

# NOA Earnings Call Transcript

**Date: 2025-08-14**

**Quarter: 2**

Operator: Good morning, ladies and gentlemen. Welcome to the North American Construction Group Conference Call regarding the second quarter ended June 30, 2025. [Operator Instructions] The company wishes to confirm that today's comments contain forward-looking information and that actual results could differ materially from a conclusion, forecast or projection contained in that forward-looking information. Certain material factors or assumptions were applied in drawing conclusions or in making forecasts or projections that are reflected in the forward-looking information. Additional information about those material factors is contained in the company's most recent management's discussion and analysis, which is available on SEDAR and EDGAR as well as on the company's website at nacg.ca. I'll now turn the conference over to Mr. Jason Veenstra. Thank you. Please go ahead.

Jason William Veenstra: Thanks, Gina, and good morning, everyone. A bit of a change today as I'll start off right away with the financials and pass the call to Joe for the operational and outlook commentary. Starting on Slide 4, the headline EBITDA number of \$80 million and the correlated 21.6% margin were impacted primarily by 3 distinct challenges in the quarter. First, based on the strong growth in Australia, we were required to incur higher-than-expected maintenance costs on subcontractor labor. The ramp-up curve in Australia has resulted in a lag in recruitment of our critical heavy equipment technician personnel and resulting contractor costs resulted in higher expenses in the quarter. Second, an abrupt stop to work in April in the oil sands region resulted in higher operational and overhead costs due to the inefficiencies associated with unplanned outages. NACG has been working in the oil sands for decades, and we understand the need to be agile. But the inconsistency experienced this quarter was abnormal and resulted in us incurring costs we normally could avoid through routine mine planning and resourcing. And thirdly, although the project team and workforce at Fargo progressed the project extremely well, they had an eventful corporate quarter as a settlement with the authority and the finalization of an updated detailed plan to completion led to a significant margin adjustment in the quarter. For those familiar with project management, adjusting margins even slightly for a project that is 70% complete can be material. Excluding these items, EBITDA would have been well above \$100 million and at our typical margin profile of around 27% to 28%. These 3 challenges drove the financial results for the quarter but have been mitigated and addressed, as Joe will describe in his prepared remarks. We included a comment here about our steady revenue growth as we posted \$371 million of combined revenue, which is a 12% increase from last Q2. Australia, in particular, continues to impress with its consistent growth trajectory being up 7% from the first quarter of 2025 and 14% from last Q2. When we look back on Australia, the revenue of \$168 million that we generated this quarter is more than double since the second quarter of 2022, 3 short years ago, which was \$81 million on a pro forma basis. The MacKellar Group generated almost \$60 million in June alone and set another company record for monthly revenue. June's strong top line bodes well heading into a second half of 2025, and this growth rate is indicative of the demand we see in Australia. Moving to Slide 5 and our combined revenue and gross profit. Australia was up \$21 million on a strong quarter, which benefited from growth capital being commissioned and fairly stable operating conditions. Equipment utilization in that region of 76% was strong, but was slightly held back from rainy conditions in April that carried over from Q1. This top line positive variance was further bolstered by higher revenue quarter-over-quarter in the oil sands region, which compares favorably to last year's Q2, but was significantly impacted by inconsistent

demand primarily in April. Our share of revenue generated in the first quarter by joint ventures was down \$4 million from last year, primarily due to lower scopes being completed within the Nuna Group of Companies. Fargo was consistent quarter-over-quarter, but that consistency factored in an approximate \$8 million reduction in recognized revenue based on the updated project plan. Excluding that onetime entry, Fargo scopes completed in the quarter were approximately 30% higher than that of Q4 -- Q2 2024. Combined gross profit margin of 10.7% was impacted approximately 8% by the 3 factors previously mentioned: subcontractor costs in Australia, operational and overhead costs in Canada from unplanned stoppages and the Fargo settlement and updated project plan. Less prominent impacts included the continuation from Q1 into April of the rainy weather in Australia and early failures of certain components in our heavy equipment fleet in Canada. Moving to Slide 6. Q2 EBITDA and EBIT were down from their 2024 comparables as discussed. The 21.6% margin we achieved is not indicative of where we see our business operating at and well below the 28% run rate we've been on since the acquisition of the MacKellar Group. Included in EBITDA is direct general and administrative expenses of \$12 million and equivalent to 3.6% of reported revenue, which is below the 4% target we've set for ourselves. Going from EBITDA to EBIT, we again expensed depreciation equivalent to approximately 16% of combined revenue, which is higher than the 13% posted in 2024 Q2 and reflects the component issues we are experiencing in Canada. Again, this 16% is higher than our expected run rate moving forward, given historically, we've been between 13% and 14%. Adjusted earnings per share for the quarter of \$0.02 reflects the significant bottom line impact of the challenges we faced with interest expense identical to last year and tax rates consistent as well. The average cash interest rate for Q2 was 6.4%. Moving to Slide 7. I'll briefly summarize our cash flow. Net cash provided by operations prior to working capital of \$64 million was generated by the business, reflecting EBITDA performance net of cash interest paid. Free cash flow was neutral for the quarter based on the sustaining capital spending. Moving to Slide 8. Net debt levels ended the quarter at \$897 million, an increase of \$29 million in the quarter as growth spending required debt financing. Net debt and senior secured debt leverage ended at 2.2x and 1.5x, respectively. With those brief comments, I'll pass the call to Joe.

Joseph C. Lambert: Thanks, Jason. Good morning, everyone. I'm going to start with a brief overview of our Q2 2025 operational performance, and then I'll conclude with our second half outlook, our growth opportunities in Australia and the infrastructure markets and our expanding bid pipeline before taking your questions. On Slide 10, our Q2 trailing 12-month total recordable rate of 0.42 remains better than our industry-leading target frequency of 0.5. We continue to advance our systems and training with key focus on increased high-risk task awareness and serious accident prevention. A lot of people in our business claim safety as part of their core beliefs and culture. But when you look at their history, their promises don't match the facts. Unlike others, NACG can demonstrate 10 years of industry-leading results from 2016 to now while showing simultaneously increasing exposure hours by more than 4x. Importantly, for investors, these facts readily show our customers what a strong safety culture looks like and differentiate us from our competitors. This translates to contract wins, lower downtime, higher revenue and lower costs. Moving to Slide 11. I want to highlight some of the major achievements of Q2. The trailing 12-month revenue set another company record with Australia leading the way and continuing an impressive 3-year growth rate of 28%. Just as impressive, if not more so, our business in Australia is growing at that rate and continues to improve on fleet utilization. Our Fargo flood diversion project, a highlight for our diversification efforts, enters the last year of major construction and remains on track for scheduled completion and handover to operations and maintenance teams. Soon, Fargo and the surrounding communities will have flood protection in place to quell those annual spring fears. Our disciplined management approach kept administrative costs at 3.6%, showcasing our ability to grow and support top line revenue without adding to our overheads. Our ability to handle large civil infrastructure projects with the same operational and financial success is the key to our expansion in this segment. On the corporate front, we won the biggest contract in company history last week, shortly after our Q2 close, which drove record backlog and continued our trend of 100% renewal rate in Australia. Continuing another Australian trend, this contract renewal was achieved more than 2 years before the previous contract expiration. On the topic of renewals in the U.S., we also renewed our Texas thermal coal mine management contract out to 2028. Lastly, on the financial front, we completed

a \$225 million offering of senior unsecured notes, providing liquidity for future growth opportunities. We ended Q2 with what I believe are 2 critical additions to our senior team. We've hired a VP of Asset Management and a VP of Infrastructure and Growth. Stuart and Melanie are industry tops in their respective fields and will play major roles in leading our growth and diversification strategies. I expect to be sharing their accomplishments with you frequently in the coming quarters. On Slide 12, we've combined the Australian and Canadian fleets to form a global utilization rate as measuring our global utilization becomes more and more important to our decision-making. A 75-25 Australian to Canada weighting was chosen as it's roughly proportionate to our respective earnings expectations. Despite our Q2 setbacks, our global utilization rate is trending up and our continued prudent fleet management is expected to deliver utilization in the second half of the year in our target range of 75% to 80%. Moving on to our outlook. For the remainder of the year, Slide 14 highlights the 3 steps which are mainly cost related that bridge our Q2 EBITDA margin results to our H2 expectations. To start, the cargo settlement that is now behind us is onetime in nature, and we have high confidence in the forecast and estimated to complete as we have thoroughly reviewed the forecast as have our other partners. In Australia, we expect lower costs as we reduce our reliance on contracted -- subcontracted skilled trades. And importantly, we're ahead of schedule on those reductions through July. And lastly, in our Oil Sands business, we expect more consistent operations as our customers have no planned plant outages in the second half of the year has historically lower weather exposure. On Slide 15, we provided our outlook for the second half of 2025 and highlighted any variance to previous H2 expectations. As I said in my letter to shareholders, we remain confident in delivering second half year results consistent with our original expectations aside from our Oil Sands business. Although these oil sands changes negatively impact our second half EBITDA and EPS, the unchanged combined revenue and free cash flow expectation reaffirms a strong finish to the year and sets us up to be back on historical growth trends for 2026. On Slide 16, we highlight why our long-term growth targets remain intact with anticipated organic revenue growth of 5% to 10% annually, underpinned by ongoing Australian growth, new infrastructure projects, which I'll detail further on the next slide, and new mining projects and opportunities to displace higher-cost contractors in Australia and Canada that will further enhance fleet utilization and operational diversification. On Slide 17, we detail the growing civil infrastructure opportunities in North America. Aging infrastructure, energy transition, climate resiliency and tariff threats pushing nations to seek more resource independence, all fueled by federal stimulus are driving what we believe is a vastly growing opportunity in the civil infrastructure markets with spending uptick kicking off in 2026. This infrastructure growth is coming off a major previous uptick in 2023 and positions us well to support major general contractors who are at capacity as either a partner or a subcontractor. We expect to have secured 2 strong project teams to pursue our top 10 projects before year-end and maintain our plans to increase infrastructure to around 25% of our overall business by 2028. As I mentioned earlier, our VP of Infrastructure Growth is now in place. And although she has only been with us a bit over a month, she has hit the ground running and has already shown the skills and tenacity to fit right in at NATG. This gives me confidence in our ability to achieve our infrastructure goals. Slide 18 highlights a strong bid pipeline, including our top 20 infrastructure projects totaling around \$2 billion. The big blue spot in the middle is now gone as that is the \$2 billion contracted win at the Queensland Coal mine we announced last week. The remainder of the bid pipeline remains essentially unchanged as no other significant bids in active procurement have been awarded. Although not a sizable enough project to warrant a press release, it should also be noted that our mine management contract extension at the Texas coal mine never entered the bid pipeline, and we were able to negotiate that extension directly with our customer. Lastly, regarding capital allocation going forward, we have been active in our NCIB having purchased and canceled around 680,000 shares since inception to quarter end, demonstrating our commitment to shareholder-focused allocation. We have increased liquidity with our high-yield grade and an expected midpoint of \$100 million in free cash flow for the second half of the year, which gives us confidence to continue investing in shareholder-friendly ways, provides us funds should we need to settle our remaining convertible debt with cash, which is now a current liability due the end of Q1 2026, and provides additional funding should we need letters of credit for future infrastructure bids or find other high-return investment opportunities. In summary, while Q2 was not an easy time for us, we're looking forward to a strong back

half of the year and are excited to share more operational updates with you as we move towards the end of the year. With that, I'll open up for any questions you may have.

Operator: [Operator Instructions] And your first question comes from the line of Aaron MacNeil from TD Cowen.

Aaron MacNeil: Jason, you sort of alluded to it in the prepared remarks. I'm hoping you can help us a bit with sort of future free cash flow generation. I know there's no guidance out for 2026 yet. But I'm hoping you can just quantify the challenges this year, including the Fargo settlement, the margins in Australia and Canada, at least to the extent that you don't expect them to recur next year. And then just give us a sense of what you expect will be the big moving pieces on free cash flow generation. I'm thinking about, again, Australian margins, sustaining growth capital or anything else you think is relevant? And again, like not to put too fine a point on it, I just want to think about sort of the moving pieces there and if you can give any visibility to an improvement in free cash flow in '26.

Jason William Veenstra: Yes. As far as it relates to the second half, we see about a \$20 million working capital good guy in the second half from collections that slipped from June into July. So that sort of reconciles the reduction in EBITDA, but the consistency in free cash flow. And as far as the first half goes, the EBITDA difference from expectation to actual fell to free cash flow essentially. So CapEx came in slightly higher than expectation, about \$10 million higher, but the primary driver of the free cash flow difference is the difference in EBITDA. JV, the Fargo settlement and the \$8 million impact, we do collect from Fargo on a percentage of completion basis. So that does have an impact on free cash flow as well. So essentially, the EBITDA impact does fall to free cash flow for the first half.

Aaron MacNeil: Right. I'm just thinking more about 2026. Like I guess, not to put too fine a point on it, but like the sustaining capital is higher, growth capital is higher. Are those sort of the right -- is the run rate this year something that we should think about into next year?

Jason William Veenstra: No, we would expect 2026 sustaining CapEx range to be the \$180 million to \$200 million that we had for this year. Some of the component issues we experienced in Canada were driving that overage, and we don't expect those to happen again in 2026. So we would expect a similar free cash flow target, call it, \$130 million to \$150 million for 2026 when we guide in October.

Aaron MacNeil: Got it. And then, Joe, one for you. I'm just looking at not the Q2 presentation, but the August investor presentation that just hit your website. You speak to 15% Australia growth in 2024, 25% in 2025 and then a consolidated long-term growth rate of 5% to 10%. So I can realize that's a top line target. But how is the Australian labor strategy evolving? And what do you think is a practical sort of ceiling on your potential revenue growth in Australia before you start to get into the negative margin outcomes that we saw with Q2?

Joseph C. Lambert: I think managing a 5% to 10% growth rate is very reasonable. Obviously, we've had a bit higher than that. We also started the copper mine up in New South Wales. That wasn't an area we had been operating in previously. This skilled trade is an issue that always rises its head in our business at certain times. We react to it fairly quickly. I think we've been through this before. They're reoccurring items, and we've addressed it. I feel very comfortable that we've worked our way out of this in the second half of the year down there. Like I said, I think we already had a good head start on it in July. And then at a lower growth rate, it's much easier to manage. The higher the growth rate in any particular area, the more pressure it puts on any kind of hard to get trades like that.

Operator: And your next question comes from the line of Kevin Gainey from Thompson Davis.

Kevin Wade Gainey: It's Kevin on for Adam. Despite the shutdown, revenue growth in Canada was still strong, I think about 20% year-over-year. Would revenue have been even stronger without the shutdown? Or did the shutdown impact costs more than the sales?

Joseph C. Lambert: Revenue -- it was a direct relationship to revenue. And the cost -- the inefficiency is when you have those kind of abrupt shutdowns, laying people off and hiring them back on takes time and money and carryover of overheads. You don't want to lay off your entire staff and then try and bring them back 3 weeks later or a month later. So yes, those were direct impacts. And we don't see that happening again because it's predominantly related to their timing of a turnaround -- major turnaround in their plant.

Kevin Wade Gainey: Do you think -- do you guys think that, that turnaround was just a onetime off turnaround or -- and that oil sands will be smoother in H2?

Joseph C. Lambert: They generally do those about every 3 or 4 years, but we actually met with them in early May and had discussions on what those impacts were to us and how it negatively impacted them. And I think we've got a good understanding and relationship that hopefully, the next one that happens, be it 3 years down the road or whatever that we've got plans in place to schedule around it where you don't have an abrupt shutdown of work and then bring it back online. So that's very expensive, and it creates issues across the board, operationally, safety, cost. And so we've had those discussions, and I think our clients understand it. It was an unfortunate situation in Q2. And hopefully, we can plan our way around it in the future.

Kevin Wade Gainey: I appreciate the color on that. And then maybe for you, Jason, on the guidance, how are you guys looking at Q3 versus Q4? Are you expecting strong results in Q4 or Q3? And then -- or should they look relatively similar from an EBITDA standpoint?

Jason William Veenstra: Yes, there are some puts and takes, but it's basically flat quarter-over-quarter with Fargo will be a little stronger in Q3, but Australia is going to be stronger in Q4. So it works out to pretty much equal quarters from an EBITDA and EPS perspective.

Operator: And your next question comes from the line of Prem Kumar.

Unidentified Analyst: I had a couple of questions, so please bear with me. My first question is on -- if you could expand on any changes to your OEM partnerships. You mentioned in the letter that you expanded your partnership with OEM and dealer networks. Can you please help us explain what those changes are? And also, have you -- are there any changes to your physical network in Fort Mac over the last quarter or so with regard to like these partnerships?

Joseph C. Lambert: Yes. We -- I think this was actually something we transitioned to last year was a partnership with our Caterpillar dealer in the component remanufacturing side for a certain portion of our components. That's gone very well. Actually, that was the driver switching to that was based on the component issues we were having last year. We've had some lesser component issues that Jason mentioned. Those were actually in some of the OEM products. They weren't the same components that we're talking about last year. And we do have -- we've had a very positive response from our dealer. And right now, it's basically making sure parts are available and on the shelf for any issues and then troubleshooting that to prevent reoccurrence. And those partnerships are very strong for us with our major Caterpillar dealer.

Unidentified Analyst: Okay. And so no changes to your existing footprint in Fort Mac other than this partnership with OEMs?

Joseph C. Lambert: Yes. We have the same relationships with clients and our equipment dealers that we've had in the past.

Unidentified Analyst: Okay. And then can you please expand on the contract labor issues in Australia? I was a little surprised that, I guess, based on your commentary from the past where you mentioned you've seen growth in Australia, I was kind of hoping you would be prepared for the exceptional growth in Australia. So the labor issue took me by surprise. So could you please expand on that, please?

Joseph C. Lambert: Yes. For the 40 years I've been in the industry, Graham, the certain skilled trades are always difficult. With us, it's heavy equipment technicians. And we've built systems around how we increase and develop our own mechanics. And -- but when you have a very high growth rate, you go into new areas like we did in Australia, it's often difficult to find those guys, and we react very quickly. But in the near term, you subcontract out those services. And it's not an unusual event in that industry, but it's one we learn to react to. And it's much easier when you're on a 5% or 10% growth rate than when you're on a 20% to 30% growth rate. So it's not something we're ill prepared for. It's just harder to do with that kind of growth than with a lower rate of growth. And it's an area where we have our HR team focused on how we develop and access those people faster when we need them for fast growth. So we'll be -- it's always an issue in the industry, has been forever. It's the guys that react quickly and then develop long-term solutions, which I think we've demonstrated we can do.

Unidentified Analyst: Okay. And then on your contract backlog, any concerns about having like around 50% of the backlog coming from like one site, I think, in Australia?

Joseph C. Lambert: I think that's our biggest client right now, and we've signed a 5-year term. So it's fresh in the books. So it's just the timing of things. As we -- when we get 2 years in on that contract,

something else will be on the top, hopefully, a big infrastructure project is my expectations. So it's just at this point in time, just because we were only awarded that contract a week ago, it sits that high in the backlog percentages. As we advance and renew and win others, you'll see that percentage drop. So no, it doesn't worry me.

Unidentified Analyst: Okay. I have just 2 more, and I apologize for asking quite a few questions today.

Joseph C. Lambert: [indiscernible] you get to the bonus round, Prem.

Unidentified Analyst: And I just want to ask like -- so how are the prospects in infrastructure work shaping up? I think you talked about hiring the new Head of Infrastructure and the VP as well. So could you expand on like how you're -- like the progress on building up the team and then where in the process are you guys right now?

Joseph C. Lambert: Yes. If you look at that slide on infrastructure, it actually lists our top 10 projects. And what we're seeing is a significant increase in infrastructure projects that really fit in our wheelhouse, which are ones that have major earthworks. And we're seeing it across Canada and the U.S. I see just getting into the Australian side as well. So there's a lot of pumped hydro kind of earthwork stuff around the energy transition. There's a lot of stuff like cargo climate resiliency projects where areas that used to flood once every 20 years are flooding every 4 years, and now they want to build flood diversions or beef up their levies. And then we see a lot of infrastructure building access into -- like in Canada, access up to the ring of fire or the Grays Bay Arctic port there's opportunities and those fit into our wheelhouse as far as building that infrastructure, those roadways, those access ways through remote Arctic areas. So you can see the project list on that slide. But if you go look at it, what you'll find is they're very much earthworks oriented. Historically, we never saw this level of earthworks side in the infrastructure. And where we sit right now is putting together project teams. So we're going to look at partners similar like the guys we have at Fargo, [indiscernible] and [indiscernible]. We'll look at partners that fit those particular projects well that we think have the highest rating, if you would, in teams, and then we're going to look to team with them by the end of the year, have 2 of them and then take those team, and we expect to win a couple of projects and have 25% of our work in the next couple of years.

Unidentified Analyst: Okay. I'll ask my last question. So for -- I mean with regard to free cash flow, I think Jason mentioned normalized for maybe like next year, free cash flow would be about \$120 million to \$150 million. Looking at some of your older presentations, like some 2023, what you were guiding just for the Canadian division was around \$100 million to \$115 million free cash flow. And then came the MacKellar acquisition. So I'm a little surprised that your combined normalized free cash flow for next year or for a normalized year is almost as close to your upper guidance for just the Canadian division just about 1.5 years, 2 years ago. And also considering the fact that over the last 12 months, you've had free cash flow of \$20 million for a company with a replaceable asset value of over \$4 billion. That's, in my opinion, pretty poor returns for a high \$4 billion asset. And I think the market agrees too, like especially with regard to where the share price is now. Can you expand -- can you help me with regard to like the free cash flow? What's the team doing to like improve that? And I guess does the team also like have the same notion on the free cash flow being low right now?

Joseph C. Lambert: Absolutely. We think it's slow and that -- but we see it coming back to that midpoint of \$100 million over the next 6 months. There's a lot more questions in that than I can answer. But yes, we're very confident in our free cash flow projections and it growing and going back to normal in 2026.

Operator: And your next question comes from the line of Sean Jack from Raymond James.

Sean Jack: Just wanted to ask one question on Australia. I was just wondering how we should be thinking about gross margin moving into the back half here. It seems like efforts have definitely been taken to mitigate the skilled trade stuff. But are we going to be looking at a more gradual improvement, kind of a step change in the third quarter? Any color would be great.

Joseph C. Lambert: I don't know what the number was. Jason will have to answer that, but we expect to be back to what we originally projected in our original guidance.

Jason William Veenstra: Yes. So we're in the low 20% for gross profit margin, Sean. And as Joe mentioned in his prepared remarks, the subcontractor issue is rectifying quickly. We got through most of it in July. So we expect to be a percentage up in Q4 over Q3. But yes, low 20% is the expectation for Australia.

Sean Jack: Okay. Perfect. One more for me. So you guys also just talked about kind of putting the project teams together on the infrastructure side and kind of getting the right people in place. Wondering if you guys have any visibility on what that sort of bid pipeline looks like right now from a timing perspective? How early could investors see realistically new projects from the infrastructure side coming into the fold?

Joseph C. Lambert: Well, there are actually some that are on very fast tracks. And additionally, looking at ones that we may not be part of the bid team, but we can look at from a subcontractor standpoint. Those opportunities could be as early as summer of 2026. Most of the other ones where you're actually bidding as a team, a design build kind of thing, I'd say, probably more out into the 2027 standpoint. And like if you look at the bid pipeline, those light blue dots in the very bottom line, those are where those projects are expected to start, but some of them are starting with just engineering and design and that construction could be out. So you could win a project in 2026, but it might just be engineering and design. You don't start the construction until 2027. So there is some opportunity for 2026, but I think the biggest ones are in 2027.

Operator: And your next question comes from the line of Kazim Naqvi from National Bank Financial.

Kazim Naqvi: Kazim here on for Maxim. Just most of the questions have been asked. I just was wondering like what the JV forecast adjustment for Fargo means for the future profitability of that JV. Do you guys expect it to be profitable for the year? And like what should we expect going forward for 2026?

Joseph C. Lambert: Yes. That change is made for the end result of the project. So yes, we expect to maintain that margin, hopefully improve upon it. But we're very confident where that margin sits. We reviewed that forecast. This was also part of the overall agreement we made with the authority that settled all the old claims. So we don't have anything hanging over us from the past now, and we're just looking forward to complete it, and we're in the last kind of quartile of that work and expect to hand it over to kind of operations and maintenance at the end of next construction season next year.

Kazim Naqvi: And I think...

Joseph C. Lambert: It wasn't a major loss of margin. It's just the fact that you're 70% complete that it made a big impact in Q2.

Kazim Naqvi: Great. So it's just more like a onetime thing and...

Joseph C. Lambert: Absolutely.

Kazim Naqvi: Correct. Okay. Great. And like I think you already touched upon this about the Australian labor issues. But should we assume that this will not continue on in 2026? Or is this the new steady state margin given that labor costs have gone up?

Joseph C. Lambert: No, we wouldn't expect this in 2026. This is -- it's always cyclical and skilled trades are always an issue in our industry. They just come up. It just -- it puts more pressure on you when you have a high growth rate. And -- but adapting and growing and building our own development processes in our HR, we've demonstrated this in the past. We felt these pressures before, and we know how to deal with it. So I don't expect this to reoccur in 2026, no.

Operator: And your next question comes from the line of Chris Thompson from Bank of Commerce.

Christopher Thompson: Yes, I'll start on the guidance for the Oil Sands and it looks like you lowered your margin expectation there for H2. But I'm just a bit confused because I was under the impression that the Q2 turnaround activity was really the cause of that impact this quarter and that, that was behind us. But it feels like that, that may not be the case. And then how should we think about that for 2026 margins in the Oil Sands?

Joseph C. Lambert: That is behind us. But I do think we had some issues with some of components, some different components. And so -- and we have lower revenue projections in the second half, we always did. So there's not the same efficiency. And then these component issues, which we've rectified as far as the impact to us operationally. Our dealers have responded by putting parts on the shelf. But it's probably another 6 months before we get the solutions in place to prevent reoccurrence. But I wouldn't expect that to continue on into 2026. And I would expect we're back at normal margins, very similar, my guess, to what we started the year with as far as our expectations.

Christopher Thompson: Okay. So the impact for H2 margin, Joe, is purely parts related?

Joseph C. Lambert: Well, it's -- we have a lower revenue per month, if you would, than we did in H1. And so there's a little bit of loss of efficiency and overhead in that. But there is still some component-related issues, and they're different than what we had last year. And we have the OEMs involved in this, where previous ones I spoke about last year were actually partnerships we had to work with OEMs or OEM dealers. And so they've already reacted. We have what we would call Stage 1, which is containment of an issue, and then we're going to resolve to prevent it and put a solution in place, and they're actively working on that with our team.

Christopher Thompson: Okay. And then piggyback to the Oil Sands contract that you had won in late 2024, the committed spend was \$500 million and you had expected that represents 1/3 of the total work to be performed across the mine site. So how much of that \$500 million committed spend have you already worked through? And how confident are you in that 1/3 assumption that you originally went in with?

Joseph C. Lambert: I'm confident in the 1/3 as far as the amount of work that gets done every year, the amount that comes at backlog in any one time. And it's the same for us that their commitment to us is the same as our commitment to them. I actually don't think the backlog burn changes the total amount of revenue we do with those clients. But I don't know, Jason, what's the number we've gone through \$150 million or so.

Jason William Veenstra: Yes.

Joseph C. Lambert: So somewhere in that \$150 million to \$200 million range. I talked about it, the backlog will probably consume faster, and we looked at that as a good opportunity going forward to talk to our clients about increasing those commitments over these 4 years.

Christopher Thompson: And then in terms of maybe just addressing the volatility that you've experienced with your oil sands work, I mean going forward, is there a way to shift the way these contracts are structured to help guard against this volatility? I guess like what's the long-term solution to try and manage this -- the amount of volatility we've seen in that contract?

Joseph C. Lambert: For us, it's really maintaining a good open relationship with our clients so that we can communicate and plan together. That didn't occur in this instance very well. We had discussions afterwards, and I think we've reset that. And then from a contracting standpoint, it's -- for contractors to get more leverage is when we have higher demand than supply and then you can get stronger in your terms and conditions. It's just a matter of where that sits in the market at the time, like any other contracting business.

Christopher Thompson: Okay. And then just last one on the Oil Sands. Slide 23, you highlighted replacement value of the fleet overall. Can you break out for us what the replacement value is for your Oil Sands fleet?

Joseph C. Lambert: Yes, I'm sure, Jason, could get that to you, Chris. I don't know if he knows it off the top of his head, but...

Christopher Thompson: Sure. No problem. Okay. And then last question just on Australia. When I look back at 2023, it looks like gross profit margins were pretty strong, like mid-20s to low 30s. And now for H2 '25, we're talking about low 20s. So I'm just wondering what's changed in the business that has seen that margin shrink over time?

Joseph C. Lambert: I don't have the exact bridge for you. I know what the difference is, and we've expanded some of those marketplaces and added maintenance labor. So it's just a mix of work. Your highest margin, if you do a straight dry rental, I don't know if you're familiar with that term, Chris, but if you just rent a truck, does have the highest margins because -- and now if you rent that truck and you provide maintenance for it and the labor, the margins on labor aren't as high. So it's really just a mix of work. It's not the same work having reduced margins.

Operator: And your next question comes from the line of Kevin Gainey from Thompson, Davis.

Kevin Wade Gainey: I just wanted to ask, has there been any thought or continuation of thought on moving more heavy equipment from Canada to Australia?

Joseph C. Lambert: Absolutely. We've moved some small pieces. Actually, we've got 4 more trucks we're shipping over there right now. It's not a huge amount of gear. If you look at the bid pipeline, Kevin, and you'll see a big blue dot on the top row it's in 2027. And that's probably our biggest opportunity to

move a good chunk of fleet. That isn't committed in Canada right now. And so that would be our biggest opportunities. We're still moving a few pieces here and there, and we're bidding other work outside of Oil Sands that we look to use and increase our utilization of our smaller end fleet. Oil Sands demand is still very strong, and it's a business that we still see staying at that level of revenue for years to come. And -- but we will look to take our fleet and rightsize it to maximize our utilization and return. And those kind of opportunities like that big blue dot in 2027, you'll see are the biggest ones we see. We see more of them coming up actually.

Kevin Wade Gainey: You guys wouldn't preemptively move it, you would wait until you win the contract?

Joseph C. Lambert: Yes. We -- no, they're very high cost to move stuff. It's not -- and it takes a significant amount of time to get it overseas. So no, we would have won a contract 6 months, 8 months in advance of when we would ship the fleet. It's roughly -- it takes about roughly 6 months between tear down, get it over and get it set up. We've moved 30-odd pieces over there now. So we're pretty familiar with that process. So we would expect that big blue dot that starts in 2027, we would expect to win that in mid-2026, such that we would have time to move equipment over.

Kevin Wade Gainey: I appreciate the color. And then maybe just quickly on Nuna. What's the outlook for revenue at Nuna going forward?

Joseph C. Lambert: I think it's pretty modest this year, and I think it's -- but it's pretty much on plan. There's real big opportunities coming up even on the infrastructure side, which we would probably partner with them on in some of these northern opportunities. So as an example, if you're familiar with the Grays Bay Arctic port and some of the Arctic jobs that are out there at Baffinland iron mines, those are all Nunavut and Kitikmeot territory in particular for Grays Bay, and we see great opportunities for us and for Nuna in those. And just on the Northern mining side, we're seeing more mines start to get permitted and expand. That's generally slow process. But any of that stuff, this was always anticipated to be kind of a trough year for Nuna just because of the way the industry dollars were looking to be spent. And -- but we see from 2026 out, there's some great opportunities for them to continue to grow.

Operator: This concludes the Q&A; section of the call. And I will pass the call over to Joe Lambert, President and CEO, for closing remarks.

Joseph C. Lambert: Thanks again, everyone, for joining us today. We look forward to providing next update upon our closing of our third...