

Q1 Fiscal 2007 Earnings Conference Call Transcript – August 31, 2006

Vince Gallant: Good morning ladies and gentlemen and welcome to the North American Energy Partners Inc. conference call. My name is Vince Gallant and I'm the Vice President, Corporate and I would like to thank you for joining us on the call this morning. Today we will be discussing our financial results for our first fiscal quarter ended June 30, 2006.

Also participating in this call with me is Rod Ruston our President & Chief Executive Officer, Chris Hayman - Vice President, Finance, Bill Koehn our Vice President, Operations and Chief Operating Officer, and Miles Safranovich our Vice President, Business Development & Estimating.

A transcript of this call will be made available on our website within a few days. Should you require additional information, please consult our news release issued on August 29, 2006 available on our website at www.nacg.ca under the "News" section.

Before I turn the call over to Rod, I would like to remind everyone that statements made during this conference call, whether in prepared remarks or in the Q & A session with respect to references to management's expectations or predictions of the future, are forward looking statements. All statements made today that are not statements of historical fact are forward looking statements. The business prospects of North American Energy Partners are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contained in the forward looking statements. For information relating to these risks, please refer to our 6-K and our 20-F statement filed with the SEC on August 29 and available on EDGAR.

As we discussed in our last call in late July, we are still restricted in what we can say by SEC regulations due to the filing by NACG Holdings Inc., our parent company, of a registration statement with the United States Securities and Exchange Commission and a preliminary prospectus with the securities regulatory authorities of each province and territory of Canada for a proposed initial public offering of its common shares. In particular we cannot discuss the registration statement relating to this initial public

offering, the anticipated timing of the IPO and we are not permitted during this quiet period to provide any forward guidance. As experienced analysts, I would appreciate your co-operation in keeping questions within the realms of what we can respond to which is generally only clarification of any issues resulting from our recent June quarter.

At this time I will turn the call over to our CEO, Rod Ruston.

Rod Ruston: Thanks Vince and good morning ladies and gentlemen. I am very pleased to be speaking with you after achieving another strong quarter of growth at North American. The Company has worked extremely hard to improve all aspects of the business and our financial results are evidence that this hard work and determination is paying off. North American attained revenue of \$138 million and Consolidated EBITDA of almost \$32 million contributing to a strong cash balance of \$45 million at the end of the quarter. This cash figure is more than three times the balance for the same period last June and has increased slightly from March year end in spite of \$12 million in capital expenditures on trucks and piling rigs and the 6-month interest payment made in June. We're obviously extremely happy with these results.

The favourable results are largely attributed to strong regional growth in our core markets and the Company's ability to capitalize on new projects and increase the scope of existing contracts.

All three of our business segments grew this quarter compared to last year and all at better margins. Bill Koehn will go into more details in a few minutes on the major projects contributing to this positive result.

As we discussed in our last call, on April 24, 2006, the Company reached an agreement with a customer to settle outstanding claims arising from a mining and site preparation project. We recognized revenue of \$6 million relating to that claim in the first quarter.

We continue to have difficulty sourcing tires for our large trucks particularly our 330 ton trucks, the largest in our fleet. As a result, we still have 4 trucks on blocks at CNRL. We are, however, making good progress in mitigating the risk in this important area of our business and have procured tires to operate all of our remaining fleet.

Our work at Grand Cache Coal is winding down with the mine now set up for Grande Cache to take over the operation. North American will move its equipment to Fort McMurray by December this year. We have already assigned this equipment back to the higher margin area of the oil sands market.

As you can see, our first quarter results are strong and Bill Koehn, our Vice President of Operations will now elaborate on the operating performance.

William Koehn: Thank you Rod and good morning everyone.

All three of our operating segments achieved higher revenues compared to last year, with Mining & Site Preparation showing the largest increase.

The Mining and Site Preparation segment experienced revenue of \$111 million compared to \$82.6 million over the same period last year.

First of all let me discuss why our first quarter, which is typically our lowest quarter due to spring break up, was so strong this year.

Essentially, the demand for oil is such that one of our existing customers moved their expansion work forward by about a half a year. This work, removing muskeg and overburden, is usually done in the winter season due to favourable ground conditions. However, due to the demand for our type of services in the Fort McMurray area and the possibility of the customer not being able to secure those services in the high demand winter period, this customer opted to do the work in the summer.

Secondly, the 10-year CNRL overburden contract continued to increase in scope as more equipment is added each quarter, all planned in the original schedule. The increase in revenues on this contract will continue until our full production capacity is achieved in fiscal 2009.

Thirdly, the work we are doing for Birch Mountain Resources, the limestone quarry in the Fort McMurray region, was a significant contributor as we continue to provide an ever-increasing scope of services.

Finally, the hourly work we do for Syncrude under our FOM contract (fully operated and maintained) has resulted in increased revenues due to their demand for our services.

We are also very pleased with the progress to date at the DeBeers Victor Project diamond mine in northern Ontario, which resulted in increased revenue for North American. We have now reached a stage in the project where we are recognizing profits

on this project. Prior to this quarter, revenue was recognized only to the extent of the costs incurred to date, in accordance with our revenue recognition policy.

Overall the profit margins improved on the mining & site preparation projects due primarily to a larger mix of higher margin jobs.

The piling division had a strong quarter with revenues of \$23.3 million, an increase of 17% over last year. Overall the growth in revenues reflects the continued demand for our services in western Canada. This segment's profit margin also improved substantially due largely to a decreased proportion of driven pile projects which, when compared to drilled projects, have a large component of materials at lower markups.

The pipeline division also had a good quarter especially considering that most of our work is usually done in the winter months. The division earned \$3.4 million in revenue, an increase of \$1.7 million.

Our mix of contract types continues to shift to a lower risk profile. For this recent quarter ended June 2006, cost plus and time-and-materials contracts accounted for 60% of our revenues. Of the balance, 34% was from unit-price contracts leaving only 6% for lump sum.

I will now pass the call to Chris Hayman, our Vice President, Finance to discuss the financial highlights.

Chris Hayman: Thank you Bill and hello everyone. All of our financial amounts that I am about to discuss, except where I indicate otherwise, are for the 3 months ended June 30, 2006 as compared to the three months ended June 30, 2005.

Top line revenue was \$138.1 million, a 32% increase for the reasons just outlined by Bill. Consolidated EBITDA, as defined in our credit agreement and in our MD&A, was \$31.5 million which is 22.8% of revenue. This compares to \$8.7 million or 8.3% of revenue. The increase in the EBITDA margin is due mainly to a larger mix of higher margin equipment intensive projects, the claim revenue of \$6.1 million and the aforementioned initial profit recognition on the DeBeers contract.

Equipment costs increased to \$23.9 million compared to \$17.0 million. As a percentage of revenue, equipment costs were 17.3% vs. 16.3% last year. This is primarily due to an increased activity level and higher repair and maintenance costs caused by the mix of larger equipment used in jobs in 2006. Equipment hours totaled 248,000 compared to 202,000, which is an increase of 23% reflecting these increased activity levels.

Operating lease expense increased from \$2.9 million to \$7.2 million as more leased equipment was acquired to support new projects, particularly the leased equipment required under the 10-year CNRL overburden contract.

General and administrative expenses increased to \$9.2 million from \$7.2 million. This increase was primarily due to increased salaries and higher professional fees. As a percentage of revenue, G&A expenses decreased to 6.7% compared to 6.9% last year.

Interest expense decreased significantly from \$49.9 million to \$9.5 million. The amount for fiscal 2006 included a large amount reflecting the redemption value of the Series B preferred shares. For the current fiscal year, these shares are being accreted based on the difference between their value of \$42.2 million on March 31, 2006, when the terms of the preferred shares were amended, and their full redemption amount of \$69.6 million in 2011 should those shares be held to maturity. Excluding the Series B

preferred shares, interest expense was \$8.5 million this quarter as compared to \$8.4 million last year.

Capital expenditures for the quarter were \$11.8 million. Of this total, \$6.9million was for fleet growth to support new projects. In addition, a significant portion was invested in tire inventory to meet our fleet requirements during this time of tire shortage with the balance being spent on sustaining capital expenditures.

That summarizes our fiscal year-end financial results. I will now turn the call over to Miles Safranovich.

Miles Safranovich: Hello everyone. I am Miles Safranovich, Vice President of Business Development & Estimating and I will talk about the current business development activity that we're seeing.

Overall, the business opportunities and estimating activity continue to be very strong for all 3 of our operating segments. We continue to perform front-end budgeting and constructability review services for both our clients that are existing and new. A number of clients, in attempts to secure future capacity from Industry, are soliciting proposals for long term relationships and alliances.

Bidding in our pipeline division has been more active compared to prior years and we now expect new work from a more diversified client base in the quarters to come.

Our Operational Improvement project continues to pay dividends. We are experiencing improved productivity on projects where we have implemented the new business management tools that have been developed through this initiative. At the same time, we have improved our equipment maintenance practices.

At this point I will turn the call back to the Operator to open the Q & A session.

Rod Ruston: Okay, well thank you very much everyone for joining us on the conference call today and we look forward to talking to you all in the future.