



## **Fiscal 2006 Earnings Conference Call Transcript – July 27, 2006**

**Operator:** Good morning ladies and gentlemen. Welcome to the North American Energy Partners Inc. conference call. I would like to introduce Christopher Hayman. Please go ahead.

**Chris Hayman:** Thank you very much. Once again good morning ladies and gentlemen and welcome to North American Energy Partners Inc. conference call. My name is Chris Hayman, as most of you know I am the Vice President, Finance and I would like to thank you for joining us today.

Also participating in the call is Rod Ruston, our President and CEO and Bob Harris, our new Vice President, Human Resources, Health Safety and Environment.

Today we will discuss our fiscal 2006 financial results issued in our news release on Friday, June 30. 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 or in the Q & A session in 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 prospect 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 those contained in the forward looking

statements. For information related to the risks and uncertainties that could cause actual results to differ materially from the statements made in the news release or in today's conference call, please refer to our periodic reports filed with the SEC and available on EDGAR.

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

**Rod Ruston:** Thanks, Chris. Good morning ladies and gentlemen. I'm very pleased to be speaking to you after such a successful year at North American. We worked extremely hard during the fiscal year, 2006, to improve all aspects of our business and our improved financial results are evidence that this hard work and dedication has paid off. North American achieved record revenue of \$492 million and record EBITDA of \$73 million and I am pleased to announce that at the 31<sup>st</sup> of March 2006, our cash balance was \$43 million. More than \$18 million more, sorry, more than doubled the \$18 million that we held at the same time last year.

This improvement in results can be attributed to increased activity levels and efficient efficiency performance coupled with the introduction of improved business systems throughout the organization. As I'm sure you're all aware by now NACG Holdings, the parent company of North American Energy Partners, has filed a registration statement with the US 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. This action which we took last Friday explains both the reason for delaying this conference call and our very strict adherence to script as we are limited in what we can say today.

We will have a brief Q & A session but as experienced analysts, I would appreciate your cooperation in keeping questions within the realms of what we can respond to, which is generally only clarification of any issues resulting from last years performance. In particular, we are not going to discuss the filing or the anticipated schedule. Prior to the Q & A however, let us give you an overview of where we've come from to achieve what I believe is a very good year end result.

Projects related to the Canadian Oil Sands continue to be our largest source of business, accounting for the 71% of total revenue for fiscal 2006. As a result of ever increasing energy demand, oil and gas prices continued at high levels. This in turn led to accelerated growth in the oil and gas industry and placed our company in an excellent position to capitalize on that growth as new projects continue to be announced. All three of their business segments performed well with a large number of contracts and increased volumes of work.

The mining and site preparation segment experienced record revenue of \$367 million compared to \$265 million in fiscal 2005. This increase was primarily attributed to the planned growth of the overburden removal contract which CNRL being achieved, the site grading work at CNRL being completed and the company securing a number of other large contracts including Shell's Jackpine Mine, reclamation for Syncrude and site preparation at DeBeers, supplemented by increased work in our ongoing services contracts.

Our Piling division also achieved record revenue of \$91 million for the 12 months ended 31 March, 2006, an increase of \$30 million from the previous fiscal year. The industrial and commercial construction industries experienced substantial growth across

western Canada resulting in an intensified demand for piling and a consequent increase in revenue for North American.

The pipeline segment also showed improved financial performance with revenue of \$34 million for the year ended 31 March, 2006, an increase of \$2.5 million over the prior fiscal year.

Work on all our major projects progressed very well and on schedule. We were able to mobilize all our heavy equipment to the DeBeers Victor Project site before construction of the winter roads ceased in April due to the arrival of the warmer spring weather. Other site preparation aspects of the project progressed well and the air strip was nearing completion by the end of March. CNRL continues to be our largest customer and a significant source of revenue for our mining and site preparation segment with the ten year overburden removal contract at Horizon progressing well as at the end of March.

As was disclosed in the news release issued on April 13<sup>th</sup>, 2006 a new Hitachi EX8000 shovel was commissioned for this project in early April. This is the first of two to be owned and operated by North American for this contract.

April also marked the completion of North American's on site shop facility at Horizon mine. This facility was completed on schedule and on budget and will be key to ensuring that our equipment fleet continues to operate at expected performance levels throughout the duration of the overburden removal contract. Pleasingly we are able to fund the \$16 million dollars required for this project from our operations.

Tires continue to be bring an issue and some delays have been incurred in the commissioning of new trucks. As at March 31, we had 4 trucks at CNRL without tires but we offset this capacity shortfall with alternative trucks from other areas of our organization. As at March 31, we experienced no production interruptions at CNRL as a result of tire shortages and we have sufficient tires to maintain full operational capacity of all other trucks in our extensive fleet. We also continue to work actively with the suppliers to secure new tires.

As you know we haven't initiated an operational improvement program focused on implementing systems and process improvements, performance measurement techniques, enhanced communication and improved organizational effectiveness. The effect of these process improvements can be seen throughout the organization and are evidenced in our 2006 financial performance, as you can see from our results, which improved significantly year on year. The improvements to our business processes were introduced supported by the booming energy construction industry helped facilitate this improvement in results.

I'll now pass back to Chris Hayman, our Vice President, Finance to elaborate on the financial performance.

**Chris Hayman:** Thank you Rod.

As Rod mentioned, revenue for the 12 months ended March 31, 2006 was \$492.2 million a 37% increase over the prior fiscal year. This was due to higher volumes of large high margin contracts and increased activity across all divisions most notably the site grading and overburden removal contract with CNRL. EBITDA as defined in our news release was \$73.1 million or 14% of revenue. This is more than double the \$35

million in EBITDA recognized in the prior fiscal year and as Rod mentioned earlier both our revenue and EBITDA figures were records for NACG.

Equipment cost increased by \$12 million dollars or 22.7% from \$52.8 million dollars for the fiscal year ended March 31, 2005 to \$64.8 million for the fiscal year ended March 31, 2006, as the size of our fleet increased to support the higher scope of work. However, as the percentage of revenue equipment costs were 13.2% as compared to 14.8% in the prior fiscal year. Primarily, due to increased activity levels allowing higher utilization and lower unit costs.

Equipment operating lease expense increased by \$9.8 million to \$16.4 million for the fiscal year ended March 31, 2006. This is primarily due to the addition of new leased equipment to support new and ongoing projects including the CNRL overburden removal project.

General and administrative expenses increased by \$8 million or 35.1% from \$22.9 million for the fiscal year ended March 31, 2005 to \$30.9 million for the fiscal year ended March 31, 2006. The increase was primarily due to increase of professional fees incurred in the fiscal year 2006 as a result of the May, 2005 financing transactions and increased salaries as a result of bonus accruals for improved financial performance and our hiring of new executive officers and staff to manage increased activity and corporate requirements. As a percentage of revenue general and administrative expenses were 6.2% for the fiscal year ended March 31, 2006 as compared to 6.4% for the fiscal year ended March 31, 2005. Net capital expenditures for the year totaled just under \$30 million compared to \$27.5 million in fiscal 2005. This increase was predominantly a

result of spending related to new equipment and the company's on-site maintenance shop facility at CNRL's Horizon Mine.

I am very pleased to report that on July 19, 2006, we entered into a new credit agreement which, subject to the borrowing base limitations, allows for borrowings up to \$55 million, providing greater access to short term funds and facilitating the issuing of any required letters of credit. Importantly, the borrowing basis is defined as the aggregate of 60% of the net book value of the company's property plant and equipment, 75% of eligible accounts receivable and un-pledged cash in excess of \$15 million. The sum of all the borrowings and the mark to market value of the company's liability under existing swap agreement must not exceed the borrowing base. As was previously the case, the credit facility is secured by a first priority lien on substantially all of the company's existing and after acquired property. The result of this refinancing is that the company has borrowing availability of \$37 million under this new facility after deducting the \$18 million in previously outstanding letters of credit. By way of comparison, if we were operating today under our previous credit facility, our availability would be approximately \$12 million, taking the \$18 million of letters of credit into account.

On April 24, 2006, the company reached an agreement with the customers to settle outstanding claims arising from a mining and site preparation project. The company received a cash payment of \$7.6 million of which \$6.1 million had not previously been recognized as revenue. That summarizes our fiscal year and financial results.

I will now turn the call over to Bob Harris, our new Vice President, Human Resources, Health, Safety and Environment.

**Bob Harris:** Thank you Chris.

Hello everyone. I'd like to take this opportunity to introduce myself. My name is Bob Harris. I recently joined North American as the Vice President, Human Resources, Health, Safety and Environment.

Earlier this month, the company completed the employee reorganization component of the improvement initiative introduced earlier this calendar year. To briefly overview, there are two primary goals of this improvement initiative as set out to achieve. The 1<sup>st</sup> being the analysis and process improvements across our operation and the 2<sup>nd</sup> being a review of our organizational structure and effectiveness. Rod outlined earlier the status of the first initiative and now I'll update you on the second. With the growth of the company, and the transition from a family owned business to a larger more complex organization, it was time for a review of the organization's structure to improve effectiveness and better position the company for growth. Our team began an extensive process to analyze manpower requirements and develop accurate job descriptions necessary to create the foundation for individual accountability. Then the company talent pool was evaluated against the requirements of the new roles both in terms of tasks and behavior. The final step was to place the right people in the right roles – a process which is well under way and our employees are responding very positively to this initiative. As part of the reorganization, some key changes have been made to the executive team which will better position us for growth ahead by increasing the leadership focus on key areas of our business. Miles Safranovich is now Vice President, Business Development and Estimating and I was appointed Vice President, Human Resources, Health, Safety and Environment, effective June 19<sup>th</sup>. We're currently in the final stages of an external

executive search for a Vice President, Finance and upon appointment of the successful candidate, Chris Hayman, currently Vice President, Finance, will transition to the role of Vice President, Supply Chain.

With virtually full employment in a booming economy here in Alberta, the availability of skilled labor, both blue and white collar, continues to be a significant business issue in Alberta and in this industry and therefore continues to be prime focus of our activities. I look forward to announcing our initiatives for employee recruitment and retention in future conference calls.

I'll now turn the call back to Rod for his closing remarks.

**Rod Ruston:** Thanks Bob and thank you ladies and gentlemen.

As I said earlier, I am very pleased with North American's performance in fiscal 2006. We're still implementing and perfecting many processes to improve our overall efficiency as an organization and this is a very exciting time for North American. I'd like to thank you all once again for taking the time to listen to our call today. We anticipate filing form 20-F with the SEC prior to September 27, 2006 deadline. I'll now turn the call over to the facilitator to open the floor for any questions you might have and remind everyone that due to applicable security regulations; there are some matters that we will not address. Thank you very much.

**Operator:** Thank you ladies and gentlemen. To join the question queue, please press the number 01. If you wish to withdraw your question, press the pound key. If you have any questions, please press 01 now.

**Operator:** John Zaehring, Loomis Sayles, please go ahead with your question.

**John Zaehring:** I think that this one will stay away from all issues regarding your IPO. You obviously bid on a lot of projects and you get your share of wins. I am interested in the projects that you bid on that you do not win and what your analysis is of why you didn't win them, who won them and what they had that you didn't bring to the table and whether you have any regrets regarding any of those projects where you should have bid more aggressively or not.

**Rod Ruston:** There's a myriad of reasons why an organization can miss out on a particular contract that they bid for. We win what we believe is a very reasonable number that bounces off our availability of equipment, the timing that we need to utilize that equipment be available to our people, etcetera. In some cases, when we miss a bid we say and we understand what the value of the bid was that we missed – we're very happy with the fact that we missed it because we know our business very very well. Sometimes, we miss out on a bid simply because someone else has got a greater availability of equipment that fits the time frame of the customer. There's a lot of reasons why we may miss out. Generally, we're very happy with the level of bids that we win and I wouldn't say that given the utilization of all our equipment, the people that we would need to win a whole lot more than what we do now to stay at a very very structurally sound and growing business.

**John Zaehring:** A quick follow up on that. Have you gotten any case that someone was bidding cheap, if you will, working for less than the kind of profit margin that you would deem acceptable on a given class of work.

**Rod Ruston:** Well, we believe so but that we don't know that, that bid is numbers and the way they put their financial structure together so it may have been right for them but there are bids that come out that we say well, that's fine we missed it. We wouldn't have gone in at that particular number anyhow so we're quite happy. We do a fairly serious post mortem on all the significant ones that we miss out on and there's none that I can stand up and say, bad, bad practice we didn't put something together, we missed anything or anything like that. One of the keys to our business performance in the last 12 months has been a very very strong focus on the bidding process - had we put things together to make sure that we understand exactly what we're putting into every bid, what margins we're putting in, what equipment and people that we're committing, etcetera. So, we're very, we feel very confident when we go in for a bid that we are going in at the right number.

**John Zaehring:** Okay. Thank you for that response. It's very encouraging. I expected really nothing less and congratulations on the year and the quarter and looking forward to the IPO and what you deliver down the road.

**Chris Hayman:** Thanks John.

**Rod Ruston:** Thank you very much.

**Operator:** Thank you. Matthew Chyra, Deutsche Bank. Please go ahead with your question.

**Matthew Chyra:** Hi guys, how are you?

**Rod Ruston:** Good, thank you Matt.

**Matthew Chyra:** A few questions if I may. The first one, could you give us a flavour for the 1<sup>st</sup> quarter of the fiscal 2007? Historically you have been able to give us kind of a direction of where it was first of the year ago? Could you give us any of that colour about the seasonal break up or anything?

**Rod Ruston:** I'm sorry. I can't Matt.

**Mathew Chyra:** Okay and how about then the pipeline of projects kind of related this year? Are you saying anything, you know we saw this big cost overrun announcement from the Jackpine guys or from Albion on the Jackpine Mine. Is there a-do you see that being delayed at all, how is the pipeline of new projects shaping up for the latter half of this year?

**Rod Ruston:** It's still a pretty hard one to answer but you can look into the industry yourself from the announcements that are being made by the various organizations up there on the sort of projects that they are putting out and it is a good space to be in at the present time.

**Matthew Chyra:** Do you anticipate any other big mining contracts coming down and I am kind of curious to the timing of the IPO now, I mean, is there, do you see that you have a sufficient equipment to cater to these contracts or anticipate needing more equipment and so forth.

**Rod Ruston:** We've put out our capital requirements before and we've got a structure that's in good shape as a result of our 2006 performance and the result of having that structure in place is we're able to acquire equipment as required to fill in any shortfalls that we have.

**Matthew Chyra:** Okay. Chris, could I just confirm one thing that cash payment of \$7.6 million on Opti/Nexen. Was that Opti/Nexen?

**Chris Hayman:** We can't, we can't really discuss the nature of the claim. It is just part of the nature that we had to disclose it from a legal perspective in terms of financial statements but we really can't discuss for confidentiality and again hopefully that everybody understands the purpose of this call is related to discuss the 2006 results which the claim that is effectively subsequent event but all the forward looking stuff - this time guys we just really have to say no comment.

**Matthew Chyra:** Okay. In that case I appreciate.

**Rod Ruston:** Thanks Matt.

**Operator:** As a reminder, if you wish to ask a question, please press 01. There are currently no further questions in the queue.

**Rod Ruston:** Okay. Thank you very much.

**Chris Hayman:** Thanks for joining us on our call today. A copy of the transcript of today's call will be available on our website within a few days. Have a great afternoon.

**Rod Ruston:** Sorry, I jumped in ahead of queue everyone. Thank you very much everyone.