North American Energy Partners Inc.
Q4 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 Fourth Quarter earnings call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be an opportunity for analysts, shareholders and bondholders to ask questions. The media may monitor this call in listen-only mode. They are free to quote any member of management but they are asked not to quote remarks from any other participant without that participant's permission.

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

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

Kevin Rowand:

Good morning ladies and gentlemen and thank you for joining us. On this morning's call we will discuss our financial results for the three and twelve months ended March 31, 2011. 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 March 31st, 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. Fiscal 2011 brought a general improvement in the volume and types of opportunities we're seeing throughout our business and an expansion of our relationships with a number of key oil sands customers.

In our Heavy Construction and Mining division, we entered fiscal 2011 with a significantly reduced volume of work and no long-term contract in place at Syncrude and ended the year with a new four-year contract covering reclamation, overburden and general construction services.

Over at Suncor, we have grown our business from renting this customer a small fleet of trucks, to having a full complement of fleet on site executing a high volume of reclamation and civil construction services with the anticipation of signing an extensive five-year agreement covering reclamation, civil construction and mining services.

At Shell, we also expanded our site presence by signing a new three-year muskeg removal contract with this customer. This is in addition to our existing four-year master services agreement with Shell.

In a year where an excess of truck and shovel capacity existed in the oil sands, we've greatly expanded our relationship with three of our four major oil sands customers in recent months. We believe this has been primarily achieved through our continued focus on safety, training of our supervisory staff and excellence in execution of the projects.

Our Piling division, meanwhile, achieved significant volume and profit increases in fiscal 2011 as commercial and industrial construction market demand improved.

And our Pipeline division grew revenues as it worked on two major projects in northeastern BC. Combined, these new opportunities contributed to a 13.1% increase in our consolidated revenues for the year. That was after giving effect to the $42.5 million revenue writedown related to our long-term overburden removal contract with Canadian Natural...so a significant achievement.

However, our gross profit margin results came in below expectations. This was primarily due to the revenue writedown, which also impacted gross profit by $42.5 million. Excluding the effect of the revenue writedown, gross profit would have been $100.7 million or 11.2% of revenue. The reduction in our fiscal 2011 gross margin reflects increased volumes of lower margin overburden removal work, losses incurred on our Pipeline projects and the lingering impact of lower-margin legacy contracts signed during the economic downturn.

Looking more closely at our segment results… Revenue from the Heavy Construction and Mining division was nearly flat year-over-year, after the revenue writedown on the Canadian Natural contract. Excluding the writedown, revenues increased $44 million reflecting record volumes of overburden removal activity and increased construction activity in the oil sands, partially offset by lower recurring services revenues as the Jackpine Mine transitioned from construction to operation. For those of you who are long-time shareholders, you will remember a similar commissioning of the Canadian Natural Horizon mine a couple of years ago.

Margins in the Heavy Construction and Mining segment were 7.6% of revenue, compared to 16.7% a year ago, reflecting the writedown. Excluding the writedown, segment margin was 13.1%, reflecting increased volumes of lower-margin overburden removal activity in the project mix, increased competition and an increase in the use of higher-cost rental equipment during the year.

Turning to Piling, revenues increased 54% year-over-year to $106 million.

Improving market conditions and an increase in larger-scale oil sands projects, together with a contribution from our Cyntech acquisition, were the key factors in the growth.

Piling profit margin also increased to 17.5% of revenue compared to 16.5% a year ago, as a result of the improved market conditions. However, we lost some ground on margins in the fourth quarter. This was due to weather-related project start-up delays and margin reduction on one large, lump sum project.

Looking at Pipeline results for the year, revenues increased to $85.5 million, from $24.9 million a year ago. This reflects our work on the two contracts in northern British Columbia.

However, weather-related productivity issues on one contract and significant project scope changes on the other, hampered profitability. We ended the year with a segment loss of $3.0 million and a number of outstanding change orders related to these contracts.

So overall, a noticeable increase in activity in fiscal 2011 but significant and we believe temporary, profitability impacts, primarily as a result of the writedown on the Canadian Natural contract.

If I were to put this year in perspective, I would characterize it as the trough of the downturn in the mining and heavy construction sector and we are now ramping up in the recovery phase. I'll now call on David Blackley to review our fourth quarter financial results with you. David.

David Blackley:

Thank you Rod and good morning everyone.

I am going to review results for the fourth quarter ended March 31st, 2011 as compared to the fourth quarter ended March 31st, 2010.

Revenues for the period were $174.5 million, compared to $220.6 million in the fourth quarter of last year. The change in revenues primarily reflects the $42.5 million revenue writedown. In addition, we experienced a slight drop in recurring services and project development activity in the Heavy Construction and Mining segment. The completion of a project in our Pipeline segment offset higher revenues in our Piling segment.

Gross margin was negative 10% in the fourth quarter, primarily due to the revenue writedown. Excluding the impact of the revenue writedown, gross margin would have been 11.6%, compared to 14.8% last year. The year-over-year change in margin reflects a loss on one lump sum pipeline project and lower margins in the Piling segment due to project losses and start-up delays.

We recorded an operating loss of $35.5 million in the fourth quarter, compared to operating income of $13.1 million last year. This again reflects the impact of the revenue writedown, partially offset by lower G&A expense for the three months. Fourth quarter G&A was $4.7 million lower than a year ago as a result of a reduction in the employee short-term incentive plan liability, partially offset by the impact of a share price increase on the stock-based long-term compensation plan.

Net loss per share for the three months ended March 31, 2011 was 84 cents, compared to a net loss of 3 cents during the same period last year. Backing out the impact of the revenue writedown and various other non-cash items, net loss would have been 1 cent per share for the most recent quarter, compared to nil last year.

Turning to capital...total expenditures for the fourth quarter amounted to $5.5 million, including $2.6 million of sustaining capital expenditures.

Looking at liquidity, as at March 31st, 2011, we had approximately $69 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 related to the overburden removal contract with Canadian Natural and an increase in Pipeline related receivables and unbilled revenue.

One final note...as a result of the $42.5 million revenue writedown and its impact on our EBITDA results, we recently sought and obtained an amendment to our credit agreement.

Under the amendment, our lenders have excluded the $42.5 million revenue writedown from the calculation of Consolidated EBITDA for the 2011 fiscal year and any future periods.

This enables us to remain in compliance with our bank covenants while we conduct change order negotiations with Canadian Natural.

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

Rod Ruston:

Thanks David.

Looking ahead, we anticipate some initial constraints on our revenue as a result of the suspension of work on our long-term overburden removal contract.

As we've announced previously, work on our contract with Canadian Natural has been suspended until January 2012. This is related to the January 2011 plant fire that shut down oil production at their site.

We are currently working with Canadian Natural to see if we can redeploy resources to other projects in the region. We believe this could partially offset the expected decline in revenues. We also believe it would positively impact our margins and cash flow as we would be redeploying to higher-margin projects.

The timing for this suits the increased demand we have from other customers under our new contracts.

As I mentioned at the outset, we are anticipating signing a new five-year master services agreement with Suncor, we have a new four-year master services agreement with Syncrude and an additional three-year muskeg removal contract with Shell.

Demand for our equipment and services is currently very strong... although I should note that, similar to last year, nature is impacting us again this quarter, with temporary shutdowns in the oil sands in the past two weeks related to wild fires near Fort McMurray. To date we have lost about one week of production across our sites and expect this to have an negative impact on revenues of approximately $10-15 million dollars in the first quarter.

Longer term, our outlook for the oil sands is even stronger with a number of new projects moving forward.

Suncor and Total have formed a strategic alliance to develop the Fort Hills mine, Voyageur upgrader and Joslyn mine. The first tender related to early earthworks at the Joslyn mine will be

submitted later this month. Exxon continues with construction of its Kearl project and Syncrude is planning a number of major mining projects, including the relocation of four mine trains.

At the same time, our customers are significantly increasing their investments into tailings and reclamation projects.

By way of example, Suncor has announced an investment of $670 million for tailings management in 2011, while Syncrude is planning to spend $480 million on tailings projects this year. This has already translated into new opportunities for our Tailings and Environmental Construction division.

Turning to our Piling division, the outlook for fiscal 2012 is very positive as a result of new oil sands projects and an upsurge in commercial construction opportunities across the division. We expect to see revenues and margins strengthening over the coming quarters, although similar to last year, rainy conditions across our areas of operation have hampered start-up on some of our projects.

Conditions in the Pipeline segment have also improved with reduced competition and increased demand, allowing contracts to be bid with better margins and less risk.

Overall, our long-term outlook for the business remains very positive and with our new contracts in place, we are well positioned to capitalize on many attractive opportunities in our core markets.

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

Operator:

Thank you.

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

Thank you. Our first question is coming from Matt Duncan of Stephens Inc.

Matt Duncan – Stephens Inc.

<Q>: Hey, guys. Good morning.

<A>: Rod Ruston: Good day, Matt. Hi.

<Q>: Just related to the piling segment, so can you talk a little bit about on the weather and project startup delays, how much that negatively impacted your revenues and margins in the current quarter? Or in the March quarter?

<A>: Chris Yellowega: In the March quarter, actually the weather impacts weren't as strong as… it's just… it's mostly startup delays and award delays. So what we found, Matt, was a lot of the work got deferred into Q1 of this year and some actually into Q2 of this year and therefore just the volume is really where we had the biggest impact. We also had one job that didn't go very well and because it was a large percentage of the total revenue of the division to that quarter, it had an impact on the margins.

<Q>: So did I hear you correctly, Rod, that the June quarter is being negatively impacted by weather for piling as well?

<A>: Rod Ruston: Yes, you did, Matt. We had very, very heavy rains through April and half of May in the whole of western Canada actually. I think it's across the whole of Canada. So basically we've had rainy weather that has impacted our piling and construction outside the oil sands then you go north and the area is so dry, tinder dry, that at one stage, they had I think 160 fires burning around the oil sands area so it's been quite a difficult first month and a half.

<Q>: So then, Rod, as I look at that Piling segment, are the revenues there probably relatively flat March to June or should they be up a little bit just on activities picking up at other places?

<A>: Chris Yellowega: Matt, it's Chris. They'll be up a little bit. They're not as strong as we had hoped due to the weather but they will be up a bit.

<Q>: Okay. But then from what I heard you say, over the balance of the year, things are looking very strong at piling, so you ought to kind of get back to… you put up a $38 million quarter back in the December quarter, so once we get past the short-term fire and whether issues, can you get back to that level?

<A>: Chris Yellowega: I would think so. Our biggest issues now as soon as the weather clears up, we've got a lot of internal competition for equipments. They guys are scrambling now to get all the jobs started.

<Q>: Okay. And then last thing from me and I'll hop back in the queue, when I look at all the puts and takes in the June quarter, you've got the negative impact of fires, you've got piling business being impacted by weather, sort of how should we think about the revenue number? If I pro forma the March quarter to put the 42.5 back in, it would have been 217, so obviously you're down from that. I'm just trying to get a sense how much. And then I guess there's probably costs associated with you guys being negatively impacted by these fires and all this rain. So what do you think your margins are going to look like? And at the end of the day, do you think you can make money in the June quarter?

<A>: Rod Ruston: Yes, I think we can still make money. I think we'd probably need to take the revenue down around about $190 million so take it down. The $10 to $15 million that we're going to lose because of the fire type work, maybe a bit more depending on how much this weather stands out and then another $5 million to $10 million off the piling startup number. Generally, what happens in piling, unlike mining, if you don't mine it, then it doesn't get… it's not revenue that you get back again. Generally with piling and what Chris was talking about is all the guys want to play catch up and get back on schedule so we should see as the rains have cleared a hard push by the guys in that area to get things going as quickly as possible. So we want to get these all done by the end of this quarter. It will flow out into the second quarter but I think there would be a bit of a catch up.

Yes, there are some costs involved. We haven't laid off any employees with respect to either division. In the piling group, what it means is that employees go out there while it was not raining and they put in as much… do as much work as they can so there's a cost to retaining those employees on site ready to work. Similarly with Fort McMurray, there's a cost there because we expect a large number of the camps in Fort McMurray have closed down because of the fires, not just at Shell but at other locations and so people are being bused into Fort McMurray town and put up in hotels and bussed back in the morning so there's a productivity loss just due to the time that you're losing of having employees on site plus the costs of keeping them there. So you could probably take the margins down in both of those areas by maybe a percent or two.

<Q>: You do think you'll be able to earn a profit in the June quarter on that $190 million of revenue?

<A>: Rod Ruston: Right. I think we can, yes.

<Q>: Thanks. I'll hop back in queue.

Operator

Thank you. Our next question is coming from Greg McLeish of GMP.

Greg McLeish – GMP Securities

<Q>: I just wanted to touch on your bank covenants again. I understand you did get the waiver from the bank but, if you… if things didn't go well with CNRL on the negotiations, you didn't indicate that there is another $72 million that would have to be written off. What would happen to the covenants at that point?

<A>: David Blackley: Greg, well, this was not a waiver. It's an amendment to the covenants, but we have had discussions with the bank and they've indicated to us that should we need to come back for another adjustment, they would be willing to review it. Clearly, they're not going to sign off on that today but I'm pretty confident that they would continue to support us.

<Q>: And if it was upwards of the $72 million?

<A>: David Blackley: Yeah, I would believe that they would continue to support us but I mean, again, that's a hard thing to predict right now.

<Q>: Okay. The other thing is can you just talk about the change orders and on the pipeline and how much… if you were successful in getting those changed, how much you could get back next year or how much you could realize?

<A>: Chris Yellowega: Yeah, sure, Greg. It's Chris. I'll answer that one. Under the pipeline change order process, we're seeking change orders to bring us back to even. Success rate, I would expect we'll get close but we probably run up short of about a million.

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

Operator

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

Bert Powell – BMO Capital Markets

<Q>: Thanks. Rod, you talked about the legacy contracts and you've talked about competition. Outside of CNRL and mother nature, can you give us a sense as to what the profit margins would look like going forward? I think, historically, you've talked about gross profit in the 15% range. Given the new dynamics, is this something we should be thinking about closer to 10-12% going forward given what's going on?

<A>: Rod Ruston: I'll go right in the middle, more of the 13 and 14%. We'll head back up. It will take us a little while before we get into the 15 and 16's that we were before, but we're certainly seeing some margin movement in Fort McMurray now. But there's still an oversupply of equipment. With our equipment actually working pretty solidly, but you've got to remember that Aecon still has got the ex Cow Harbor fleet out there that… is going to get to work at some time and Klemke is coming off Kearl, the major earthworks projects there. And interestingly, our original thought was that Kearl would be replaced with the early earthworks of Total in size, but in fact, Total's initial contract of bid material that they've come up with so far is relatively small, like in $60 million to $100 million size. So it won't absorb a lot of equipment in the early stages. It will ultimately go to a very large contract, but the initial one is going to be pretty small. So there's still some pretty clear competition out there. As I've said before in the market, this year is a year when bidding opportunities are going to come out where construction opportunities are going to come out but the real construction and growth in the industry is going to start probably from round about December or January… December this year, January next year.

<Q>: Okay. David, just on the G&A, I assume part of the reduction is reversal of accruals in the fourth quarter?

<A>: David Blackley: Correct.

<Q>: Okay. So what's the right way to think about G&A? Is sort of $15 million a quarter the right way to think about it?

<A>: David Blackley: Yes. I think its worth somewhere in that sort of $15 to $16 million a quarter range is reasonable.

<Q>: All right. Thank you very much.

Operator

Thank you. Our next question is coming from Ben Cherniavsky of Raymond James.

Ben Cherniavsky – Raymond James

<Q>: Good morning, guys.

<A>: Rod Ruston: Hi, Ben.

<Q>: I'm hoping you can elaborate a little bit on some of the headwinds that you noted in the various segments. The lump sum contract in the piling segment, the summer cleanup costs on the pipeline division, are those just provisions for expenses you anticipate after the job shuts down? And I think there was also… you said some lower activity on Shell's site. So can you just walk through each of those and give us a little more color?

<A>: Chris Yellowega: Sure, Ben, it's Chris. On the piling business, we often take lump sum contracts and they're just in the mix within each quarter. In fact, a fairly good number of lump sum contracts are in that business and we tend to like them. But once in a while we will run into some conditions that either were unknown or more difficult than we expected and we end up with lower productivities and, therefore, we take a hit on our profitability on those particular projects. In the last quarter, I think that there was a combination of having one of those projects being a fairly large component of the total mix as well as a slowdown in activity levels. When those two things came together, it reduced the margins in the piling business and that does happen to us once in a while but it's not something that is very common so we tend to actually really like the lump sum projects in that business.

On the pipeline side, most of the summer cleanup work is stuff that closes out projects that we did last year. The biggest impact that those ones have had is that we've had to carry a cost on the summer cleanup work that is greater than what we expected to be the revenue, which is why we show a loss in a couple of those projects. Those are where a lot of the change orders come into play because that summer cleanup work is different scope than what we bid and those are the components that we're negotiating with the client and that's why I expect to recover some of that.

<A>: Joe Lambert: Then this is Joe Lambert. On the activity at the Shell site, what Rod hinted to in his discussion earlier was that when a project transitions from construction into operations,

we really go from the peak of construction support to a mine support that starts building over time. So it's just a transitional phase on that site. When that occurs and you have to move equipment between sites, there is some reduction in your efficiency during that transition and it's just the natural progression of a mine site to go from the start up into the mine support site. Similar to what we see in CNRL.

<Q>: Right. Good. That's all very helpful, thanks for the color. If I could have one follow-up. In the last quarter, I believe there were some change orders that you are expecting to recover in future quarters in the pipeline business, if I recall correctly, and correct me if I'm wrong, but I think they amounted to about $4 million that you anticipated recovering imminently. Did that impact you? It doesn't look like that impacted you at all in this quarter but maybe you can shed some light on that.

<A>: Chris Yellowega: Actually, yeah, because we didn't get the final signatures done by the end of the quarter, Ben, so we weren't able to book any of that.

<Q>: So that will come in the future quarters?

<A>: Chris Yellowega: Yes, that's still expected. There are a lot of those negotiations that are still ongoing and you can all imagine when the projects are done, those negotiations can get a little bit difficult.

<Q>: So is that then in addition to the change orders, these…. what you were just referring to previously in the pipeline business was summer cleanup, those are additional change orders that are unrelated to the ones you've noted in previous quarters, is that correct?

<A>: Chris Yellowega: No. They're largely the same. There are also other components outside of summer cleanup that are carrying over.

<Q>: So how are we supposed to think about that in terms of the revenue line then? And, obviously, those change orders, I believe they come with very high profit margins. They're just recovery on costs you've already incurred. So can you help us at all in how we anticipate the piling segment to look in the next couple quarters should you recover those costs… those change orders?

<A>: Chris Yellowega: Well, they'll be contributing. I think what we'll find is most of our pipeline activity is not scheduled at present. We do have a couple of awards now so… but those don't look like they're going to start until the August-September timeframe. So should we get those change orders complete and executed, a bit of work in the summer cleanup period before the August-September timeframe, I think you'd see a very low volume of work but with a fairly high margin attached to it through the next quarter.

<Q>: You don't want to quantify that at all?

<A>: Chris Yellowega: No.

<Q>: Okay. Well, that doesn't help much, but okay, thanks.

Operator

Thank you. Our next question is coming from Graham Morris of Contrarian Capital.

Graham Morris – Contrarian Capital

<Q>: Hello?

<A>: Rod Ruston: Yes.

<Q>: Hi. A quick question. If you were to… the PP&E on your balance sheet is depreciated. Is there market value of the equipment that you own? Or do you have an estimate or an insured value?

<A>: David Blackley: We haven't done a true market assessment for quite a while. Yes, for at least three years, so I'm not sure I would have something reasonably current.

<A>: Rod Ruston: The other thing is we're not going to sell it if you're…

<Q>: No, I'm just wondering if your stock price is trading below the intrinsic value of your equipment.

<A>: Rod Ruston: My off-the-cuff would say yes.

<Q>: Okay.

<A>: Rod Ruston: They're certainly below the intrinsic value of the equipment and that…

<Q>: So below liquidation value? I realize this is a theoretical exercise and that you're not selling it, I'm just more curious than anything else.

<A>: Rod Ruston: Yes. Again, given the demand for equipment in the world market at the present time, you could probably get a pretty good resale price for it, so yes, you could probably say that.

<Q>: Okay. Great. Thank you.

<A>: Rod Ruston: Or pretty close.

<Q>: Great. Thanks.

Operator

Thank you. Our next question is coming from Stephen Nirren of Brill Securities.

Stephen Nirren – Brill Securities

<Q>: Yes. Could you give us some idea of how you expect the environmental work to start rationing up? Specifically, do you have any specific numbers on how much the tailing cleanup should be this year and in the future?

<A>: Rod Ruston: Well, I read the numbers that are being quoted by our clients. But some of the value of those quotes will be our own clients doing their planning or doing some of the work themselves or getting tests done at universities and all that sort of stuff. The sort of work that we're doing at the present time is fairly wide ranging and does everything from preparing drying pads for drying the material once it comes out of the tailing dams to developing and assisting clients in ways to actually install the pumps and dredges within the tailing dams so they can actually get materials out of them, and the whole of those other experimental work in between. So the work will be highly varied. This year, it will be focused towards experimentation, new ideas, things that the clients are trying and preparing lay down areas, and I would expect next year there will be a real push on actually pumping materials out and doing some drying.

<Q>: Do you expect to actually do the work on these projects and would you manage the entire project?

<A>: Rod Ruston: That's certainly our market model and that's what we've been approaching the client with. We believe we are the only organization that has a take it from the plant right through to put it back into a dry state type of model for our capability. We have a joint venture with Boskalis, one of the biggest dredge operators in the world. In fact, as we speak, we're bidding the first significant sized job for Boskalis dredge working with us in that joint venture with one of our clients. And so we're getting some good traction now after about a year of marketing. We're getting some very good traction now on clients recognizing the extremely broad range of scope that we've got within our organization.

<Q>: Last question. Could you give us some idea of the size of the money that's going to be spent cleaning up the ponds and how much could that add to your annual revenue?

<A>: Joe Lambert: Stephen, this is Joe Lambert. What Rod announced represented some of the numbers our clients have announced, you know, the $600 million to a billion kind of dollars that they're putting into tailings here or there. What we're looking at is a lots of that work is work that we currently do in the heavy construction mining, piling, and pipeline divisions and isn't necessarily growth side. On the growth side, we believe the near-term opportunity is probably in the $10 to $20 million range in our tailings and environmental group per annum. And we see that as growing steadily to be able to have that opportunity and access to possibly a range of around $100 million annual within the next five years.

<Q>: Thank you.

<A>: Rod Ruston: In that $100 million annual, that will come from the start up of when we're actually pumping the material out and doing the actual drying process. It will be a big contributor to that.

<Q>: Okay. Thank you.

Operator

Thank you. Our next question is coming from Jeremy Lucas of Scotia Capital.

Jeremy Lucas – Scotia Capital

<Q>: Hi. When I take a look at the unbilled revenue account on the balance sheet, I see about $30 million that's not associated with CNRL. Is there any one customer that represents a significant portion of that balance?

<A>: David Blackley: No. It would be made up of a number of customers, not any big one.

<Q>: Okay. So there's no large one in there? With respect to some of the legacy contracts, do any of them have similar inflation indices comparable to the CNRL contract that's currently being reworked?

<A>: David Blackley: No. The CNRL contract is the only one of its type that we have in our business.

<A>: Rod Ruston: It's the only one of its type in the world.

<Q>: Okay. Understood. And then finally, have you had much success relocating resources from the CNRL site to other sites? I fully recognize that it's a bit early and perhaps the fires are impacting things a bit but just wondering if you had any discussions with your customers regarding your new increasing capacity?

<A>: Joe Lambert: Jeremy, this is Joe Lambert again. We've already moved some equipment off site. Actually, we received the suspension notice about two days after the bulk of the fires started in the Fort McMurray area, so we've actually been somewhat hindered in getting equipment off site, our noncontract committed fleet off site, just because of the fires and the impact of the fires. So we have taken all of our noncontract fleet extra equipment that was just down there doing other work pretty much off site now and we're currently looking at the demand side and in discussions with CNRL to see if we can come up with some mutually beneficial scenarios to use the other equipment to support our work in other sites.

<Q>: Okay. So just focusing with CNRL right now, a sort of retool the relationship, other than perhaps other customers, is this what you're saying, right?

<A>: Rod Ruston: First of all, we don't have any bad relationship with CNRL.

<Q>: Right.

<A>: Rod Ruston: It's a very good relationship. We've worked with them now for five years. As I said on the call when we announced the loss on that side, this is a change order. We just talked a little while ago on the conference call here about a number of change orders in the pipeline division that Chris' team is negotiating with our clients there. This is really the same thing but just the fact of the matter is, is this is a very large change order. The two parties are working very well together. We've submitted, as we should and as is our responsibility, our view of the impact of the change in circumstances and CNRL had looked at that change and have come back to us and said basically, okay, we understand where your clients coming from. Obviously, they want to confirm the numbers that we're putting in and the two parties have come to an arrangement where they will together go to all the places where the new indices valuation is being based on and review the work that we've done before to confirm or change or whatever the submission that we've put in and then negotiate it out. We expect that to be done over the next few months with a view towards finishing by the end of August. The relationship is very good.

Our choices then… so as a separate issue altogether, CNRL had a fire in their coker last year… earlier this year and have made the decision that they should shut us down because they don't want to much exposed ore by having excessive overburden removed. So they have that right within the contract. They've done it before when they were doing the commissioning of their plant. And we could at that point, say, okay, we understand we're shut down. And submit them continued invoicing for the cost of us retaining that equipment and leaving it on site so they would cover the fixed cost. Now, it's common sense as far as we're concerned and as far as they're concerned, to say, well, if we can take one of those pieces of equipment and move them elsewhere… move it elsewhere and move it from a low-margin job into a high-margin job, and out of that, CNRL doesn't have to pay for that piece of equipment and we get a benefit elsewhere then we should do so and that's what Joe is working through with the client now.

<Q>: Okay. Great. Thanks very much.

Operator

Thank you. Our next question is coming from Matt Duncan of Stephens Inc.

Matt Duncan – Stephens Inc.

<Q>: Hey, guys. I just want to stay on CNRL for a minute. So on the equipment that was on that site, if it was doing roughly $50 million a quarter in revenue at Horizon, how much of that equipment can you reallocate? So what I'm getting at is that $50 million in the quarter from CNRL, how much revenue can you generate from the equipment you reallocate?

<A>: Joe Lambert: Matt, this is Joe Lambert again. It depends on how much… it's got to be mutually agreed with our client as far as the contract fleet. There was some equipment like 777 trucks doing muskeg work and that weren't contract committed equipment and then some stuff we had doing extra work that we moved out already. That equipment wouldn't be generating

$50 million a quarter, maybe $5 million a quarter kind of number. But the bulk of the equipment and the larger sized equipment, it really depends on how much we can find work for it and whether it's of mutual benefit to us and CNRL to get their agreement on doing it. And it'd be how long is the piece of string kind of question until I know what the demand is and what the willingness of the client to participate in the demand is.

<Q>: Okay. And then on… Rod, back to the comment you made about gross margins earlier, I guess that the mix within your revenue is obviously shifting in the near-term to much higher margin business given that CNRL was such a low-margin piece of business and that goes away through the balance of this calendar year. So shouldn't, in theory, maybe beginning in the September and December quarters, shouldn't your margins run higher than that 13 to 14% just given that (A) the contracting environment is a little bit better but (B) the mix has shifted to a much higher-margin business?

<A>: Rod Ruston: Yes, you're probably right, Matt. Certainly, with the large impact of CNRL taken away, yes, the margin should be up a bit. I left that out there for you to dig up and come back at me at.

<Q>: I guess a lot of the stuff that you've won recently is probably more in the 12 to 15% range on heavy construction and mining and then piling should be kind of in the low 20's. So that would suggest a mix more like 16, 17, maybe even 18% margins in good quarters while you were off the CNRL site. Does that sound pretty good… pretty close?

<A>: Rod Ruston: Yes, it should be up a bit. I want to be careful here that we don't… you're asking me to put a lot of numbers out of the air here in prior saying, well, how much did the rain hit you and the fires and all the rest of it on margin and I said 1 or 2% down, and now with CNRL, 1 or 2% up, so just be careful. But, yes, sort of in the 14, 15, 16% is probably a good run rate. Hopefully, we can go a bit higher than that and we're certainly concentrating our business towards getting better margins but I don't want to overstate it.

<A>: David Blackley: Yeah. Matt, just keep in mind that we are still working through some of the lower pricing on legacy contracts so that will provide a bit of a drag.

<Q>: Oh, sure.

<A>: David Blackley: Obviously, as we get towards the end of this fiscal year then the margins would start trending back up to the lower end of those more historical levels that we've talked about.

<Q>: Last thing I've got is that CNRL, I know their production plan for their plant is to have that back up and running by the end of August, but you guys are off that site until January. So does that suggest that you are four months ahead of schedule at this point and is there any chance that that January restart date could move up once they begin production as long as they don't have any problems restarting their facility?

<A>: Joe Lambert: Matt, this is Joe Lambert. I believe the restart, if you look at the information, it to get half their cokers running in that first stage set up.

<Q>: They have changed that I think either earlier this week or late last week. They said that they're going to start the whole thing by the end of August.

<A>: Joe Lambert: Okay. Since January, we've been mining in overburden along with their mining in overburden. So they've basically been moving two months of waste without any ore since January. So we would see them being possibly somewhere around 10 months ahead of schedule on their overburden and believe that will take them pretty close to their January start date.

<Q>: Okay.

<A>: Rod Ruston: We also believe, Matt, from discussions that they've indicated to us that some further exploration and mapping of their site is indicating some lower overburdens for the next number of years as well. So you've got the combination of that significantly amount exposed and a lower demand going forward.

<Q>: Okay. Thanks, Rod.

Operator

Thank you. Our next question is coming from Jeff Fetterly of CIBC World Markets.

Jeff Fetterly – CIBC World Markets

<Q>: Good morning, all. I'm looking for some color on pricing and margin expectations in the other segments. You talked about some pipeline project wins starting this summer or early fall. What is the pricing dynamics on that relative to previous contracts?

<A>: Chris Yellowega: It's Chris again. The pricing is actually a lot stronger this year. We're seeing demand increase and a number of our competitors are struggling or reevaluating their position in the marketplace. So pricing is stronger and the risk profile under the contracts is lower.

<Q>: So when you say risk profile, are they still lump sum contracts?

<A>: Chris Yellowega: Pretty much all unit rate type contracts with some lump sum components in them.

<A>: Rod Ruston: The difference is that we are able to qualify more things out than we were able to do so we're able to hand some of the risks back to the client in some weather risk and those sorts of areas. So that reduces the overall risk profile of the job. The other thing is that the actual margins that we're bidding are somewhat higher than they were last year.

<Q>: So those contracts are in hand for work to be done this summer, fall?

<A>: Chris Yellowega: Yes, we have a couple at hand and we're hoping to hear word on a couple of more right away.

<Q>: So what revenue visibility do you have for the pipeline business in fiscal 2012?

<A>: Chris Yellowega: Revenue visibility I would say should be similar to last year although as I said we still have some other contracts we're trying to close.

<Q>: Okay. So just to be 100% clear, the visibility you have is for revenues to be the same in 2012 as 2011? And then there's upside with more contract wins?

<A>: Chris Yellowega: No. The expectation is with the couple of contract wins we're working on, it should be similar to last year's revenue.

<Q>: Okay.

<A>: Rod Ruston: But with better margins.

<Q>: What about the piling side from a pricing and contract structure standpoint?

<A>: Chris Yellowega: We're seeing pricing has been improving. Contract structures tend to be very similar because it's largely driven by the construction business and commercial business. Margins are improving because of activity levels, and that also helps us inside our business where we get lower kind of overhead costs inside that business driving down overall margins, and we are seeing revenues continuing, a pretty strong increase versus last year.

<Q>: And you're expecting margin expansion combined with that?

<A>: Chris Yellowega: Yes, versus last year.

<Q>: Okay. Cyntech. What is your initial thought of the contribution of Cyntech? Cyntech looked pretty skinny in the March quarter.

<A>: Chris Yellowega: Actually, we were pretty happy with Cyntech's contribution in the March quarter, but I think our into expectation with Cyntech is that it should… it's going to have approximately 15% to the piling revenue in any given year.

<A>: Kevin Rowand: Jeff, it's Kevin Rowand here. Its impact is a seasonal business as well especially their tank services. It ramps up. They do 89% of their work in the summer-fall timeframe on the tank services side. So they don't do a lot of work during the winter timeframe.

<Q>: Okay. Is it safe to say that 15% top line is a 15% bottom-line impact as well?

<A>: Chris Yellowega: Margins are similar. We tend to find tank services because of the structure and the locations that can be a little bit higher but they're fairly similar to the other piling divisions.

<Q>: Okay. Last two components. In the heavy construction mining side, the three… well, sort of two agreements and one potential agreement, from a pricing standpoint and margin standpoint, how would you say that compares to what it's rolling over against and, obviously, the incremental work that's coming in?

<A>: Joe Lambert: Our master services agreement would be typical to what our historical margins were in mining. They're not being compared to previous ones because we didn't have a previous one at Suncor.

<A>: Rod Ruston: Mid last year.

<A>: Joe Lambert: And the Shell one is a muskeg contract, it's not a master service and it's a unit rate job. And, again, we would expect it to be a historical type margins in those.

<Q>: I guess when you put it all together, do you expect them to be accretive to margins in that segment relative to where you have been the last 12 or 18 months?

<A>: Joe Lambert: Yes.

<Q>: So getting back to Rod's comments earlier with Joslyn coming in smaller than you had originally expected, with Kearl rolling off, with Cow Harbor in the market looking for business, why do you expect profitability to improve and pricing to improve in the near term in the business?

<A>: Joe Lambert: Those are actually opportunities… Rod was just talking about the first bid package we got from Total. Being smaller than what we thought is just in the scope of what it's doing. That doesn't mean more isn't coming out and will be… meet those expectations later. It's just the first one we got wasn't. And as far as Kearl, as an example, it's an opportunity because it's been locked up under our contract with the K2 joint venture of Kiewit and Klemke for the last three years. So with them going into operations, we believe it's going to provide opportunity for new tenders to come out here in the next 6 to 12 months in support of those operations. The increase in margins is we believe that the excess capacity in the equipment fleet is and will be… is in process of being consumed and we believe that will probably happen as it usually does every winter, but more so this winter, and that that demand will be what drives margins up higher.

<A>: Rod Ruston: So you've got the Klemke fleet coming off the construction of Kearl and remember what Joe talked about earlier that when you move off a large construction and you start moving to the operations side, it's a sudden move off and a slow move back. Then Kearl will start, we believe, looking for contractor services probably the early to mid next year that will help absorb some of that fleet. You've also got Suncor with Fort Hills. You do have Joslyn, which will start up, and Joslyn will go in and out of startup in January next year. You've got

Syncrude doing four mine train relocations over the next two years, the half this summer, half next summer, that will absorb a large amount of truck capacity over the summer. So what we're seeing generally is that there's a lot of work out there and the work is growing. So they won't… unlike three years ago when Kearl came out with their earthworks and there was a $700 million earthworks contract left in a single go, it absorbed a large piece of fleet pretty quickly; we don't see that happening. But what we do see is a number of diverse growth opportunities coming that will absorb the fleet over time and, as Joe said, by December this year, we expect most of the excess fleet in the market to be absorbed. Now, I believe our clients are probably seeing the same thing. And in fact, as a result, as I said, this year is the year where there are a lot of opportunities coming out from clients to bid work and to get things in place.

<Q>: What do you expect for pricing between now and the end of the year though? Is there risk that pricing actually softens as some of this equipment comes out before it gets absorbed?

<A>: Rod Ruston: No, I don't believe so, but I just… what I just want to say it's not going to be a sudden boom back up in margins as some people have expected. And a lot will depend on the type of work that goes out for bid. So, for example, if it's just straight dirt work and there are a lot of competitors. They're just loading and hauling heavy trucks and dirt moving such as overburden and clearing type work. If its construction work then the number of competitors reduce and the availability of equipment reduces so your margins will tend to go up a bit.

<Q>: Okay. Thanks, guys. I appreciate it. I'll turn it over.

Operator

Thank you. Our next question is coming from Karim Mawji in Dentonia Park

Karim Mawji – Dentonia Park

<Q>: Thank you. I have some questions related to the negotiating positions of both sides. The first component is how significant is this site to CNRL in terms of absolute revenue and profit? And what would be the implications to them if the negotiations don't go as you anticipate and the project is stopped, i.e., will they still be able to go at full capacity and how much would… and for how long would they be able to operate if it is at reduced capacity at those levels?

<A>: Joe Lambert: This is Joe Lambert. As far as the implications at CNRL is, ultimately, as their coker comes back online and they need to produce ore to feed their processing plant, they need to move overburden to uncover that, so the implications to them is that they need a contractor or they need their… or they need to build up their own capability to be able to move that material. So they have to uncover the ore at some point in time. Right now, it's not a big demand because the coker is down but, obviously, once they start producing ore again, the implications to them start to increase.

As far as the revenue and profit numbers, I'll leave that to Dave here to put the details around.

<A>: David Blackley: Yeah. As we indicated in our press release, the revenue contribution has been somewhere in that sort of 20 to 25% range, just depending on other activities on our sites. Because it's such a low margin, we've seen the contributions go from anywhere like 6% to maybe 10% of our profitability within heavy construction and mining. Again, it just depends on what happens with other sites.

<Q>: And what about though how much… how significant it is to them, i.e., if you were no longer associated with the project, how much revenue is being generated out of that site for them? And if they ran at a reduced rate, what would that rate be? And for how long would they have to run at that reduced rate until they could either build the function themselves or find someone else to do it?

<A>: Rod Ruston: You wouldn't run the plant at a reduced rate because we weren't there. We would be there or someone else would be there or they would be doing it certainly themselves. But it would be nonsensical and extremely expensive to have a $10 or $12 billion plant running at 50% capacity just because they couldn't pay us $40 million to be a contractor, you know what I mean? That's one point. I've got no idea what contribution Horizon puts into the overall center of business but it is a very significant project for them. The other thing is that, basically, they can't run without a contractor. They can't do it themselves without a contractor providing swing supply service. So their choice is have a contractor continue what they're doing now, which is have a contractor do the overburden removal for them and they do the ore mining or they also have a choice to say, well, we're going to buy North American's trucks and we're going to it ourselves. But if they do that then they'd really are picking up the Shell Suncor Syncrude model, which is they do the base load of overburden removal but they'll still require a contractor as do Syncrude, Suncor, and Shell for muskeg removal, mine reclamation, and site services and the rest of the stuff because if they took over our equipment what they're taking over is the heavy overburden mining equipment. That's 300-tonne trucks, deep shovels, it could be electric and it could be hydraulic shovels, and some ancillary equipment. They would not get any 100-tonne trucks, 150-tonne trucks, small dozers, graders, et cetera, et cetera because they aren't part of the contract fleet. So the choice is buy the big heavy mining fleet off North American and go out for a contractor that do site services or deal with North American and come up with an arrangement as we've suggested, which would still be a very economic outcome for them or the third one is go out and find someone else to do the same thing that North American is doing at the present time. It would be unlikely they could do that at a cheaper price than they would get it off us even if they deal with us. So we've got a lot of confidence that between the two parties working together, we'll resolve this issue and, in fact, we will be the ongoing contractor on that site.

<Q>: Okay. And sorry, just to clarify, so if they were to choose one of those other options, if things don't go the way we expect, so either they build internally or they could find another contractor, how long would it take for them to kind of affect that change? And basically implement it at the site?

<A>: Rod Ruston: That depends what strategy they took. If they took the strategy and said, we're going to do it ourselves, North American go away. We don't want you or your equipment. It would probably take them two years to assemble a fleet of the capability of the same size as

what we've got now to do what they want to do. So you got to say that would be a very unlikely scenario.

If they said, okay, North American, we don't need you but we will buy your fleet and it's under the contract, if they tell us to go away, they have the option to buy our fleet. If they bought that, then they can go out and tender for a new contractor to come in. That would probably take them about three to four, maybe up to six months to get it negotiated and put in place exactly they wanted to do. That would be pretty hard negotiations because the new supplier… certainly, if I was leading the new supplier, I'd be looking and saying, well, you need us probably more than we need you so… I think you'd the looking for some pretty substantial margins but it'll probably take them six months to get another contractor change over.

<Q>: So they're going to be… and then what kind of inefficiencies would there be if the new service provider came in?

<A>: Rod Ruston: Well, it will…

<Q>: You've been there for five years, right?

<A>: Rod Ruston: If it were us as the new service provider, there wouldn't be any inefficiency because we're damn good at what we do. If it was someone from outside and when I say us us I'm talking about Klemke and the general operators up in Fort McMurray. All of us know how to handle muskeg and overburden. If it was someone from outside of the oil sands, there'd probably be quite a few inefficiencies.

<Q>: Okay. Thank you very much.

Operator

Thank you. Our next question is coming from Maxim Sytchev of Northland Capital Partners.

Maxim Sytchev – Northland Capital Partners

<Q>: Hi, good morning.

<A>: Rod Ruston: Hi, Maxim. How are you?

<Q>: Good. Yourself?

<A>: Rod Ruston: Good. Thank you.

<Q>: I just have a question. I do realize that the CNRL negotiations are still in the very early innings, but can you provide I guess any update on what's going on behind the scenes and what the initial reaction is from CNRL?

<A>: Joe Lambert: Maxim, this is Joe Lambert again. Our discussions with that working group, we've got… we've already had meetings, we've also had some meetings planned as early as next week with some of our primary vendors to start doing some of our marketplace assessments and we've had discussions as far as how we meet our end of August goal, which we, at this point, don't see anything hindering our ability to do that.

<Q>: Okay. That's all for me. Thank you.

Operator

Thank you. Our next question is coming from Robert Murray of Credit Capital Investments.

Robert Murray – Credit Capital Investments

<Q>: Yes. I just like to follow up on an earlier question about the two new contracts you have signed in the heavy construction and mining segment as well as the third potential five-year contract. Can you give us a sense of what the total revenue picture would be assuming you get all three contracts in place?

<A>: Joe Lambert: Two of the contracts are in place.

<Q>: Two are in place, yes, pardon me.

<A>: Joe Lambert: For instance, there's not a backlog associated with the master services agreement because it's a four-year master service agreement at Syncrude. It's really providing pricing and the scope comes as they supply it. So at any one time, we might have 25 to 60 or more million that's been awarded under the contract. The contract itself has… the limits are the term and the dollar amount, so you either hit $250 million or four years, whichever you hit first, you have to amend the contract at point.

<Q>: Okay.

<A>: Joe Lambert: And then we don't have the final numbers on the Suncor one, we believe is imminent, but it is five years and we believe we have numbers of around $400 million is what we anticipate, but it depends on what that dedicated scope is before we would consider it backlog or not.

<Q>: Okay. But all three contracts are unit of production based?

<A>: Joe Lambert: No. The master services agreement has unit rates for muskeg and overburden and general conditions that you adjust depending on what the scope is and it's predominantly a series of hourly rate per equipment that you can fit to any scope. The muskeg contract… the three-year muskeg contract at Shell is a unit rate contract but they have the opportunity to do it as time and materials which is what they pursued this year and we actually conducted that work on time and materials this year and that's in addition to the existing Shell master services agreement, so it's a … and the Suncor contract will be both and similar to

Syncrude's master services and that it will be both unit rates and hourly rates that have been agreed to for the term of contract and they applied to particular areas as scope has provided.

<Q>: So potential $400 million, that's the total over five years, correct?

<A>: Joe Lambert: Yes.

<Q>: Okay. Great. Thanks very much.

Operator

Thank you. We do have another question coming from Matt Duncan of Stephens Inc.

Matt Duncan – Stephens Inc.

<Q>: Hey, guys. Just two quick things. First, what was the revenue contribution from Cyntech in the quarter?

<A>: Rod Ruston: Ask the second one while we're thinking about it.

<A>: David Blackley: I don't… I'm not sure I have that off the top of my head.

<Q>: Okay. And the second question is looking at cash flow generation, Dave, can you talk about what sort of your expectations there are over the next 12 months and then specific to the CNRL negotiations, if you guys end up resolving that discussion around the margin that you are targeting, what would that mean in terms of the amount of cash owed to you by CNRL that is in the unbilled on the balance sheet?

<A>: David Blackley: I think in terms of the cash flow, generally, I think we're going to see some building in our working capital in this coming year. So that is going to enhance some of our cash flow growth.

When it comes to CNRL, I think the… our expectation would be to get as much cash obviously as we can upfront. I think that the way it's going to actually work though is that will be incorporated into our negotiations with them. As we work through the escalator issue, I'm pretty sure that they're going to want to talk to us about the coming of cash flow. I mean, for them, if everything gets resolved the way we believe, they have a number of options. One, they can write us one lump sum check for all the parts amount owing and then move on with a new rate reflecting the new escalators. They could give us a smaller amount upfront and then pay the balance over time with an increased unit rate or they could work with us and have a very inflated unit rate.

<Q>: Dave, what is the total amount you are owed from CNRL currently?

<A>: David Blackley: Are you talking about outside of what's on our balance sheet?

<Q>: Yeah, the total. Well, if you end up getting this resolved around the margin you're targeting, I guess my understanding is going to reverse the entire write-down, you just… that $42.5 million back on the balance sheet in unbilled revenues. So if that happens plus what's in the unbilled from CNRL to the balance sheet now, how much would you be due to collect from them when this gets settled?

<A>: David Blackley: Well, I think if we were to bring all of that $42 million back then, clearly, we would be back up to the full amount of unbilled and that's at $110, $115 range. The receivables as of the end of March, I think it was around about $18, $19 million. That will obviously vary just with the revenue. I would expect that receivable number to come down pretty significantly as we go through the shutdown just because they're not doing any volume.

<Q>: Okay. So, in theory, when this gets settled in August, you guys have a cash infusion coming?

<A>: David Blackley: Potentially, as I laid out in the scenario I just gave you, right, if there's agreement that they give us some or all of the payment for the impact of escalators in the past.

<Q>: Okay. Thanks. That's what I need.

<A>: Chris Yellowega: Hey, Matt, it's Chris. Just to answer your earlier question to the contributions of Cyntech in the quarter, it was just under $4 million.

<Q>: Okay. Thanks, Chris.

Operator

Thank you. Our next question is coming from Graham Morris or Contrarian Capital.

Graham Morris – Contrarian Capital

<Q>: Hi. My questions been answered. Thanks.

<A>: Rod Ruston: We like those questions. They're easy.

Operator

Thank you. We do have another one coming from Bert Powell of BMO Capital Markets.

Bert Powell – BMO Capital Markets

<Q>: Thanks. I just want to go back on CNRL and make sure I understand your comment. There are two components of that contract, one is overburden and one is site services. And that the overburden is what is under contract, the 10-year contract, have I got that right?

<A>: Joe Lambert: Bert, we have a 10-year overburden contract. We also occasionally do side work on that site, it's extra work. It's typical of any lump sum unit rate type contract is that you have an opportunity to actually add scope to it and do it under hourly rates or agreed unit rates of other types and that's what I was talking about with that other work, but the contract itself is a 10-year overburden contract. It doesn't include anything else.

<Q>: So based… I'm trying to get a gauge in terms of for the next, whatever, seven months, what the revenue impacts going to be from not being there or for being… the site being basically idled.

<A>: Joe Lambert: Yes. So we… it doesn't go to zero because we continue to get our fixed costs covered.

<Q>: Yeah.

<A>: Joe Lambert: But that depends on how much… if we move more equipment off then we'll reduce those fixed cost also.

<Q>: Can you give us a sense of what that would be just from a revenue perspective?

<A>: Joe Lambert: It will probably drop to around $2 to $3 million a month assuming we don't pick up any extra work or summer construction work they would like us to do outside of the contract.

<Q>: So $2 or $3 million is what they're going to pay you per month for the fixed cost?

<A>: Joe Lambert: Approximately, yes.

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

Operator

Thank you. Our final question is coming from Jeff Fetterly of CIBC World Markets.

Jeff Fetterly – CIBC World Markets

<Q>: Sorry, guys, not to belabor the point, but just two follow on questions. In the past you've talked about wanting to carry a good amount of cash on the balance sheet for flexibility and I think you've talked $50 to $100 million. With basically no cash today, what is your perspective on the balance sheet and is that still a target from a cash perspective?

<A>: David Blackley: Yes. I think when we are talking those numbers that was more during the downturn where we wanted to preserve a good cash balance just to have our powder dry. I think as we see our business ramp up and, as I mentioned earlier, as we see some of our working capital build, clearly in the short-term, we're not looking at a huge cash balance here.

<A>: Rod Ruston: But at the same time, we are focusing on cash. One of the things Chris talked about earlier is changes in the risk profile of some of the pipeline contracts, and one of the areas that we looked at there, for example, that wouldn't have been available a year ago but now is becoming available is a greater upfront cash that we're not doing the mobilization on our dollar and things like that. So those are sort of areas that we're attacking.

<Q>: So net-net with CapEx, with lease cost, with working capital consumption, do you expect to add cash to the balance sheet over the coming year?

<A>: David Blackley: Yes. I think it'll be a small increase over the year and I think what we would see is that would tend to be more in the fourth quarter. Again, keep in mind the seasonality of our business, right? We go through summer construction. That put some pressure on working capital. As that winds down, we start to ramp up with a lot of our winter activities up in the oil sands. That really draws that cash back in again into working capital. And, as Chris mentioned, we're looking at some pipeline projects in sort of that August going into the fall periods. So those tend to be big working capital demand type projects in the short term. So our expectation is that if we see any positive cash, it would be more in the fourth quarter.

<Q>: Okay. Last thing, Rod, the $190 million of revenue you talked about for fiscal Q1 2012, is that incorporating or excluding CNRL overburden incorporating the issues with the weather and the fires that you've seen so far?

<A>: Rod Ruston: Yes. That was off-the-cuff, I must say, estimate of what the impact of the weather and the fires would be but also includes the fact that CNRL isn't there.

<Q>: Okay. Great. Thanks, guys, I appreciate it all.

Operator

Thank you. At this time, I'd like to hand the floor back over to Mr. Ruston for any closing comments.

Rod Ruston:

Thank you very much, everybody, for your time. We will be on the road on the east coast next week and on the west coast in the week following. And we look forward to seeing those of you who have meetings arranged. Thank you very much.

Operator:

Thank you. And this concludes the North American Energy Partners Conference Call.