North American Energy Partners Inc.
Q1 Conference Call Transcript

Participants:

Rod Ruston – President and CEO
David Blackley – CFO
Joe Lambert – Vice President, Oil Sands Operations
Bernie Robert - Vice President, Corporate Services
Kevin Rowand – Director, Strategic Planning and Investor Relations

Operator:

Good morning ladies and gentlemen. Welcome to the North American Energy Partners' fiscal 2012 first quarter earnings call. At this time all participants are in a 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 a 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 this call is also being webcast concurrently on the company's web site at www.nacg.ca.

I will now turn the conference over to Kevin Rowand, Director, Strategic Planning & Investor Relations of North American Energy Partners Incorporated. 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 months ended June 30th, 2011. All amounts are in Canadian dollars.

Participating on the call are Rod Ruston, President and CEO, David Blackley, CFO, Joe Lambert Vice President Oil Sands Operations and Bernie Robert, Vice President Corporate.

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 management's expectations or 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 June 30th, 2011 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.

The first three months of the fiscal year brought adverse operating conditions which negatively impacted what would have otherwise been a strong quarter for us.

Wildfires in Northern Alberta caused two of our largest oil sands customers to evacuate their operations for more than two weeks. These were extremely large fires with a combined impact of over 750,000 hectares or 3,000 square miles of forest land in the Fort McMurray region alone, which is approximately 6 times the area that burns during a normal summer season across the entire province of Alberta. On the positive side, this is a one-off event in the region in that it will take about 20 years for the forest to recover to a point where there is sufficient fuel for a fire of this size to reoccur.

In other parts of the country, unusually wet weather conditions impacted our Piling and light industrial work. The prairies received about 16% more rain than average from April to June and also going into July resulting in delays in some projects and inefficiencies in others because of schedule disruptions.

In fact, a recent Reuters article reported that the impact of the wildfires and the bad weather were significant enough to cause Canada's GDP to fall in the month of May. The report went on to say that mining, oil and gas extraction fell 5.3% in May from April, hit by wildfires and maintenance shut downs in the energy rich Northern Alberta and by bad weather that cut drilling activity.

In addition to the weather impacts during the quarter, Canadian Natural suspended over burden operations at its horizon mine until January 2012 while it undertakes repairs of its main upgrading plant which was damaged in a fire earlier this year. This action was available to Canadian Natural under the contract and has provided the opportunity for us to relocate some equipment from that site to other projects. Despite these challenges, we continued to grow our business, as demonstrated by a 5.7% growth in our consolidated revenue, primarily due to higher Piling revenues as a result of stronger activity levels and the contribution from Cyntech which was acquired in November last year. However, margins in all of our segments were impacted by the wildfires, the weather delays and by client scheduling.

Looking first at the Heavy Construction and Mining results, this division maintained stable revenues year over year despite the work disruptions and in particular, despite the shut down of our largest revenue contract mid way through the quarter.

During the quarter we executed a large volume of summer muskeg removal at Jackpine mine related to Directive 74 tailings remediation requirements. We also took on a number of tailings related projects at Shell's MRM site. These projects helped to partially offset a decline in mine services activity compared to the same period with this customer.

At Suncor, we began work on reclamation and heavy construction projects related to our recently signed five year master services agreement.

Increasing mining services and overburden activity at Syncrude helped offset lower overburden removal volumes at Canadian Natural and we also provided significant volumes of light civil construction work at Harvest Energy's Blackgold SAGD site.

Like revenues, margins in the Heavy Construction and Mining segment were relatively flat year over year at a little over 13% of revenue. Keep in mind that this includes the zero margin revenue on the Canadian Natural contract. Excluding the Canadian Natural revenue at zero margin, segment margin would have been 16.7% of revenue which is compared to the previous year's margins adjusted to exclude the effect of long term overburden removal contract activity.

Turning to Piling, this division achieved a 65% year over year revenue increase in the first quarter reflecting the strong demand in the commercial and industrial construction market and the benefit of the Cyntech acquisition. Revenues would have been even higher had weather conditions been better.

Segment margin was also up from last year but at 8.2% was below our expectations. This reflects a loss on a project in Ontario and low margin on another project in Vancouver combined with weather impacts on a number of other projects across the country.

Looking at Pipeline, this segment posted negative revenue of $0.9 million for the first quarter. The negative revenue was the result of change in estimated future costs to close out two fixed price projects.

The division recorded additional losses related to the increased cost on these two projects in Northern BC resulting in a segment loss of approximately $2 million for the quarter.

On a more positive note, the Pipeline division was recently awarded contracts for two new pipeline projects with a combined anticipated value of $92.5 million. These contracts have been bid and won in a very different economic and construction environment than was the case over the last couple of years. Work on these contracts has started in the last week and it should provide a boost to revenues in the coming quarters. At this point, I will call on David Blackley to review our first quarter financial results.

David Blackley:

Thank you Rod and good morning everyone.

I am going to review the results for the first quarter ended June 30th, 2011 as compared to the first quarter ended June 30th, 2010.

Revenues for the period for $194 million compared to $183.6 million in the first quarter of last year. As Rod noted, the increase in revenue primarily reflects increased piling revenue partially offset by a $12.7 million reduction in pipeline revenue.

Revenue from the Heavy Construction and Mining segment was largely stable year over year.

Gross margin was 3.4% in the first quarter compared to 8.5% for the same period last year. Poor weather conditions reduced productivity due to wildfire related mine site evacuations, zero margin overburden removal activity on the Canadian Natural contract and higher equipment maintenance costs combined with lower equipment hours all contributed to the weaker margin.

We recorded an operating loss of $5.7 million in the first quarter compared to operating income of $1.1 million last year. G&A decreased by $3.1 million due to a share price decrease impact on our stock-based compensation claim.

Net loss per share for the three months ended June 30th, 2011 was 25 cents compared to a net loss of 29 cents during the same period last year. Backing up the impact of various non-cash items, net loss would have been 26 cents per share for the most recent quarter compared to the 11 cents per share last year.

Turning to capital, total additions for the first quarter amounted to $19.9 million including $9.3 million of sustaining capital and $12 million of the current period's capital additions were funded by the way of operating lease.

Looking at liquidity, as of June 30th, 2011, we had approximately $60.5 million of borrowing availability and a cash position of $1 million comparable to the cash balance at the start of the year.

We anticipate that we will have enough cash from operations to fund our capital expenditures for fiscal 2012. That summarizes our first quarter results.

I will now turn the call back over to Rod to tell you about our outlook.

Rod Ruston:

Thanks David.

Looking ahead, we anticipate work volumes will begin to strengthen in the latter part of the second quarter and remain strong through the balance of the year. However, we expect this ramp up to be very controlled without the push for completion of work on tight schedules has happened in the past. We are seeing our clients focus on managing their costs by ensuring

more complete detailed engineering of projects before they are released for tender, even if that engineering work results in schedules being extended. This is impacting our work in the client proposed tender award dates which are rarely being achieved resulting in both uncertainty in allocating equipment and in delayed start up of new project work. However, we are seeing the work is there and it is progressing albeit more slowly than expected. That is, while we can not say for certain that projects are going to come on a particular time, we continue to have very good insight into customers projects that allows us to anticipate their upcoming requirements and prepare for the eventual awards of work. We were well prepared to bid and execute the Suncor master services contract. We predicted Syncrude would need to relocate their mine trains and they are preparing to do so. We predicted Total would do early earthworks this winter and they are on track to do that work and we expect that Suncor's Fort Hills and Exxon's Kearl will provide further opportunities next year. The oil sands are in expansion mode and it is only the pace of that expansion that is proving somewhat more difficult to predict than it was in the past.

In our Heavy Construction and Mining division, work is ramping up under our new five year contract with Suncor and we are continuing to provide mining and civil construction services to Shell and Syncrude under our long term contracts with those customers.

We also have a number of tailings projects under way at Shell, Syncrude and Suncor with more expected as we put our growing specialized fleet of tailings equipment to work. At Syncrude we now have our Boskalis supplied dredge in the water operating very successfully in feeding the trial centrifuge drawing system being used at that site.

At Suncor, we are successfully removing bitumen off the tailings ponds with patented skimming equipment to which we hold the exclusive operating rights in the oil sands.

At Shell, we are operating tailings dozers and a specialized piece of equipment called an Amphiroller which is used in mud farming to optimize the de-watering of tailings. We also hold the exclusive rights to operate this piece of technology in the oil sands.

Turning to our Piling division, the outlook for the coming quarters is very positive as a result of upsurge in new commercial and industrial construction opportunities across the division. Second and third quarter activities should be particularly strong as we tackle the large backlog of weather delayed projects.

The outlook for our Pipeline segment is also improving as a result of our two new Pipeline contracts in BC and Alberta, which as I said earlier commenced this week. As previously mentioned, the business environment has also improved with a reduced competition and increased demand. This is allowing contracts to be bid with better margins and less risk. In addition, we have restructured the division's management team and improved our project controls.

Overall, our long term outlook for the business is positive and we anticipate improving financial performance over the remainder of the year as new contracts commence and work volumes recover.

I should not finish the call without addressing our Canadian Natural contract. As mentioned on the initial call regarding the writedown against the Canadian Natural contract, we have submitted a change order request to Canadian Natural to address short falls in the contract defined inflation indices. As we also said on that call, the original negotiators of this contract contemplated the possibility of the indices not meeting the needs of the parties when some seven years ago they were included in the contract, and these are the exact words, "the parties recognize and agree that the objective of the escalation or de-escalation adjustments is that neither party shall benefit at the expense of the other because of these adjustments".

And in the following clause, "in the event that the index for escalation or de-escalation is discontinued or upon mutual agreement of the parties is no longer representative of its intended purpose, the contractor and owner shall agree on a replacement index at the earliest possible date and failing such agreement, such replacement index shall be selected by the owner, acting reasonably".

When we raised the issue of the indices, no longer being representative of their intended purpose, we agreed with Canadian Natural to set up a joint working party to assess the changes in the Fort McMurray market between 2005 and 2010 and determine if the indices should change and if so by how much. The group was then to make recommendations to management of each company with a target date of August 31st this year.

To date, the working group has completed the process of gathering market data and we thank all our suppliers for their assistance in getting this done. Needless to say, some of the data is relatively clear cut while other data requires more interpretation. The group is now in the process of evaluating the data to determine its relevance and accuracy with a view to determining the impact on the indices.

As we said, we have a target date of August 31st, but this is a target date. It is not a deadline and both parties recognize that the correct solution is more important than meeting the target date. We are working closely with Canadian Natural on this issue and remain confident that the resolution will result in some or all of the writedown being reversed.

In the meantime, our lending syndicate continues to support our strategy and our ongoing business.

With that, I will turn back to the operator.

Operator:

Thank you.

To ask a question, please press *1 on your telephone keypad. If you would like to remove your question from the queue, please press *2. to allow others the opportunity to ask their question, please limit your enquiry 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 at this time.

One moment while we poll for questions.

Our first question is coming from the line of Matt Duncan with Steven's Inc. Please proceed with your question.

Matt Duncan – Stephens Inc.

<Q>: Good morning, guys.

<A>: Rod Ruston: Morning Matt.

<Q>: The first question I've got is with relation to the impact in the quarter from both rain and the wildfires. I know in the press release you said the wildfires hurt your revenues for Heavy Construction and Mining, by about $12 million. Is there any way to quantify how much it hurts your margins? And then on the rain impact on Piling, how much do you think that hurt your revenues and margins by there?

<A>: Rod Ruston: It is difficult to say Matt and no we can't actually quantify it but the down side of this, or what actually happens is it's not like missing out on a job or being, like I said, it's not like CNRL being put off the site. Because when we were put off the site at CNRL we kept the employees that we wanted but we were able to just say to everyone else, we're sorry no work, we'll stand you down. What we had here was a period of time when we basically had everybody turning up to work because we didn't know whether we would be doing a half a shift, a whole shift or what work we would be doing etc. So you are carrying the expense and this is both in the, this the weather related issues of the rain and in the fires. You're taking people to the operation and sending them out there, they do a half a shift, the wind changed then everyone had to get off site. So it was a very stop start issue in both locations. The sort of things that we were doing was it was too dangerous to leave the guys in camp so they would finish their shift, they would go back to the camp, they would have their dinner, then they would all get in buses and they'd be taken down to Fort McMurray and put up in hotels. The issue was both smoke and the actual fire itself. So the impact that we got on our margins was not only the fact that we had some work disappear but we had a much higher cost of doing the smaller amount of work that we had and that's the case in both cases. The fires went away sort of after two and a half or three weeks in Fort McMurray but the rain continued pretty much throughout the month and actually came into the first couple of weeks or three weeks in July as well and that has impacted our Southern operations. So the piling and industrial construction has continued to have some impact into July.

<Q>: Okay, that's helpful. Dave, on the G&A cost in the quarter, you mentioned that there's a stock comp true-up essentially that benefited that line item in the quarter. What's the baseline quarterly G&A expense we need to use going forward? And can you talk about the size of the impact of that stock comp true-up? And was any of that one-time, or is this something you are going to experience every quarter?

<A>: David Blackley: Yeah Matt, I think the way to look G&A is a typical run rate we would expect as we have said in the past, $15-$16 million. Clearly with movements in our share price, large movements we will see big variations. I think the approximate number that I would work on for taking into account movements in share price, is for about $1 change in the share price, I think you would be looking at an impact of somewhere between $1 million and $1.4 million is the swing of that number.

<Q>: Okay. And this is something that's going to continue every quarter from here on out?

<A>: David Blackley: Yeah, that's what we would expect to see.

<Q>: I'm looking at the September quarter, trying to get a little clarity sort of on how we need to be thinking about the impact of the rain in July and your comments that things are starting to strengthen sort of later in the quarter. Do you expect, I would assume that you've got a pretty good sequential increase in revenue coming. Do you think that you can be profitable in the September quarter? And maybe how should we think about it in relation to the September quarter of 2010?

<A>: Rod Ruston: I am very cautious about responding to that question because given the revenues that I expected last quarter I thought we could still be profitable Matt. We think it is going to be a solid quarter. We think that certainly July was down a little bit. The good thing about July was that while July was down a little bit, we were in Suncor for example, in their offices, determining what the workload is under the new five year agreement that we have got there. For example, part of the things that we talked about is the delay by clients in executing contracts and that sort of stuff so the first month of July we spent finding a location and building a 5500 shovel on Suncor's site because it has taken this long before the contract has been signed and they have been in a position to be able to give us a place where we can build that equipment. Now building a 5500 shovel takes a couple to three weeks. So this is what I mean by the impact of the client taking longer to decide whether they would go ahead with a contract or what they want to do and how they want to do it. Under normal circumstances, for the sort of work we wanted for that shovel, we should have had it erected on that site probably two months ago.

<Q>: Okay, so sequentially …

<A>: Rod Ruston: That was a long-winded answer of saying I am not going to tell you how we're going to do next month. We don't do forward forecasts. Next quarter.

<Q>:   But I guess the point is you've got a pipeline contract, you have two pipeline contracts kicking in.

<A>: Rod Ruston: Correct and you can look at them at margins probably double what we were bidding before.

<Q>: The mine train move at Syncrude should be kicking in, that shovel kicking in –

<A>: Rod Ruston: Hasn't been awarded.

<Q>: I'm just trying to get a sense sort of sequentially how I need to think about the business.

<A>: Rod Ruston: Yeah the mine train relocation at Syncrude, we are only doing the initial works at this stage. The actual contract has not been awarded at this stage. So we are not exactly sure when that will start.

<Q>: Okay. And then last thing here and I will jump back in queue, you gave us a good update on the CNRL negotiations. It sounds like August 31 may be a little early to have the recommendations from the committee at this point. When do you expect to have final resolution on this matter?

<A>: Rod Ruston: The program that was set in place at a meeting yesterday, and this is opening instructions from the CNRL side to their people that within three weeks they are to have responses to all the items that have been raised. So that would get us to a, if that works out then I am pretty confident it will because it was a pretty strong commitment. If that works out then we will be into serious negotiations then about what those responses are against what our expectations are starting in early September. It would give us a month to sort that out would probably be a reasonable target.

<Q>: Okay. Thanks.

Operator

Our next question comes from Carl Giesler of Harbinger, please proceed with your question.

Carl Giesler - Harbinger

<Q>: Can you talk a little bit about the unallocated equipment costs and how that impacted your gross profit versus segment profit please?

<A>: David Blackley: Yeah so actually the unallocated equipment costs represent our under recovery. So when you look at the hours on the equipment this year compared to last year, our hours were down about 14%, so as a result of that, we don't, we wouldn't recover our equipment cost to the same level as we would have expected. So that is why you see that unfavourable variance. So it is essentially an internal charge that we determine, that gets allocated back up into the projects and then the idea is that over a longer period of time it nets out but within any given quarter we may see under or over recoveries depending on the number of hours that we use that equipment for.

<Q>: When would you begin to see that net out? Would you expect that to happen in the September quarter, the December quarter, the March quarter? How should we think about that?

<A>: David Blackley: Yeah, when you look historically at our numbers, we usually have under recoveries in our first quarter just because that is our lowest activity quarter. It is also our highest maintenance quarter. As we progress through the year, we would hope to see that trend reverse and certainly by Q4 we are usually experiencing over recoveries of all of our equipment being utilized and again Q3 is, it can be an over recovery or a break even, just depending on how the activities pan out.

<Q>: Okay, thank you.

Operator

Our next question comes from the line of Bert Powell with BMO Capital Markets. Please proceed with your question.

Bert Powell – BMO Capital Markets

<Q>: Thanks. David, just in terms of the maintenance costs in the first quarter, did you take the opportunity to do more work than usual, given what's gone on at CNRL and some of the weather-related issues? In other words, did you pull some of those costs into Q1 that might have otherwise shown up in the remainder of the year?

<A>: David Blackley: I am going to let Joe Lambert answer that one for you Bert.

<Q>: Thanks.

<A>: Joe Lambert: So Bert, a lot of it has to do with the mix of equipment so if at that particular timeframe on our utilization, the fleet is parked is larger equipment which was mostly this quarter. If you think of it this way, you are utilizing less large equipment and you are maintaining more large equipment. So the revenue side of your equipment is lower and your cost side is higher. So it just, the way the mix side of it works out at particular times and when, you know what part of the fleet is being utilized and what isn’t.

<Q>: If I look at maintenance cost this quarter relative to the year-ago quarter, seasonally, if this is where you would do the work, is this comparable to last year or the maintenance costs are higher just because of the mix this year?

<A>: David Blackley: I don’t think they were substantially higher overall.

<Q>: Okay.

<A>: Rod Ruston: Bert, we didn’t make any specific decision to say, wow, everything is down, let’s increase our maintenance spend. Our maintenance is very much focused on the areas of our business where predict as best we can that we are going to need the equipment. So Joe gives an indication of where he sees working coming up and that is the equipment that is worked on at any point in time. Obviously, generally the workload is lowers in April, May and June and so obviously it’s a lot better to be doing preventative maintenance when it is not

required in the field rather than taking it out of the field when it is required. So April, May, June will normally be a higher period but this wasn't any particularly different to any other quarter.

<Q>: Okay. And lastly, Rod, just in terms of the CNRL contract, in your press release, you talk about the indices applying both prospectively and retrospectively. Is that the exact wording in the contract? Or is that your interpretation of what the contract implies by the statement that neither party shall be unduly advantaged or disadvantaged?

<A>: Rod Ruston: That would be our interpretation and our lawyer's interpretation of how it applies but as I said, this is a change order and basically the way a change order works, it has to apply retrospectively if you think of it this way. That you can't actually submit a change order just because the client didn't do something. The way a change order works is that the contractor has to actually incur an impact that can demonstrate the impact of the change condition before the claim can be put into price. So we had to incur the past in order to prove that there was an issue there and that that issue would be ongoing into the future.

<Q>: Right. But as you go through the process, it is within CNRL's purview to say, you know, we understand the indices are off-track. We're going to reset going forward, but retrospectively, that's what it was, so be it.

<A>: Rod Ruston: Absolutely and that's one of the things that they will say generally in the market but there will be two parts to this resolution. The first will be deciding what the actual impact of the market has been and as I said, some of the information that we have got is very solid so let's take for example, we've gone to Finning, we've gone to Komatsu, we've gone to Hitachi and said, what's the difference in a cost of a truck purchased in 2005 to a cost of a truck purchased in 2011 in Fort McMurray and they have been able to give us very solid, here's the answer on a piece of paper. Then we have gone to the tire manufacturers and we have said to the tire manufacturers, what's the difference, so that was the equipment side, so we're moving into the parts side now and one of the parts is tires so we have said to the tire manufacturers, well what's the price back in 2005 to the price of a tire in 2011 and they have been able to give us a piece of paper that says, okay, yeah, the particular tire you used was $45,000 in 2005 and it is now $75,000. That part is solid.

<Q>: Yes.

<A>: Rod Ruston: But on top of that, you remember we went through a period where there was a shortage of tires in the world and there was a lot of tires being sold through brokers.

<Q>: Yes, I remember it well.

<A>: Rod Ruston: Now that piece of data is not clearly documented etc., so we have had to gather information from other users, historical records that we have got, etc., etc., and so you call that an area that is obviously open for negotiation. Right?

<Q>: Yes.

<A>: Rod Ruston: So there's a number of parts of this thing you need to package, some solid, some a little bit more open to negotiation. So the first part in this thing will be, let's negotiate the bits that are open for negotiation and let's agree on where the market is. The second part of the negotiation will then be North Americans saying to CNRL, well we want $60 million up front and we want the indices changed in the future and my thinking if I was CNRL will be saying, well actually, we'll give you a dollar up front and no promise of things to come. The answer will be somewhere in between that.

<Q>: Yes, yes; fair enough. Thanks, Rod.

<A>: Rod Ruston: Okay.

Operator

Our next question comes from Matt Duncan of Stephens Incorporated. Please proceed with your question.

Matt Duncan – Stephens Incorporate

<Q>: So if CNRL came through the P&L at a zero margin this quarter, am I right, it did about $33 million in revenue in the Heavy Construction and Mining segment?

<A>: Rod Ruston: Correct.

<Q>: How much of that equipment have you now reallocated to other sites? And how much revenue and at what margin should you get from that?

<A>: Joe Lambert: Matt, it's Joe Lambert. The equipment we have taken off the site is a non-contract fleet and it's been distributed through our operations and most of it has been, you know, two trucks here and an excavator there and just filling in needs of different areas of our business so I really couldn't tell you what the consolidated number of putting that fleet back together, what the impact is in our business but some we can probably look at seeing how we can track that information because we have used pieces and parts to improve operations in different areas.

<A>: Rod Ruston: I can tell you Matt that the bigger area of use of equipment over the last three months was our 100-tonne truck fleet, 100 to 150 tonne truck fleet and the majority of equipment that we took off the site immediately with 100 to 150 tonne trucks, that we took from the muskeg removal that we were doing at CNRL and moved that off the site as soon as we were shut down. So we have taken equipment and it has certainly been gainfully employed. That's the key thing.

<Q>: Looking at the equipment operating lease expense line, Dave, it jumped up quite a bit sequentially. You mentioned in your comments that, of your capex in the quarter, a lot of that was tied to operating leases. So is this a new baseline for that expense line on a quarterly basis going forward?

<A>: David Blackley: Yeah, I would say so Matt. I would say so over the coming year. Yeah.

<Q>: Okay. Looking out in terms of some of the contracts and jobs that may be out there, Rod, you talked a bit about Total Joslyn, Fort Hills, Kearl. What is your expectation of an award, maybe starting first with Joslyn. And maybe, Joe, this is a question for you. When do you guys think that that contract will be awarded, and how do you feel about your chances?

<A>: Joe Lambert: We have been in review meetings with Total, the information we have suggests that by mid September we will have an award. From what Rod has explained on some of the delays we have received from clients I don't hold my breath a lot anymore but they do seem to be very, they have stayed with their schedule so far. We do know that they have to go through their discussions with joint venture partners along with their own internal date of review process and as our ability to win that work, we think we have a great opportunity here. We have worked with them, it has worked. The scope that they are providing is work that we are very good at and we think we are very competitive with our pricing and we think our execution plan is obviously the best.

<Q>: Okay. And then the last thing I've got is on Directive 74; you walk through a lot of projects that you are working on that are tied in some way to Directive 74. How much of revenue do you now think you are going to generate in FY 2012 that's tied back to the changes in the market from Directive 74?

<A>: Joe Lambert: It would be very hard to predict that right now Matt. I think we have stayed on, we are pretty much staying on the plan we have had. A lot of the areas that we are working in the tailings group with some of our specialized equipment, they are large projects but they are also still test plots and so understanding what the prevailing technology that is going to come into commercial production over the next year or so will be a lot of what predicts our opportunities with certain equipment and fleets such as the dredgers and the skimmers and the tailings dozers and the Amphiroll and items like that. As an example with the Amphiroller and working in the muds and the mud farming, if it turns out to be a prevailing technology then we would expect that area to grow significantly if some of the work that Syncrude is doing on centrifuging becomes a technology that advances then we would see more of the dredging opportunities coming.

<Q>: Okay. Maybe a better way that ask this is how much revenue did you generate from it in the June quarter?

<A>: Rod Ruston: While David is looking up that, I will just embellish on the answer a little bit there. Everyone of our clients are indicating that they have Muskeg removal and reclamation in this next twelve months. So over the next winter season, we will be pretty close to double what it was last year. In fact, one of our clients we did 4 million meters last year and they have asked whether we can do about 10.2 million this year in muskeg removal. Now that is not all required for literally exposing the ore for the actual mining process itself. There is a significant proportion of it that is being done to clear areas for disposal of tailings on top of the overburden. In fact, that is the work that we were doing in April, May, June for Shell, where we were doing summer

muskeg for them. It was clearing an area of muskeg over the top of their overburden so that they could use it as a disposal area for drying tailings. So if you look at it just simply from that point of view, with the size of this opportunity is that potentially muskeg removal has doubled in capacity. Absolutely completely driven by the Directive 74. If you look at the Amphiroller, one of the requirements in the Directive 74 is that as they do the drying, that the measurement of their drying is that they get a 5 megapascal self-sustained strength in the material that's left behind. The general opinion has been up until a short while ago that they just couldn't meet that specification. The Amphiroller that we have exclusive rights for operation in fort McMurray is the only machine that demonstrated that it can mean that 5 megapascal requirement. If the trials go past just being a trial, then it won't be one machine that is up there, there will be multiple machines up there. So it is a growing opportunity.

<A>: David Blackley: Matt, just on your question around tailings, the tailing specific revenue and this refers mainly to the specialty equipment so it would not include things like muskeg removal that Rod just talked about, that was approximately CAD 4 million in this last quarter.

<Q>: Okay. Thank you.

<A>: Joe Lambert: We would expect the July, August, September to be the largest quarter for that.

Operator

Our next question comes from the line of David Patton with Raymond James. Please proceed with your question.

David Patton – Raymond James

<Q>: Can you hear me?

<A>: Rod Ruston: Yeah, is Ben on holidays?

<Q>: Rod, first I wanted to just complement you all on the contract with British Columbia pipeline contract. That's fantastic.

<A>: Rod Ruston: Thank you.

<Q>: I have two questions. The first one is, it's not so quarterly specific. Would you just give me a general kind of bird's eye view of activity in the area and kind of look three to five years and see how excited you guys could be over what's going on up there?

<A>: Rod Ruston: When you say up there, are you talking about Fort McMurray or are you talking about the pipeline still?

<Q>: Well, the whole oil sands pipeline business, what you all see, how the whole environment is looking forward.

<A>: Rod Ruston: Okay, so a general view is that things are on the rise as I said. Fort McMurray is growing. In the next 18 months, my expectation is that Joslyn will start work, so it will do early earth works over the next winter season. Kearl will do a second stage of major earth works. It will probably be in the order of $300 or $400 million worth of earth works type work and over the next 12 to 18 months they will switch to operations, open up the mine and when they open up the mine they will then either do overburden by contractor or they will go out for a similar master services agreement to what we have got recently with Suncor. That will happen in the next 12 to 18 months. Indications from Suncor is that Joslyn is being re-engineered at the present time. Not Joslyn sorry, Fort Hills, I've just been corrected. Fort Hills is being re-engineered at the present time but there is an expectation that it will restart its construction and remember that it is already probably about 30% done with respect to early earth works. So it will restart that in the latter part of next year. There are a number of SAGD projects that will come on line so that covers Fort McMurray. Then the tailings piece will ramp up. So at the present time what we are doing in tailings is we are trialing the Amphiroller. We are trialing the dredge and the process being tested Syncrude. But all the parties are getting together and they are sharing technologies. So within the next six to twelve months things should start to focus let's say a little bit more than what they are now and some of the trials will be put aside, some of the more successful technologies will be adopted and we think we are a key player in that. We know there is a lot of work on every site for tailings type work and we are delivering work at Shell, Syncrude and Suncor and I am fairly confident we will deliver work at CNRL when it starts up.

<Q>: Thank you. The second question is when you look at your current cash levels, talk a little bit about your current cash and what you might need for upcoming capex in the next year or so, and if you need for any reason to go to the credit markets, what kind of, are there facilities fairly open to you?

<A>: David Blackley: Yeah, typically what we are looking at for our capex is within our sustaining capital the number is somewhere between $40 and $60 million a year. We are expecting it to be more towards the $60 million this year. On the growth capital that can be very much influenced by large projects. So if some of these major projects that Rod referred to came out, we would clearly be looking for capital to support that. And again, given the lead times both for the equipment and the start up of these projects from time of bid through to award to commencement of the work, we certainly could do the work the initial works with the equipment that we have got but we would have to look at bringing in substantial equipment in the longer term. So again, it is hard to predict what that would be. I think a good indicator is to look at something like the CNRL overburden contract. If we were to get an award like that, we would be looking at bringing in equipment somewhere in the sort of $250 to $300 million range but that would be a ramp up over about a 3.5 to 4 year period.

<Q>: And then your general credit facilities with your existing lenders, does everybody seem pretty happy right now?

<A>: David Blackley: Yeah.

<Q>: Okay. All right. Thank you.

Operator

There are no further questions in the queue at this time. Oh, I'm sorry, we did have one just enter the queue. Shall we take it gentlemen?

<A>: Rod Ruston: Let me think, who is it? Yes, certainly we'll take it.

Operator

We have a question from Frank Wooten, of Point Blank Capital. Please proceed with your question.

Frank Wooten – Point Blank Capital

<Q>: Sorry to keep you on just a little bit longer.

<A>: Rod Ruston: That's all right mate.

<Q>: The last call or maybe the call before, you guys discussed a little bit about where your tangible book value was and where the equity value was with regard to that. I didn't know whether you guys can give us a little bit more of an update, where you stand quarter end; and maybe discuss some of what's not listed on the balance sheet in terms of the equity value and leases, and what that valuation is with regards to where you are trading in the marketplace.

<A>: David Blackley: Yeah, I think the numbers that I quoted before were somewhere in the $600 to $700 million range. I don't have it broken out specifically between what the operating leases versus owned equipment. But I think if you look at how we finance our equipment, where it is roughly a 50/50 split between owned and leased, I think that would give you a good indicator. I would expect a little bit more of the value being on the leased side just because that is where some of the bigger equipment is.

<Q>: Got it. And I guess not to beat a dead horse on the contract, but one of the things that you guys have said pretty repeatedly is that you expect some breakdown with regards to historic and maybe getting less cash and possibly some higher margin going forward. Maybe you guys could run through potentially what you think that that scenario would look like.

<A>: Rod Ruston: Are you talking in relation to the CNRL settlement?

<Q>: Yes.

<A>: David Blackley: I think in terms of margin, our expectation is that if we get everything that we are looking for that we would be back into the historical margins prior to the write down which would be in that 5 to 6 to 10 range. In terms of the cash as Rod talked about, that is clearly something that we would negotiate. We obviously want to maximize the amount of cash

that we bring in and our expectation is that CNRL will take the opposite stump and that is where we will meet, somewhere in between.

<A>: Rod Ruston: We will certainly get some cash out of the settlement.

<Q>: I guess I'll just have one last follow-up to follow from that last question because it sounded like the question was leading to whether you guys will need more capital in terms of requiring some sort of equity offering if you do have growth capex over the next two years. I would assume that you guys aren't heavily focused on that with your share price being down here, but just as a shareholder, would like some confirmation thereof.

<A>: Rod Ruston: No, we are not heavily focused on. As a matter of a fact, we are not even lightly focused on going to the market at the current share price. The only thing that you should consider and that people generally take into account is we do have a private equity group in the organization that wants to exit at some time and if we can get the share price up to a level that is commensurate with what their target might be, which is back where it was, they haven't told me what their number is by the way, but my expectation is we can get the share price back up into the $12 or $13 or $14 there could be good opportunities for us to raise some capital and exit the private equity group.

<Q>: Great. Thanks, guys.

Operator

We do have a next question from Adam Mitchell with Scotia Capital. Please proceed with your question.

Adam Mitchell – Scotia Capital

<Q>: Hi gentlemen, a quick question. The uptick in the LTM operating lease expense, is that due to an increase in operating lease rates charged by your lessors, or is that an increase in the proportion of equipment acquired that you fund via operating leases? And secondly, just curious if your strategy on the use of operating leases to fund capex has changed at all in the last year or so.

<A>: David Blackley: In terms of our overall, I'll answer the second question first. But in terms of our overall strategy, no, our strategy hasn't change. With respect to the increase it really just represents more of a funding through operating leases, we've been getting pretty good rates on our operating leases so we have taken advantage of those favorable terms so we have just brought in more leased equipment and taken advantage of that. So that is the only reason why it has gone up in the short term.

<Q>: Okay. Thank you.

Operator:

Gentlemen, there are no further questions at this time.

Rod Ruston:

Well I will quickly say then, thank you very much for joining us. We look forward to talking to you again in the future. Thank you very much everybody.

Operator:

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you all for your participation.