

North American Energy Partners Inc.  
March 6, 2006 10:00 MT  
Vince Gallant

S: Speakers

Operator: Good morning, ladies and gentlemen. Welcome to the North American Energy Partners Inc. conference call. I would like to introduce your chairperson, Mr. Vince Gallant.

Vince Gallant: Good morning, ladies and gentlemen, or good afternoon, depending where you are. Welcome to the North American Energy Partners Inc. conference call. My name is Vince Gallant, and I would like to thank you for joining us today.

Also participating in the call are Rod Ruston, our President and CEO; Chris Hayman, our Vice-President, Finance; Bill Koehn, Vice-President, Operations and Chief Operating Officer; and Miles Safranovich, our Vice-President of Contracts and Technical Services.

Today, we will discuss our third quarter financial results, which were filed with the United States Securities and Exchange Commission on their EDGAR system, and summarized in our news release issued on Wednesday, March 1st, 2006. If you need a copy of the release you may obtain one from our website at [www.nacg.ca](http://www.nacg.ca) under the news section. A transcript of this call will be available on our website within a few days.

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 in respect to guidance, or in the Q & A session that refers to management's expectations or predictions of the future, are all forward looking statements. We believe it is in the best interests of our security holders in the investing community for us to make forward looking statements in our news releases and in today's call. 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 in the future to differ materially from the forward looking statements. For information relating to the risks and uncertainties that could cause actual results to differ materially from the projections made in the new release, or in today's conference call, please refer to our periodic reports filed with the SEC and available on EDGAR.

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

Rod Ruston: Thanks, Vince. Hello ladies and gentlemen. I'm very pleased to be able to talk to you again after another good quarter for North American. We continue to see steady improvement in the performance of our

business facilitated by very robust economic environment in our region and in our industry.

Revenue was just over 121 million, which was just shy of the record set in the second quarter of this year. That led to an EBITDA of 11.6 million.

I'm sure you will have noticed the reduced margin in this result. This is in part seasonal, but in this particular case is also contributed to by scope change and material variance claims on the CNRL site grading job that are still to be resolved. Chris Hayman and Miles Safranovich will both expand on this issue a little bit later.

Our improved performance has allowed us a substantial increase in our cash position over the last three months, and we're excited about the prospects for the final quarter and as we head into 2007 fiscal year. All three business segments are doing well, with a large number of contracts and increased volumes of work.

Projects in the Ft. McMurray oil sands region remain our largest source of revenue. Ongoing development throughout the region continues to facilitate increased work and open up opportunities.

Specific oil sands projects contributing to revenue include the site preparation and underground utility installation work for CNRL, and the ten year overburden removal contract also for CNRL, which is progressing very well and is ahead of schedule.

Outside the oil sands region we continue to provide mine services for Grande Cache Coal and De Beers. In spite of some delays due to warm temperatures in Northern Ontario, the De Beers contract is well underway, and in fact, I was there just the other day and I'm very excited about the way it's been progressing.

Construction of the winter road is now complete, and the last equipment is now arriving onsite. Most importantly, we're working very closely with AMEC to ensure the critical areas of the project, such as the old season airstrip, can be completed on the original schedule.

Our piling division is seeing outstanding results with a continued surge in the amount of work. Demand for piling is beginning to exceed the number of piling rigs and people available.

This quarter adds to the steady improvement and performance that has occurred over the past 12 months. We plan to continue this trend in future by capitalizing on the many opportunities that are available. This is a very exciting time for the company, and with the rapid growth and expansion in the oil sands there is a number of projects that we can bid on. Diversification into other regions, such as the De Beers Victor Project and Grande Cache Coal, will continue to round out our portfolio.

I'd like to now hand over to Chris Hayman, our VP Finance, to elaborate on our financial results for the quarter.

Chris Hayman: Thank you, Rod. Revenue for the three months, ended December 31st, 2005 was \$121.5 million; a 50 percent increase over the prior

year due to revenues on the CNRL site grading job, as well as higher piling and pipeline activity.

EBITDA, as defined in our news release, was 11.6 million, or nine and a half percent of revenue, which is 17.1 million higher than the three months ended December 31st, 2004 when the company experienced the losses on the Opti/Nexen site grading job. Margins were higher in both the piling and pipeline segments this quarter. However, as Rod outlined, the impact of the outstanding claims and change orders related to the virtually completed CNRL site grading project has meant that margins in the mining and site preparations segment were lower.

As outlined in our financial statements there are four significant hurdles before any revenues can be recognized on claims or unsigned change orders. As such, the company errs on the side of conservatism in this regard. Further, if any revenue is recognized on such matters, no profits can be recognized until settlement occurs. Therefore, the above matters can lead to situations where costs are recognized in one period and revenues with no associated costs are recognized in the subsequent period.

The process to resolve the claims and unsigned change orders is progressing well with both of our major completed site grading jobs. However, they are at stages where it would be inappropriate to provide too much commentary.

As planned, equipment expenses for the quarter were \$2.9 million higher than last year, but three percent lower as a percentage of revenue. As a percentage of revenue equipment expenses are typically higher in the third fiscal quarter when planned repairs occur before the busy winter works programs commence.

Operating lease expense increased to \$4 million for the three month, and to 10 million for the nine months ended December 31st, 2005. As outlined in earlier conference calls, we plan to increase our equipment lease fleet to meet the requirements of the CNRL overburden projects.

General and administrative expenses increased to \$8.2 million, from 5.4 in the prior comparable period. This is mainly due to outside consulting fees on process improvements, expenses associated with the restatement of our financial results, and costs related to SOX 404 controls documentation, and the associate personnel that were hired in that in term period to meet our public reporting requirements and meet the growth in the business. Over the long run, the company will continue to manage at or close to six percent of revenues.

Capital expenditures for the quarter total just over \$10 million. This increase is predominately a result of spending related to the Company's onsite maintenance shop facility being built at CNRL Horizon Mine.

I am pleased to say that despite increased Capex our cash balance at December 31st, 2005 was approximately \$32 million, and we had borrowing availability of almost \$5 million under our revolving credit facility, based on a SWAP liability of \$63 million. Discussions are ongoing with our lenders, to include certain assets into this borrowing base.

Finally, the company conducted its annual goodwill impairment test this quarter, and I'd like to report that there was no impairment in the \$200 million of goodwill that is recorded on our books.

That basically summarizes our third quarter financial results. I will now turn the call over to Bill Koehn, our VP Operations.

Bill Koehn: Thanks, Chris. It's been another productive quarter. All of our business segments show positive results, with a majority of our revenue derived from oil sands related projects.

Revenue in all our business segments increased for the quarter ended December 31st, 2005. Mining and site preparation revenues totaled approximately 90 million. Piling saw revenues of 21 million, and pipeline more than doubled its revenue from the prior comparative quarter to nearly 11 million. The year to date revenues for each business segment also shows improvements when compared to the previous corresponding period.

CNRL continues to be our largest customer and a significant source of revenue for our mining and site preparation segment. The site grading contract was completed at the end of the quarter, and the onsite maintenance shop facility nears completion.

We are focusing on the ten year overburden removal contract, which continues to be ahead of schedule with the total volume of material moved more than 15 percent ahead of plan for the 2005 calendar year. Crews are onsite at the De Beers Victor Project and construction on the James Bay winter road has been completed. Mobilization of the remaining equipment to the mine site is in progress. Work with equipment left onsite during the summer months continues.

Due to the unseasonably warm temperatures across Canada progress is slightly behind schedule. We are working closely to ensure the key parts of the project are completed during this winter season.

Our piling division continues to demonstrate outstanding results, and was a key contributor to revenue this quarter. Equipment and crews have a variety of projects underway, with plenty more lined up in the future. We are currently looking at our options to capitalize on this demand.

Our pipeline segment also shows a healthy amount of work. Increased productivity and work in the industrial sector more than offset the declines experienced in Q2 due to heavy rainfall. Work included the installation of a 52 inch pipe for CNRL.

Tires continue to remain an issue, and some minor delays have been incurred in the commissioning of new trucks. To date, we have had no production interruptions as a result of tire shortages. We are actively working with suppliers to secure new tires.

Availability of skilled labor continues to be an industry wide issue. We are taking a proactive approach to the shortage, and are doing as much as we can to recruit new employees through initiatives such as partnering with the placement offices at local universities and technical schools, and offering work terms to students. We continue to work with many clients in the Ft. McMurray area, and expect to announce new projects in the near future.

Those are the major operational highlights for the quarter. I will now pass the call to Miles, our VP of Contracts and Technical Services.

Miles Safranovich: Thank you, Bill. Good morning, everyone. Well, obviously, the discussion of detail in any of our claims is very sensitive. I am going to give you an overview of our status on these issues.

With respect to Opti/Nexen, we have reached agreement on a number of measurable items that were subsets of the final claim. Discussions relating to the main body of the claim are ongoing with an established path forward. Both sides remain committed to resolution of this matter by our March 31st year end.

Turning over to CNRL, we continue to develop our positions on the various outstanding change order requests for the grading contract. Both parties have agreed that the use of a mediator would be beneficial in the resolution of these issues, and the timelines and the choice of the mediator are presently being sorted out.

And as you're aware, the company recently implemented an operational improvement program called project Cobra. It's progressing very well and the project is met with an enthusiastic response from all our employees.

We continue to work on constructability, budget, and project schedule development and analysis for a number of future projects. Currently, we are tendering approximately 40 jobs per month. Estimates for upcoming projects for CNRL, Syncrude, Shell and Suncor, to name a few, are presently being developed.

That provides an overview of the key issues related to contracts and technical services. I will now turn the call back to Rod for his closing remarks.

Rod Ruston: Thanks, Miles. As you can see, ladies and gentlemen, we've had yet another strong quarter. The continued economic boom in Alberta, particularly in the Fort McMurray oil sands region, is definitely a contributing factor in the company's success.

There are plenty of opportunities for us in the thriving oil and gas industry, and we intend to pursue as many of those as we possibly can. With respect to guidance for Q4 and for fiscal 2007, we're expecting this current quarter, Q4, to be similar to Q4 of fiscal 2005 with somewhat higher margins due to a greater use of internal equipment. Net Capex for Q4 is expected to be under 5 million, with most of those costs being spent on the CNRL Horizon workshop.

We're projecting fiscal 2007 net Capex to be less than fiscal 2006, and for fiscal 2007 we expect that our results will demonstrate continued growth in both revenue and margins at a healthy, but somewhat more measured pace, than the growth we've succeeded to achieve in fiscal 2006.

Finally, the company expects it will maintain comfortable level above all of its bank covenants. I'd like to thank you once again for taking time to listen to our call today, and I'll now turn over to the facilitator to open the floor to questions that you may have.

Operator: Thank you. Ladies and gentleman, to join the question queue please press the numbers zero-one. If you wish to withdraw your question press the pound key. So if you do have any questions press zero-one now. Our first question comes from John McGinty with Credit Suisse. Please proceed with your question.

S: Good morning, gentlemen.

Rod Ruston: Good morning, John.

S: I wondered if you could just -- if we could just explain a little bit more about the CNRL. I think when Miles was going over the contracts we talked about the mediator or the timeline is -- the trends are somewhat uncertain in terms of timing, but can we just take a step back? Are we going to have a situation on every time you all finish a contract that you will -- that the margin will dip because you will report the revenue, but we can't get the earnings until the change orders are done? I mean I'm just trying to understand because it seems - - I'm trying to understand if there's something unusual about this, or is this what we're going to see -- it almost sounded like that was the norm. So I didn't want to misunderstand that. I wonder if you could explain that.

Rod Ruston: Yes. John, on a normal contract like our overburden removal or muskeg removal or site clearing, those sort of jobs the answer is no. Any changes that occur, occur pretty quickly and we get the change orders pretty quickly. The complexity of jobs like CNRL site grading, and in the past the Opti/Nexen site grading, just automatically means that as you go through the project the customer is still doing design changes, he's still preparing the final drawings, etcetera. You remember that North American Construction Group is virtually the first contractor onto these sites, and so we move into the project very, very early in the design phase.

S: Yeah.

Rod Ruston: That means that as we go they will come to us and say, look, we'd like you to extend this particular pipe out somewhere, or we'd like you to change this grade to a different grade. And so we have a very strict process that we set up since the Opti/Nexen issue that now identifies exactly every change that's requested, what the -- we evaluate what we expect the impact of that change to be, and we submit it through to the customer. But some of the impacts don't occur until later on in the project. So they can't be resolved immediately, and that means that they do tend to carry on past the end of the project. So in site grading type jobs, large site grading type jobs, yes, there will almost always be some claims involved. We will always take the cost to account when we incur those costs, but have to leave the revenue out until such time as we confirm the revenue from the client.

S: Just two follow ups on that. One, even though the timeline on the CNRL going to the mediator is an uncertainty, is it something that you would expect to wrap up in, let's say, the first half of fiscal? In other words, next fiscal year? Or in other words, in the second and third calendar quarter, or is this something that might go 12 -- 18 months. In other words, what's been your experience on how long these things last?

Rod Ruston: I would expect this would be resolved within the next -- by the end of this calendar year would be my expectation. I think CNRL are the same with that expectation.

S: Into this calendar year?

Rod Ruston: Yeah.

S: Okay. And then the related issue is are there any jobs that you're currently working on of size and substance that will finish within the next fiscal year? In other words, where we will see another thing where we get the revenue but we get the earnings later, or are there any large complex jobs of the CNRL nature that are -- that have that same experience that should be finishing?

Rod Ruston: There are none out there. There are none that we're doing at the moment. There are none out there that we expect to be bidding in the next short while, but let me assure you, if any come up we would certainly bid them. We don't see this as a negative issue. It's just a different --

S: No, no, but -- and all it does is not distort but kind of mess of timing of recognition. I just want to know --. Final question on a different issue; availability lead times on the trucks. You know, the big cab trucks, the big Komatsu trucks. The lead times, at least from everything I'm seeing and hearing, is still way out there. Are you seeing any break or changes in that? Any way to go out and get equipment that's going to be able to get you into something sooner? Or how would you just assess that situation right now?

Rod Ruston: We keep a very close contact and relationship with our equipment suppliers, and we make sure that we always have some availability going forward. So yeah, certainly the delivery times have extended, but we still believe that we'd be able to pick up some trucks if we needed to pick some up at fairly short order. Bill, would you like to comment on that at all?

Bill Koehn: Yeah, the availability for some classes of trucks is still out there, you know, of a year if you were to place a large order. There are opportunities as Rod comes -- that has stated because of our relationship with our suppliers that if opportunities arise that we have --

S: You could pick one or two off, maybe a little sooner if it were an emergency situation.

Bill Koehn: That is correct. And the one governing factor though is still tires --

S: Still tires.

Bill Koehn: -- for different classes of trucks. So you'd get the truck, but you might not have tires.

S: No, Caterpillar has said, and I think Komatsu as well, that they expect that in '07 there's a couple of plants coming on, but not before '07 do they see any easing.

Bill Koehn: Yeah, I believe it's more like '08 probably. Yeah, and it depends on the class of tire.

S: Yeah.

Bill Koehn: From what -- Michelin and Bridgestone each have a plant expansion under way, but I still believe it'll be sometime into '08 before the gap really closes.

S: Yeah, I think that's a fair comment. Thank you. Thank you all very much. I'll get back in queue.

Operator: Thank you. Our next question comes from Maryana Kushnir with Nomura Asset Management. Please proceed with your question.

S: Hi. A few questions. First should be easy one. General administrative expenses, what is the amount that is in -- that was non-recurring this quarter?

Chris Hayman: It's -- yeah, we -- probably tough to get into too much granularity on that, but I would say that you'd get close to a million dollars of non-recurrings. It always becomes a definition as to what's non-recurring. Is SOX'S a non-recurring item or is it a couple of years and those types of things, but depending on that classification.

S: Well, I guess if you look out next quarter do you expect those items to be in -- to those amounts?

Chris Hayman: Yeah, we still expect SOX'S, for instance, to be part of those costs for the next quarter. Obviously, we have a journey to be SOX'S compliant,

whereas costs like the restatements, which aren't obviously close to a million dollars, are non-recurring.

S: So restatement, in particular, were a million dollars and SOX'S --

Chris Hayman: No, no, no. That would include SOX'S as well.

S: Okay. Okay. And then more on CNRL. First of all, is -- can you possibly break out revenues as well as profitability between CNRL site grading and CNRL overburden?

Rod Ruston: No.

S: No? Okay. How much revenue was not recognized due to change orders? Is it around four million, if I'm reading footnotes correctly?

Chris Hayman: I'm not sure how you would pick that from the footnotes. There's revenue that hasn't been recognized on the claims we made on the CNRL site grading. Just because of the sensitivity of the negotiations, and respecting CNRL's position as well, we'd prefer not to comment on those amounts.

S: Well, if I look at footnote 3, accounting policy changes, it talks about the change in policy resulted in a decrease in claims, revenue, and then billed revenue of approximately 4.2 for three months. This ended December 31st.

Chris Hayman: Yeah. And that was -- certain items, as we mentioned, unsigned change orders do require us to follow those same revenue recognition policies as if they are claimed, and as items then move from being unsigned change orders to signed change orders then we would recognize that in normal course. That 4.2 in the footnotes really relates to the fact that items that were unsigned change orders previously became signed, agreed to, all the terms and conditions, and therefore we were able to bring those, you know, into revenue if we hadn't changed our accounting policies. So that's -- so what that what that footnote talks about is that our policy to recognize revenue where it's easily determinable, it meets those criteria, means that if we hadn't a policy in place you could not have recognized \$4.2 million into earnings previous quarters as in revenue in the third quarter.

S: You guys still confuse me. Maybe I'll go over this later. But CNRL -- as the claims related to CNRL, can you not disclose that?

Rod Ruston: No, not the total volume. It's under discussion between CNRL and ourselves, and there's a fair bit of discussion to go before we resolve them at this point in time.

S: Okay.

Rod Ruston: What we wanted to do was make sure that everyone was aware that, yes, there has been a margin variance in this quarter, and a part of the margin variance will be overcome through resolution of some claims, and they're out there.

S: Mm-hm. And also, when you say in the process of a recognition of these claims, or resolving of these claims is progressing well -- I mean it's not beyond our agreeing that this process has to be mediated. Correct?

Rod Ruston: Yeah, it doesn't have to be mediated, but both parties felt that the easiest way to go forward was to have someone in the room that would just make sure that there was clear and frank discussion, no arguments, and each party could put their points of view forward, and they would just help us resolve them.

S: And if you look at this claim versus Opti/Nexen, I was under impression that these two situations are different. First of all, Opti/Nexen was lump sum contract, and this is unit price type of agreement, and then it seems like you just didn't have enough provisions in Opti/Nexen. Are you just kind of asking them could you be nice to us and help us out while here you have a little bit more power. Is that the right way to look at this?

Rod Ruston: I think probably the best way to look at this is just to say that we're a lot more prepared with our systems and processes as we went through the CNRL site grading as compared to going through the Opti/Nexen.

S: But the lump sum versus unit price, is that a correct distinguishment?

Rod Ruston: Yeah, they were both unit priced contracts.

S: Both unit priced. Okay. All right. And just two last ones. Overburden activity at the CNRL, if you could just kind of -- it's probably tough to quantify, but could you describe, you know, at what level is it now versus December quarter, just for us to get an idea how the ramp up is going along.

Rod Ruston: The ramp up is going along extremely well, and as Bill mentioned, we're ahead of schedule by around 20 percent. But Bill, would you like to comment on that? The shovel arriving, etcetera?

Bill Koehn: Sure. Of course, last year we started about July when we overburdened. We continued to ramp up increasing equipment. We now have a two loading unit working onsite, and we have a large EX8000 with the hydraulic shovels, that is all the parts are on -- being assembled. That will go through commissioning, and start somewhere around July -- or I should say April, and we have trucks, additional trucks arriving. So the ramp up is continuing well, and --

S: Is it possible to say but what percent -- by what percentage is the activity higher this quarter versus last quarter?

Rod Ruston: Do you mean how far through the contract we are?

S: Pardon?

Chris Hayman: You're looking for an increase quarter over quarter in revenues, Maryana?

S: No, just the activity, whatever, you know. I don't know how you want to quantify it. Or how many, you know, buckets of dirt did you move, stuff like that. Just to give us an idea how that ramped up because what I want to understand -- CNRL site grading has been completed, which was a big contributor to the revenue, and now we won't have that revenue, and you don't want to disclose the split between overburden CNRL site grading revenue, and I want to get a better understanding how the revenue will look like once we won't have site grading job.

Rod Ruston: The revenue on the overburden removal hasn't increased very much over the last two consecutive quarters. We're continuing to have trucks delivered, which we did in the last quarter. The next quarter we'll have a new shovel delivered, and so the whole overburden project is continuing to ramp up.

S: Okay. Thank you.

Chris Hayman: And one quick follow up point with respect to the claims and the distinction between Opti and CNRL, if I can. Probably the biggest issue in terms of managing the claim resolutions can be evidenced by the turnaround -- the time to get these issues resolved. You know, as we mentioned, we're working to resolve the Opti/Nexen claims, and we're also meeting with CNRL and working out the logistics on that. And it's because of the processes that we had in place that from the learnings of Opti and from, you know, the process improvements that we're able to get a much quicker resolution and discussion of the items with CNRL. So that probably helps to illustrate some of those -- the improvements that the company has put in the place, and in evidence there on.

S: Okay. Thanks.

Operator: Thank you. Our next question comes from Kathryn Tsibulsky with Jeffries & Company. Please proceed with your question.

S: Morning. I was wondering if you would discuss how the winter freeze has gone. If you've had enough cold weather to really proceed on schedule with everything, both last quarter and if you could speak to this quarter as well that would be great.

Rod Ruston: Well, actually, I was looking for my first white Christmas and I didn't get it. I brought my whole family over from Australia to see the first white Christmas and we didn't see a flake of snow. So it affected me, but in general, in Fort McMurray what it's allowed us to do actually is do some more summer type work that we would otherwise not have got done, and yes, we didn't get on schedule with some of the winter type work which we expected to, but the two have balanced off quite well. So it really hasn't affected our schedules to any great extent. In Northern Ontario there's no doubt the winter road was light, but again, the program that was put in place and the strategy that was put in place between De Beers, AMEC and North American Construction Group last year of leaving equipment up in the area did allow us to immediately get on with some of the work on schedule in the De Beers Victor Mine area. It did mean that we didn't have the heavier trucks that we needed there as early as we wanted it, but it has allowed us to get onto doing the mine work. We've focused on -- there has been some schedule changes, and we're certainly focusing very much on the key areas of the Victor Project, such as the airstrip, and the preparation of the main parts of the site that absolutely are key to being achieved in this winter. And we do expect that we will complete those pieces.

S: Okay. Great. In the site mining segment, the CNRL overburden project and the De Beers project, have your margins been sort of as expected thus far on those two projects?

Rod Ruston: Yes. Yes, they have.

S: Okay. So the CNRL site grading project was the only one that really affected your margins?

Rod Ruston: Yes, the CNRL site grading project is a very complex project because it involves multiple different types of work; pipe laying, trench digging, site grading, etcetera. The comparison to that is CNRL overburden, which is very much standard mining of truck and shovel. So it doesn't have a source of claims, if you know what I mean, or a source of significant changes. Any changes that are required can be well planned ahead and can be talked out with the client.

S: Okay. Great. One more really quick question. Going back to the winter freeze and you mentioned that you rescheduled some of your work. Some of your summer work was being completed in the last quarter, and some of the winter work was going to be postponed. Will that affect your summer cash flow at all as you -- I don't know. Can you speak to that at all?

Rod Ruston: No, it shouldn't. It'll -- it just allowed us to do some stuff that we wouldn't otherwise not have done, but we're still going to be very heavily engaged over the summer period because of the amount of work that's around. Bill, do you want to comment on that at all?

Bill Koehn: Yeah, with the warmer weather initially there was a little bit of an impact, and you need to look at it as on some projects it's a detriment, and other ones it's a benefit. So what Rod's speaking to, it allowed us to pick up some work and complete some work that traditionally you wouldn't do in that time period. So that's definitely a positive. All the work that we have planned to do this winter will get completed as per the scopes of work required for the client. So we won't have anything that's going to carry over that we had planned to do during the winter period into the summer.

S: Okay. Great. Oh, if I may, I just have one more really quick question. You said earlier in the phone call that you expected your fourth quarter to sort of be inline with the previous year fourth quarter in terms of revenues, and that margins would improve somewhat. I think your EBITDA was in the range of just north of 20 million during that quarter. Is that a pretty good number to aim towards?

Rod Ruston: Yeah.

S: Okay. Great. Thank you very much.

Rod Ruston: Okay.

Operator: Thank you. Our next question comes from Mark Brostowski with Regiment Capital. Please proceed with your question.

S: Yeah. Can you just talk about -- you said you were in covenant compliance. What are the covenant tests in your bank agreement, and kind of where do you stand on the testing level?

Chris Hayman: Sure. There's three covenants that we have. The first one is strictly an EBITDA, making sure we're above a minimum EBITDA level. The second test is a leverage to EBITDA, so debt EBITDA ratio, and with most of our debt, other than some capital leases being fixed, that's very straightforward to rate -- to balance those two out. The last covenant that we have is a fixed charge covenant ratio, which takes our net capital expenditures plus interest plus

cash taxes in a ratio to EBITDA as well, and there's a bit more fluctuation on that. The Capex is within management's control as well. Probably -- I mean I think we've tried to get some guidance as to where we think we'll be on those covenants from a broad perspective. To get too defined and too narrow would basically be giving you our forecast for our upcoming year's earnings. So hopefully that gives you the guidance that you can at least give some perspective of where we're going to be.

S: And in the debt EBITDA test, is that -- do they use the market value of the foreign exchange hedge liability, and have -- in that test?

Chris Hayman: No, like -- they've viewed it from the economic perspective, which we certainly feel is better overall views, but recognize the accounting criteria's in the document deficiencies on the hedge. So they look at it as \$263 million Canadian of debt, plus the value of the US \$60 million notes, which does mark to market adjust, and then our capital leases.

S: Okay. But so then the only time that the hedge liability is used is in your availability?

Chris Hayman: That's correct.

S: All right. And what is it -- is there a difference -- I mean when you mark to market versus the bank's mark to market on availability, are both numbers the same, or is yours different? Or you know, how does that compare?

Chris Hayman: When we mark to market? No, very much they're the same. We supply those numbers to our facility lender.

S: Okay.

Chris Hayman: And you know, they confirm and make sure they're comfortable with what is being provided, but it's the management numbers that are provided to them.

S: Okay. And then last question, your joint venture that you consolidated, I'm just trying to figure out why -- what really was that? It seems to -- the only assets seem to be receivables and unbilled revenues. So I'm trying to figure out what really was that joint venture.

Chris Hayman: The joint venture is with the Fort McKay First Nations group in and around the Fort McMurray area. It is -- basically each job that we undertake we look to see whether or not that's a good job for that joint venture, and then the participant's level in each of those jobs will vary as well. So at a certain point in time it may be that it's virtually all of our work, even though it's

being undertaken through the joint venture, but the assets that normally would occur then are the revenues -- sorry, the end billed revenues, and then receivables off of those revenues. So in most cases that's the likely assets you'll see in that venture. It's just that percentage of revenues, and the associated receivables, of course. The equipment is all supplied by the joint venture partners, either ourselves or the Fort McKay First Nations Band, as is labor, and those often are the determinations. So you won't see much more from an asset perspective other than those items.

S: Okay. And what is the benefit of that? I guess it seems like joint bidding, or of the JV was what?

Rod Ruston: Sorry. I didn't hear the question, but I'll answer what I think is the answer. The joint venture is put in place because we like to work alongside the First Nations people if we can, and there's certain places where we can work together very effectively. On this particular job the First Nations people felt that it was too large, and not something that they wanted to participate in, and that's why it was brought back as entirely into the North American Construction Group piece, but we're still doing some work directly with the First Nations people, and will continue to do so on any place where we feel that there's a mutual benefit to them contributing into the business.

S: Okay. Thank you.

Operator: Thank you. Our next question comes from Matthew Chyra with Deutsche Bank. Please proceed with your question.

S: Hi, guys. Just a few questions, if I may. Are there any performance bonuses related to the De Beers contract -- or sorry, not the De Beers, the CNRL overburden contract?

Rod Ruston: No. It's a contract that we set to remove an overburden at a certain rate. If we move it faster than that rate then we get more revenue, but there's no specific performance bonus that says if you're 'X' amount ahead then you'll get some particular payment or anything.

S: Okay. Then kind of the some of the things that we're seeing in this quarter now, Syncrude has one of -- I guess it's coker is down for maintenance. I think the Suncor, not Suncor, the Albian Project is down, reduced capacity due to some other unscheduled maintenance there. Is any of that impacting your volumes right now?

Rod Ruston: No. We're getting requests for proposals almost every day on work to be done in the Fort McMurray area, and you know, equipment utilization over the next period is going to be quite high.

S: How is the utilization at Grande Cache right now? Kind of some of the macro issues, I guess, from the coal side is that there's inventories backing up until the new year's coal prices are decided. Is the level of activity at Grande Cache still pretty high?

Rod Ruston: Yes. We did take a shut down in November last year where they did have an overstock situation at Grande Cache, or actually it was at the port, but it was Grand Cache's Coal, but since that shutdown we've ramped up and we're producing as much volume as we can.

S: All right. And Chris, what was the thinking behind purchasing back some of the preferred shares in this last quarter?

Chris Hayman: That was actually contractual. What had happened, when the preferred shares, the series 'B' preferred shares were issued initially during the refinancing in May they were subscribed to by the sponsor group with the full expectation that all shareholders, which would be employee shareholders, directors, and others, would have the opportunity to participate and that they would just sell those shares back to the -- they'd buy them from the initial contributors.

S: Is there an expectation that that's going to be -- kind of that level's going to continue going forward in terms of --

Chris Hayman: No, that's basically a sealed issued in terms of the people that have subscribed for the preferred shares. Outside those sponsor groups have had a limited time to do that, and they exercise that ability, and it's pretty much settled now.

S: Okay. And then the last question, could you elaborate a little bit on the initiatives you're kind of looking into to take advantage of the piling backlog. Are there some kind of, you know, mom and pop operations, some tack on acquisitions that you could make in that sector, and are you seeing kind of the EBITDA margin for that segment this last quarter was about 32 percent. Is that a reflection of the kind of the supply shortage right now, and is that kind of a fair assessment for going forward in that margin?

Rod Ruston: Certainly the demand in that sector is very hot, and we're looking at -- yeah, sort of any alternatives we're evaluating on a regular basis what's the best strategies for us going forward. So expanding our presence in that sector wouldn't be beyond the realms of reasonableness.

S: And in terms of margin in there, do you think that's kind of reasonable going forward?

Rod Ruston: You'd need to be careful predicting that high, but the margins will be robust for a long time.

S: Okay. And one more question, if I could just take a stab at the CNRL claims issue. In the first quarter of this fiscal year that segment had about a 17 percent EBITDA margin. It's about 12 point -- you know, just under 13 percent for the second quarter. If there was no issue with these claims, is it fair to say that the margin, the EBITDA margin in the third quarter, would have been somewhere in that neighborhood between those two? Or even, you know, in the worst case scenario, if you only get the original revenues now, and those are actually booked, is it fair to say that that margin will be somewhere in that range?

Rod Ruston: We think we performed the job very well. CNRL have confirmed the fact that we performed the job very well. There were some issues of lightness in the supply of some of the materials, and that resulted in us having to put additional equipment to bear and additional people. That obviously affects margins. If everything had been on time and we'd performed the job as well as we did then we would have expected the margin that we'd be to -- be in the margin that we resulted in.

S: Okay. Fair enough. Thanks, guys.

Chris Hayman: Thanks, Matt.

Operator: Thank you. Our next question comes from Lou Nardi with Nesbitt. Please proceed with your question.

S: Hi, guys. The quarter benefited -- or the cash position benefited quite a bit from that as much as \$20 million swing in different working capital items. I'm just wondering, is that something that's going to reverse out, or can you give us any guidance going forward? And what does cash look like now?

Chris Hayman: Yeah, I mean cash continues to be strong, and you know, we're continuing to build our cash balances. One of the major impactors of that growth between September and December for our cash balances was, as you know, the working capital side. That, in part is, you know, continued focus on our cash collection processes, and in large part as well because of the ability to bill the unbilled revenue that primarily would have built up on the site grading job. You know, obviously there's various milestones that require billing, and as we met those milestones, and they often occur near the end of a project in certain cases, that allowed us to get revenue into a billed state and then collect it. You know, certainly it had very good payment terms, and obviously, Lou, customer base to allow good collections on that side.

S: And certain question -- this may be beating a dead horse, and other people are up on this, but I'm still not sure on the derivative side. Is any of that being flowed through interest expense? Like the -- I know that the coupon is fixed on 8 3/4 now at a higher level. Is that flowing through interest expense, or is that flowing through the derivative line? And the currency side, I assume none of that is flowing through interest expense now, the benefit from the change of currencies.

Chris Hayman: That's correct, Lou. I mean there's a small amount that flows through the interest line. Again, from a modeling perspective unless you want to try and model changes in foreign exchange, and I realize that there's some benefit of doing that, we have \$263 million Canadian fixed rate data at 9.889 percent is how it's effectively hedged from an economic perspective, and that's certainly, you know, as billing them out I'd probably look at our cash flows because that is what occurs. Any other changes beyond that really are non-cash items and primarily flow through the derivative financial line.

S: Thanks.

Operator: Thank you. Our next question comes from Kate Jaquet with Seneca Capital. Please proceed with your question.

S: Hi. Two quick questions. Can you update us on your discussions with the rating agencies? Have you met with them recently, and when do you think they might change your outlooks to stable or even positive?

Rod Ruston: We can. We met with them last week. Chris?

Chris Hayman: Yeah, we had a chance to meet with S & P who we did not get a chance to meet with when we were down in the late fall last year. So we were able to meet with S & P and go through things. Obviously, it's inappropriate for us to comment whether or not the rating agencies will, you know, change their outlook, but we do -- they were good positive meetings, to be certain.

S: And the Moody's update? I'm sorry, I don't remember the last time you've spoken with them.

Chris Hayman: We'd spoke with Moody's in the late fall, and we do need to schedule to meet with them again as our plans have continued to develop, and we have an upcoming budget year that we can talk about now with them. So there has not been a confirmed time with them yet.

S: Okay. Thank you. And then just one other sort of big picture question. What is your just general balance sheet vision for the company with regards to potential public equity offering, and I ask this question especially in

light of the positive operating results, and just the general industry momentum in the oil sands business.

Rod Ruston: Yeah, we've gone through a year so far of getting ourselves back on track, getting some cash reserves in the bank, getting ourselves in a position where we can comfortably go forward and continue to be and grow this company. We recognize the next step now is to look at our balance sheet. We will be doing that over the next 12 months and coming up with various strategies. Obviously, which we'll put to the board. Those strategies we'd be looking at addressing both our short and our long term debt facilities.

S: Okay. Are there any specific events beyond getting your financials up to date? Any hurdles before you guys would talk about doing some sort of public offering?

Rod Ruston: Well, our specific event which we achieved this month, first up, was to report on time, and I was very pleased to say, and I hope everyone recognizes, that we reported at the required date for this last quarter. We're going to continue to do that. We need to get a couple of quarters of good runs on the board, but during that time we will continue to consider what are the best opportunities or options available for this organization.

S: Okay. Thanks for answering all these questions.

Operator: Thank you.

Rod Ruston: Okay.

Operator: Our next question comes from Maryana Kushnir with Nomura Asset Management. Please proceed with your question.

S: Hi. Just to follow up, regarding Capex for '07, you said it would be lower. Could you be a little bit more specific, I guess? This year you're going to spend \$28 million. How will that compare?

Rod Ruston: Next year will be less than 28.

S: Not more specific than that?

Rod Ruston: It's very dependant, Maryana. If I was to say off the cuff now I'd say significantly less than that, but the question was asked earlier, for example, by someone else about what are you going to do in the piling business, and then there's the opportunities that are out there where we may need additional equipment for the trucks and shovels type areas. There's opportunities out there that we want to grasp. So we want to keep a good balance between what we spend and our debt levels and everything else, and the cash that we

want in the organization, but at the same time we want to take opportunities. So the best I can say is I believe it'll be less than last year. How much will depend on what decisions we make during the year on accessing equipment basically.

S: Mm-hm. And operating leases, what would be the run rate for '07 roughly?

Chris Hayman: The only basic items you need to add for operating leases for '07, and for the balance of fiscal '06, relate to the CNRL overburden requirements, and when we've looked at our capex for next year we've assumed no further change in operating leases other than for the overburden job, which is a requirement of the contract. So we've got three more trucks and two large shovels that still need to be added with respect to the overburden contract, and you know, that will add, you know, a sizable amount of capex. Probably not that much different than our capex for this year in total, but that will be the off balance sheet operating leases.

S: So --

Chris Hayman: The other side -- oh, I'm sorry. Go ahead, Maryana.

S: -- I'm sorry. So you -- earlier you gave us guidance that six million per quarter in operating leases that would be kind of right where you would exit in '06? And does that still make sense? Is '07 going to be higher than that?

Chris Hayman: Yeah, '07 should be somewhat higher with the additional equipment that's going to be added in '07 with respect to the additional capital. We do -- in our notes we do give some operating lease amounts at our current rates.

S: Okay.

Chris Hayman: And then, you know, hopefully the information as to the additional trucks and shovels that are going in should be able to give you some numbers to be able to monitor operating expense for next year.

S: Okay.

Chris Hayman: But if there's any questions or clarifications, by all means give me a shout for sure.

S: Okay. Thanks.

Operator: Thank you. And currently there are no more questions in the queue.

Vince Gallant: Okay. Thank you for joining us on our conference call today. A transcript of today's call will be available on our website in a few days. If you have any further questions you can contact me, Vince Gallant, at the number shown at the bottom of our news release, or shown on the news page of our website at [www.nacg.ca](http://www.nacg.ca). Have a great afternoon.

Rod Ruston: Thank you, everybody.

Operator: Ladies and gentlemen, thank you for participating in the North American Energy Partners Inc. conference call. On behalf of myself and the rest of my teleconferencing team, thank you for choosing Telus.