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March 17, 2011

## **To All Operators**

Dear Sir/Madam:

Re: Fuel Surcharges

Thank you for taking the time to review this letter.

The Canadian Association of Oilwell Drilling Contractors, or CAODC, represents all of the drilling and service rig contractors in Canada. We work closely with our members to ensure a stronger, safer and more efficient industry. It is only on rare occasions that we step into the domain of cost issues as we consider these the prerogative of each individual contractor. In this case, our Service Rig Executive committee has asked us to communicate directly with the operator community regarding a recent Alberta provincial government decision.

In the Alberta provincial budget released on February 24, 2011, the Tax Exempt Fuel Use (TEFU) rebate for licensed vehicles and the Prescribed Rebate Off-road Percentages (PROP) rebate were eliminated. These were two valuable programs for oilfield services, and in particular for CAODC service rig members.

Essentially, the programs made allowances for licensed vehicles that perform qualifying off-road purposes (like well servicing) to receive a rebate on the tax-included clear diesel fuel that they consumed. Because the vehicles are licensed, they are not permitted to consume tax-exempt marked (i.e. purple) fuel. Only unlicensed vehicles, machinery and equipment qualify to purchase tax-exempt marked fuel from registered exempt-sale vendors.

The cancellation of these programs came as a surprise. There was no government consultation on this decision, with CAODC or any other upstream association. Therefore, CAODC does not anticipate the programs being resumed at any point in the near future.

TEFU and PROP provided sizeable rebates on fuel to contractors. This, in turn, allowed our service rig contractors the ability to maintain their pricing models at reasonable levels. Now, as a result of the program cancellation, coupled with world

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events driving up the price of fuel, our contractors are of the view it is necessary to adopt a fuel surcharge for their operations.

Our purpose has been to alert you to pricing changes that will result from a fuel surcharge. Contractors will discuss specifics with individual operators.

Sincerely,

A handwritten signature in black ink, appearing to read 'Don Herring', with a long horizontal flourish extending to the right.

Don Herring  
CAODC, President

NEM/mln – 323.0