



## North American Energy Partners Inc. Q3 Conference Call Transcript

### **Participants:**

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

### **Operator:**

Good morning ladies and gentlemen. Welcome to North American Energy Partners' Fiscal 2011 Third Quarter earnings call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be an opportunity for analysts, shareholders and bondholders to ask questions. The media may monitor this call in listen-only mode. They are free to quote any member of management but they are asked not to quote remarks from any other participant without that participant's permission.

I advise participants that this call is also being webcast concurrently on the company's website at [nacg.ca](http://nacg.ca).

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

### **Kevin Rowand:**

Good morning ladies and gentlemen and thank you for joining us. On this morning's call we will discuss our financial results for the three and nine months ended December 31, 2010. All amounts are in Canadian dollars.

Participating on the call are Rod Ruston, President and CEO, David Blackley, CFO, Chris Yellowega, Vice President Business Services and Construction, 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 our predictions of the future, are forward-looking statements. All statements made today which are not statements of historical fact are considered to be forward-looking statements. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.



The business prospects of North American Energy Partners are subject to a number of risks and uncertainties that may cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information.

For more information about these risks, uncertainties and assumptions, please refer to our December 31<sup>st</sup>, 2010 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. To open, I would like to say that while our net earnings for the third quarter were soft, strong revenue performance coupled with announcements made by a number of our clients are clear indicators that the oil and gas and construction industries in general and the Alberta Oil Sands in particular, are back on a growth path that is likely to open significant opportunities over the next six, twelve and eighteen months.

We achieved a 20% year-over-year increase in consolidated revenue in the third quarter, with strong growth in project development revenues helping to offset a temporary decline in recurring services revenues.

In the oil sands, demand for project development services continued to gain momentum as we executed on several construction projects. These included tailings-related projects in our new environmental remediation business and mine development work for Canadian Natural and Exxon.

The increase in project development activity, coupled with increased recurring services demand from Canadian Natural, Syncrude and Suncor more than offset the temporary slowdown in demand for recurring services that occurred as Shell commissioned its new Jackpine Mine. Outside of the oil sands, a strengthening economy continued to support improvements in the commercial and industrial construction sectors. This, together with more stable weather conditions, led to an increase in our Piling volumes during the quarter.

Our Pipeline revenues were also higher year-over-year as we neared completion on two contracts in northern BC.

While our revenue performance was strong, third quarter gross profit and margins came in below our expectations.

There were several influences at work, including increased rental costs associated with client start-up delays on some of our winter reclamation and overburden work. We typically supplement our own fleet with rental equipment during our peak-demand winter season. This year, start-up on some of our work was delayed after we had mobilized equipment to site in



anticipation of this work getting underway in late November. This work was delayed until early January and as a result, we incurred the full rental costs on lower volumes.

In addition, we incurred a loss on the two pipeline contracts in northern BC as a result of scope changes and a continuation of negative productivity impacts due to weather. As you may recall, these were low margin contracts to begin with, reflecting the tough competitive conditions in the pipeline sector.

We are currently developing change orders as we work to recover the cost increases. Turning to our segment results ... revenue from the Heavy Construction and Mining division was \$185 million for the third quarter, essentially flat year-over-year. Increases in project development revenues were offset by lower recurring services revenues related to the Jackpine Mine commissioning.

I should mention that Jackpine is now in production and we expect volumes to begin to pick up as a result of our new three-year muskeg removal contract and through other services opportunities that should open up as the mine expands.

We're also pleased to confirm a new four-year master services agreement with Syncrude, which covers reclamation, overburden and general construction services and replaces our previous six-month agreement, which expired in November.

So we expect to see recurring services revenues building again starting in the fourth quarter. You'll note that margins from the Heavy Construction and Mining segment were considerably lower than a year ago.

This reflects the competitive pressure we have seen on margins over the last few quarters, an increase in lower-margin overburden removal work and the increase in equipment rental costs mentioned earlier. Also impacting the current period was a margin reduction at Shell resulting from a contractual pain/gain sharing mechanism whereby we missed our safety performance targets. Although we achieved year on year improvements in safety across our business, we missed our expectations at the Shell sites.

Turning to Piling, revenues for the three-month period were \$38 million, up 83% compared to last year.

Improving market conditions, improving weather conditions and an increase in larger-scale oil sands projects were key factors in the stronger results. We were able to resume work on some of the jobs delayed by the bad weather in the previous two quarters and benefit from 2 months contribution from our new Cyntech business.

While we were very encouraged to see our Piling margins rebound to 27% from 22% in the same period last year, it must be understood that this excellent margin includes the closing out of some change orders from work done in previous periods.

Over in Pipeline, revenues were \$42 million compared to \$17 million last year as a result of continued work on the two contracts in northern British Columbia.



However, as I mentioned earlier, reduced productivity on one contract and significant project scope changes on the other, hampered profitability and we are currently preparing change orders on these contracts.

So overall, we achieved good revenue growth across all three of our segments this quarter but we continue to feel pressure on our margins.

We anticipate some relief from that margin pressure going forward and I'll talk more about that in our outlook. But first, I'll call on David Blackley to discuss our third quarter financial results in more detail . . . David.

**David Blackley:**

Thank you Rod and good morning everyone.

I am going to review results for the third quarter ended December 31<sup>st</sup>, 2010 as compared to the third quarter ended December 31<sup>st</sup>, 2009.

Higher volumes in all three of our business segments contributed to revenues of \$265 million, a 20% increase over last year.

Gross margin was 11.6%, compared to 21.5% last year, resulting in gross profit of \$31 million, compared to \$48 million a year ago.

As Rod discussed, the change in gross margins and profits primarily reflect lower margins in the Heavy Construction and Mining segment and losses on the two pipeline contracts.

Operating profit was \$11 million in the third quarter, compared to \$31 million last year. This reflects the lower gross profit and a \$2 million increase in G&A due to the impact of a share price increase on the stock-based long-term compensation plan which was partially offset by a reduced payout forecast for the short-term compensation plan.

Net income was 10 cents on a diluted per share basis, compared to net income of 41 cents per share on a diluted basis during the third quarter last year. Backing out the impacts of various non-cash items, net income per share would have been 6 cents per diluted share in the current year, compared to 38 cents a year ago.

Turning to capital...total expenditures for the third quarter amounted to \$13 million, including \$2 million of sustaining capital expenditures.

Looking at liquidity, as at December 31<sup>st</sup>, 2010, we had approximately \$73 million of borrowing availability and a cash position of \$0.7 million. This was down from \$103 million of cash at the start of the year. Approximately half of the reduced cash balance is due to the completion of two strategic initiatives that we executed earlier in the year. The first initiative was the refinancing of our senior notes in April, during which we successfully reduced our cost of debt and total debt outstanding. The second initiative was our successful entry into the screw piling market through the acquisition of Cyntech in November. The remainder of reduced cash balance is primarily



due to near-term higher working capital requirements. Growing revenues have continued driving working capital higher through the last couple of quarters and we expect this to translate into increased cash flow through the fourth quarter of fiscal 2011 and first quarter of fiscal 2012. Last quarter we indicated that we anticipate a net cash surplus from operations through March 31, 2011. We believe this is still achievable but will depend on the timing of contractual billings and collections.

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

**Rod Ruston:**

Thanks David.

Looking ahead, our near-term outlook is cautious but our longer-term outlook remains very positive.

Momentum is definitely building in the oil sands.

A recent report by Peters and Co. predicts oil sands investment will reach \$180 billion over the next decade and anticipates a new high of \$22 billion will be reached in 2014 following significant expenditures in 2011 onwards.

Syncrude has recently announced capital spending plans which include an investment of \$480 million in 2011 on tailings management, four mine train relocations between now and 2014 and the future development of the Aurora South mine.

Similarly, Suncor has announced an investment of \$670 million in 2011 on tailings management as well as plans to proceed, in partnership with Total, with the Fort Hills Mine, Voyageur upgrader and the Joslyn mine, all three of which have regulatory approval.

As the past few quarters have demonstrated, we're already experiencing growth in demand on the project development side of our business but as was the case when the market downturn commenced and margins declined over time, it's taking time for margins to recover in spite of what is clearly a strengthening market. That is, revenue impacts are immediate as work opportunities change but margins lag as contract obligations are worked through.

Our outlook for recurring services also looks positive with our two new long-term contracts with Syncrude and Shell providing some increased visibility on demand. In addition, we continue to provide high levels of service to Suncor as we await the results on a bid for a five-year agreement we submitted back in September.

As most of you know, our client, Canadian Natural, suffered a fire at its Horizon Mine recently. At this stage, we're not aware of any requirement to alter our overburden removal activity under our long-term contract with this client. However, should that become necessary, we believe we can profitably redeploy some of the equipment to other customers' sites while Canadian Natural completes repairs.



Over in Piling, we expect activity levels will moderate in the fourth quarter as a result of the normal winter slowdown...but beyond that, the outlook is very promising.

We're continuing to see improving conditions in the commercial and industrial construction markets.

In addition, the Cyntech acquisition is providing new opportunities with the addition of tank services, pipeline anchors and screw piling capabilities. These technologies and services provide us with access to new markets and a broader service offering in SAGD construction.

In Pipeline, we anticipate a low level of activity in the fourth quarter now that the two projects in BC are substantially completed. While we expect that the extremely competitive market conditions that have existed over the last two years will start to ease, generally our medium-term outlook for this segment remains cautious. We anticipate significantly higher volumes of work being tendered in 2011 and as a result believe this will benefit overall market conditions. Moving forward, we will be pursuing our growth strategy with a focus on smaller acquisitions that complement and broaden our current service offering. We think there are some good opportunities to expand what we can do for our customers and we intend to pursue those opportunities.

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

**Operator:**

Thank you. We will now be conducting a question and answer session. If you would like to ask a question please press \*1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press \*2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the \* keys. One moment please while we pool for questions.

Thank you. Our first question is from the line of Matt Duncan of Stephens Inc. Please proceed with your question.

**Matt Duncan – Stephens Inc.**

<Q>: Good morning, guys.

<A>: Rod Ruston: Good day Matt.

<Q>: The first question I've got is with regard to the Pipeline segment, the adverse weather conditions and project scope changes. Is there any way to quantify what kind of impact that had on your earnings this quarter? And in terms of the change orders that you have filed, can you give us some sense of how large those are in dollar terms and when those might flow through?

<A>: Dave Blackley: Sure, Matt. In terms of quantifying the exact impact of the weather-related issues and scope, it's a little hard for me to break that up. What I can say is that between the



two projects we're looking for up to \$4 million in recovery on the change order side so if we get all of that, that should bring us back into a profitable position.

<Q>: And those should theoretically flow through when, Dave? Probably in the March quarter or could it maybe be June?

<A>: Dave Blackley: We're certainly targeting to try and bring as much money as we can into the fourth quarter but it all depends on the timing of negotiations, so either Q4 or Q1.

<Q>: Okay. When we look at the extra equipment you guys had added in anticipation of contract wins, obviously, you ultimately did win contracts at at least two of the three sites and it sounds like Suncor still hasn't awarded a contract for theirs. I'm just trying to get a sense how much extra costs you carried, you know, sort of November and December timeframe from those equipment additions?

<A>: Dave Blackley: Yeah. In terms of the incremental costs just because of the timing of when work started, there are really two components to it. So the one is on the rental cost side; that impacted the Heavy Construction and Mining profitability by just over a million dollars I think about almost \$1.4. When we look at the lower than anticipated equipment utilizations, that added about another \$3 million in extra costs.

<Q>: And where did those flow through the P&L? Would it have been in the equipment cost line, Dave?

<A>: Dave Blackley: Yes, a lot of it would have... most of it had gone through the equipment cost line, some of it would have, as I've said before, gone right through on the Heavy Construction and Mining side.

<Q>: Okay. And then on cash flow, it sounds like you guys are expecting that to pick up fairly nicely in the next couple of quarters. I'm just trying to can sense sort of, how much cash flow do you think you ought to be able to bring in and as we look out to sort of fiscal 2012 and beyond, do you feel like you're now in a position where you've got enough equipment to handle the work you're winning so the cash flow should pick up or are there still equipment needs? Just help us understand what cash flow ought to look like going forward.

<A>: Dave Blackley: Okay. So in terms of this fourth quarter, we've indicated the timing of when the cash comes in is a little bit hard to predict because a lot of our cash sort of flows in at the end of March, so we may see some of that delayed to the early part of April but what we're anticipating for a positive cash balance by the end of this quarter is somewhere between about \$20 million and \$30 million.

In terms of our capital needs, we're currently assessing what our needs are for the upcoming year and we will have a better picture of that, I think, as we get through this next quarter. But right now, we're not anticipating a significant investment in capital.



<Q>: Okay. And the last question I've got and I'll jump back in queue. Rod, can you give us an update for how the market for tailings reclamation work is developing? We've seen CNRL and Suncor both announce very large spending plans on Directive 74 spending in 2011. Just trying to get a sense when you think you might start to see contract wins for 2011 spring and summer tailings work and then any guess as to what type of contributor you think this business could be on your top line?

<A>: Rod Ruston: Yes. I'll answer the first piece and then I'll put Joe Lambert on who manages that piece for us. I'll do the general piece. There's no doubt that everyone up here in the oil sands is looking at ways that they can treat their tailings. Obviously, this is an expenditure by the various organizations up here that really doesn't add anything to the bottom line at all; in fact, it takes away. The issue really belongs to the older operators, so that's Syncrude, Suncor, and Shell. The other operators as they come into the market, CNRL, for example, they have to do something about it but they don't have the legacy of the older operators. So it's those three that have got the big volumes that need to be cleared up over the next number of years. We've already done some work on the various sites for that, but I've got to say each of them are still in the experimental stage. Each of them are still getting some surprises as to the cost that some of the projects that they're getting into are looking like and so they get a higher cost than they expect. They're going back and saying, well, can we redraft? Can we look at it again? Okay, can you give us a budget estimate on this alternative and that alternative? So suffice to say for me that we still have got a group of people that are generally heading down the idea that they need to spend the money. They've got their general plans and ideas in their mind what they want to do; they're now getting into the detailed design and finding out exactly how they're going to do it.

Joe, do you want to talk about what sort of work we're likely to get in the next 12 months?

<A>: Joe Lambert: Matt, we see a lot of work starting this spring and summer. Most of what we talked about on the tailing side is, you know, it's moving fluid materials and water and mud basically so we expect the projects to start after spring break up and then we would start seeing contracts come out here in February and March for awards to start in April and May. With the tailings group itself specifically, we see revenue... top line revenue in the range of \$10 million to \$30 million potential with these contracts that we see visible at this point which are dredging, skimming, using our cell cats some barge and pump house capabilities. There's also significantly more revenue than that when we look at the associated revenue of the civil works that our Heavy Construction and Mining Division can do and associated with the same tailings project. So the division isn't just always on revenue, it's also the associated revenue we can pick up in our Piling, our pipeline, and our Heavy Construction and Mining division that gives us that full range of service in the tailings that we think creates a great advantage and opportunity for us.

<Q>: Okay. Thanks. That's helpful, guys.

**Operator:**



Thank you. Our next question is from Greg McLeish of GMP Securities. Please state your question.

**Greg McLeish – GMP Securities**

<Q>: Good morning, guys. I just had a couple questions. Just on the two contract wins, one of them looks like it was a renewal from Syncrude; I guess it ended in November 2010. Could you give us what the incremental revenue impact will be on a year-over-year basis?

<A>: Joe Lambert: Specific to the Syncrude contract, Greg, it's a four-year master services agreement. We had a six-month extension on our previous one and so this actually renews that to more of the fuller term that we're used to. With the master services agreement, there is no commitment work. It's awarded individually over time. So right now, we have about \$45 million of contract awards underneath that master services agreement for overburden reclamation and other small civil works. Most of that... well, actually all of that work is to be completed in 2011. It's not over the whole four years. The overall master services agreement has a revenue and term limit. Revenue limit is \$250 million and term is the four years. However, you can modify any time during the contract to extend the revenue or the term to fit the work that gets awarded.

<Q>: Okay. What I was just trying to figure out is is it an expansion of the work that you were doing under the previous master service agreement?

<A>: Rod Ruston: No, it's a renewal of the master service agreement. If you... this is actually a great win for us because if you think back in November 2009, Syncrude had gone out for the master services agreement renewal and we and Klemke both missed out on work under that award issue. You'll remember also it was at that time that Cow Harbour was awarded a large amount of the work. We were sort of readying ourselves to move off the site when Syncrude came to us and said they needed us to stay for a while longer and so they extended the existing contract that we had. And then during the last... over the last year, Joe and his team have worked very closely with Syncrude and we've executed some work really well for them. We've got a close working relationship with them, an understanding of their needs, and working together well to the point where they came to us and extended the then six months contract into a four-year master services contract. So, basically, we were back on the win part of the contract that they let out last in November 2009. So it's sort of regaining that position.

<A>: Joe Lambert: To add to that, Greg, our revenue right now on the Syncrude side is higher than it's probably been in the last 12 to 18 months.

<Q>: Great. Just on that, you said that should add about \$45 million in revenue in the three-month period for Q4, does that mean I can take your \$185 million out of Heavy Construction and Mining and just say here's an extra \$45 million so we'd take it's greater than \$200 million here?

<A>: Joe Lambert: No. That \$45 million is what have been awarded in calendar 2011, not our fiscal 2011 so...



<Q>: I sort of got the impression that there was \$45 million which was supposed to be done in the winter period.

<A>: Joe Lambert: There is a significant amount of that needs to be completed in winter which could extend into April.

<Q>: Okay. But sufficed to say, I guess, what we're seeing is that your Heavy Construction and Mining division should do much higher revenue in Q4 with this contract?

<A>: Rod Ruston: Yeah. But, Greg, we were doing this work at Syncrude last year as well so what this contract has done is replaced a short-term contract so some of the work that we're doing this year is included in last year's and some of the... so it's not just straight additive onto what we did last quarter or what we did last year.

<Q>: Okay. And just looking at your recurring revenue, when I took a look at it, it was down about \$100 million on a year-over-year basis and I'm just trying to figure out if the majority of that is associated with the Jackpine mine.

<A>: Rod Ruston: Some of the work... the large proportion of it will be for sure, yes.

<Q>: And when that mine comes back... well, it's back online. Does that mean that you're going to be able to replace a lot of that revenue that you lost last year?

<A>: Rod Ruston: Yes. What we believe will happen... and we've already secured a reclamation contract on Jackpine. And what we believe will happen is, as I've gone out and talked to you guys in the market before, the mine is in an embryonic state. As the mine expands then Jackpine, similar to the other mines that we worked at, will require roads to be built and culverts to be dug and all that sort of stuff. So there will be a growth of the sort of services that we continually provide to a generally operating mine.

<A>: Dave Blackley: Yeah. Greg, just to clarify. I think what you're looking at is the trailing 12 months' number. So what you would be picking up in there is not on the impact to this quarter with the Jackpine slowdown when they went to that commissioning but we also saw an extended period here where they brought their Muskeg River and Jackpine mine sites down for overhaul and maintenance and some of that we talked about in the last quarter.

<Q>: Okay. And then what was this gain/pain impact that you had and what was the margin reduction?

<A>: Joe Lambert: Greg, it was the... one of the things we do in some of our current materials contract is we put the margin at risk for some areas that are important to both us and our client and in this area... in this contract with Shell in particular, we put some of our margin at risk with our safety performance and although we did exceed our target as a business on that particular site, we didn't hit our target and it resulted in... I believe we had a \$600,000 margin that we gave back to the client. It's a margin hit but one of the things we gained from this is that our



client really sees our commitment to safety and that we don't just put words to it, we're willing to put margin at risk to demonstrate that we're committed to that performance.

<A>: Rod Ruston: And we do generally have a very, very good safe performance. It's a very, very strong area of focus for our business. We are absolutely determined to run a business where all our people can recognize that they can come to work and they can go home in the same manner as they came to work. So doing this was not a requirement of the client; it was something that we offered up. And given the particular clients themselves are very, very focused on safety, it was a meeting of minds, let's say. And so we made that commitment under the contracts that we do here. The safety event that occurred was not life threatening in any way but it was an event that occurred that resulted in some lost time by one of our employees. We are very disappointed to see it happen. The mine itself... and there were a couple of other smaller ones that went with it. The operation itself, we shut down for a period of time. We went through with all our people. We worked with the client and we put in changed procedures and talked to all the employees to make sure that they understand the need for a safe work approach here.

<Q>: And just two more quick questions. I just wanted to clarify on the Suncor delay or the resulting delay with the equipment. That was about \$4.4 million. So the rental was about \$D1.4 million and lower utilization was \$3 million for the impact to margin?

<A>: Dave Blackley: Yes, in terms of our own equipment utilization plus the impact of bringing in those rental equipment units earlier than the revenue flow.

<Q>: Okay. And then my final question, you did say that revenue is going to grow faster than margins. I found that a little fluffy. Can you elaborate a little bit on that, just what you think your margin performance could be and...?

<A>: Dave Blackley: Yes. In terms of the margins for this upcoming quarter, what we think is a number that's somewhere between the 13% and 14% at the top end is a realistic number. Assuming that we don't have any unusual surprises, that would be the number that we'd be targeting for this upcoming quarter.

<Q>: Not just for the Heavy Construction and Mining but for the whole group?

<A>: Dave Blackley: No, we're talking about specifically the Heavy Construction and Mining. When we look at the Piling side, I think as we've indicated, we expect margins to be round about that 20% range, those low 20%. It's come back more to historical levels. We don't expect it to get back to the 27-28% any time soon. And then there's not a lot of activity planned for Pipeline here in this coming quarter. So the only pickup we'll get is whatever we get on the change orders realistically.

<Q>: Okay.

<A>: Rod Ruston: And Greg, we're never fluffy. If you look back a year or 18 months ago when the world started to slow down you'll see basically the reverse was happening, revenues were



going down but margins were staying up, and this is because the margins do tend to lag revenue movement in the organization. If you think of where we are now, some of the contracts that we will be executing over the next period of time were bid initially back in June, July last year when the bid documents were put together and they were submitted and all that sort of stuff. So in particular, the unit rate parts of those contracts for large earth moving and that sort of stuff, those rates will go through until a point in time when they'll be reviewed. Within those contracts also, there's some time and materials type work which is not identified; it's just we put in a price to say, look, time and materials will be done at X sort of pricing. Now with those, each... because the work isn't actually defined in the contract then each piece of work comes out piecemeal. And as they come out piecemeal, you get the opportunity to say, well, now that the market has changed a little bit, the price of that will be X or the price of that will be Y and you can actually move your margins. So you'll see some margin improvement over time and then as new contracts, large contracts come out, then the next lot of rate type bid numbers will come out at a higher price and so on. And that's why the margins lag the revenue to some extent.

<Q>: Great. Okay, guys. I'll get back in the queue.

**Operator:**

Thank you. Our next question is coming from Chad Friess of UBS. Please state your question.

**Chad Friess – UBS**

<Q>: Good morning, guys. So the near-term revenue looks like it will be driven in large part by more work at the legacy mines. But I was wondering if you could provide some rough timelines for the various new mine developments that are out there that you might be bidding on. Specifically when there could potentially be a revenue impact from say Kearl, Joslyn, Fort Hills, do you have any visibility there?

<A>: Rod Ruston: Yes, we do. The general information that's out at the present time in the market is that Total will look for early earthworks bids and request the proposals on that in around about the April/May/June timeframe of this year. They will follow that up with a request for proposal on contract mining sometime in the June/July/August timeframe. The contract mining would take a long time before it's licked so there will be a lot of discussion with the various bidders. However, our expectation for the initial earthworks is that they want to get started with the initial earthworks in the winter season of calendar 2011. Fort Hills, which will also be done in joint venture with Total, we haven't got any specific timing on it other than what's been announced by Rick George recently in his capital plan and expenditure plan saying that they expect to restart the project sometime this year. Now because of the fact that that project had already been started, there is road access in and the ability to get onto the site in the summer period. Whereas, for example, Joslyn, you really would only want to start it in the winter. So there's potential for work to start on Fort Hills even as early as this coming summer.

Other ones that are on the drawing board, you've got the Aurora North relocation. That work will start in summer. That will be quite substantial construction work. And we expect the next



stage of Kearl, which will be the start of work from handing over from the construction group to the operating group, will occur in the September/October/November sort of timeframe this year. We're ready to start that when the contract request for proposal will come out ready for startup of work sometime in 2012.

<Q>: Okay, great. And you mentioned that some of the operators are surprised at the capital cost they're seeing, which is a familiar refrain from a few years ago. As activity in the oil sands picks up and the construction market tightens, to what extent is North American exposed to cost inflation?

<A>: Rod Ruston: I think everyone is going to be exposed to cost inflation. We've been told there's going to be a tightening of supply on tires. We're working with the tire manufacturers to make sure that we're fully covered. We've already done a lot of work in that regard over the last year and a half. There's already a shortage in the oil sands of heavy-duty mechanics. So there's going to be a fair bit of searching for those. And there could be some labor inflation there. Pleasingly, just recently, about three or four months ago, we have signed a three-year agreement with our operating engineers. So our long-term labor agreement is in place for a period of five years.

<Q>: Okay, great. Thanks, guys.

<A>: Rod Ruston: The other thing that you should be aware of, too, and that is that equipment supplies are going up quite substantially. So delivery time on a 150-tonne or 200-tonne truck now is out around about 14 to 15 months.

<Q>: Here we go again.

<A>: Rod Ruston: Yes. Well, one of the pleasing things in there is as... responding to a question from Matt Duncan earlier, Dave said we don't have a high demand for equipment in the short term. We have already put some equipment... put our equipment suppliers on notice and given them an indication of some requirements in late 2011 calendar or early 2012 just to make sure that we're on the production line.

<Q>: I see. Okay. Thank you.

**Operator:**

Thank you. Our next question is from Bert Powell of BMO Capital Markets. Please state your question.



### **Bert Powell – BMO Capital Markets**

<Q>: Thanks. David, I'm just wondering, can you give us a sense of what the claims revenues were in the quarter for the Pilings business?

<A>: Dave Blackley: Bert, I don't have that detail right in front of me so I couldn't give you specifically for Piling.

<Q>: Okay. But that revenue would be booked in this quarter and that would be pure profit, correct?

<A>: Yes.

<Q>: Okay.

<A>: Rod Ruston: You did see in the second quarter those margins were down roundabout 16%-17% in Piling and that was... and as we said at that time, a large proportion of that was the fact that we had claims out there and change orders out there and so on. So...

<Q>: Yes, I know. I'm just trying to get a sense, Rod, of where the run rate margins are for the business. I mean, you guys gave us a sense saying sort of in the 20% range for Pilings this year is what you'd expect going forward. I was just wondering if you were there this quarter and what impact Cyntech would be having on that in terms of its margins. So just trying to get a better sense... really that's kind of what's underlying the question.

<A>: Dave Blackley: Yes. In terms of the impact that Cyntech may have on the margin, Cyntech's margins historically from the information that we've seen run similarly to Piling in the low 20's.

<Q>: Okay.

<A>: Dave Blackley: So we wouldn't expect to see any significant variance there.

<Q>: Just in terms of CapEx, historically you guys have run I guess as high as \$100 million and down around \$50 million. Just reading between the lines in your comments, is the expectation for this fiscal year that you will do minimal... you'll have minimal CapEx needs and that really starts to fall into fiscal 2013?

<A>: Rod Ruston: I can see... depending... a lot depends on what you win.

<Q>: Yes, fair enough.

<A>: Rod Ruston: So the entire initial earthworks for Total, for example, if we were to win that, we could certainly... and that would start in December this year. We could start that work with the equipment that we've got but, probably over time, we'd have to be building the equipment fleet. So, yes, we'd have to start buying some stuff in 2012 or fiscal 2013 or late fiscal 2012 in



order to service that market while keeping our business going on all the other projects because it's a brand new piece of business.

<Q>: I guess the other way to look at the question is what's the utilization rate in the fleet today? And I'm talking about the heavy equipment fleet, not the... forget the Pipeline stuff and of the Piling.

<A>: Rod Ruston: Yes, Bert, very, very difficult to quote a utilization rate because with our 320-tonne trucks, we can say our utilization is in the high 80's. And because those trucks are 100% focused on the mining business and the mining business tends to operate 24/7, 365 days of the year.

<Q>: Yeah.

<A>: Rod Ruston: Once you get below the 320-tonne truck, 240-tonne truck predominantly big dirt and mining so it can work 365 days of the year, 24/7, but, on other occasions, will go and do construction type work where it'll only work for 10 hours a day, five days a week and that becomes more so as you get into the 150 and then down to the 100-tonne trucks. In a normal construction job, you won't run 24/7 and so therefore you're... the base that you're measuring your utilization over is sort of fuzzy.

<Q>: Okay.

<A>: Rod Ruston: So it's hard to say what the utilization is. At the present time, I can say our utilization would be for our entire fleet would probably be running at around about 120% because we're not only utilizing every piece of equipment that we've got and own, but we've got a very significant rental fleet in at the moment doing the work over the winter, which is our normal way of working over the winter.

<Q>: Right. So if I... maybe just to look at it from another angle yet again is if... historically, the CapEx has kind of mirrored your growth. As you grow and get new projects, you're buying equipment. And so am I interpreting it, subject to maybe you win this or win that, that a more modest plan this year is going to triangulate against a more modest revenue growth profile in the Heavy and Mining business for fiscal 2012?

<A>: Rod Ruston: We're attacking the equipment demand from two points. One is we're spending significant money at the present time on product... on reliability improvements, availability improvement of our equipment. It's quite a substantial increase in preventative maintenance type programs that we're putting in place. We've been doing this for about the last 2 to 2-1/2 years. So that by increasing the availability of our equipment, we can increase the utilization of our own equipment and, therefore, reduce capital spend. That can only go a certain distance.

<Q>: Yeah.



<A>: Rod Ruston: With the amount of work that's coming out over the next 12 to 18 months or 2 years, there is definitely going to be a need to increase our fleet. So our capital spend... our capital spend will go up over the next couple of years, higher than it was in the fiscal 2011 year. But I don't think it's going to go back to where it was two to three years ago where we were upward of \$150 million to \$200 million in a year.

<Q>: Okay. So real acceleration as you head towards 2013.

<A>: Rod Ruston: That's right, yes.

<Q>: Okay. And lastly, can you just give me... do you have a sense if you look at your expectations out over the next 12 months, what's the split between what would be time and material work versus... and I assume that's the site services time and material versus the lump sum unit price side of the equation?

<A>: Joe Lambert: It can change seasonally, Bert. This is Joe Lambert. The CNRL contract obviously is a long term unit rate type contract. But when it comes to Muskeg and typically, our unit rate type work comes in as either winter... large volumes of winter Muskeg or large volumes of overburden. So, currently, the work at Syncrude sites would both be on unit rate type contracts but, conversely, even though we bid unit rate on the Jackpine Muskeg work, they actually awarded it as time and materials. There was an option for both because they had a lot of confidence in the people and the execution we had on that site. So if you put a range, I'd say because CNRL locked up a chunk of that, probably 20% to 25% of your revenue as unit rate, there's probably another I'd say 15% to as high as 40% at any one time that can get locked up into that. And the rest of it is typically the time and materials type work.

<Q>: And the time and materials, you have a better ability to pass along price increases. So if we get back into the tire situation, fuel, any other inflationary pressures that come along, the time and materials, you have a better ability to pass that along than you do in the lump sum unit price side of it, correct?

<A>: Joe Lambert: Sure. In any of the master service types agreement where really the client doesn't have any obligation to award to you other than what they want to award to you and you don't have any obligation to accept it unless you want it. So even though you have an agreed rate and things like that, they have a choice to award you and you have a choice whether to accept it. So if you had a huge variation, let's say, your tire price and it wasn't coming through in your equipment rates then you wouldn't have to accept the work.

<Q>: Okay. So it's not embedded in the contract. It's sort of implicit in how the whole process works?

<A>: Joe Lambert: There are rates set up and they're set up and some of them have methods of annual escalation different than others. But, ultimately, you have a choice whether to accept it or not as do they.

<Q>: Okay. Perfect. Thank you very much.



**Operator:**

Thank you. Our next question is from John Morrison of CIBC World Markets. Please state your question.

**John Morrison – CIBC World Markets**

<Q>: Good morning, guys. Just a followup on the back of previous questions on your outlook where you talked about revenue growth outpacing margin growth, can you help us better quantify near-term? So is this a two-quarter phenomenon or do you see it carrying into the back half of fiscal 2012?

<A>: Rod Ruston: I'd say that the revenue growth that we're seeing, the announcements of the work that the clients are putting out in the market at the present time says that there's going to be a steady tightening of supply. So we're talking about six to nine months behind revenue you'll see the growth in margin.

<Q>: Given the cost creep that will happen over the next, call it , 12 to 18 months as accelerating capital goes to the oil sands, have your margin expectations in the heavy equipment segment changed at all as you face increasing costs? Do you feel that 15% to 17% long term is achievable?

<A>: Rod Ruston: Yes, we do.

<Q>: Okay. Just going back to the tailings management, you've referenced Suncor and CNRL's work. Just wondering, I realize that operator's plans are fluid at this point, but do you have any idea of how much of their budgets you'd have the potential to be bidding on? And on the flip side, how much capital you might have to allocate to that opportunity set to take advantage of it?

<A>: Joe Lambert: Yes, John, we see... I mean the jobs split it differently but, generally, if you think about the flow of their tailings, it goes from dredges to cell cats. And we cover areas either directly or through our other divisions in that tailings group. So I believe we would have access to somewhere around half of that. And I'm just rounding it off in that half... it may be more related to the vertical growth but that revenue we have access to isn't specifically within our tailings group. It would also be opportunities in our Heavy Construction and Mining on the earthworks side of it, with our Piling group in putting piles in for the construction work, and in our Pipeline group because this is all fluid. So it's not a direct relation to that tailings group but those opportunities of those bids coming in, I would say roughly about half of them we would expect to see tenders on.

<Q>: Okay. That's all I had.

<A>: Rod Ruston: So we've done things in the last 12 months like the pipeline corridor for Shell and that pipeline corridor is very specifically a tailings project but it was done within the Mining group.



<A>: Joe Lambert: And the Pipeline group.

<A>: Rod Ruston: And the Pipeline group, yes. The Mining group and the Pipeline group. We've done some preparation of drying areas that was also done under the Mining group. We've done some skimming of the surface bitumen, some trials for skimming, that was done directly under our environmental group, tailings group. Similarly we've done a finger dike into a tailings dam for one of our clients and that also involved the Heavy Construction and Mining group.

But these were all... everything I've quoted there is absolutely related to the tailings. And where the clients are at the present time is they're in the construction mode, construction and trial. No one has a full blown this is what we're going to do, here's where the tailings dam is and here is the next five years of reclamation of that tailings dam. No one has that actual plan in place yet. So what they've got is some construction of part of the work to drain the tailings dam and dry the material there, some ideas of how they're going to dry it, some trials going on, et cetera. It will be probably another year before you actually see a number of tailings dams being round-the-clock work or actually, it will probably never be around-the-clock, it will be nine months of the year work on to actually do the reclamation.

<Q>: Do you feel that's at least minimum a year out before anybody gets to that stage of development?

<A>: Rod Ruston: By the time you get the whole sequence in place, yes. The whole sequence being you've got your dredge in there, you've got that all set up, it's got all its pump stations in, it's taking the material down to a drying area, that drying area is operating through the summer and late spring, early fall periods, and then that material is being picked up and deposited and reclaimed. To get that whole sequence in line and running is probably another year away.

<Q>: Okay. That's all I had. Thanks.

**Operator:**

Thank you. Our final question this morning is a followup from the line of Matt Duncan of Stephens Inc. Please go ahead with your question.

**Matt Duncan – Stephens Inc.**

<Q>: Hi, guys. I just wanted to circle back again to an earlier question about the sort of sequential change in revenues we should look for from the December to the March quarter. And I know there are a lot of puts and takes on the Heavy Construction and Mining side, I'm sure there were some construction projects that would have been finished off in the December quarter. And so just looking at from December to March, how should we think about the progression of total revenues for Heavy Construction and Mining taking into account new contract wins and things that were worked off?



<A>: Dave Blackley: Yes, I think, Matt, in terms of the overall number it should be fairly flat to where we're at Q3. There may be a small incremental increase but it wouldn't be very big.

<Q>: Probably less than \$200 million but somewhat a little bit more than you had in the December quarter, is that the range to think in?

<A>: Dave Blackley: Yes, that's probably a reasonable estimate.

<Q>: Okay, that's helpful. And then last thing I've got in terms of Cyntech, can you give us an idea how much revenue it added to Piling this quarter?

<A>: Dave Blackley: You know, I can't remember the number off the top of my head. I don't know if somebody else has got that?

<Q>: Okay. We can circle back on that later, Dave.

<A>: Dave Blackley: And I don't remember off the top my head. Sorry, Matt.

<A>: Chris Yellowega: Actually, I can help with that, Matt. It's Chris Yellowega. Cyntech, a lot of its work is still seasonal, so they book tank services and screw piling work. And so I don't expect it to have a large impact on Piling revenues in this quarter, it will be incremental.

<Q>: Okay. Thanks, Chris.

<A>: Dave Blackley: Matt, Kevin just gave me the information. It was \$3.5 million, that's what we recognized here in this last quarter.

**Operator:**

Thank you. There are no further questions at this time. I would like to turn the floor back to management for closing comments.

**Rod Ruston:**

Thank you very much, everybody. We'll be on the road down both the East Coast of the US and the West Coast of the US and in Toronto and Montreal over the next week and happy to catch up with anyone that needs to talk to us. Thank you very much for getting on the call. We'll talk to you later. Bye.

**Operator:**

This concludes today's teleconference call. You may disconnect your lines at this time. Thank you for your participation.