



REGULATIONS

A SUPPLEMENTAL DOCUMENT TO THE INTEGRATED REPORT 2012

INTRODUCTION

Master Drilling is contracted by clients who are primarily responsible for ensuring that country specific regulations are adhered to. Master Drilling however does, in conducting its business across the globe, take cognisance of the relevant legislation and regulations pertaining to the countries in which it operates.

Like other participants in the drilling services industry, Master Drilling is subject to a wide range of environmental protection, labour relations and health and safety regulations. Possible additional future laws and regulations, changes to existing laws and regulations or more stringent enforcement or restrictive interpretation of current laws and regulations by governmental authorities may increase Master Drilling's costs associated with compliance with these laws and regulations.

A summary of the key South African regulations, other than the Companies Act, the JSE Listings Requirements and King III that affect Master Drilling's business is as follow:

1. **COMPETITION LAW**

Competition in South Africa is regulated both by the common law and the Competition Act, 89 of 1998, as amended (Competition Act), which empowers the competition authorities in ways similar to that of the European Union, US and Canada to supervise competition matters. Apart from prohibiting anti-competitive conduct, restrictive practices, such as price fixing, and abuse by dominant firms, the Competition Act necessitates notification and approval procedures for certain mergers. The Competition Act reaches beyond South Africa in that it applies to all economic activity within, or having an effect within, South Africa.

The Competition Act prohibits the abuse by a firm of its dominant position within a market. A firm with a market share of more than 45% is automatically dominant, while a firm with a market share of between 35% and 45% is presumed dominant unless it can prove that it does not have market power. Market power consists of the ability to control prices, exclude competition, or to behave to an appreciable extent independently of competitors, customers or suppliers.

Dominant firms may not charge excessive prices to the detriment of consumers and may not refuse to give a competitor access to an essential facility when it is economically feasible to do so. They may also not engage in “exclusionary acts”, such as inducing a supplier or customer not to deal with a competitor. A dominant firm that engages in any of the exclusionary acts specified in the Competition Act may be subject to an administrative fine, unless it can demonstrate an advantage that outweighs the anti-competitive effect of the conduct.

Except in specific commercial circumstances outlined in the Competition Act, price discrimination by a dominant firm is also prohibited.

A firm may apply to the Competition Commission for an exemption in relation to an agreement or practice that would, in absence of an exemption, contravene the Competition Act.

2. LABOUR-RELATED LEGISLATION

Employment and Labour relations are regulated in South Africa by legislation, including but not limited to the Labour Relations Act, 66 of 1995, the Basic Conditions of Employment Act, 75 of 1997, the Employment Equity Act, 55 of 1998, the Skills Development Act, 97 of 1998, the Skills Development Levies Act, 9 of 1999, the Unemployment Insurance Act, 63 of 2001, the Unemployment Insurance Contributions Act, 4 of 2002, the Occupational Health and Safety Act, 85 of 1993, the Compensation for Occupational Injuries and Diseases Act, 130 of 1993 and the Protected Disclosure Act, 26 of 2000.

3. TAKEOVER REGULATION

The Company is incorporated in South Africa, has its head office in South Africa and is resident in South Africa. The provisions under South African law and regulation prescribe that a mandatory offer must be made for the rest of a target company’s shares if a bidder’s holding (or its combined holding with any concert party) increases to 35% or more of the voting rights of the target. Mandatory offers must be made at the highest price paid for the relevant shares by the bidder in the three months preceding the offer. The Takeover Regulation Panel in South Africa may waive the requirement to make a mandatory offer if the holders of a majority of the independent shares of the target (being shares other than shares held by the bidder and its concert parties) agree.

4. BLACK ECONOMIC EMPOWERMENT

Introduction

Master Drilling is required to comply with the BBBEE Act and South African Department of Trade and Industry (DTI) codes of 2007. However, due to the fact that Master Drilling is operating in the mining industry (or its customers expect or require Master Drilling to conform to) the profile of the procurement policy that is set forth in the Broad-based Socio-Economic Empowerment Charter for the South African Mining Industry as currently in effect (the Mining Charter). This charter has some specific requirements in terms of equity shareholding of 26% as set out below.

The MPRDA

The Mineral and Petroleum Resources Development Act, 28 of 2002, as amended (MPRDA), came into effect on 1 May 2004. The objective of the MPRDA is to facilitate meaningful participation of historically disadvantaged South Africans (HDSAs) in the mining and minerals industry in South Africa.

Mineral resources are considered to be the common heritage of all the people of South Africa and the MPRDA therefore vests custodianship of mineral resources in the State, for the benefit of all South Africans.

Transitional provisions were included in the MPRDA which allowed mining companies or other holders of prospecting and/or mining rights and permits to convert the rights to prospect and mine that they held prior to the MPRDA coming into force, to the new order rights introduced by the MPRDA.

Holders of unused old order rights needed to apply, before 1 May 2005, for prospecting or mining rights under the MPRDA to replace the rights they held before 1 May 2005. With regard to old order prospecting rights and old order mining rights, any rights to prospect or mine, and prospecting permits or mining authorisations granted under the Minerals Act, continued to be valid for the period granted under the old legislation, subject to maximum periods of two and five years, respectively.

In order to continue with mining or prospecting operations, the holders of old order prospecting and mining rights had to apply for the conversion of the rights that they had previously held under the Minerals Act to the new form of prospecting or mining rights provided for under the MPRDA within the aforementioned transitional periods.

Under the MPRDA, new order prospecting rights will initially be granted for a maximum period of five years, and can be renewed once, upon application, for a further period not exceeding three years. New order mining rights will be valid for a maximum period of 30 years and can be renewed upon application for further periods, each of which may not exceed 30 years. Provision is made for the granting of retention permits in circumstances where prospecting has been completed but mining is not commercially viable, which will have a maximum term of three years and are renewable for a period not exceeding two years. A wide range of factors and principles, including proposals relating to BEE, labour and social responsibility and evidence of an applicant's ability to conduct mining optimally, are pre-requisites for these applications.

Mining Charter

The MPRDA required the Minister of Minerals and Energy to develop a charter for the mining industry within six months of MPRDA taking effect. Consequently, the South African Government appointed a task team to develop the Mining Charter, which was signed on 11 October 2002 by the Minister of Minerals and Energy, representatives of the mining industry and the National Union of Mineworkers. The Mining Charter and scorecard were amended by the Minister of Mineral Resources on 13 September 2010.

The objectives of the Mining Charter, which is designed to effect sustainable growth and meaningful transformation of the mining industry include, inter alia, the promotion of equitable access to the nation's mineral resources to all the people of South Africa, to expand opportunities for HDSAs to enter the mining and minerals industry and benefit from the exploitation of the nation's resources and to promote sustainable development and growth of the mining industry.

The Mining Charter embraces a range of criteria against which prospecting and mining right applications are considered. These criteria include issues such as human resources development, employment equity, procurement, community and rural development and the ownership of mining assets by HDSAs.

On the issue of ownership, which is one of the key requirements to effect meaningful integration of HDSAs into the mainstream economy, the Mining Charter required that mining companies achieved 15% HDSA ownership of mining assets by 2009 and requires that mining companies achieve a minimum target of 26% HDSA ownership of mining assets by 2014.

5. ENVIRONMENTAL LAWS

South Africa is one of the first countries to have a constitutionally protected, fundamental human right to the environment. In this regard Section 24 of the Constitution guarantees the right to have the environment protected for the benefit of present and future generations. It also guarantees the right to ecological sustainable economic development. The private sector is directly bound by the bill of rights enshrined in the Constitution and must ensure that their activities do not infringe upon these environmental rights.

International principles of environmental management are encapsulated as enforceable principles of South African environmental law. Specific reference is made to the principle of sustainable development as the core environmental principle, the “polluter pays” principle, preventative and precautionary principles as well as environmental impact assessment and “cradle to grave” environmental responsibility.

The primary statute that concretises environmental rights is the National Environmental Management Act 107 of 1998 (NEMA). NEMA reflects the principle of environmental federalism and aims to provide for co-operative environmental governance between the national, provincial and local spheres of government, by establishing principles and structures for decision making on environmental matters. NEMA also confirms the “polluter pays” principle, which provides that the costs of remedying pollution, environmental degradation and consequent adverse health effects must be paid for by those responsible for harming the environment. Consequently NEMA imposes a duty of care on every person who may cause significant pollution or degradation of the environment to take reasonable measures to prevent such pollution or degradation. NEMA introduces strict liability to cover the cost for rehabilitation of environmental pollution or degradation. Liability may also be apportioned according to the degree to which more than one person were responsible for the harm to the environment. Comprehensive financial provision must be made for future environmental rehabilitation obligations, specifically with respect to prospecting and mining operations. A complex system of environmental impact assessment applies to many new structural developments and involves extensive public participation.

MASTER DRILLING GROUP LIMITED

(Incorporated in the Republic of South Africa) • Registration Number: 2011/008265/06

JSE Share Code: MDI • ISIN Number: ZAE 0001711948

Registered office: 4 Bosman Street, PO Box 902, Fochville, 2515, South Africa

Telephone: +27 18 771 8100 • Fax: +27 18 771 5156 • Email: info@masterdrilling.com

Directors:

• **Non-executive:** PJ Ledger (Chairman) • RO Davey^(British) • AA Deshmukh • JP deWet • ST Ferguson

• **Executive:** DC Pretorius (CEO) • AJ van Deventer (CFO) • BJ Jordaan • GR Sheppard

Company Secretary: T de Wet, a partner at De Wets Incorporated

www.masterdrilling.com