NORTH AMERICAN
ENERGY PARTNERS INC.

**North American Energy Partners Inc.**
**Q2 Conference Call Transcript**

**Participants**:

Rod Ruston – President and CEO
David Blackley – CFO
Bernie Robert - VP Corporate Affairs and Business Strategy
Chris Yellowega – VP Operations
Kevin Mather – VP Supply Chain and Estimating
Kevin Rowand – Director, Strategic Planning and Investor Relations

**Operator**:

Good morning ladies and gentlemen. Welcome to the North American Energy Partners' Fiscal 2010 Second Quarter earnings call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be an opportunity for analysts, shareholders and bondholders to ask questions. The media may monitor this call in listen-only mode. They are free to quote any member of management but they are asked not to quote remarks from any other participant without that participant's permission.

I advise participants that this call is also being webcast concurrently on the company's website at nacg.ca.

I will now turn the conference over to Kevin Rowand, Director, Strategic Planning & Investor Relations of North American Energy Partners Inc. Please go ahead, sir.

**Kevin Rowand**:

Good morning ladies and gentlemen and thank you for joining us. On this morning's call we will discuss our financial results for the three and six months ended September 30, 2009. All amounts are in Canadian dollars.

Participating on the call are Rod Ruston, President and CEO; David Blackley, CFO, Chris Yellowega, Vice President Operations, Kevin Mather, Vice President Supply Chain & Estimating and Bernie Robert, Vice President Corporate Affairs & Business Strategy.

Before I turn the call over to Rod, I would like to remind everyone that statements made during our prepared remarks or in the Q&A portion of the conference call, with reference to


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management's expectations or our predictions of the future, are forward-looking statements.

All statements made today which are not statements of historical fact are considered to be forward-looking statements. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.

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 a conclusion, forecast or projection in the forward-looking information.

For more information about these risks, uncertainties and assumptions, please refer to our September 30th, 2009 Management's Discussion and Analysis, which is available on SEDAR and EDGAR.

As previously mentioned, management will not provide financial guidance.

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

**Rod Ruston**:

Thank you, Kevin and good morning ladies and gentlemen. Thank you for joining us today.

I am pleased to report that we were able to carry our strong first quarter operational performance through to the second quarter, despite continuing market weakness in some sectors.

Specifically, we maintained strong margins and achieved solid operating performance, which translated into $32 million of Consolidated EBITDA.

While overall financial results were below what we achieved last year, there were a number of encouraging developments.

In the oil sands, which represents our largest market, recurring services volumes stabilized as we ramped overburden removal activity back up at Canadian Natural and increased our work at the Albian sites under our new three-year contract with Shell.

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In our Pipeline division, we continued to land new projects, including the Fraser River South Arm Crossing project for Terasen Gas.

This project involves installing two mid-sized pipelines below the Fraser River in British Columbia. Construction was underway during the second quarter and is expected to be completed by February 2010.

In October, we also won the contract to build the North Maxhamish Loop project for Spectra Energy in Northern BC.

Construction of this 37-kilometer, 24-inch pipeline will begin in November and is also scheduled to be completed by next February.

These contracts are in addition to the three-year maintenance contract with TransCanada Pipeline that we announced last quarter.

So some positive developments given the new market environment, which we expect to be dealing with for some time to come.

Turning to our segment results... revenue from the Heavy Construction and Mining segment was down $22 million or 12% for the second quarter and down 22% for the first six months, compared to the same periods last year.

This primarily reflects weakness on the project development side of our oil sands business.

As you may recall, we were very active on a number of new oil sands development projects at this time last year, including Fort Hills and Voyageur.

We subsequently completed our work on those projects or saw them deferred as producers addressed changing economic realities.

While that type of work hasn't come back yet, the investment climate in the oil sands is steadily improving.

With respect to recurring services, our site services business stabilized in the second quarter, after experiencing some volatility in the first quarter.


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As I mentioned earlier, we've been steadily ramping back up overburden removal activity under our long-term contract with Canadian Natural following their commissioning of the Horizon project. In addition, we saw an increase to our activity at Shell's sites during the second quarter under our new three-year master services contract with this customer.

As a result, our second quarter recurring services revenue was in line with what we achieved last year and up from our first quarter.

Second quarter segment margin from Heavy Construction and Mining was approximately 14%, about a point lower than last year reflecting lower margin on one of our large projects.

However, segment margins for the six-month period improved to 16%, compared to 13% last year.

The lower margin last year was mostly due to production challenges on one project and a fuel supply contract that delivered revenues but no margin.

Turning to Piling, revenues for both the three and six-month periods continued to be negatively impacted by weak commercial and industrial construction markets...and by the reduction in high-volume oil sands projects.

Second quarter segment margins were also down to 13%, from 23% a year ago, while six-month segment margins were 16%, compared to 22% last year.

This mostly reflects competitive pressure related to the weaker market conditions.

We continue to face increasing competition for the available work in this sector and we don't see any change in the near term.

In our Pipeline segment, revenue was down significantly for both the three and six-month periods compared to last year when we were working on the TMX contract.

As I noted earlier, we are now getting underway with a number of new contracts in Pipeline, so we'll see more contribution from this division in the second half of the fiscal year.

As a side note to this, I want to emphasize that Pipeline and Piling are "opportunistic" businesses for us.

Both of these divisions are much smaller in size than our heavy construction and mining business...and while they can make an important contribution to revenue and gross profit when the right projects are available, their contribution is variable in nature.

We've structured these businesses in a way that has allowed us to easily down size between projects and keep carrying costs low. Accordingly there's very little risk associated with weaker markets and lots of upside for us when the right projects are available.

At this point, I'll call on David Blackley, to provide more detail on our second quarter financial results. ...David.

**David Blackley:**

Thank you Rod and good morning everyone.

I am going to review results for the second quarter ended September 30th 2009 as compared to the second quarter ended September 30th 2008.

Reduced volumes in our three segments left us with consolidated revenues of $171.1 million, which were down 39% from last year.

However, our gross margins remained very strong at 19.4%, resulting in $33.1 million gross profit for the second quarter.

Turning to operating income, we recorded $18.6 million of operating profit in the second quarter, compared to $23.0 million last year.

This reflects lower gross profit in the current period, partially offset by a $5.3 million decrease in our G&A expenses as we have worked diligently to lower costs and improve our business processes.

We recorded net income of two cents on a diluted per share basis in the second quarter, compared to a net loss of three cents per share last year. Backing out the impacts of various non-cash items, we would have posted net income per share of 17 cents in the current period versus 30 cents last year on a diluted per share basis.

Turning to capital...total equipment additions for the second quarter amounted to $54 million. Sustaining capital expenditures were $4 million and the remaining $50 million of

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new equipment was growth capital, the majority of which represent scheduled additions to our mining fleet at the Horizon project.

In terms of financing, $27 million or approximately half of the total equipment additions, represent new equipment operating leases, resulting in $27 million of cash capital expenditures during the quarter.

We utilized an additional $23 million of borrowings under our Term Facility to fund these capital expenditures, bringing the total balance outstanding under our Term Facility to $33 million as at September 30, 2009.

Looking at liquidity, under our $90 million revolving credit facility, we had $20 million of outstanding and undrawn letters of credit to support performance guarantees on our customer contracts leaving approximately $70 million of borrowing availability as at September 30th, 2009.

Our cash position at September 30th was $98 million, which is comparable to the $99 million cash position at the beginning of the fiscal year.

That summarizes our second quarter results. I will now turn the call back to Rod to tell you about our outlook.

**Rod Ruston**

Thanks David.

Looking ahead, we expect to see a measured pace of development in the oil sands as producers become comfortable with the new market environment.

Imperial's decision to proceed with the Kearl project and Suncor's renewed commitment to the oil sands demonstrate the energy industry's long-term view of the fundamental economic viability of the oil sands as a resource.

Moving forward, we expect that the pace of oil sands development will remain quite orderly regardless of which way oil prices move. We view this current environment as sustainable and while it may not deliver record revenues or margins in the near term, we have already demonstrated that we can compete profitably within it.

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We believe that the continuous operation of oil sands mines and strong performance of our recurring services business through the downturn has provided further proof of the viability and resilience of our oil sands business model.

We expect this part of our business to continue performing well in the second half thanks to increasing production levels at Canadian Natural and larger work programs with Shell.

Turning to our Piling business, we expect that weak commercial and industrial construction markets and increasing competition for contracts, will continue to put pressure on revenue and margins for the balance of the year.

Market activity remains below 2007 and 2008 levels, however, our outlook for this division is positive in that we have positioned it to suit these changed conditions.

We don't expect a rapid return to past construction levels but we recognized this reality early and resized the business to suit, reducing workforce and equipment in more depressed areas and expanding in areas where we see opportunity.

Our acquisition of Drillco Foundation in Ontario is an example of this, where we are now positioned to compete for infrastructure work in that market. We expect our margins in this segment will be tighter as the market is more competitive but we expect a continued positive contribution from our Piling team.

Over in Pipeline, we have three new contracts and expect to be working on these through the second half while we continue to look for additional opportunities.

Overall, while market conditions remain weak and increasing competition for contracts will continue to put pressure on our revenue and margins, we see opportunities in all areas of our business.

Our focus will remain on identifying and winning the projects that leverage our strengths and offer reasonable margins.

With that, I'll now turn the call back to the operator.

**Operator**

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Thank you. To ask a question, please press *1 on your touchtone phone. If you wish to withdraw your question, you can press the pound sign. To allow others the opportunity to ask their question, please limit your inquiry to one question and one follow-up question only. If you have further questions, please press *1 to return to the queue. If you have any questions, please press *1 now.

Our first question is coming from Matt Duncan from Stephens, Inc.

**Matt Duncan – Stephens, Inc.**

<Q>: Good morning guys and congratulations on the solid quarter. The first question I've got relates to your gross margin level here. It was quite a bit higher than what you had posted in the June quarter. It sounds like some of that was lower equipment costs. I'm wondering if you can kind of help put some brackets around what's your gross margin expectations, what we should reasonably expect in the gross margin line going forward.

<A>: David Blackley - Matt we may see some deterioration in our gross margin as we go into the second half of the year. Again, piling is going to be weaker. We have been very mindful of our spend right across the board so we've really tightened down our spending on our maintenance to make sure that we're only spending on maintenance that we need. So anything that we deem is perhaps a little bit extra or surplus maintenance type spend, we pull back on that. We're going to continue to do that but again that will be somewhat dictated by where our revenues start to go. We expect to see more maintenance costs in the second half of the year as we start to see revenue pick up, but again it will depend on where revenue goes.

<Q>: So then Dave, is something sort of a 16% to 17% gross margin range a reasonable guess to where the second half ought to be?

<A>: David Blackley - Yes, I think so, 17% is certainly at the higher end. I think as we trend through the year something closer to 16% is more realistic. Again, we are very mindful of our spend as we go forward.

<Q>: Okay. Moving on to the G&A line, you guys continue to do a good job of taking expense out. I think this is the fourth or fifth quarter in a row that that's been down from the immediately preceding quarter. In this case, it was down $1 million from the June quarter on $24 million more in revenue. It's sort of a new base that you'll grow off of depending on obviously what sales levels look like?

<A>: David Blackley - Yes, I think what we're trying to target here in terms of a base level is somewhere between $14 million and $15 million a quarter in terms of our spend. We're going to try and keep it at about the level that we're at right now.



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<A>:  Rod Ruston - Certainly if the world turns back up again, even if it does so rapidly, we don't see an immediate reverse back to where we were.  We see that we can control those costs quite well.

<Q>:  That's helpful.  As I look at your breakout of backlog, it looks like your heavy construction and mining segment had about a $44 million increase from the June quarter.  Can you talk about what drove that?

<A>:  David Blackley - It's just a number of small projects there, Matt.  It isn't any one particular big project.

<Q>:  Okay.  Then Rod, I guess I would love some color from you a little more, I guess insight into what you guys are seeing in terms of oil sands activity levels.  It sounds like things are falling a bit in the oil sands as oil prices have gone up.  What are you hearing from your customers and how quickly do you think activity levels may ramp back up on some of the projects that were on the drawing board but have been stalled out?

<A>:  Rod Ruston - We're not hearing a lot saying that the new construction is going to come back in a hurry.  We're certainly seeing that all the existing oil sands projects are continuing to operate and are looking to operate as efficiently and as hard as they possibly can.

As we've said before, these plants just do not slow down.  So on the recurring revenue side of our business, we see things as still being strong.  On the new construction there hasn't been any specific announcement saying this or that is going to go, other than the ones you're already aware of, which is Kearl for example.

In my own general thoughts, I think that probably Suncor would be the next one that is likely to announce something going even if it's just bringing Voyageur back on or whatever.  It was the one that was further – most advanced at the time when things shut down.

<Q>:  Would that be – okay, so the Voyageur project there and then Fort Hills probably is going to be next winter at the earliest before it comes back.  Would that be …?

<A>:  Rod Ruston - I can't make any comment on the Fort Hills one whether it will go or what the strategy is there.  My comment on the Voyageur one is purely my own comment; it's not anything from a customer.  It's just a comment saying well, common sense says it was a long way down the track when it stopped, so it seems obvious it would be the first one to start.


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<Q>: Okay, and then I know you guys don't give specific guidance, but would it be safe to assume you're going to see your typical seasonality in the December and March quarters, that revenues there ought to be up just given that's the best time of year for work up there?

<A>: Rod Ruston - Yes. We do see a rebound, but remember part of the revenues are up because you can move your equipment everywhere and because of the ground being frozen. That would be the normal time, for example, of starting a new project as well when you wanted to remove the muskeg and get started with initial works on a site. So, while we see a normal return, it'll be a return of the normal work that's done in recurring revenue type work over a weaker period. There will still be some new construction work that in other years would have been done but would now be probably missing.

<Q>: Okay. Then when you look at the new pipeline contracts you guys have won, can you put any kind of contract value on those for us?

<A>: Rod Ruston - What it will seem to do – what I've said before is that the TMX project was a very, very large project that comes along every now and again and obviously we're going to try and compete for those projects whenever they do come along. Our normal run rate in pipeline would be more towards the $35 million to $45 million a year revenue. These projects would bring us more in line with back to normal run rate.

<Q>: Okay. Last thing here and I'll jump back in queue. When you look at the utilization rates for your equipment, where do you think you are right now on a normalized annual basis, and at what point do you – how much extra revenue, I guess, would you need to add before you would have to add more equipment?

<A>: Rod Ruston - Kevin, do you want to respond to that?

<A>: Kevin Mather - Yes. In the very large mining equipment, our utilization is fairly high. CNRL still has some room with the fleet there to ramp up. We're not at full volumes there, but on our smaller equipment fleets, our 100 and 150-ton fleets we still have a significant amount of room for equipment utilization. There is potential revenue growth that is actually without adding any additional equipment.

<Q>: Okay, thanks for the call, guys.

**Operator**

Thank you. The next question is coming from Bert Powell, of BMO Capital Markets.

**Bert Powell – BMO Capital Markets**

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<Q>: Thanks. I just want to go back to the gross margin question and look at the equipment costs. Is it safe to assume that the second half costs will play catch up for some of the deferred maintenance in the first half and that as we roll into 2011 things start to look a little bit more normalized at a higher level?

<A>: David Blackley - Yes, certainly we expect the maintenance costs to be higher in the second half. Some of that maintenance cost may also end up being deferred into the April/ May time frame. It will depend a little bit on how busy the equipment is because obviously, if it's really working we will not be able to get to that maintenance until that April/May time frame, but certainly, we expect it to be higher in the second half.

<Q>: Okay, but running into 2011, the delineated margin range of 16% to 17% would move from the lower end of that range back to the higher as you start to spread things out a little bit more evenly.

<A>: David Blackley - All other things being equal, yes. Keep in mind the type of work that we do also plays a part in that margin whether it's up or down.

<Q>: Yes, for sure. Then just on the leasing side, is there anything new to come in or is this based on the fleet that's deployed today what we should expect going forward?

<A>: David Blackley - I think what we've indicated previously is that we're looking at a total capital spend for this year of somewhere closer to the $150 million. How we finance that obviously we'll continue to look at operating leases. If it makes sense to do that, we will continue to finance it that way. I think a good chunk of what's remaining to come will be on an operating length. There may be some more cash spend as part of that.

<Q>: Was there anything in the quarter in terms of claims that would be revenue that you would have recognized that the costs would have been booked in prior periods so it's revenue that's booked without the associated costs this quarter?

<A>: David Blackley - I'm not aware of anything significant related to that.

<Q>: Okay. Then, just on the CNRL contract, when is that expected to hit full stride? When is that fully back up and running or is that the case today?

<A>: Rod Ruston - It's not quite up there today, but end of December or end of January it should be fully operational then.

<Q>: That's perfect, thank you very much.

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**Operator**

Thank you. The next question is coming from Theoni Pilarinos of Raymond James.

**Theoni Pilarinos – Raymond James**

<Q>: Hi, I just have a couple questions about your margins. The segmented margins are all down significantly quarter-over-quarter but your gross margin is up a lot. I'm just trying to reconcile how that works.

<A>: David Blackley - Essentially, what we're doing is we're getting a recovery on our equipment costs just because of the maintenance spend that we've pushed up to later quarters. That's part of what we were talking about earlier. We expect that we'll make … which is going to pull down that … that we've got.

<Q>: Also, depreciation and your equipment costs as a percentage of revenue are up quite a bit. Is that just a function of lower utilization rates or is there some kind of change in the equipment fleet there?

<A>: David Blackley - When you're looking at the percentage breakdown between project cost, equipment cost, and the operating leases you need to keep in mind the mix of work that we're doing. Proportionately more of our revenue this year is being generated by our own internal equipment. We're not doing as much of the big construction type work where we're using a lot of subcontractors or bringing in material so that's really what's driving that mix between the different lines.

<Q>: Okay, thank you.

<A>: David Blackley - Okay.

**Operator**

Our next question comes from Vivita Garlo of Credit Capital Investments.

**Vivita Garlo – Credit Capital Investments**

<Q>: Hi. I just wanted to know when do you expect to see the ramp up in the projects coming on line in Canadian oil sands and what will your normalized free cash flow be?

<A>: Rod Ruston - Yes, we had a lot of insight into activity on the existing oil sands sights and in fact, the ones that are under construction such as Jackpine because we work very, very closely with our clients on those sites. We don't get as much insight into their plans with major new projects on the exact date coming forward. As I said in one of the answers earlier when Fort Hills would come on we don't really know, we're just ready to do it when it does. It's difficult for us to give you any specific information as to what we see coming on in the construction side in the future.

<Q>: Can you give us an annual estimate? Will it be 2010 or 2011?

<A>: Rod Ruston - We see 2010 as being a very flat year in respect to new construction type activity. 2011 would be more likely and I'm talking our fiscal year here so I would be talking late in 2011 would be more likely.

<Q>: What would be your normalized free cash flow figure?

<A>: David Blackley - We don't separately give out financial guidance.

**Operator**

Thank you. Our next question is coming from Kalpesh Patel of Jefferies and Company.

**Kalpesh Patel – Jefferies and Company**

<Q>: Hi. You mentioned in the release about a heavy construction mine project being adjusted for margins. Could you tell me more about that, what happened there?

<A>: David Blackley - It's really just an adjustment. Because we base everything on a full-cost cost to complete with respect to these projects as we move forward and as we get a better understanding of where our cost stitches are or where circumstances changed, we'll look at that and then we have to adjust our margins accordingly. Because it's all done on a full-cost cost to complete basis, we would typically have to adjust spends on any of our exceptions to that revenue. So, if you have small adjustments on some of these larger projects, they can have a bit more of a material impact even though the overall number is not too big in terms of the percentages.

<Q>: Right, but that did impact the results this quarter.

<A>: David Blackley - Right.

<Q>: It was big enough to do that.

<A>: David Blackley - Yes.

<Q>: Okay. You mentioned your recurring services revenues a few times. What were the actual value there or the percent of your total revenue this quarter?

<A>: David Blackley - Their typically running closer to the 80% ranges particularly in the quarter, perhaps a little bit higher than that, but if you're looking on a six month basis it's more like a 75% split on the recurring services revenue versus 25% on the projects.

<Q>: Okay, so about 80% in the quarter.

<A>: David Blackley - Yes.

<Q>: That's what you're saying.

<A>: Rod Ruston - Yes. We'll probably see that level being maintained for a time yet.

<Q>: Is there any more information on the Suncor and Petro Canada merger and how that's moving forward?

<A>: Rod Ruston - No more information than you have as far as what they have in the public domain. We know that Suncor are analyzing the projects that they picked up against the projects that they already had and looking at what's the best way forward. That's as much as we know. I will say that, as I've said it before, that we do see the Suncor Petro Canada merger as being positive for the industry in general.

<Q>: One last one, the Syncrude upgrader maintenance program, where is that now?

<A>: Rod Ruston - Syncrude are back in operation.

<Q>: Okay, thank you.

**Operator**

Gentlemen, I'm showing no further questions in my queue at this time.

**Rod Ruston**

Okay. Thank you very much everybody for joining us today. We look forward to talking to you again in the near future. Thank you operator for looking after things.

**Operator**

Thank you, sir. Thank you ladies and gentlemen for your participation. This will conclude today's teleconference; you may disconnect your line.