implementation of the provisions of the Section 43 of the above-mentioned Law no. 21-90 as modified and completed by the Law no. 27-99, the holder or, as the case may be, each of the co-holders of an exploitation concession must pay to the Treasury ("Trésorerie Générale") proportionally to its share of interest an annual surface rental fee of 1000 Dirhams per square kilometer. The first surface rental fee is due within the thirty (30) days following the date of the granting of the exploitation concession.

The other annual payments are due no later than the anniversary date of the first payment.

SECTION 34 bis

For the implementation of the provision of the Section n° 44 of the above mentioned Law no. 21-90 as modified and completed by Law no.27-99 the holder or, as the case may be, each of the co-holders of an exploitation concession must pay to the State an annual royalty on its production share according to the following rates:

1. Crude oil

The production of the first 300.000 tons originating from each exploitation concession located onshore or offshore at a water depth equal to or less than 200 meters, is exempted from royalty payment.

The production of the first 500.000 tons originating from each exploitation concession located offshore at a water depth greater than 200 meters, is exempted from royalty payment.

Beyond the production of the first 300.000 tons originating from each exploitation concession located onshore or offshore at a water depth equal to or less than 200 meters, the rate is fixed at 10 %.

Beyond the production of the first 500.000 tons originating from each exploitation concession located offshore at a water depth greater than 200 meters, the rate is fixed at 7 %.

2. Natural gas

The production of the first 300 millions m³ originating from each exploitation concession located onshore or offshore at a water depth equal to or less than 200 meters, is exempted from royalty payment.

The production of the first 500 millions m³ originating from each exploitation concession located offshore at a water depth greater than 200 meters, is exempted from royalty payment.

Beyond the production of the first 300 millions m3 originating from each exploitation concession, located onshore or offshore at a water depth equal to or less than 200 meters, the rate is fixed at 5% .

Beyond the production of the first 500 millions m3 originating from each exploitation concession, located offshore at a water depth greater than 200 meters, the rate is fixed at 3.5% .

The payments in cash of the annual royalty are made at the Treasury ("Trésorerie Générale").

The payment in cash of the annual royalty is due on the 31 July and 31 January for the semesters terminating respectively on June 30th and December 31 of each calendar year.

The holder or, as the case may be, each of the co-holders will submit to the Treasury, within the 90 days following the end of each calendar year, a final annual statement of the annual royalty calculated as being the product of its share of the volume of the annual royalty and the weighted average sales price realized during the calendar year terminating December 31, and pay the difference between the calculated actual amount due and the sum of semestrial payments made.

If the sum of the semestrial payments made is greater than the final amount due, the difference will be carried forward as credit for the annual royalty of the following calendar year.

SECTION 35

For the implementation of the provisions of Section 61 of the above-mentioned Law no. 21-90, the Tax Department ("Direction des Impôts") will provide the holder of a reconnaissance license, an exploration permit or an exploitation concession with a certificate enabling the holder to purchase goods and services on the local market exempt from value added tax.

This certificate is provided upon a written application by the party concerned, attaching the pro forma invoices corresponding to the above-mentioned goods and services, a list of which must receive prior review by the Ministry in charge of Energy.

The invoices, together with all documents relating to the sales or services benefiting from the exemption provided for above must be stamped with the words "sale or operation exempt from value added tax pursuant to the provisions of Section 61 of Law no. 21-90 promulgated by Dahir no. 1-91-118 of 27 ramadan 1412 (1st April, 1992)".

SECTION 36

In accordance with Section 39 of the above-mentioned Law no. 21-90, the holder of an exploration permit must:

- a) inform the Minister in charge of Energy in writing, within a period of not more than three (3) days from the time when the discovery is made, of any discovery of hydrocarbons or other mining resources;
- b) provide the Minister in charge of Energy with all information, documents and studies of all kinds relating to its exploration activities.

SECTION 37

In accordance with Section 40 of the above-mentioned Law no. 21-90, the concessionaire must provide the Minister in charge of Energy with all relevant information in writing as regards the progress of work, the results obtained and any further exploration which may need to be carried out.

SECTION 38

The holder of a reconnaissance license, an exploration permit or an exploitation concession must provide the Minister in charge of Energy with copies of geological maps, geophysical surveys and drilling reports which it has drawn up during reconnaissance, exploration or exploitation operations. So long as the reconnaissance license, the exploration permit and the exploitation concession to which they relate are valid, such documents, together with the information which they contain, cannot, without the holder's authorization, be made public or disclosed to third parties by the authorities.

SECTION 39

The results of the geophysical survey must be sent to the Minister in charge of Energy in the form of a report upon the completion of the operations, or at six (6) monthly intervals if the operations extend beyond a period of six (6) months such report to comprise:

1/- the names, forenames, capacity and domicile of the project manager and of the person responsible for the survey;

2/- the purpose of the survey and the method and equipment used;

3/- the results of the measurements, including correction calculations rough recordings, topographical information and all information necessary to assess the significance thereof;

4/- a copy of the maps or drawings summarizing the results of the measurements, if any have been prepared.

SECTION 40

The holders of exploration permits or exploitation concessions must send a report on the setting up of operations to the Minister in charge of Energy no later than fifteen (15) days prior to the commencement of drilling operations for the exploration or exploitation of hydrocarbons, giving details of:

- the site of the intended drilling;
- the purpose of the drilling;
- the geological prognosis in respect of land to be cut through;
- the minimum programme of operations for the extraction of cores and the supervising of drillings;
- the nature and features of the equipment used;
- the casing programme.

SECTION 41

The holder must keep a register of all drilling sites recording the conditions in which the work is carried out, especially:

- the kind of tools used and the diameter thereof;
- the speed at which the drilling progresses;
- the nature and duration of manoeuvres and special operations, such as extraction of cores, reaming, changes of tools, logging, stratigraphy, geological and petrophysical analyses, together with the time taken to complete them;
- and generally, the parameters of the drilling.

This register is open to inspection on site by agents of the Ministry in charge of Energy.

A weekly extract from such register must be communicated to the Minister in charge of Energy.

SECTION 42

The holder must ensure that all drillings are followed by a geological team, the members and responsibilities of which must be communicated to the Minister in charge of Energy upon the latter's request.

SECTION 43

In addition to the coring operations and drilling supervising which are provided for in the report on the setting up of operations, the holder must take the appropriate measures each time an inspection of the cuttings or the drilling operations measurements themselves reveal a significant change in the geology which has been drilled.

The cores must be studied in accordance with the conditions laid down in a special recommendation.

Samples of other mining products revealed during the drilling operations must be handed over to the department indicated by the Minister in charge of Energy.

Discoveries of underground expanses of water as well as all documents and data likely to contribute to a better understanding of the potentiality of underground water must be communicated to the Minister in charge of Energy who will inform the Minister in charge of Water resources thereof.

SECTION 44

The holder must inform the Minister in charge of Energy, so that he may be represented, of any important operation such as attempts at closing off water and production tests. A report on the carrying out of these operations must be drawn up and retained by the permit holder who must also send a copy thereof to the Ministry in charge of Energy.

With regard to attempts at closing off water or operations relating to water resources, the Minister in charge of Energy will ask the Minister in charge of Water Resources whether he wishes to be represented, and will send him a copy of the report of such operations.

The holder must notify the Minister in charge of Energy immediately of any serious incident likely to jeopardize the drilling work or to alter significantly the conditions for the execution thereof.

The holder must send a monthly report to the Minister in charge of Energy, setting out, inter alia, the progress made and the observations, measurements and tests carried out on the drilling; a geological cross-section of the formations encountered must be attached to the report.

SECTION 45

The holder may only definitively halt drilling after having notified the Minister in charge of Energy thereof. Unless special circumstances so warrant, such notification must be given at least eight (8) days in advance and must set out, where drilling is to be abandoned, the measures which are envisaged to avoid any ensuing risks.

SECTION 46

Within a maximum of three (3) months of drilling being halted, the holder must send a general report to the Minister in charge of Energy giving details of, inter alia :

- the results of any production tests;
- the cross-section of formations encountered, together with the observations made and measures taken during the drilling and the observations made and measures taken in respect of cores

- extracted;
- the closing off of water carried out;
- the specific circumstances of the work.

SECTION 47

The concessionaire must carry out a minimum amount of works enabling:

- a) the optimal pace for exploiting the deposits to be reached as soon as possible, with due regard to the possibilities of marketing the product;
- b) secondary recovery methods to be used, where justified by the economic conditions of the operation, in order to stimulate the production of residual petroleum;
- c) further necessary exploration to be carried out, such as lateral or downwards exploration in the concession, to the extent that such exploration is justified from both a geological and economic point of view.

SECTION 48

The concessionaire must notify the Minister in charge of Energy on an annual basis, one (1) month prior to the commencement of each financial year, of the production forecasts for such financial year, together with the production forecasts intended for the domestic market, with, as the case may be, a breakdown of such production.

SECTION 49

The concessionaire must provide the Minister in charge of Energy with reports enabling him to monitor:

- production from the deposits;
- stocks of crude oil maintained by the concessionaire;
- quantities of finished products obtained from the treated petroleum;
- quantities of hydrocarbons delivered to the local market;
- quantities of hydrocarbons exported;
- quantities of hydrocarbons used for internal consumption;
- the selling price of hydrocarbons both on the local market and for export;

- freight costs.

CHAPTER IV

Ancillary activities of holders of exploration permits
and exploitation concessions for hydrocarbons

SECTION 50

Pursuant to the provisions of Section 15 of the above-mentioned Law no. 21-90, the carrying out of operations, which are normally handled by the public services, by holders of exploration permits or exploitation concessions, or the use of public property for their ancillary activities are governed by the provisions of this chapter.

SECTION 51

Installations which are of no interest to the general public.

1/- The permit or concession holder is responsible for setting up all installations, at its own expense and risk, which are necessary for its exploration works for and its exploitation of hydrocarbon and which are of no interest to the general public, whether they be located within the concessions or outside them, subject, however, to the rights of third parties.

The following, in particular, fall within this category:

- a) storage tanks on the production fields;
- b) pipelines conveying crude oil or gas from the wells to the tanks referred to in paragraph a) above;
- c) pipelines conveying crude oil or gas from the said tanks to loading points for transport by rail or by sea, or to processing plants;
- d) storage tanks at the loading points;
- e) installations for the bulk loading by pipeline of rail and sea tankers;

- f) specific water collection equipment and water conveyances, and, generally, all hydraulic systems, in respect of which the holder has obtained a license or concession;
- g) private electrical energy transport lines;
- h) runways and service roads giving access by road and air to the sites;
- i) telecommunications between the sites;
- j) generally, factories, power stations, industrial plants, workshops and offices intended for the sole use of the holder, which would constitute dependencies as defined in Section 6 of the above-mentioned Law no. 21-90.

For the setting up of the installations referred to in paragraphs a, b, c and d above, the concession or permit holder will be required to notify the Minister in charge of Energy, at a date enabling him to be represented, of all inspection operations in relation to safety, particularly during water tightness and production launching tests.

2/- For the installations referred to in paragraphs, 1c), 1e), 1f), 1g) and 1h) above, the concession or permit holder will be obliged, where so required by the authorities, to allow third parties to use the said installations, subject to the following reservations:

- a) the concession or permit holder is obliged neither to build nor to maintain installations which are larger than its requirements;
- b) the concession or permit holders own needs must be met before those of third party users;
- c) use by third parties must not hinder the exploitation carried out by the concession or permit holder for its own needs;
- d) third party users must pay to the concession or permit holder a fair indemnity, determined by mutual agreement between the parties, for the service rendered;

The indemnity must be determined in such a way that it covers at all times the concession or permit holder's real expenditure, including a proportion of its normal depreciation and maintenance costs plus a fifteen per cent (15%) margin for overheads and profits. Where the installations referred to herein are used by the State, the latter is only required to reimburse the overheads.

SECTION 52

Installations of interest to the public which are set up by the State or its assigns at the request of the concession or permit holder.

1/- Where the concession or permit holder can prove that it needs to add to existing public equipment or to carry out works of special interest to the public in order to develop its exploration and exploitation business, it must make a statement to this effect to the Minister in charge of Energy who will bring the matter to the attention of the Minister in charge of Public Works.

2/- Except as otherwise provided under Section 53 below, the concession or permit holder and the relevant authority will comply with the following terms and conditions:

a) The concession or permit holder will inform the Minister in charge of Energy, who will then bring the matter to the attention of the Minister in charge of Public Works, of its intentions with regard to the installations in question and will provide a memorandum in support of its application, proving the need for the said installations, together with a detailed schedule indicating the time in which the concession or permit holder would complete the works if it were responsible for carrying them out. The timing must correspond to the works programmes, which it is required to carry out;

b) Within a maximum period of three (3) months, the Minister in charge of Public Works will inform the concession or permit holder, via the Minister in charge of Energy, of his observations with regard to the usefulness of the installations and the technical arrangements envisaged by the concession or permit holder, as well

as of his intentions with regard to the ways in which the installations will be set up;

The implementation plans will be finalized by mutual agreement between the two parties, in accordance with common business practice and according to the general clauses and terms and conditions and technical specifications applied by the Ministry in charge of Public Works;

The Ministry in charge of Public Works may either carry out the works itself or through a third party of its choice, or entrust it to the concession or permit holder.

3/- The installations built will become State-owned property and will be placed at the disposal of the concession or permit holder for the satisfaction of its needs under the Dahir of 24 safar 1337 (30th November, 1918) relating to the temporary use of State-owned property without, however, the beneficiary being entitled to claim the sole use thereof;

Either the State, a public institution or the concessionaire may carry out the exploitation, maintenance and replacement of the installations under the terms and conditions laid down by the Minister in charge of Public Works after consultation with the Minister in charge of Energy.

4/- In return for the use of the said installations, the concession or permit holder will pay a user's fee to the person in charge of their exploitation at rates fixed in accordance with the Laws and regulations in force.

SECTION 53

Installations of interest to the public which are set up by the concession or permit holder.

In the case referred to in Section 52, paragraph 2b) above, where the authorities elect to allow the concession or permit holder to carry out works of public interest, the latter will be given a special license for the works in question for the duration of the exploration permit or the exploitation concession.

Subject to the relevant Laws and regulations in force and the provisions of Section 55 and 56 below, the following general rules will be applied:

The concession or license will be given by separate deed and will be distinct from the exploration permit or exploitation concession for hydrocarbons.

The construction work or exploitation will be carried out by the concession or permit holder at its own cost and risk.

The plans for the works will be prepared by the concession or permit holder and approved by the Minister in charge of Public Works after consultation with the Minister in charge of Energy.

The rules relating to safety and use will be approved by the Minister in charge of Public Works after consultation with the Minister in charge of Energy.

The installations built by the concession or permit holder on property belonging to the State or public institutions or local communities will automatically revert to the authority which owns the said property upon the expiry of the exploration permit or exploitation concession.

The concession includes an obligation by the concession or permit holder to place the plant and installations referred to herein at the disposal of the authorities and the general public, in return for remuneration, it being understood that the concession or permit holder is entitled to satisfy its own requirements prior to those of other users.

SECTION 54

Duration of licenses or concessions granted for the holder's ancillary installations.

1/- Licenses or concessions to use property owned privately or publicly by the State, licenses or concessions to have access to water and all other licenses or concessions will be granted to the concession or permit holder for the same period of validity as its exploration permit or exploitation concession.

2/- However, where the installation subject to the license or concession ceases to be used by the holder, the relevant authority reserves the rights set out below:

a) where the installation referred to above effectively ceases to be used by the concession or permit holder, the relevant authority may automatically declare that the license has been withdrawn or that the corresponding concession has been forfeited;

b) where the installation referred to above remains unused for a short period of time, the relevant authority may use it temporarily, either for itself or on behalf of a third party which it has designated.

Such use renders the State or the third party liable for operating costs. Where use is made directly by the State, the cost of heavy repairs is not included in the operating costs. However, the concession or permit holder may take back the use of the said installation upon a simple declaration to such effect, with one month's notice.

SECTION 55

Applicable provisions for water-catchment.

Pending the outcome, in accordance with the Laws and regulations in force, of its application for a license or a concession with regard to water in public ownership which is discovered by the holder of the exploration permit or the exploitation concession at the time when its works are carried out, the concession or permit holder may use the said water by way of a provisional license delivered by the Minister in charge of Public Works, provided that the concession or permit holder does not damage the expanse of water from which it derives and does not infringe water rights recognized as belonging to third parties and rights and authorizations ensuing from Article 6 of the Dahir of 11 moharrem 1344 (1st August, 1925) relating to regulations governing the use of water.

Catchment structures, but not conveyance structures set up by the holder pursuant to the licenses referred to above, will revert to the State, without the payment of an indemnity, in the condition in which they are found when the concession or permit holder ceases to use them.

Where catchment works carried out by the concession or permit holder yields more water than it needs, the Minister in charge of Water Resources may ask the concession or permit holder to provide the public service with the water for which it has no use, in return for a fair indemnity covering the proportion of its operating and hydraulic systems maintenance costs, but without any contribution to the initial setting up costs.

In any event, the Minister in charge of Water Resources may ask the holder to supply the public water points free of charge throughout the exploitation of the authorized catchment, up to a maximum of 1/10 of the water yielded by the catchment, once quantities reserved for pre-existing public water points and for covering the rights mentioned in paragraph 1 above have been deducted, which quantities the concession or permit holder is required to reconstitute should it be responsible for the water drying up.

SECTION 56

Where the holder of an exploration permit or an exploitation concession needs to ensure that its sites or ancillary installations are permanently supplied with water and where its needs cannot be met by a connection to an existing public water point or a public water supply, the following provisions will apply:

a) Provided that the requirements expressed by the concession or permit holder are contained within 200 and 1,000 cubic meters of water per day, the authorities will authorize the concession or permit holder to carry out the necessary catchments and conveyances at its own cost, in accordance with the conditions provided for in Section 55 above.

With due regard to data obtained from the inventory of hydraulic resources in Morocco, the authorities will indicate the site (s) where the holder will receive authorization for the catchment.

b) If the requirements expressed by the said holder exceed 1,000 cubic meters per day, subject to the provisions of Article 14 of the above-mentioned Dahir of 11 moharrem 1344 (1st August, 1925), it will have to obtain a statutory authorization under the said Dahir for the excess

amount. The provisions of paragraphs 2, 3 and 4 of Section 55 above apply to such authorization.

Prior to abandoning any exploration drilling, the authorities may oblige the concession or permit holder to catch any expanse of water which may be exploited, it being understood that only the expenses incurred for this additional work will be borne by the State, and no contribution will be made to costs which have already been incurred in the initial setting up.

SECTION 57

Power stations.

Power stations and energy supply networks installed by the concession or permit holder for its own needs will be subject to all regulations and inspections applicable to similar production and energy supply installations, subject to the rights of third parties.

If the concession or permit holder has a surplus of energy for its own needs, its power stations must supply the neighbouring towns with energy. In addition, it must make provision for the possibility of installing further equipment, at the expense of the authorities, to cope with up to an extra 30% of the energy of each power station.

This energy will be sold at its cost price to a distribution organization designated by the authorities.

SECTION 58

Provisions applicable to pipelines.

Pipes for the large-scale transport of hydrocarbons will be installed and run by the concession or permit holder at its own cost, in accordance with common business practice and the statutory recommendations decreed for ensuring the safety of the installations in question.

The concession or permit holder must take all appropriate precautions to avoid the risk of pollution of nearby underground water, loss of hydrocarbons, fire and explosion.

The implementation plans are drawn up by the concession or permit holder and submitted for prior approval by the Minister in charge of Public Works after a fragmented plan has been drawn up and notice has been given by the Minister in charge of Energy.

CHAPTER V

Miscellaneous Provisions

SECTION 59

Pursuant to Section 71 of the above-mentioned Law no. 21-90, the "Office National de Recherches et d'Exploitations Pétrolières (ONAREP)" established by Law no.25-80, promulgated by Dahir no.1-81-345 du 12 moharrem 1402 (10th November, 1981), has been empowered to perform on behalf of the State the duties which are set out in the said Section 71.

SECTION 60

In accordance with Section 34 of the above-mentioned Law no.21-90, petroleum agreements must be approved by an order issued jointly by the Minister in charge of Energy and the Minister of Finance.

SECTION 61

The Minister in charge of Energy is empowered to:

1/- Enter into the administrative act referred to in Section 14 of the above-mentioned Law no.21-90 after notification by the Minister of the Interior.

2/- Grant the derogation provided for in Section 25, paragraph 2 of the said Law.

3/- Automatically scale down the surface areas, in accordance with Section 26 of the said Law.

4/- Approve, in accordance with Section 30, paragraph 1 of the said Law, the conditions of the unitization agreement ("accord d'unitisation") between holders of adjoining permits or, in the absence of such an agreement, to lay down the technical rules for resolving the dispute.

5/- Review the list of equipment, materials, consumable products, effects and objects as well as the list of plant and machinery provided for in Sections 50 and 51 respectively of the said Law and to grant, as the case may be, the derogation provided for under Section 51 of the above-mentioned Law.

6/- Suspend, in accordance with the provisions of Section 69 of the said Law, all work undertaken contrary to these provisions.

7/- Empower the agents responsible for recording infringements, in accordance with the provisions of Section 70 of the said Law.

SECTION 62

The Minister of Finance is authorized to grant the authorization provided for under Section 57 of the above-mentioned Law no.21-90, upon the proposal of the Minister in charge of Energy.

SECTION 63

The following are repealed:

Decree no.2-58-879 of 6 moharrem 1378 (23rd July, 1958) which laid down the conditions for filing and registering applications for exploration permits, extensions of exploration permits and concessions of hydrocarbons.

Decree no.2-58-876 of 6 moharrem 1378 (23rd July, 1958) regulating the activities of holders of hydrocarbon mining licenses.

Decree no.2-58-877 of 6 moharrem 1378 (23rd July, 1958) approving the standard terms and conditions for concessions in respect of hydrocarbon deposits.

Decree no.2-58-878 of 6 moharrem 1378 (23rd July, 1958) regulating the ancillary activities of holders of exploration permits and exploitation concessions for hydrocarbons.

SECTION 64

The Minister of Energy and Mines, the Minister of Finance, the Minister of Interior and the Minister of Public Works are each according to its

prerogatives, responsible of the implementation of this Decree which will be published in the "Bulletin Officiel" (official gazette).