

North American Energy Partners Inc.

Form 6-K

June 10, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 6-K**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16**

**under the Securities Exchange Act of 1934**

**For the month of June 2010**

**Commission File Number 001-33161**

**NORTH AMERICAN ENERGY PARTNERS INC.**

**Suite 2400, 500 4<sup>th</sup> Avenue SW**

**Calgary, Alberta T2P 2V6**

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(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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**Documents Included as Part of this Report**

1. Interim consolidated financial statements of North American Energy Partners Inc. for the three and nine months ended December 31, 2009 (restated to reflect conversion to U.S. generally accepted accounting principles).
  
2. Restated Interim Management's Discussion and Analysis for the three and nine months ended December 31, 2009.
  
2. Canadian Supplement to Restated Interim Management's Discussion and Analysis for the three and nine months ended December 31, 2009.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTH AMERICAN ENERGY PARTNERS INC.

By: /s/ David Blackley

Name: David Blackley

Title: Chief Financial Officer

Date: June 10, 2010

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**NORTH AMERICAN ENERGY PARTNERS INC.**

**Interim Consolidated Financial Statements**

**For the three and nine months ended December 31, 2009**

**(Expressed in thousands of Canadian Dollars)**

**(Unaudited)**

**Table of Contents****Interim Consolidated Balance Sheets**

(Expressed in thousands of Canadian Dollars)

	December 31, 2009 (Unaudited)	March 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$94,877	\$98,880
Accounts receivable, net (note 16(d))	89,864	78,323
Unbilled revenue	81,397	55,907
Inventories (note 8)	8,088	11,814
Prepaid expenses and deposits	7,968	4,781
Deferred tax assets	12,954	7,033
	295,148	256,738
Prepaid expenses and deposits	4,438	3,504
Assets held for sale	1,038	2,760
Property, plant and equipment (note 9)	333,582	316,115
Intangible assets, net (accumulated amortization of \$4,977 March 2009 \$2,972)	7,120	5,944
Deferred financing costs (note 10)	6,544	7,910
Investment in and advances to unconsolidated joint venture (note 11)	2,939	
Goodwill (note 6)	25,111	23,872
Deferred tax assets	9,305	12,432
	\$685,225	\$629,275
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$76,769	\$56,204
Accrued liabilities	15,907	45,001
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	1,901	2,155
Current portion of capital lease obligations	5,287	5,409
Current portion of derivative financial instruments (note 16(a))	17,756	11,439
Current portion of long term debt (note 12(a))	6,072	
Deferred tax liabilities	13,211	7,749
	136,903	127,957
Deferred lease inducements (note 13)	788	836
Long term accrued liabilities	10,864	7,134
Capital lease obligations	9,083	12,075
Long term debt (note 12(a))	23,892	
Senior notes (note 12(b))	209,436	255,756
Director deferred stock unit liability (note 19(d))	1,834	546
Restricted share unit liability (note 19(c))	639	
Derivative financial instruments (note 16(a))	72,123	43,048
Asset retirement obligation	351	386

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Deferred tax liabilities	37,463	30,745
	503,376	478,483
Shareholders' equity:		
Common shares (authorized unlimited number of voting and non-voting common shares; issued and outstanding December 31, 2009 36,038,476 voting common shares (March 31, 2009 36,038,476 voting common shares) (note 14(a))	303,431	303,431
Additional paid-in capital (note 14(b))	7,361	5,466
Deficit	(128,943)	(158,105)
	181,849	150,792
	\$685,225	\$629,275

Contingencies (note 20)

Subsequent events (note 24)

United States and Canadian accounting policy differences (note 25)

See accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****Interim Consolidated Statements of Operations and Comprehensive Income (Loss)**

(Expressed in thousands of Canadian Dollars, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
<b>Revenue</b>	\$221,175	\$258,565	\$538,396	\$797,836
Project costs	89,207	129,912	208,906	433,504
Equipment costs	57,512	55,549	147,915	168,746
Equipment operating lease expense	16,287	11,934	44,320	30,317
Depreciation	10,543	9,727	30,693	27,793
<b>Gross profit</b>	47,626	51,443	106,562	137,476
General and administrative costs	14,532	19,170	43,426	57,760
Loss on disposal of property, plant and equipment	743	1,022	1,044	3,778
Loss on disposal of assets held for sale	649		373	24
Amortization of intangible assets	528	391	1,438	1,049
Equity in earnings of unconsolidated joint venture (note 11)	(98)		(66)	
Impairment of goodwill		32,753		32,753
<b>Operating income (loss) before the undernoted</b>	31,272	(1,893)	60,347	42,112
Interest expense, net (note 15)	6,764	7,319	19,725	21,276
Foreign exchange (gain) loss	(5,449)	32,935	(42,930)	39,621
Realized and unrealized loss (gain) on derivative financial instruments (note 16(a))	8,010	(26,770)	43,185	(25,826)
Other expenses (income)	471	(5,343)	804	(5,364)
<b>Income (loss) before income taxes</b>	21,476	(10,034)	39,563	12,405
Income taxes (note 17(c)):				
Current income taxes	591	1,779	1,855	1,842
Deferred income taxes	5,949	3,151	8,546	8,855
<b>Net income (loss) and comprehensive income (loss) for the period</b>	14,936	(14,964)	29,162	1,708
<b>Net income (loss) per share</b> <small>basic</small> (note 14(c))	\$0.41	\$(0.42)	\$0.81	\$0.05
<b>Net income (loss) per share</b> <small>diluted</small> (note 14(c))	\$0.41	\$(0.42)	\$0.79	\$0.05

See accompanying notes to unaudited interim consolidated financial statements.



**Table of Contents****Interim Consolidated Statements of Changes in Shareholders' Equity**

(Expressed in thousands of Canadian Dollars)

	Common shares	Common non-voting shares	Additional paid-in capital	Deficit	Total
Balance at March 31, 2007	\$297,594	\$2,062	\$3,606	\$(64,235)	\$239,027
Net income				41,534	41,534
Conversion of common shares	2,062	(2,062)			
Stock-based compensation			1,937		1,937
Reclassification on exercise of stock options	611		(611)		
Cash settlement of stock options			(581)		(581)
Issued upon the exercise of stock options	1,627				1,627
Balance at March 31, 2008	\$301,894	\$	\$4,351	\$(22,701)	\$283,544
Net loss				(135,404)	(135,404)
Stock-based compensation			1,888		1,888
Performance share unit plan			61		61
Reclassification on exercise of stock options	834		(834)		
Issued upon the exercise of stock options	703				703
Balance at March 31, 2009	\$303,431	\$	\$5,466	\$(158,105)	\$150,792
Net income				29,162	29,162
Stock-based compensation			1,768		1,768
Performance share unit plan			213		213
Reclassified to restricted share unit liability			(20)		(20)
Cash settlement of stock options			(66)		(66)
Balance at December 31, 2009 (Unaudited)	\$303,431	\$	\$7,361	\$(128,943)	\$181,849

See accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****Interim Consolidated Statements of Cash Flows**

(Expressed in thousands of Canadian Dollars)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income (loss) for the period	\$14,936	\$(14,964)	\$29,162	\$1,708
Items not affecting cash:				
Depreciation	10,543	9,727	30,693	27,793
Equity in earnings of unconsolidated joint venture	(98)		(66)	
Amortization of intangible assets	528	391	1,438	1,049
Amortization of deferred lease inducements	(19)	(26)	(80)	(79)
Amortization of deferred financing costs	847	764	2,489	2,190
Loss on disposal of property, plant and equipment	743	1,022	1,044	3,778
Loss on disposal of assets held for sale	649		373	24
Impairment of goodwill		32,753		32,753
Unrealized foreign exchange (gain) loss on senior notes	(5,120)	32,940	(42,720)	39,347
Unrealized loss (gain) on derivative financial instruments measured at fair value	3,818	(27,437)	31,793	(27,827)
Stock-based compensation expense (note 19)	1,439	511	3,888	1,846
Accretion expense asset retirement obligation	8	53	(4)	159
Deferred income taxes	5,949	3,151	8,546	8,855
Net changes in non-cash working capital (note 17(b))	(23,839)	22,026	(40,164)	(12,400)
	10,384	60,911	26,392	79,196
<b>Investing activities:</b>				
Acquisition (note 7)	(530)		(5,410)	
Purchase of property, plant and equipment	(3,542)	(8,960)	(46,002)	(76,354)
Addition to intangible assets	(1,232)	(409)	(2,037)	(1,941)
Additions to assets held for sale	(125)	(350)	(1,058)	(350)
Investment in and advances to unconsolidated joint venture	(1,887)		(2,873)	
Proceeds on disposal of property, plant and equipment	454	3,173	1,150	7,821
Proceeds on disposal of assets held for sale	1,170		2,282	194
Net changes in non-cash working capital (note 17(b))	(2,998)	(2,068)	(351)	3,191
	(8,690)	(8,614)	(54,299)	(67,439)
<b>Financing activities:</b>				
Cheques issued in excess of cash deposits		(665)		
Repayment of long term debt	(3,037)	(10,000)	(3,688)	
Increase in long term debt (note 12(a))			33,000	
Repayment of capital lease obligations	(1,271)	(2,029)	(4,219)	(4,719)
Cash settlement of stock options (note 14(b))			(66)	
Stock options exercised				702
Financing costs (note 12(a))			(1,123)	
	(4,308)	(12,694)	23,904	(4,017)

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<b>(Decrease) increase in cash and cash equivalents</b>	(2,614)	39,603	(4,003)	7,740
Cash and cash equivalents, beginning of period	97,491		98,880	31,863
<b>Cash and cash equivalents, end of period</b>	<b>\$94,877</b>	<b>\$39,603</b>	<b>\$94,877</b>	<b>\$39,603</b>

Supplemental cash flow information (note 17(a))

See accompanying notes to unaudited interim consolidated financial statements.

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### **Notes to Interim Consolidated Financial Statements**

For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

#### **1. Nature of operations**

North American Energy Partners Inc. (the Company), formerly NACG Holdings Inc. (NACG), was incorporated under the Canada Business Corporations Act on October 17, 2003. On November 26, 2003, the Company purchased all the issued and outstanding shares of North American Construction Group Inc. (NACGI), including subsidiaries of NACGI, from Norama Ltd. which had been operating continuously in Western Canada since 1953. The Company had no operations prior to November 26, 2003. The Company undertakes several types of projects including heavy construction, industrial and commercial site development and pipeline and piling installations in Canada.

#### **2. Change in generally accepted accounting principles**

As a Canadian-based company, the Company historically prepared its consolidated financial statements in conformity with accounting principles generally accepted in Canada (Canadian GAAP) and also provided a reconciliation on an annual basis to United States generally accepted accounting principles (U.S. GAAP).

The Accounting Standards Board of the Canadian Institute of Chartered Accountants previously announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. However, National Instrument 52-107 allows Securities and Exchange Commission (SEC) registrants, such as the Company, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S. GAAP. It is proposed that SEC registrants would be permitted to continue to report under U.S. GAAP beyond 2011. As such, the Company has decided to adopt U.S. GAAP instead of IFRS as its primary basis of financial reporting commencing in fiscal 2010.

The decision to adopt U.S. GAAP was also made to enhance communication with shareholders and improve the comparability of financial information reported with competitors and peer group. All comparative financial information contained herein has been revised to reflect the Company's results as if they had been historically reported in accordance with U.S. GAAP.

#### **3. Significant accounting policies**

##### **a) Basis of presentation**

These unaudited interim consolidated financial statements (the financial statements) are prepared in accordance with U.S. GAAP for interim financial statements and do not include all of the disclosures normally contained in the Company's annual consolidated financial statements. Material items that give rise to measurement differences to the consolidated financial statements under Canadian GAAP are outlined in note 25.

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, NACGI, and the following 100% owned subsidiaries of NACGI:

North American Caisson Ltd.  
North American Construction Ltd.  
North American Engineering Inc.  
North American Enterprises Ltd.

North American Road Inc.  
North American Services Inc.  
North American Site Development Ltd.  
North American Site Services Inc.

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North American Industries Inc.  
North American Mining Inc.  
North American Maintenance Ltd.  
North American Pipeline Inc.

North American Pile Driving Inc.  
DF Investments Limited  
Drillco Foundation Co. Ltd.

### **b) Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures reported in these consolidated financial statements and accompanying notes.

Significant estimates made by management include the assessment of the percentage of completion on time-and-materials, unit-price or lump-sum contracts (including estimated total costs and provisions for estimated losses) and the recognition of claims and change orders on revenue contracts, assumptions used to value free standing derivatives and other financial instruments, assumptions used in periodic impairment testing, and estimates and assumptions used in the determination of the allowance for doubtful accounts, the recoverability of deferred tax assets and the useful lives of property, plant and equipment. Actual results could differ materially from those estimates.

The accuracy of the Company's revenue and profit recognition in a given period is dependent, in part, on the accuracy of its estimates of the cost to complete each time-and-materials, unit-price, or lump-sum project. The Company's cost

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### **Notes to Interim Consolidated Financial Statements**

For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

estimates use a detailed bottom up approach, using inputs such as labour and equipment hours, detailed drawings and material lists. These estimates are reviewed and updated monthly. The Company believes its experience allows it to produce materially reliable estimates. However, the Company's projects can be highly complex. Profit margin estimates for a project may either increase or decrease from the amount that was originally estimated at the time of the related bid. With many projects of varying levels of complexity and size in process at any given time, changes in estimates can offset each other without materially impacting the Company's profitability. Major changes in cost estimates, particularly in larger, more complex projects, can have a significant effect on profitability.

#### **c) Revenue recognition**

The Company performs its projects under the following types of contracts: time-and-materials; cost-plus; unit-price; and lump sum. Revenue is recognized as costs are incurred for time-and-materials and cost-plus service contracts with no clearly defined scope. Revenue on cost-plus, unit-price, lump-sum and time-and-materials contracts with defined scope are recognized using the percentage-of-completion method, measured by the ratio of costs incurred to date to estimated total costs. The estimated total cost of the contract and percent complete is determined based upon estimates made by management. The costs of items that do not relate to performance of contracted work, particularly in the early stages of the contract, are excluded from costs incurred to date. The resulting percentage of completion methodology is applied to the approved contract value to determine the revenue recognized. Customer payment milestones typically occur on a periodic basis over the period of contract completion.

The length of the Company's contracts varies from less than one year for typical contracts to several years for certain larger contracts. Contract project costs include all direct labour, material, subcontract and equipment costs and those indirect costs related to contract performance such as indirect labour, supplies and tools. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in project performance, project conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and revenue that are recognized in the period in which such adjustments are determined. Profit incentives are included in revenue when their realization is reasonably assured.

Once a project is underway, the Company will often experience changes in conditions, client requirements, specifications, designs, materials and work schedule. Generally, a change order will be negotiated with the customer to modify the original contract to approve both the scope and price of the change. Occasionally, however, disagreements arise regarding changes, their nature, measurement, timing and other characteristics that impact costs and revenue under the contract. When a change becomes a point of dispute between the Company and a customer, the Company will then consider it as a claim.

Costs related to unapproved change orders and claims are recognized when they are incurred. Revenues related to unapproved change orders and claims are included in total estimated contract revenue when they are approved.

Revenues related to unapproved change orders and claims are included in total estimated contract revenue only to the extent that contract costs related to the claim have been incurred and when it is probable that the unapproved change order or claim will result in:

a bona fide addition to contract value; and

revenues can be reliably estimated.

These two conditions are satisfied when:

the contract or other evidence provides a legal basis for the unapproved change order or claim or a legal opinion is obtained providing a reasonable basis to support the unapproved change order or claim;

additional costs incurred were caused by unforeseen circumstances and are not the result of deficiencies in the Company's performance;

costs associated with the unapproved change order or claim are identifiable and reasonable in view of work performed; and

evidence supporting the unapproved change order or claim is objective and verifiable.

This can lead to a situation where costs are recognized in one period and revenue is recognized when customer agreement is obtained or claim resolution occurs, which can be in subsequent periods. Historical claim recoveries should not be considered indicative of future claim recoveries.

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(Unaudited)

The Company's long-term contracts typically allow its customers to unilaterally reduce or eliminate the scope of the work as contracted without cause. These long-term contracts represent higher risk due to uncertainty of total contract value and estimated costs to complete; therefore, potentially impacting revenue recognition in future periods.

A contract is regarded as substantially completed when remaining costs and potential risks are insignificant in amount.

Revenue recognition from equipment rentals occurs when there is a written arrangement in the form of a contract or purchase order with the customer, a fixed or determinable sales price is established with the customer, performance requirements are achieved, and ultimate collection of the revenue is reasonably assured. Equipment rental revenue is recognized as performance requirements are achieved in accordance with the terms of the relevant agreement with the customer, either at a monthly fixed rate or on a usage basis dependent on the number of hours that the equipment is used.

**d) Balance sheet classifications**

Included in current assets and liabilities are amounts receivable and payable under construction contracts (principally retentions) that may extend beyond one year. A one year time period is used as the basis for classifying all other current assets and liabilities.

**e) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank balances net of outstanding cheques and short-term investments with maturities of three months or less when purchased.

**f) Accounts receivable and unbilled revenue**

Accounts receivable in the accompanying Consolidated Balance Sheets are primarily comprised of amounts billed to clients for services already provided, but which have not yet been collected. Unbilled revenue represents revenue recognized in advance of amounts invoiced.

**g) Billings in excess of costs incurred and estimated earnings on uncompleted contracts**

Billings in excess of costs incurred and estimated earnings on uncompleted contracts represent amounts invoiced in excess of revenue recognized.

**h) Allowance for doubtful accounts**

The Company evaluates the probability of collection of accounts receivable and records an allowance for doubtful accounts, which reduces accounts receivable to the amount management reasonably believes will be collected. In determining the amount of the allowance, the following factors are considered; the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience.

**i) Inventories**

Inventories are carried at the lower of weighted average cost and market and consist primarily of tires.



**j) Property, plant and equipment**

Property, plant and equipment are recorded at cost. Major components of heavy construction equipment in use such as engines and transmissions are recorded separately. Equipment under capital lease is recorded at the present value of minimum lease payments at the inception of the lease. Depreciation is not recorded until an asset is available for use. Depreciation for each category is calculated based on the cost, net of the estimated residual value, over the estimated useful life of the assets on the following basis and annual rates:

Assets	Basis	Rate
Heavy equipment	Straight-line	Operating hours
Major component parts in use	Straight-line	Operating hours
Other equipment	Straight-line	5 - 10 years
Licensed motor vehicles	Declining balance	30%
Office and computer equipment	Straight-line	4 years
Buildings	Straight-line	10 years
Leasehold improvements	Straight-line	Over shorter of estimated useful life and lease term
Assets under capital lease	Declining balance	Over life of lease

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(Unaudited)

The costs for periodic repairs and maintenance are expensed to the extent the expenditures serve only to restore the assets to their normal operating condition without enhancing their service potential or extending their useful lives.

**k) Capitalized interest**

The Company capitalizes interest incurred on debt during the construction of assets for the Company's own use. The capitalization period covers the duration of the activities required to get the asset ready for its intended use, provided that expenditures for the asset have been made and interest cost incurred. Interest capitalization continues as long as those activities and the incurrence of interest cost continue. The capitalized interest is amortized at the same rate as the respective asset.

**l) Goodwill**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired. Goodwill is assigned, as of the date of the business combination, to reporting units that are expected to benefit from the business combination. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared to its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company performs its annual goodwill assessment on October 1 of each year and when a triggering event occurs between annual impairment tests.

**m) Intangible assets**

Intangible assets include:

customer contracts in process and related relationships, which are being amortized over the remaining lives of the related contracts and relationships;

trade names, which are being amortized on a straight-line basis over their estimated useful lives of five and ten years;

non-competition agreements, which are being amortized on a straight-line basis between the three and five year terms of the respective agreements; and

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capitalized computer software and development costs.

The Company expenses or capitalizes costs associated with the development of internal use software as follows:

*Preliminary project stage:* Both internal and external costs incurred during this stage are expensed as incurred.

*Application development stage:* Both internal and external costs incurred to purchase and develop computer software are capitalized after the preliminary project stage is completed and management authorizes the computer software project. However, training costs and the process of data conversion from the old system to the new system, which includes purging or cleansing of existing data, reconciliation or balancing of old data to the converted data in the new system, are expensed as incurred.

*Post-implementation/operation stage:* All training costs and maintenance costs incurred during this stage are expensed as incurred.

Costs of upgrades and enhancements are capitalized if the expenditures will result in adding functionality to the software. Capitalized software costs are depreciated using the straight-line method over the estimated useful life of the related software, which may be up to four years.

### **n) Impairment of long-lived assets**

Long-lived assets or asset groups held and used including plant, equipment and identifiable intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of an asset or group of assets is less than its carrying amount, it is considered to be impaired. The Company measures the impairment loss as the amount by which the carrying amount of the asset or

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**Notes to Interim Consolidated Financial Statements**

For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

group of assets exceeds its fair value, which is charged to depreciation expense. In determining whether an impairment exists, the Company makes assumptions about the future cash flows expected from the use of its long-lived assets, such as: applicable industry performance and prospects; general business and economic conditions that prevail and are expected to prevail; expected growth; maintaining its customer base; and achieving cost reductions. There can be no assurance that expected future cash flows will be realized, or will be sufficient to recover the carrying amount of long-lived assets. Furthermore, the process of determining fair values is subjective and requires management to exercise judgment in making assumptions about future results, including revenue and cash flow projections and discount rates.

**o) Assets held for sale**

Long-lived assets are classified as held for sale when certain criteria are met, which include:

management, having the authority to approve the action, commits to a plan to sell the assets;

the assets are available for immediate sale in their present condition;

an active program to locate buyers and other actions to sell the assets have been initiated;

the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year;

the assets are being actively marketed at reasonable prices in relation to their fair value; and

it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

Assets to be disposed of by sale are reported at the lower of their carrying amount or fair value less costs to sell and are disclosed separately on the Interim Consolidated Balance Sheets. These assets are not depreciated.

**p) Asset retirement obligations**

Asset retirement obligations are legal obligations associated with the retirement of property, plant and equipment that result from their acquisition, lease, construction, development or normal operations. The Company recognizes its contractual obligations for the retirement of certain tangible long-lived assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of a liability for an asset retirement obligation is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction and, in the absence of observable market transactions, is determined as the present value of expected cash flows. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized using a systematic and rational method over its estimated useful life. In subsequent reporting periods, the liability is adjusted for the passage of time through an accretion charge and any changes in the

amount or timing of the underlying future cash flows are recognized as an additional asset retirement cost.

**q) Foreign currency translation**

The functional currency of the Company is Canadian Dollars. Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian Dollars at the rate of exchange prevailing at the balance sheet date. Foreign exchange gains and losses are included in the determination of earnings.

**r) Fair value measurement**

Financial instruments are categorized using a valuation hierarchy for disclosure of the inputs used to measure fair value, which prioritizes the inputs into three broad levels. Fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and financial liabilities in Level 2 include valuations using inputs based on observable market data, either directly or indirectly other than the quoted prices. Level 3 valuations are based on inputs that are not based on observable market data. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

**s) Derivative financial instruments**

The Company uses derivative financial instruments to manage financial risks from fluctuations in exchange rates and interest rates. These instruments include cross-currency and interest rate swap agreements as well as embedded price escalation features in revenue and supplier contracts. All such instruments are only used for risk management purposes. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Derivative financial instruments are subject to standard credit terms and conditions, financial controls, management and

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risk monitoring procedures. These derivative financial instruments are not designated as hedges for accounting purposes and are recorded at fair value with realized and unrealized gains and losses recognized in the Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

**t) Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period of enactment. The Company recognizes the effect of income tax positions only if those positions are more likely than not (greater than 50%) of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs. The Company accrues interest and penalties for uncertain tax positions in the period in which these uncertainties are identified. Interest and penalties are included in Other income in the Consolidated Statements of Operations and Comprehensive Income (Loss). A valuation allowance is recorded against any deferred tax asset if it is more likely than not that the asset will not be realized.

**u) Stock-based compensation**

The Company accounts for all stock-based compensation payments that are settled by the issuance of equity instruments at fair value. Compensation cost is measured using the Black-Scholes model at the grant date and is expensed on a straight-line basis over the award's vesting period, with a corresponding increase to additional paid-in capital. Upon exercise of a stock option, share capital is recorded at the sum of proceeds received and the related amount of additional paid-in capital.

The Company has a Deferred Performance Share Unit (DPSU) plan, which is described in note 19(b). This compensation plan is settled, at the Company's option, either by the issuance of equity instruments or by cash payment. Compensation cost is measured using the Black-Scholes model at the grant date and is expensed on a straight-line basis over the award's vesting period, with a corresponding increase to additional paid-in capital. The vesting of awards under the DPSU is contingent upon certain performance criteria being achieved. The fair value of each share option grant under the DPSU plan assumes that the relevant performance criteria will be achieved and compensation cost is recorded to the extent that vesting of the award is considered probable. When it is determined that such criteria are not probable of being achieved, no compensation cost is recognized and any previously recognized compensation cost is reversed.

The Company has a Restricted Share Unit (RSU) plan which is described in note 19(c). RSUs will be granted effective April 1 of each fiscal year with respect to services to be provided in that fiscal year and the following two fiscal years. The RSUs vest at the end of a three year term. The Company classifies RSUs as a liability as the Company has the ability and intent to settle the awards in cash. The compensation expense is calculated based on the fair value of each RSU as determined by the number of RSUs vested and the closing value of the Company's common shares on each period end date.

The Company has a Director's Deferred Stock Unit (DDSU) plan, which is described in note 19(d). The DDSU plan enables directors to receive all or a portion of their fee for that fiscal year in the form of deferred stock units. The deferred stock units are settled in cash and are classified as a liability on the Consolidated Balance Sheets. The measurement of the liability and compensation costs for these awards is based on the fair value of the award and is recorded as a charge to operating income over the vesting period of the award. Subsequent changes in the Company's payment obligation after vesting of the award and prior to the settlement date are recorded as a charge to operating income in the period such changes occur.

**v) Net income (loss) per share**

Basic net income (loss) per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year (see note 14(c)). Diluted per share amounts are calculated using the treasury stock method. The treasury stock method increases the diluted weighted average shares outstanding to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming outstanding in-the-money stock options were exercised and the proceeds from such exercises, including any unamortized stock-based compensation cost, were used to acquire shares of common stock at the average market price during the year.

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**w) Leases**

Leases entered into by the Company in which substantially all the benefits and risks of ownership transferred to the Company are recorded as obligations under capital leases, and under the corresponding category of property, plant and equipment. Obligations under capital leases reflect the present value of future lease payments, discounted at an appropriate interest rate, and are reduced by rental payments net of imputed interest. All other leases are classified as operating leases and leasing costs, including any rent holidays, leasehold incentives, and rent concessions, are amortized on a straight-line basis over the lease term.

**x) Deferred financing costs**

Underwriting, legal and other direct costs incurred in connection with the issuance of debt not measured under the fair value option is presented as deferred financing costs. The deferred financing costs related to the senior notes and the revolving and term loan facilities are amortized over the term of the related debt using the effective interest method.

**y) Investments in unconsolidated joint ventures or affiliates**

Investments in unconsolidated joint ventures or affiliates over which the Company has significant influence, including the Company's investment in Noramac Ventures Inc., are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, including subsequent capital contributions and loans from the Company, plus the Company's equity in undistributed earnings or losses since acquisition. Investments in unconsolidated joint ventures are included as investment in and advances to unconsolidated joint venture in the Company's Consolidated Balance Sheets.

**z) Business combinations**

The Company accounts for all business combinations using the acquisition method. Acquisition related costs which include finder's fees, advisory, legal, accounting, valuation, other professional or consulting fees, and administrative costs are expensed as incurred.

**aa) Adjustments related to prior year financial statements**

The financial statements for fiscal 2009 and fiscal 2008 as initially reconciled to U.S. GAAP have been amended to correct the following errors identified during preparation of the Company's 2010 financial statements under U.S. GAAP.

- (i) Adoption of CICA Handbook Section 3031, Inventories. The Company identified an error related to the adoption of Canadian Handbook Section 3031, Inventories in fiscal 2009. The change in accounting policy was accounted for on a retrospective basis, without restatement of prior periods under Canadian GAAP resulting in a decrease to deficit of \$991, net of taxes of \$392, to reverse a tire impairment recorded in fiscal 2008. This decrease in deficit should have been adjusted for in the reconciliation to U.S. GAAP as the tire impairment should not have been recorded in fiscal 2008 under U.S. GAAP. As a result of this error, net income under U.S. GAAP for fiscal 2008 increased by \$991 and deficit under U.S. GAAP as at March 31, 2008 decreased by \$991.

(ii)



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Reclassification of accrued liabilities. The financial statements for fiscal 2009 have been amended to correct a classification error with respect to accrued liabilities identified during the preparation of the Company's fiscal 2010 consolidated financial statements. Certain operating lease agreements provide a maximum hourly usage limit, above which the Company will be required to pay for the over hour usage. These contingent rentals are recognized when payment is considered probable and are due at the end of the lease term. The Company has historically classified the contingent rentals as a current liability; however, certain of the amounts are due beyond one year from the balance sheet date. In the current year, the Company has reclassified amounts due beyond one year, from the balance sheet date, as a long term liability and has reclassified comparative figures accordingly. The amount reclassified on the Consolidated Balance Sheet was \$10,864 and \$7,134 as at December 31, 2009 and March 31, 2009 respectively.

- (iii) Buy-out of leased assets. The financial statements for fiscal 2008 and fiscal 2009 have been amended under U.S. GAAP to correct an error related to the method of accounting for an incentive at the time of buying previously leased assets, which was identified during the preparation of the Company's fiscal 2010 consolidated financial statements. When an asset is leased under an operating lease agreement, as stated in the paragraph above, contingent rentals are recognized when payment is considered probable and are due at the end of the lease term. The Company can buy the asset at the end of the lease term at a pre-determined market price at which point the liability is extinguished since the lease agreement is cancelled. The Company has been traditionally extinguishing the liability for such lease buyouts by reducing equipment costs related to leased equipment, instead of considering the extinguishment of the liability as an incentive to purchase the asset and therefore reducing the cost of the asset. The impact of the error on previously reported amounts under Canadian GAAP for the quarter ended

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December 31, 2009 is described in note 25(i) as U.S. GAAP amounts were previously only reported on an annual basis. The correction of this error reduced Property, plant and equipment by \$8,580, reduced long term Deferred tax liabilities by \$2,574 and increased Deficit by \$5,838 in the Consolidated Balance Sheet as at March 31, 2009.

- (iv) Valuation of derivative financial instruments. The financial statements for fiscal 2009 have also been amended under U.S. GAAP to correct an error related to the determination of the fair value of the cross-currency and interest rate swap liabilities (collectively, the swap liability) which was identified on settlement of the swap liability on April 8, 2010. The Company recorded the fair value of the swap liability and in addition recorded accrued interest on the swap liability. This resulted in the swap liability being misstated and the changes in the fair value of the swap liability being misstated by the change in the amount of the accrued interest at each reporting period from March 31, 2009. The periods before March 31, 2009 were not materially impacted because prior to February 2, 2009, the U.S. Dollar interest rate swap was still in place (note 16(c)(ii)), and therefore the net accrued interest payable under the swap liability was not material. The impact of the error on previously reported amounts under Canadian GAAP for the quarter ended December 31, 2009 is described in note 25(i) as U.S. GAAP amounts were only reported on an annual basis. It also reduced Derivative financial instruments by \$7,514, increased long term Deferred tax liabilities by \$1,676 and reduced Deficit by \$5,838 in the Consolidated Balance Sheet as at March 31, 2009.

The impact of the above corrections on the previously reported Consolidated Balance Sheet under U.S. GAAP as at March 31, 2009 is as follows:

March 31, 2009	As previously reported	Adjustments	As amended
Property, plant and equipment	\$324,695	\$(8,580)	\$316,115
Accrued liabilities	52,135	(7,134)	45,001
Long term accrued liabilities		7,134	7,134
Derivative financial instruments	50,562	(7,514)	43,048
Deferred tax liabilities	31,643	(898)	30,745
Deficit, end of period	(157,937)	(168)	(158,105)

The impact of the above corrections on previously reported amounts under U.S. GAAP for the years ended March 31, 2009 and March 31, 2008 are described in our annual consolidated financial statements for the year ended March 31, 2010.

**4. United States accounting pronouncements recently adopted****i) The FASB accounting standards codification and the hierarchy of generally accepted accounting principles**

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (ASC) 105. The ASC amended the hierarchy of generally accepted accounting principles (GAAP) such that the ASC became the single source of authoritative non-governmental U.S. GAAP, except for SEC rules and interpretative releases which, for the Company, are also authoritative U.S. GAAP. The ASC did not change current U.S. GAAP, but was intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. The ASC identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements in accordance with U.S. GAAP. The Company adopted this standard during the quarter ended September 30, 2009. The adoption of this standard did not have a material impact on the

Company's interim consolidated financial statements.

**ii) Fair value measurements**

In September 2006, the FASB issued an accounting standard codified in ASC 820, Fair Value Measurements and Disclosures. This standard established a single definition of fair value and a framework for measuring fair value, set out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and required disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This standard applies under other accounting standards that require or permit fair value measurements. One of the amendments deferred the effective date for one year relative to non-financial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a non-recurring basis. This deferral applied to such items as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or non-financial long-lived asset groups measured at fair value for an impairment assessment. These remaining

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aspects of the fair value measurement standard were adopted by the Company prospectively beginning April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**iii) Business combinations**

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R), and, in April 2009, issued FAS 141 (R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*, to amend and clarify SFAS No. 141(R), *Business Combinations*, now part of ASC 805, *Business Combinations*. Effective for the Company beginning on April 1, 2009, the standard establishes principles and requirements for how an acquirer recognizes and measures, in its financial statements, the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, and any goodwill and establishes disclosure requirements that enable users of the Company's financial statements to evaluate the nature and financial effects of the business combination. This new standard was applied to the acquisition of DF Investments Limited and its subsidiary Drillco Foundation Co. Ltd. (see note 7).

**iv) Non-controlling interests in consolidated financial statements**

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* (SFAS 160), which is now part of ASC 810. The amendments to ASC 810 are effective for the fiscal year beginning April 1, 2009 and change the accounting and reporting for ownership interests in subsidiaries held by parties other than the parent. These non-controlling interests are to be presented in the consolidated balance sheet within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of operations. In addition, this ASC establishes standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The ASC also establishes reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company prospectively adopted this ASC effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**v) Determination of the useful life of intangible assets**

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. The guidance, now part of ASC 350, *Intangibles - Goodwill and Others*, and ASC 275, *Risks and Uncertainties*, applies to (i) intangible assets that are acquired individually or with a group of other assets and (ii) intangible assets acquired in both business combinations and asset acquisitions. Entities estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The Company adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**vi) Equity method investment accounting considerations**

In November 2008, the FASB issued EITF 08-06, *Equity Method Investment Accounting Considerations*, now part of ASC 323, *Investments - Equity Method and Joint Ventures*, which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The intent is to provide guidance on: (i) determining the initial measurement of an equity method investment, (ii) recognizing other-than-temporary impairments of an equity method investment and (iii) accounting for an equity method investee's issuance of shares. The Company adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on the

Company's interim consolidated financial statements.

**vii) Interim disclosures about fair value of financial instruments**

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Statements*. This new guidance, which is now a part of ASC 825, *Financial Instruments*, expands the disclosures about the fair value of financial instruments that were previously required only annually to be required for interim reporting periods. In addition, the ASC requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. The Company adopted the amendments to ASC 825 effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

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**viii) Equity method investment accounting considerations**

In November 2008, the FASB issued EITF 08-06, *Equity Method Investment Accounting Considerations*, now part of ASC 323, *Investments Equity Method and Joint Ventures*, which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The intent is to provide guidance on: (i) determining the initial measurement of an equity method investment, (ii) recognizing other-than-temporary impairments of an equity method investment and (iii) accounting for an equity method investee's issuance of shares. The Company adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**ix) Determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly**

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. The guidance, now part of ASC 820, *Fair Value Measurements and Disclosures*, provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that indicate a transaction is not orderly. The Company adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**x) Subsequent events**

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*). ASC 855 is effective for interim or annual financial periods ending after June 15, 2009 and should be applied prospectively. This statement addresses accounting and disclosure requirements related to subsequent events. This statement also requires the Company to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the Company's expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. The Company adopted this ASC effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**xi) Measuring liabilities at fair value**

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*, which provides additional guidance on how companies should measure liabilities at fair value under ASC 820, *Fair Value Measurements and Disclosures*. The ASU clarifies that the quoted price for an identical liability should be used; however, if such information is not available, an entity may use, the quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities traded as assets, or another valuation technique (such as the market or income approach). The ASU also indicates that the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer and indicates circumstances in which quoted prices for an identical liability or quoted price for an identical liability traded as an asset may be considered Level 1 fair value measurements. The Company adopted this ASU effective October 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**xii) Accounting and reporting for decreases in ownership of a subsidiary**

In January 2010, the FASB issued ASU 2010-02, *Consolidation (Topic 810) Accounting and Reporting for Decreases in Ownership of a Subsidiary - A Scope Clarification*. The ASU clarifies that the scope of the decrease in ownership provisions included in ASC 810, *Consolidations* and related guidance applies to: (i) a subsidiary or a group of assets that is a business or a non-profit activity; (ii) a subsidiary that

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is a business or a non-profit activity that is transferred to an equity method investee or a joint venture; and (iii) an exchange of a group of assets that constitutes a business or non-profit activity for a non-controlling interest in an entity. The standard also clarifies that the decrease in ownership guidance does not apply to certain transactions, such as sales of in substance real estate or conveyance of oil and gas properties. The Company adopted this standard effective April 1, 2009 in conjunction with adoption of the non-controlling interest standard. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

### **xiii) Equity**

In January 2010, the FASB issued ASU No. 2010-01, *Equity*, which clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS.

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prospectively and is not a stock dividend for purposes of earnings per share calculations. This Company adopted this ASU effective December 31, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

**5. Recent United States accounting pronouncements not yet adopted**

**i) Revenue recognition**

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition: Multiple-Deliverable Revenue Arrangements*, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. The amendments also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. For the Company, this ASU is effective prospectively for revenue arrangements entered into or materially modified on or after April 1, 2011. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

**ii) Improvements to financial reporting by enterprises involved with variable interest entities**

In December 2009, the FASB issued ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends ASC 810, *Consolidation*. The amendments give guidance and clarification of how to determine when a reporting entity should include the assets, liabilities, non-controlling interests and results of activities of a variable interest entity in its consolidated financial statements. The amendments in this ASU are effective for the Company beginning on April 1, 2010. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

**iii) Improving disclosures about fair value measurements**

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*, that amends existing disclosure requirements under ASC 820 by adding required disclosures about items transferring into and out of Levels 1 and Level 2 in the fair value hierarchy; adding separate disclosures about purchase, sales, issuances, and settlements relative to Level 3 measurements; and clarifying, among other things, the existing fair value disclosures about the level of disaggregation. The ASU is effective for the Company beginning on January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for the Company beginning on April 1, 2011. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

**6. Goodwill**

The change in goodwill during the nine months ended December 31, 2009 is as follows:

Balance, March 31, 2009	\$ 23,872
Additions (note 7)	1,239



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Balance, December 31, 2009	\$25,111
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The Company conducted its annual goodwill impairment test on October 1, 2009 and concluded there was no impairment as the fair value of the Piling reporting unit exceeded its carrying value.

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**7. Acquisition**

On August 1, 2009, the Company acquired all of the issued and outstanding shares of DF Investments Limited (the holding company) and its subsidiary Drillco Foundation Co. Ltd., a piling company based in Milton, Ontario, for a consideration of \$5,410. This acquisition gives the Company access to piling markets and customers in the Toronto area. The transaction has been accounted for using the acquisition method with the results of operations included in the financial statements from the date of acquisition. The goodwill acquired is not deductible for tax purposes. The preliminary purchase price allocation is as follows:

<b>Net assets acquired at assigned values:</b>	
Accounts receivable	\$4,101
Inventories	59
Prepaid expenses and deposits	11
Property, plant and equipment	2,873
Land	281
Intangible assets	547
Goodwill (assigned to the Piling segment)	1,239
Accounts payable and accrued liabilities	(2,211)
Deferred income tax liability	(838)
Long term debt	(652)
	<b>\$5,410</b>

The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is preliminary and may be subject to adjustments.

**8. Inventories**

	December 31, 2009	March 31, 2009
Spare tires	\$4,795	\$10,533
Job materials and other	3,293	1,281
	<b>\$8,088</b>	<b>\$11,814</b>

**9. Property, plant and equipment**

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December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Heavy equipment	\$339,943	\$90,268	\$249,675
Major component parts in use	30,058	6,631	23,427
Other equipment	24,558	10,266	14,292
Licensed motor vehicles	14,872	9,169	5,703
Office and computer equipment	8,862	3,412	5,450
Buildings	21,710	6,471	15,239
Land	281		281
Leasehold improvements	9,312	2,671	6,641
Assets under capital lease	25,586	12,712	12,874
	\$475,182	\$141,600	\$333,582

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March 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Heavy equipment	\$310,406	\$75,410	\$234,996
Major component parts in use	25,187	2,535	22,652
Other equipment	22,056	8,268	13,788
Licensed motor vehicles	12,760	7,445	5,315
Office and computer equipment	6,759	3,459	3,300
Buildings	20,823	5,308	15,515
Leasehold improvements	6,589	1,929	4,660
Assets under capital lease	27,953	12,064	15,889
	\$432,533	\$116,418	\$316,115

During the three and nine months ended December 31, 2009, additions to property, plant and equipment included \$449 and \$1,105 respectively, of assets that were acquired by means of capital leases (three and nine months ended December 31, 2008 \$7,991 and \$13,107 respectively). Depreciation of equipment under capital lease of \$1,019 and \$3,156 for the three and nine months ended December 31, 2009, respectively, was included in depreciation expense (three and nine months ended December 31, 2008 \$1,337 and \$3,570 respectively).

**10. Deferred financing costs**

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Senior notes	\$16,521	\$11,393	\$5,128
Term facility and revolving facility	4,328	2,912	1,416
	\$20,849	\$14,305	\$6,544

March 31, 2009	Cost	Accumulated Amortization	Net Book Value
Senior notes	\$16,521	\$9,613	\$6,908
Term facility and revolving facility	3,205	2,203	1,002
	\$19,726	\$11,816	\$7,910

Amortization of deferred financing costs included in interest expense for the three and nine months ended December 31, 2009 was of \$847 and \$2,489 respectively (three and nine months ended December 31, 2008 \$764 and \$2,190 respectively).

**11. Investment in and advances to unconsolidated joint venture**

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The Company is engaged in one joint venture, Noramac Ventures Inc. . The joint venture is with Fort McKay Construction Ltd. and was formed for the purpose of expanding the Company's market opportunities and establishing strategic alliances in Northern Alberta. The Company has a 50% proportionate interest in Noramac Joint Venture.

As of December 31, 2009, the Company's investment in and advances to unconsolidated joint venture totaled \$2,939 (March 31, 2009 \$nil). Condensed financial data as at and for the three and nine months ended December 31, 2009 is as follows:

	December 31, 2009	March 31, 2009
Current assets	\$8,527	\$
Long term assets	8	
Current liabilities	2,656	
Long term liabilities	5,940	

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(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2009
Gross revenues	\$3,077	\$5,163
Gross profit	847	1,226
Net income	195	132
Equity in earnings of unconsolidated joint venture	\$98	\$66

**12. Debt****a) Long term debt**

On June 24, 2009, the Company entered into an amended and restated credit agreement which matures on June 8, 2011 to provide for borrowings of up to \$125.0 million under which revolving loans, term loans and letters of credit may be issued. This facility includes a \$75.0 million Revolving Facility and a \$50.0 million Term Facility. The Term Facility commitments were available until August 31, 2009 and aggregate borrowings under this facility had to exceed \$25.0 million. Any undrawn amount under the Term Facility, up to a maximum of \$15.0 million, could be reallocated to the Revolving facility. On August 31, 2009, the maximum undrawn portion of the Term Facility totaling \$15.0 million was reallocated to the Revolving Facility resulting in Revolving Facility commitments of \$90.0 million.

As of December 31, 2009, the Company had issued \$20.4 million (March 31, 2009 \$20.8 million) in letters of credit under the Revolving Facility to support performance guarantees associated with customer contracts. The total credit facility commitments are \$120.0 million at December 31, 2009 and include the \$90.0 million Revolving Facility and the outstanding borrowings of \$30.0 million (March 31, 2009 \$nil) under the Term Facility after mandatory principal repayments of \$3.0 million in the quarter. The funds available under the Revolving Facility are reduced by any outstanding letters of credit. The Company's unused borrowing availability under the Revolving Facility was \$69.6 million at December 31, 2009.

Borrowings under the Revolving Facility may be repaid and borrowed from time to time at the option of the Company. The Term facility is fully utilized and requires quarterly principal repayments. At December 31, 2009, there were no borrowings under the Revolving Facility.

Beginning December 31, 2009, and at the end of each fiscal quarter thereafter, the Company must make quarterly repayments on the Term Facility of \$1,518 through June 2011, with the balance due at that time. The credit facility bears interest at Canadian prime rate, U.S. Dollar Base Rate, Canadian bankers' acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the credit facility), plus applicable margins. In each case, the applicable pricing margin depends on the Company's credit rating.

The credit facility is secured by a first priority lien on substantially all of the Company's existing and after-acquired property and contains certain restrictive covenants including, but not limited to, incurring additional debt, transferring or selling assets, making investments including acquisitions or to pay dividends or redeem shares of capital stock. The Company is also required to meet certain financial covenants under the credit agreement and was in compliance with these covenants at December 31, 2009.

During the three and nine months ended December 31, 2009, financing fees of \$nil and \$1,123 respectively were incurred in connection with the modifications made to the amended and restated credit agreement. These fees have been recorded as deferred financing costs and are being amortized using the effective interest method over the term of the credit facility (note 9).

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During the three and nine months ended December 31, 2009, the Company extinguished \$nil and \$652 respectively, of long term debt acquired through its August 1, 2009 acquisition of DF Investments Limited and its subsidiary Drillco Foundations Co. Ltd. (note 7).

### b) Senior notes

	December 31, 2009	March 31, 2009
8 <sup>3</sup> / <sub>4</sub> % senior unsecured notes due 2011 (\$U.S.)	\$200,000	\$200,000
Unrealized foreign exchange	9,320	52,040
Fair value of embedded early redemption option (note 16 (a))	116	3,716
	\$209,436	\$255,756

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The 8<sup>3</sup>/<sub>4</sub>% senior notes were issued on November 26, 2003 in the amount of U.S. \$200.0 million (Canadian \$263.0 million). These notes mature on December 1, 2011 with interest payable semi-annually on June 1 and December 1 of each year. The 8<sup>3</sup>/<sub>4</sub>% senior notes are unsecured senior obligations and rank equally with all other existing and future unsecured senior debt and senior to any subordinated debt that may be issued by the Company or any of its subsidiaries. The notes are effectively subordinated to all secured debt to the extent of the outstanding amount of such debt.

The 8<sup>3</sup>/<sub>4</sub>% senior notes are redeemable at the option of the Company, in whole or in part, at any time on or after: December 1, 2008 at 102.2% of the principal amount; December 1, 2009 at 100.0% of the principal amount; plus, in each case, interest accrued to the redemption date.

If a change of control occurs, the Company will be required to offer to purchase all or a portion of each holder's 8<sup>3</sup>/<sub>4</sub>% senior notes, at a purchase price in cash equal to 101.0% of the principal amount of the notes offered for repurchase plus accrued interest to the date of purchase.

**13. Deferred lease inducements**

Lease inducements applicable to lease contracts are deferred and amortized as a reduction of general and administrative costs on a straight-line basis over the lease term, which includes the initial lease term and renewal periods only where renewal is determined to be reasonably assured. During the three and nine months ended December 31, 2009, the Company recorded inducements from a lessor in the form of leasehold improvements to a new office facility of \$32.

	December 31, 2009	March 31, 2009
Balance, beginning of period	\$836	\$941
Additions	32	
Amortization	(80)	(105)
Balance, end of period	\$788	\$836

**14. Shares****a) Common shares**

Authorized:

Unlimited number of common voting shares

Unlimited number of common non-voting shares issued and outstanding:

Amount



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	Number of Shares	
<b>Common voting shares</b>		
Issued and outstanding at December 31, 2009 and March 31, 2009	36,038,476	\$303,431
<b>b) Additional paid-in capital</b>		
Balance, March 31, 2009		\$ 5,466
Stock-based compensation (note 19(a))		1,768
Deferred performance share unit plan (note 19(b))		213
Reclassified to restricted share unit liability (note 19(c))		(20)
Cash settlement of stock options		(66)
Balance, December 31, 2009		\$7,361

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**c) Net income (loss) per share**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Net income (loss) available to common shareholders	\$14,936	\$(14,964)	\$29,162	\$1,708
Weighted average number of common shares	36,038,476	36,038,476	36,038,476	36,015,172
Basic net income (loss) per share	\$0.41	\$(0.42)	\$0.81	\$0.05
Net income (loss) available to common shareholders	\$14,936	\$(14,964)	\$29,162	\$1,708
Weighted average number of common shares	36,038,476	36,038,476	36,038,476	36,015,172
Dilutive effect of stock options and performance units	651,550		672,960	668,687
Weighted average number of diluted common shares	36,690,026	36,038,476	36,711,436	36,683,859
Diluted net income (loss) per share	\$0.41	\$(0.42)	\$0.79	\$0.05

For the three and nine months ended December 31, 2009, there were 155,576 and 159,244 options and performance units respectively, which were anti-dilutive and therefore were not considered in computing diluted earnings per share (three and nine months ended December 31, 2008 2,223,736 and 126,302 options and performance units respectively).

**15. Interest expense**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Interest on 8 <sup>3</sup> / <sub>4</sub> % senior notes	\$4,517	\$5,834	\$14,468	\$17,503
Interest on capital lease obligations	244	341	805	887
Amortization of deferred financing costs	847	764	2,489	2,190
Interest on credit facilities	893	116	1,385	206
Interest on long-term debt	6,501	7,055	19,147	20,786
Other interest	263	264	578	490
	\$6,764	\$7,319	\$19,725	\$21,276

## **16. Financial instruments and risk management**

### **a) Fair value of financial instruments**

In determining the fair value of financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing on each reporting date. Counterparty confirmations and standard market conventions and techniques, such as discounted cash flow analysis and option pricing models, are used to determine the fair value of the Company's financial instruments, including derivatives. All methods of fair value measurement result in a general approximation of value and such value may never actually be realized.

The fair values of the Company's cash and cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short periods to maturity for the instruments.

The fair values of amounts due under the Revolving facility and the Term facility are based on management estimates which are determined by discounting cash flows required under the instruments at the interest rate currently estimated to be available for instruments with similar terms. Based on these estimates and by using the outstanding balance of \$30.0 million at December 31, 2009 and \$nil at March 31, 2009, the fair value of amounts due under the Revolving facility and the Term facility as at December 31, 2009 and March 31, 2009 are not significantly different than their carrying value.

The fair values of the Company's cross-currency and interest rate swap agreements and the Company's embedded derivatives are based on appropriate price modeling commonly used by market participants to estimate fair value. Such modeling includes option pricing models and discounted cash flow analysis, using observable market based inputs to

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estimate fair value. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of future cash flows. Fair value amounts reflect management's best estimates using external readily observable market data such as future prices, interest rate yield curves, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Financial instruments with carrying amounts that differ from their fair values are as follows:

	December 31, 2009		March 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior notes <sup>(i)</sup>	\$209,436	\$208,273	\$255,756	\$181,469
Capital lease obligations <sup>(ii)</sup>	14,370	14,275	17,484	17,345

(i) The fair value of the U.S. Dollar denominated 8 3/4% senior notes is based upon their period end closing market price translated into Canadian Dollars at period end exchange rates as at December 31, 2009 and March 31, 2009.

(ii) The fair values of amounts due under capital leases are based on management estimates which are determined by discounting cash flows required under the instruments at the interest rates currently estimated to be available for instruments with similar terms.

Derivative financial instruments that are used for risk management purposes, as described in note 16(b) under Risk Management consist of the following:

December 31, 2009	Derivative Financial Instruments	Senior Notes
Cross-currency and interest rate swaps	\$74,768	\$
Embedded price escalation features in a long-term revenue construction contract	6,291	
Embedded price escalation features in certain long-term supplier contracts	8,820	
Embedded early redemption option on senior notes		116
<b>Total fair value of derivative financial instruments</b>	<b>89,879</b>	<b>116</b>
Less: current portion	17,756	
	<b>\$72,123</b>	<b>\$116</b>

March 31, 2009	Derivative Financial Instruments	Senior Notes
Cross-currency and interest rate swaps	\$32,033	\$
Embedded price escalation features in a long-term revenue construction contract	(324)	
Embedded price escalation features in certain long-term supplier contracts	22,778	

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Embedded early redemption option on senior notes		3,716
Total fair value of derivative financial instruments	54,487	3,716
Less: current portion	11,439	
	\$43,048	\$3,716

### *i) Fair value hierarchy of financial instruments*

The Company has segregated all financial assets and financial liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

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Financial assets and financial liabilities measured at fair value, net of accrued interest in the financial statements on a recurring basis are summarized below:

December 31, 2009	Location on Balance Sheet	Carrying Value	Level 2
Cross-currency swaps for U.S. dollar 8 <sup>3</sup> / <sub>4</sub> % senior notes	Derivative financial instruments	\$57,711	\$57,711
Interest rate swaps for U.S. dollar 8 <sup>3</sup> / <sub>4</sub> % senior notes	Derivative financial instruments	17,057	17,057
<b>Cross-currency and interest rate swaps for U.S. dollar 8<sup>3</sup>/<sub>4</sub>% senior notes (note 16(a))</b>	<b>Derivative financial instruments</b>	<b>74,768</b>	<b>74,768</b>
Embedded price escalation features in a long-term revenue construction contract (note 16(a))	Derivative financial instruments	6,291	6,291
Embedded price escalation features in certain long-term supplier contracts (note 16(a))	Derivative financial instruments	8,820	8,820
Embedded early redemption option on 8 <sup>3</sup> / <sub>4</sub> % senior notes (note 16(a))	Senior notes	116	116
		<b>\$89,995</b>	<b>\$89,995</b>

March 31, 2009	Location on Balance Sheet	Carrying Value	Level 2
Cross-currency swaps for U.S. dollar 8 <sup>3</sup> / <sub>4</sub> % senior notes	Derivative financial instruments	\$11,573	\$11,573
Interest rate swaps for U.S. dollar 8 <sup>3</sup> / <sub>4</sub> % senior notes	Derivative financial instruments	20,460	20,460
<b>Cross-currency and interest rate swaps for U.S. dollar 8<sup>3</sup>/<sub>4</sub>% senior notes (note 16(a))</b>	<b>Derivative financial instruments</b>	<b>32,033</b>	<b>32,033</b>
Embedded price escalation features in a long-term revenue construction contract (note 16(a))	Derivative financial instruments	(324)	(324)
Embedded price escalation features in certain long-term supplier contracts (note 16(a))	Derivative financial instruments	22,778	22,778
Embedded early redemption option on 8 <sup>3</sup> / <sub>4</sub> % senior notes (note 16(a))	Senior notes	3,716	3,716
		<b>\$58,203</b>	<b>\$58,203</b>

At December 31, 2009, the Company had no financial assets or financial liabilities classified as Level 1 or Level 3 under the fair value hierarchy. Since the Company primarily uses observable inputs in its valuation of its derivative financial instruments, these fair value measurements are classified with Level 2 of the fair value hierarchy. The fair values of the Company's cross-currency and interest rate swap agreements and the Company's embedded derivatives are based on appropriate price modeling commonly used by market participants to estimate fair value. Such modeling includes option pricing models and discounted cash flow analysis, using observable market based inputs to estimate fair value. The Company considers its own credit risk or the credit risk of the counterparty in determining fair value, depending on whether the fair values are in an asset or liability position. Fair value determined using valuation models requires the use of assumptions concerning the

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amount and timing of future cash flows. Fair value amounts reflect management's best estimates using external, readily, observable market data such as future prices, interest rate yield curves, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

The Company used the following methodologies and inputs to estimate the fair value of each class of Level 2 financial instruments:

To determine fair value of the Company's cross-currency and interest rate swap agreements, discounted cash flow analysis with inputs of observable market data including foreign currency exchange rates, implied volatilities, interest rates and the credit risk of the Company or the counterparties were used as appropriate, with resulting valuations periodically validated through third-party or counterparty quotes;

To determine fair value of the Company's optional redemption rights included in the senior notes, discounted cash flow analysis with inputs of observable market data including foreign currency exchange rates, implied volatilities and interest rates were used as appropriate; and

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To determine the fair value of the price escalation features in revenue and maintenance service contracts containing embedded derivatives, generally accepted valuation models based on discounted cash flows with inputs of observable market data, including foreign currency rates and discount factors were used.

Non-financial assets that were re-measured at fair value on a nonrecurring basis as at December 31, 2009 in the financial statements are summarized below:

December 31, 2009	Carrying Value	Level 3	Change in Fair Value
Assets held for sale	\$1,038	\$1,038	\$(250)

Long-lived assets held for sale with a carrying amount of \$1,288 were written down to their fair value of \$1,038, resulting in a loss of \$(250), which was included in depreciation expense in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the nine months ended December 31, 2009. The fair value of the assets held for sale is determined internally by analyzing recent auction prices for equipment with similar specifications and hours used, the net book value, the residual value of the asset and the useful life of the asset. The inputs to estimate the fair value of the assets held for sale are classified under level 3 of the fair value hierarchy.

The Company did not re-measure non-financial liabilities to fair value as at December 31, 2009.

The realized and unrealized (gain) loss on derivative financial instruments is comprised as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Realized and unrealized (gain) loss on cross-currency and interest rate swaps	\$8,108	\$(28,087)	\$54,126	\$(34,309)
Unrealized loss (gain) on embedded price escalation features in a long-term revenue construction contract	342	(8,424)	6,615	(12,927)
Unrealized (gain) loss on embedded price escalation features in certain long-term supplier contracts	(254)	10,346	(13,958)	19,499
Unrealized (gain) loss on embedded early redemption option on 8 <sup>3</sup> / <sub>4</sub> % senior notes	(186)	(605)	(3,598)	1,911
	\$8,010	\$(26,770)	\$43,185	\$(25,826)

**b) Risk Management**

The Company is exposed to market and credit associated with its financial instruments. The Company will from time to time use various financial instruments to reduce market risk exposures from changes in foreign currency exchange rates and interest rates. The Company does not hold or use any derivative instruments for trading or speculative purposes.

Overall, the Company's Board of Directors has responsibility for the establishment and approval of the Company's risk management policies. Management performs a risk assessment on a continual basis to help ensure that all significant risks related to the Company and its operations



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have been reviewed and assessed to reflect changes in market conditions and the Company's operating activities.

### **c) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign currency exchange rates and interest rates. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and composition of the Company's financial assets and liabilities held, non-trading physical assets and contract portfolios.

To manage the exposure related to changes in market risk, the Company uses various risk management techniques including the use of derivative instruments. Such instruments may be used to establish a fixed price for a commodity, an interest-bearing obligation or a cash flow denominated in a foreign currency.

The sensitivities provided below are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these contracts.

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*i) Foreign exchange risk*

Foreign exchange risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in foreign exchange rates. The Company has 8<sup>3</sup>/<sub>4</sub>% senior notes denominated in U.S. Dollars in the amount of U.S. \$200.0 million. In order to reduce its exposure to changes in the U.S. to Canadian Dollar exchange rate, the Company entered into a cross-currency swap agreement to manage this foreign currency exposure for both the principal balance due on December 1, 2011 as well as the semi-annual interest payments from the issue date to the maturity date. In conjunction with the cross-currency swap agreement, the Company also entered into a U.S. Dollar interest rate swap and a Canadian Dollar interest rate swap as discussed in note 16(c)(ii) below. These derivative financial instruments were not designated as hedges for accounting purposes. At December 31, 2009 and March 31, 2009, the notional principal amount of the cross-currency swap was U.S. \$200.0 million and Canadian \$263.0 million.

On December 17, 2008, the Company received notice that all three swap counterparties had exercised the cancellation option on the U.S. Dollar interest rate swap and, effective February 2, 2009, the U.S. Dollar interest rate swap was terminated. In addition to net accrued interest to the termination date of U.S. \$0.7 million, the counterparties paid a cancellation premium of 2.2% on the notional amount of U.S. \$200.0 million or U.S. \$4.4 million (equivalent to Canadian \$5.3 million), which is included in the caption Other income in the Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended December 31, 2009 and December 31, 2008.

The Company's Canadian Dollar interest rate swap and cross-currency swap agreements are not cancellable at the option of the counterparties and remain in effect. The Company will continue to pay the counterparties an average fixed rate of 9.889% on the notional amount of Canadian \$263.0 million or Canadian \$13.0 million semi-annually until December 1, 2011. Beginning March 1, 2009, the Company received quarterly floating rate payments in U.S. Dollars on the cross-currency swap agreement at the prevailing three month LIBOR rate plus a spread of 4.2% on the notional amount of U.S. \$200.0 million.

As a result of the cancellation of the U.S. Dollar interest rate swap, the Company is exposed to changes in the value of the Canadian Dollar versus the U.S. Dollar. To the extent that three month LIBOR rate is less than 4.6% (the difference between the 8<sup>3</sup>/<sub>4</sub>% senior notes coupon and the 4.2% spread over three month LIBOR on the cross-currency swap agreement), the Company will have to acquire U.S. Dollars to fund a portion of its semi-annual coupon payment on its senior notes. At the three month U.S. Dollar LIBOR rate of 0.25% at December 31, 2009, a \$0.01 increase (decrease) in exchange rates in the Canadian Dollar would result in an insignificant decrease (increase) in the amount of Canadian Dollars required to fund each semi-annual coupon payment.

The Company also regularly transacts in foreign currencies when purchasing equipment, spare parts as well as certain general and administrative goods and services. These exposures are generally of a short-term nature and the impact of changes in exchange rates has not been significant in the past. The Company may fix its exposure in either the Canadian Dollar or the U.S. Dollar for these short-term transactions, if material.

At December 31, 2009, with other variables unchanged, a \$0.01 increase (decrease) in exchange rates of the Canadian Dollar to the U.S. Dollar related to the U.S. Dollar denominated senior notes would decrease (increase) net income and decrease (increase) equity by approximately \$1.7 million. With other variables unchanged, a \$0.01 increase (decrease) in exchange rates in the Canadian to the U.S. Dollar related to the cross-currency swap would increase (decrease) net income and increase (decrease) equity by approximately \$1.8 million. The impact of similar exchange rate changes on short-term exposures would be insignificant and there would be no impact to other comprehensive income.

*ii) Interest rate risk*

The Company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments. Amounts outstanding under the Company's revolving credit facility are subject to a floating rate. The Company's senior

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notes are subject to a fixed rate. The Company's interest risk arises from long-term borrowings issued at fixed rates that create fair value interest rate risk and variable borrowings that create cash flow interest rate risk. Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

In some circumstances, floating rate funding may be used for short-term borrowings and other liquidity requirements. The Company may use derivative instruments to manage interest rate risk. The Company manages its interest rate risk exposure by using a mix of fixed and variable rate debt and may use derivative instruments to achieve the desired proportion of variable to fixed-rate debt.

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In conjunction with the cross-currency swap agreement discussed in note 16(c)(i) above, the Company also entered into a U.S. Dollar interest rate swap and a Canadian Dollar interest rate swap with the net effect of economically converting the 8<sup>3</sup>/<sub>4</sub>% rate payable on the 8<sup>3</sup>/<sub>4</sub>% senior notes into a fixed rate of 9.889% for the duration that the 8<sup>3</sup>/<sub>4</sub>% senior notes are outstanding. These derivative financial instruments were not designated as hedges for accounting purposes.

As a result of the U.S. Dollar interest swap cancellation described in note 16(c)(i), the Company is exposed to changes in interest rates. The Company has a fixed semi-annual coupon payment of 8<sup>3</sup>/<sub>4</sub>% on its U.S. \$200.0 million senior notes. With the termination of the U.S. Dollar interest rate swap, the Company will no longer receive fixed U.S. Dollar payments from the counterparties to offset the coupon payment on its senior notes. As a result of this termination, the Company's effective annual interest costs at the current LIBOR rate will increase by U.S. \$8.6 million. In addition, the Company is now exposed to interest rate risk where a 100 basis point increase (decrease) in the three month U.S. Dollar LIBOR rate will result in a U.S. \$2.0 million decrease (increase) in effective annual interest costs.

At December 31, 2009 and March 31, 2009, the notional principal amounts of the interest rate swaps were U.S. \$200.0 million and Canadian \$263.0 million.

As at December 31, 2009, holding all other variables constant, a 100 basis point increase (decrease) to Canadian interest rates would impact the fair value of the interest rate swaps by \$3.3 million with this change in fair value being recorded in net income. As at December 31, 2009, holding all other variables constant, a 100 basis point increase (decrease) to U.S. interest rates would impact the fair value of the interest rate swaps by \$0.1 million with this change in fair value being recorded in net income. As at December 31, 2009, holding all other variables constant, a 100 basis point increase (decrease) of Canadian to U.S. interest rate volatility would impact the fair value of the interest rate swaps by \$nil million with this change in fair value being recorded in net income.

At December 31, 2009, the Company held \$30.0 million of floating rate debt pertaining to its Term facility (March 31, 2009 \$nil). As at December 31, 2009, holding all other variables constant, a 100 basis point increase (decrease) to interest rates on floating rate debt will result in a \$0.3 million increase (decrease) in annual interest expense. This assumes that the amount of floating rate debt remains unchanged from that which was held at December 31, 2009.

**d) Credit risk**

Credit risk is the risk that financial loss to the Company may be incurred if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages the credit risk associated with its cash by holding its funds with what it believes to be reputable financial institutions. The Company is also exposed to credit risk through its accounts receivable and unbilled revenue. Credit risk for trade and other accounts receivables, and unbilled revenue are managed through established credit monitoring activities.

The Company has a concentration of customers in the oil and gas sector. The concentration risk is mitigated primarily by the customers being large investment grade organizations. The credit worthiness of new customers is subject to review by management through consideration of the type of customer and the size of the contract.

At December 31, 2009 and March 31, 2009, the following customers represented 10% or more of accounts receivable and unbilled revenue:

December 31, 2009	March 31, 2009
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Customer A	30%	17%
Customer B	29%	29%
Customer C	5%	13%
Customer D	3%	11%

The Company reviews its accounts receivable amounts regularly and amounts are written down to their expected realizable value when outstanding amounts are determined not to be fully collectible. This generally occurs when the customer has indicated an inability to pay, the Company is unable to communicate with the customer over an extended period of time, and other methods to obtain payment have been considered and have not been successful. Bad debt expense is charged to net income in the period that the account is determined to be doubtful. Estimates of the allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each reporting date taking into consideration the following factors: the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience.

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The Company's maximum exposure to credit risk for accounts receivable and unbilled revenue is as follows:

	December 31, 2009	March 31, 2009
Trade accounts receivables	\$85,330	\$76,499
Other receivables	4,534	1,824
<b>Total accounts receivable</b>	<b>\$89,864</b>	<b>\$78,323</b>
Unbilled revenue	\$81,397	\$55,907

On a geographic basis as at December 31, 2009, approximately 97% (March 31, 2009 99%) of the balance of trade accounts receivables (before considering the allowance for doubtful accounts) was due from customers based in Western Canada.

Payment terms are generally net 30 days. As at December 31, 2009 and March 31, 2009 trade receivables are aged as follows:

	December 31, 2009	March 31, 2009
Not past due	\$55,034	\$47,197
Past due 1-30 days	19,961	13,282
Past due 31-60 days	3,549	2,085
More than 61 days	6,786	13,935
<b>Total</b>	<b>\$85,330</b>	<b>\$76,499</b>

As at December 31, 2009, the Company has recorded an allowance for doubtful accounts of \$2,262 (March 31, 2009 \$2,597) of which 100% relates to amounts that are more than 61 days past due.

The allowance is an estimate of the December 31, 2009 trade receivable balances that are considered uncollectible. Changes to the allowance are as follows:

	December 31, 2009	March 31, 2009
Opening balance	\$2,597	\$742
Payments received on provided balances	(275)	(100)
Current year allowance	334	4,324
Write-offs	(394)	(2,369)

Ending balance	\$2,262	\$2,597
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Credit risk on derivative financial instruments arises from the possibility that the counterparties to the agreements may default on their respective obligations under the agreements. This credit risk only arises in instances where these agreements have positive fair value for the Company.

## 17. Other information

### a) Supplemental cash flow information

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Cash paid during the period for:				
Interest	\$23,895	\$13,736	\$49,068	\$27,558
Income taxes	1,562		9,113	
Cash received during the period for:				
Interest	2,424	8	8,495	(2)
Income taxes	453	4	453	67
Non-cash transactions:				
Acquisition of property, plant and equipment by means of capital leases	449	7,991	1,105	13,107

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(Unaudited)

**b) Net change in non-cash working capital**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
<b>Operating activities:</b>				
Accounts receivable	\$(3,096)	\$(8,173)	\$(7,073)	\$18,539
Allowance for doubtful accounts	158	1,217	(335)	2,517
Unbilled revenue	(13,943)	49,503	(25,490)	10,226
Inventory	1,991	(5,808)	3,785	(10,016)
Prepaid expenses and deposits	(2,858)	1,570	(4,140)	2,483
Accounts payable	9,364	(422)	18,706	(23,013)
Accrued liabilities	(14,053)	(9,191)	(29,093)	(15,532)
Long term accrued liabilities	894	81	3,730	326
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	(2,296)	(6,751)	(254)	2,070
	\$(23,839)	\$22,026	\$(40,164)	\$(12,400)
<b>Investing activities:</b>				
Accounts payable	\$(2,998)	\$(2,068)	\$(351)	\$3,191

**c) Income taxes**

Income tax expense as a percentage of income before income taxes for the three and nine months ended December 31, 2009 differs from the statutory rate of 28.91% primarily due to the impact of changes in enacted tax rates and the benefit from changes in the timing of the reversal of temporary differences. Income tax expense as a percentage of income before income taxes for the three and nine months ended December 31, 2008 differs from the statutory rate of 29.38% primarily due to the impact of changes in enacted tax rates, the benefit from changes in the timing of the reversal of temporary differences and a permanent difference related to the \$32.8 million non-deductible goodwill impairment.

**18. Segmented information****a) General overview**

The Company operates in the following reportable operating segments, which follow the organization, management and reporting structure within the Company:

*Heavy Construction and Mining:*

The Heavy Construction and Mining segment provides mining and site preparation services, including overburden removal and reclamation services, project management, underground utility construction and equipment rental, to a variety of customers throughout Canada.



*Piling:*

The Piling segment provides deep foundation construction and design build services to a variety of industrial and commercial customers throughout Western Canada and Ontario.

*Pipeline:*

The Pipeline segment provides both small and large diameter pipeline construction and installation services as well as equipment rental to energy and industrial clients throughout Western Canada.

The accounting policies of the reportable operating segments are the same as those described in the significant accounting policies in note 3. Certain business units of the Company have been aggregated into the Heavy Construction and Mining segment as they have similar economic characteristics. These business units are considered to have similar economic characteristics based on similarities in the nature of the services provided, the customer base and the resources used to provide these services.

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**b) Results by business segment**

	Heavy Construction and Mining	Piling	Pipeline	Total
Three Months Ended December 31, 2009				
Revenues from external customers	\$183,631	\$20,592	\$16,952	\$221,175
Depreciation of property, plant and equipment	8,191	701	51	8,943
Segment profits	36,237	4,505	1,072	41,814
Segment assets	403,204	93,036	21,210	517,450
Capital expenditures	1,573	305	53	1,931

	Heavy Construction and Mining	Piling	Pipeline	Total
Three Months Ended December 31, 2008				
Revenues from external customers	\$198,620	\$41,565	\$18,380	\$258,565
Depreciation of property, plant and equipment	5,578	1,117	2	6,697
Segment profits	38,639	12,740	5,589	56,968
Impairment of goodwill			(32,753)	(32,753)
Segment assets	545,187	121,692	7,785	674,664
Capital expenditures	6,636	479	87	7,202

	Heavy Construction and Mining	Piling	Pipeline	Total
Nine Months Ended December 31, 2009				
Revenues from external customers	\$469,512	\$50,268	\$18,616	\$538,396
Depreciation of property, plant and equipment	24,113	2,108	298	26,519
Segment profits	81,730	9,139	1,301	92,170
Segment assets	403,204	93,036	21,210	517,450
Capital expenditures	37,627	307	53	37,987

	Heavy Construction and Mining	Piling	Pipeline	Total
Nine Months Ended December 31, 2008				
Revenues from external customers	\$564,101	\$132,709	\$101,026	\$797,836
Depreciation of property, plant and equipment	18,071	2,811	567	21,449
Segment profits	80,266	32,445	22,464	135,175
Impairment of goodwill			(32,753)	(32,753)
Segment assets	545,187	121,692	7,785	674,664
Capital expenditures	61,491	7,634	5,157	74,282

**c) Reconciliations***i) Income (loss) before income taxes*

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	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Total profit for reportable segments	\$41,814	\$56,968	\$92,170	\$135,175
Less: unallocated corporate expenses				
General and administrative costs	14,532	19,170	43,426	57,760
Loss on disposal of property, plant and equipment	743	1,022	1,044	3,778
Loss on disposal of assets held for sale	649		373	24
Amortization of intangible assets	528	391	1,438	1,049
Equity in earnings of unconsolidated joint venture	(98)		(66)	
Impairment of goodwill		32,753		32,753
Interest expense, net	6,764	7,319	19,725	21,276
Foreign exchange (gain) loss	(5,449)	32,935	(42,930)	39,621
Realized and unrealized loss (gain) on derivative financial instruments	8,010	(26,770)	43,185	(25,826)
Other expenses (income)	471	(5,343)	804	(5,364)
Unallocated equipment (recoveries) and costs <sup>(i)</sup>	(5,812)	5,525	(14,392)	(2,301)
Income (loss) before income taxes	\$21,476	\$(10,034)	\$39,563	\$12,405

(i) Unallocated equipment costs represent actual equipment costs, including non-cash items such as depreciation, which have not been allocated to reportable segments. Unallocated equipment recoveries arise when actual equipment costs charged to the reportable segment exceed actual equipment costs incurred.

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*ii) Total assets*

	December 31, 2009	March 31, 2009
Total assets for reportable segments	\$517,450	\$470,667
Corporate assets:		
Cash and cash equivalents	94,877	98,880
Property, plant and equipment	25,718	19,890
Deferred income taxes	22,259	19,465
Other	24,921	20,373
<b>Total corporate assets</b>	<b>167,775</b>	<b>158,608</b>
<b>Total assets</b>	<b>\$685,225</b>	<b>\$629,275</b>

The Company's goodwill of \$25,111 is assigned to the Piling segment. All of the Company's assets are located in Canada.

*iii) Depreciation of property, plant and equipment*

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Total depreciation for reportable segments	\$8,943	\$6,697	\$26,519	\$21,449
Depreciation for corporate assets	1,600	3,030	4,174	6,344
<b>Total depreciation</b>	<b>\$10,543</b>	<b>\$9,727</b>	<b>\$30,693</b>	<b>\$27,793</b>

*iv) Capital expenditures for property, plant and equipment*

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Total capital expenditures for reportable segments	\$1,931	\$7,202	\$37,987	\$74,282
Capital expenditures for corporate assets	2,843	2,167	10,052	4,013

Total capital expenditures	\$4,774	\$9,369	\$48,039	\$78,295
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**d) Customers**

The following customers accounted for 10% or more of total revenues:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Customer A	45%	34%	51%	28%
Customer B	20%	7%	17%	10%
Customer C	10%	15%	11%	15%
Customer D	5%	22%	5%	19%
Customer E	Nil%	7%	Nil%	12%

The revenue by major customer was earned in Heavy Construction and Mining, Piling and Pipeline segments.

**19. Stock-based compensation plan**

**a) Share option plan**

Under the 2004 Amended and Restated Share Option Plan, directors, officers, employees and certain service providers to the Company are eligible to receive stock options to acquire voting common shares in the Company. Each stock option provides the right to acquire one common share in the Company and expires ten years from the grant date or on

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termination of employment. Options may be exercised at a price determined at the time the option is awarded, and vest as follows: no options vest on the award date and twenty percent vest on each subsequent anniversary date.

	2009		2008	
	Number of options	Weighted average exercise price (\$ per share)	Number of options	Weighted average exercise price (\$ per share)
Outstanding, beginning of period	2,154,624	7.62	1,934,164	7.93
Granted			219,800	3.69
Exercised	(560)	(3.69)		
Forfeited	(25,400)	(9.60)	(29,400)	6.27
Outstanding, end of period	2,128,664	7.60	2,124,564	7.52

	2009		2008	
	Number of options	Weighted average exercise price (\$ per share)	Number of options	Weighted average exercise price (\$ per share)
Outstanding, beginning of period	2,071,884	7.53	2,036,364	7.54
Granted	160,000	8.28	344,800	8.22
Exercised	(40,560)	4.98	(109,000)	(6.45)
Forfeited	(62,660)	(8.87)	(147,600)	(10.20)
Outstanding, end of period	2,128,664	7.60	2,124,564	7.52

At December 31, 2009, the weighted average remaining contractual life of outstanding options is 6.45 years (March 31, 2009 7.0 years). At December 31, 2009, the Company had 1,278,176 exercisable options (March 31, 2009 1,055,924) with a weighted average exercise price of \$5.43 (March 31, 2009 \$5.85).

For the nine months ended December 31, 2009, the 40,560 options exercised were settled in cash.

The Company recorded \$414 and \$1,768 of compensation expense related to the stock options for the three and nine months ended December 31, 2009, respectively (three and nine months ended December 31, 2008 \$472 and \$1,434 respectively), with such amount being credited to additional paid-in capital. As at December 31, 2009, the total compensation costs related to non-vested awards not yet recognized was \$2,890 and these costs are expected to be recognized over a weighted average period of 3.03 years.

The fair value of each option granted by the Company was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

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	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Number of options granted		219,800	160,000	344,800
Weighted average fair value per option granted (\$)		2.35	5.89	4.53
Weighted average assumptions:				
Dividend yield		Nil%	Nil%	Nil%
Expected volatility		65.70%	77.47%	59.01%
Risk-free interest rate		3.05%	3.44%	3.24%
Expected life (years)		6.5	6.5	6.5

The Company uses company specific historical data to estimate the expected life of the option, such as employee option exercise and employee post-vesting departure behavior. Since the Company's shares have been publicly traded for a period that is shorter than the expected life of the share option, expected volatility is estimated based on the historical volatility of a peer group of similar entities in addition to its own historical volatility.

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**b) Deferred performance share unit plan**

On March 19, 2008, the Company approved a Deferred Performance Share Unit ( DPSU ) Plan which became effective April 1, 2008.

DPSUs will be granted effective April 1 of each fiscal year in respect of services to be provided in that fiscal year and the following two fiscal years. The DPSUs vest at the end of a three year term and are subject to the performance criteria approved by the Compensation Committee of the Board of Directors at the date of grant. Such performance criterion includes the passage of time and is based upon return on invested capital calculated as operating income divided by average operating assets. The date of the third fiscal year-end following the date of the grant of DPSUs is the maturity date for such DPSUs. At the maturity date, the Compensation Committee assesses the participant against the performance criteria and determines the number of DPSUs that have been earned (earned DPSUs).

The settlement of the participant's entitlement is made either in cash in an amount equivalent to the number of earned DPSUs multiplied by the value of the Company's common shares at the date of maturity or in a number of common shares equal to the number of earned DPSUs. If settled in common shares, the common shares are purchased on the open market or through the issuance of shares from treasury.

The fair value of each unit under the DPSU Plan was estimated on the date of the grant using Black-Scholes option pricing model. The weighted average assumptions used in estimating the fair value of the units issued under the DPSU Plan at April 1, 2009 and April 1, 2008 are as follows:

	Three and Nine Months Ended December 31, 2009		Three and Nine Months Ended December 31, 2008	
Number of units granted	748,791		111,020	
Weighted average fair value per unit granted (\$)	3.65		12.34	
Weighted average assumptions:				
Dividend yield	Nil%		Nil%	
Expected volatility	95.49%		56.25%	
Risk-free interest rate	1.35%		2.83%	
Expected life (years)	3.0		3.0	

Since the Company's shares have been publicly traded for a period that is shorter than the expected life of the DPSU, expected volatility is estimated based on the average historical volatility of a peer group of similar entities in addition to its own historical volatility.

	Three Months Ended December 31, 2009		Nine Months Ended December 31, 2009	
	2008		2008	
	Number of Units		Number of Units	
Outstanding, beginning of period	807,901	101,636	91,005	111,020
Granted			748,791	111,020
Exercised				
Forfeited	(42,194)	(2,464)	(74,089)	(11,848)
Converted to RSUs (note 19(c))	(389,204)		(389,204)	



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Outstanding, end of period	376,503	99,172	376,503	99,172
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The weighted average exercise price per unit is \$nil.

At December 31, 2009, the weighted average remaining contractual life of outstanding DPSU Plan units is 2.14 years (March 31, 2009 2.0 years). For the three and nine months ended December 31, 2009, respectively, the Company granted nil and 748,791 units under the Plan and recorded compensation (recovery) expense of \$(65) and \$213 respectively after adjusting for the conversion to RSUs (three and nine months ended December 31, 2008 \$80 and \$222 respectively) which is included in general and administrative costs. Compensation expense was adjusted based upon management's assessment of performance against return on invested capital targets and the ultimate number of units expected to be issued. As at December 31, 2009, there was approximately \$831 of total unrecognized compensation cost related to non-vested share-based payment arrangements under the DPSU Plan, which is expected to be recognized over a weighted average period of 1.88 years and is subject to performance adjustments. On December 18, 2009, the Company converted 389,204 DPSUs into RSUs (note 19(c)).

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**c) Restricted Share Units**

On December 3, 2009, the Company approved a Restricted Share Unit ( RSU ) Plan which became effective December 18, 2009.

RSUs will be granted effective April 1 of each fiscal year with respect to services to be provided in that fiscal year and the following two fiscal years. The RSUs vest at the end of a three year term. The Company classifies RSUs as a liability as the Company has the ability and intent to settle the awards in cash.

Compensation expense is calculated based on the fair value of each RSU as determined by the closing value of the Company's common shares on each period end date. The Company recognizes compensation expense over the vesting period of the RSU term.

On December 18, 2009, the Company converted certain middle manager's DPSUs (note 19(b)) into RSUs at a conversion factor of 80%. The following table summarizes this conversion.

	Three Months Ended December 31, 2009	2008	Nine Months Ended December 31, 2009	2008
	Number of Units		Number of Units	
Outstanding, beginning of period				
Converted from DPSUs at a conversion factor of 80%	311,358		311,358	
Exercised				
Forfeited				
Outstanding, end of period	311,358		311,358	

The Company recorded compensation expense with respect to RSUs of \$619 for the three and nine months ended December 31, 2009 (three and nine months ended December 31, 2008 \$nil). Compensation expense related to RSUs is included in general and administration costs. At December 31, 2009, the redemption value of these units was \$7.60/unit (March 31, 2009 \$nil). Using the redemption value of \$7.60/unit, at December 31, 2009 there was approximately \$1,727 of total unrecognized compensation cost related to non-vested share-based payment arrangements under the RSU Plan. On approval of the RSU plan, the Company reclassified \$20 from additional paid-in capital to restricted share unit liability related to the conversion of those employees converted from the DPSU plan to the RSU plan.

**d) Director's deferred stock unit plan**

On November 27, 2007, the Company approved a Directors' Deferred Stock Unit ( DDSU ) Plan, which became effective January 1, 2008. Under the DDSU Plan, non-officer directors of the Company receive 50% of their annual fixed remuneration (which is included in general and administrative costs in the Consolidated Statements of Operations and Comprehensive Income (Loss)) in the form of DDSUs and may elect to receive all or a part of their annual fixed remuneration in excess of 50% in the form of DDSUs. The number of DDSUs to be credited to the participants deferred unit account shall be determined by dividing the amount of the participant's deferred remuneration by the fair market value per common share on the date the DDSUs are credited to the Participant (the date the services are rendered by the participant). The DDSUs vest immediately upon grant and are only redeemable upon death or retirement of the participant for cash determined by the market price of the

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Company's common shares for the five trading days immediately preceding death or retirement. Directors, who are not U.S. taxpayers, may elect to defer the maturity date until a date no later than December 1st of the calendar year following the year in which the actual maturity date occurred.

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
	Number of Units		Number of Units	
Outstanding, beginning of period	209,714	38,261	139,691	11,822
Granted	31,570	54,444	101,593	80,883
Outstanding, end of period	241,284	92,705	241,284	92,705

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For the three and nine months ended December 31, 2009, the Company recorded an expense of \$471 and \$1,288 respectively, which is included in general and administrative costs (three and nine months ended December 31, 2008 \$ (41) recovery and \$190 respectively) related to the grants of DDSUs.

At December 31, 2009, the redemption value of these units was \$7.60/unit (March 31, 2009 \$3.91/unit). There is no unrecognized compensation expense related to deferred share units, since these awards vest immediately when granted.

#### **20. Contingencies**

During the normal course of the Company's operations, various legal and tax matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

#### **21. Seasonality**

The Company generally experiences a decline in revenues during the first quarter of each fiscal year due to seasonality, as weather conditions make operations in the Company's operating regions difficult during this period. The level of activity in the Heavy Construction and Mining and Pipeline segments declines when frost leaves the ground and many secondary roads are temporarily rendered incapable of supporting the weight of heavy equipment. The duration of this period is referred to as "spring breakup" and has a direct impact on the Company's activity levels. Revenues during the fourth quarter of each fiscal year are typically highest as ground conditions are most favorable in the Company's operating regions. As a result, full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters. In addition to revenue variability, gross margins can be negatively impacted in less active periods because the Company is likely to incur higher maintenance and repair costs due to its equipment being available for service.

#### **22. Claims revenue**

For the three and nine months ended December 31, 2009, due to the timing of receipt of signed change orders, the Heavy Construction and Mining segment had approximately \$0.2 million and \$1.1 million respectively in claims revenue recognized to the extent of costs incurred, the Piling segment had \$0.8 million and \$1.0 million respectively in claims revenue recognized to the extent of costs incurred, and the Pipeline segment had \$0.2 million and \$1.7 million respectively in claims revenue recognized to the extent of costs incurred.

#### **23. Comparative figures**

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current period consolidated financial statements.

#### **24. Subsequent events**

On December 1, 2009, the Company was notified by a major customer that they had reduced the letter of credit required to support performance guarantees from \$20.0 million to \$10.0 million. As a result of this notification, the borrowing capacity under the Company's Revolving facility increased \$10.0 million. Effective January 6, 2010, the Company's borrowing availability was \$79.6 million.

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On April 7, 2010, the Company issued, through private placement in Canada and the U.S., \$225.0 million of 9.125% Series 1 Senior Unsecured Debentures (the "Debentures"). The Debentures mature on April 7, 2017. The Debentures will bear interest from the date of issue at 9.125% per annum and such interest is payable in equal installments semi-annually in arrears on April 7 and October 7 in each year, commencing on October 7, 2010.

The Debentures are unsecured senior obligations and rank equally with all other existing and future unsecured senior debt and senior to any subordinated debt that may be issued by the Company or any of its subsidiaries. The Debentures are effectively subordinated to all secured debt to the extent of collateral on such debt.

At any time prior to April 7, 2013, the Company may redeem up to 35% of the aggregate principal amount of the Debentures, with the net cash proceeds of one or more of the Company's Public Equity Offerings at a redemption price equal to 109.125% of the principal amount; plus accrued and unpaid interest to the date of redemption, so long as:

- i) at least 65% of the original aggregate amount of the Debentures remains outstanding after each redemption; and
- ii) any redemption by the Company is made within 90 days of the equity offering.

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At any time prior to April 7, 2013, the Company may on one or more occasions redeem the Debentures, in whole or in part, at a redemption price which is equal to the greater of (a) the Canada Yield Price and (b) 100% of the aggregate principal amount of Debentures redeemed, plus, in each case, accrued and unpaid interest to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The Debentures are redeemable at the option of the Company, in whole or in part, at any time on or after: April 7, 2013 at 104.563% of the principal amount; April 7, 2014 at 103.042% of the principal amount; April 7, 2015 at 101.520% of the principal amount; April 7, 2016 and thereafter at 100% of the principal amount; plus, in each case, interest accrued to the redemption date.

If a change of control occurs, the Company will be required to offer to purchase all or a portion of each Debenture holder's Debentures, at a purchase price in cash equal to 101% of the principal amount of the Debentures offered for repurchase plus accrued interest to the date of purchase.

On April 8, 2010, the Company settled the cross-currency and interest rate swaps for a total of \$92.5 million. On April 28, 2010, the Company redeemed the 8<sup>3</sup>/<sub>4</sub>% senior notes for a total of \$207.6 million and wrote off deferred financing costs of \$4.5 million. These payments were funded by the net proceeds received from the issuance of the Debentures and available cash on hand.

On April 30, 2010, the Company entered into an amended and restated credit agreement to extend the term of the credit facilities and increase the amount of the term loans. The new credit facilities provide for total borrowings of up to \$163.4 million (previously \$125.0 million) under which revolving loans, term loans and letters of credit may be issued. The Revolving Facility of \$85.0 million (previously \$90.0 million) was undrawn at closing. The new agreement includes two term facilities providing for borrowings of up to \$78.4 million. At April 30, 2010, the Term A Facility and Term B Facility were both fully drawn at \$28.4 million and \$50.0 million, respectively. The new facilities mature on April 30, 2013.

Advances under the Revolving Facility may be repaid from time to time at the Company's option. The term facilities include mandatory repayments totaling \$10.0 million per year with \$2.5 million paid on the last day of each quarter commencing June 30, 2010. In addition, the Company must make annual payments within 120 days of the end of its fiscal year in the amount of 50% of Consolidated Excess Cash Flow (as defined in the credit agreement) to a maximum of \$4.0 million.

Interest on Canadian base rate loans is paid at variable rates based on the Canadian prime rate plus the applicable pricing margin (as defined within the credit agreement). Interest on US base rate loans is paid at a rate per annum equal to the US base rate plus the applicable pricing margin. Interest on prime and US base rate loans is payable monthly in arrears and computed on the basis of a 365 day or 366 day year, as the case may be. Interest on LIBOR loans is paid during each interest period at a rate per annum, calculated on a 360 day year, equal to the LIBOR rate with respect to such interest period plus the applicable pricing margin.

Subsequent to March 31, 2010, the Company recorded additional financing costs on the Debentures and the amended credit agreement of \$6.9 million and \$1.0 million respectively. These additional costs will be recorded as deferred financing costs in the Interim Consolidated Balance Sheets.

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

**25. United States and Canadian accounting policy differences**

These consolidated financial statements have been prepared in accordance with U.S. GAAP, which differs in certain respects from Canadian GAAP. If Canadian GAAP were employed, the Company's net income (loss) would be adjusted as follows:

Consolidated Statements of Operations, Comprehensive Income and	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
Deficit Three months ended December 31, 2009			
Revenue (g)	\$221,175	\$1,539	\$222,714
Project costs (g)	89,207	1,115	90,322
Equipment costs	57,512		57,512
Equipment operating lease expense	16,287		16,287
Depreciation (a)	10,543	(31)	10,512
<b>Gross profit</b>	<b>47,626</b>	<b>455</b>	<b>48,081</b>
General and administrative costs (c) and (g)	14,532	315	14,847
Loss on disposal of property, plant and equipment	743		743
Loss on disposal of assets held for sale	649		649
Amortization of intangible assets	528	210	738
Equity in earnings of unconsolidated joint venture	(98)	98	
<b>Operating income before the undernoted</b>	<b>31,272</b>	<b>(168)</b>	<b>31,104</b>
Interest expense, net (b)	6,764	(637)	6,127
Foreign exchange gain (b)	(5,449)	46	(5,403)
Realized and unrealized loss on derivative financial instruments (d)	8,010	(392)	7,618
Other expenses	471		471
<b>Income before income taxes</b>	<b>21,476</b>	<b>815</b>	<b>22,291</b>
Income taxes:			
Current income taxes	591		591
Deferred income taxes (h)	5,949	174	6,123
<b>Net income and comprehensive income for the period</b>	<b>14,936</b>	<b>641</b>	<b>15,577</b>
Deficit, beginning of period	(143,879)	2,461	(141,418)
<b>Deficit, end of period</b>	<b>\$(128,943)</b>	<b>\$3,102</b>	<b>\$(125,841)</b>
<b>Net income per share basic</b>	<b>\$0.41</b>	<b>\$0.02</b>	<b>\$0.43</b>
<b>Net income per share diluted</b>	<b>\$0.41</b>	<b>\$0.02</b>	<b>\$0.43</b>





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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Statements of Operations, Comprehensive Income and		U.S.		Canadian
Deficit Nine months ended December 31, 2009		GAAP	Adjustments	GAAP (restated see note 25(i))
Revenue (g)		\$538,396	\$2,531	\$540,927
Project costs (g)		208,906	1,928	210,834
Equipment costs		147,915		147,915
Equipment operating lease expense		44,320		44,320
Depreciation (a)		30,693	(93)	30,600
<b>Gross profit</b>		106,562	696	107,258
General and administrative costs (c) and (g)		43,426	502	43,928
Loss on disposal of property, plant and equipment		1,044		1,044
Loss on disposal of assets held for sale		373		373
Amortization of intangible assets		1,438	623	2,061
Equity in earnings of unconsolidated joint venture		(66)	66	
<b>Operating income before the undernoted</b>		60,347	(495)	59,852
Interest expense, net (b)		19,725	(1,840)	17,885
Foreign exchange gain (b)		(42,930)	450	(42,480)
Realized and unrealized loss on derivative financial instruments (d)		43,185	(2,720)	40,465
Other expenses		804		804
<b>Income before income taxes</b>		39,563	3,615	43,178
Income taxes:				
Current income taxes		1,855		1,855
Deferred income taxes (h)		8,546	639	9,185
<b>Net income and comprehensive income for the period</b>		29,162	2,976	32,138
Deficit, beginning of period		(158,105)	126	(157,979)
<b>Deficit, end of period</b>		\$(128,943)	\$3,102	\$(125,841)
<b>Net income per share basic</b>		\$0.81	\$0.08	\$0.89
<b>Net income per share diluted</b>		\$0.79	\$0.08	\$0.87

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Statements of Operations, Comprehensive Loss and	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
Deficit Three months ended December 31, 2008			
Revenue	\$258,565	\$	\$258,565
Project costs	129,912		129,912
Equipment costs	55,549		55,549
Equipment operating lease expense	11,934		11,934
Depreciation (a)	9,727	(31)	9,696
<b>Gross profit</b>	51,443	31	51,474
General and administrative costs (c)	19,170	(14)	19,156
Loss on disposal of property, plant and equipment	1,022		1,022
Amortization of intangible assets	391	209	600
Impairment of goodwill	32,753		32,753
<b>Operating loss before the undernoted</b>	(1,893)	(164)	(2,057)
Interest expense, net (b)	7,319	(545)	6,774
Foreign exchange loss (b)	32,935	(431)	32,504
Realized and unrealized gain on derivative financial instruments (d)	(26,770)	247	(26,523)
Other income	(5,343)		(5,343)
<b>Loss before income taxes</b>	(10,034)	565	(9,469)
Income taxes:			
Current income taxes	1,779		1,779
Deferred income taxes (h)	3,151	195	3,346
<b>Net loss and comprehensive loss for the period</b>	(14,964)	370	(14,594)
Retained earnings (deficit), beginning of period	(6,029)	(609)	(6,638)
<b>Deficit, end of period</b>	\$(20,993)	\$(239)	\$(21,232)
<b>Net loss per share basic</b>	\$(0.42)	\$0.01	\$(0.41)
<b>Net loss per share diluted</b>	\$(0.42)	\$0.01	\$(0.41)

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit Nine months ended December 31, 2008	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
Revenue	\$797,836	\$	\$797,836
Project costs	433,504		433,504
Equipment costs	168,746		168,746
Equipment operating lease expense	30,317		30,317
Depreciation (a)	27,793	(93)	27,700
<b>Gross profit</b>	137,476	93	137,569
General and administrative costs (c)	57,760	(43)	57,717
Loss on disposal of property, plant and equipment	3,778		3,778
Loss on disposal of assets held for sale	24		24
Amortization of intangible assets	1,049	627	1,676
Impairment of goodwill	32,753		32,753
<b>Operating income before the undernoted</b>	42,112	(491)	41,621
Interest expense, net (b)	21,276	(1,613)	19,663
Foreign exchange loss (b)	39,621	(522)	39,099
Realized and unrealized gain on derivative financial instruments (d)	(25,826)	4,655	(21,171)
Other income	(5,364)		(5,364)
<b>Income before income taxes</b>	12,405	(3,011)	9,394
Income taxes:			
Current income taxes	1,842		1,842
Deferred income taxes (h)	8,855	(173)	8,682
<b>Net income (loss) and comprehensive income (loss) for the period</b>	1,708	(2,838)	(1,130)
Deficit, beginning of period as previously reported	(22,701)	1,608	(21,093)
Change in accounting policy related to inventories (f)		991	991
<b>Deficit, end of period</b>	\$(20,993)	\$(239)	\$(21,232)
<b>Net income (loss) per share basic</b>	\$0.05	\$(0.08)	\$(0.03)
<b>Net income (loss) per share diluted</b>	\$0.05	\$(0.07)	\$(0.03)

**Table of Contents****Notes to Interim Consolidated Financial Statements**

For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

The cumulative effect of material differences between U.S. and Canadian GAAP on the Consolidated Balance Sheets of the Company is as follows:

Consolidated Balance Sheets December 31, 2009	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (g)	\$94,877	\$1,566	\$96,443
Accounts receivable, net (g)	89,864	1,852	91,716
Unbilled revenue (g)	81,397	835	82,232
Inventories	8,088		8,088
Prepaid expenses and deposits (g)	7,968	14	7,982
Deferred tax assets	12,954		12,954
	295,148	4,267	299,415
Prepaid expenses and deposits	4,438		4,438
Assets held for sale	1,038		1,038
Property, plant and equipment (a)	333,582	(566)	333,016
Intangible assets (b)	7,120	1,260	8,380
Deferred financing costs (b)	6,544	(6,544)	
Investment in and advances to unconsolidated joint venture (g)	2,939	(2,939)	
Goodwill	25,111		25,111
Deferred tax assets	9,305		9,305
	\$685,225	\$ (4,522)	\$680,703
<b>Liabilities and Shareholders Equity</b>			
Current liabilities:			
Accounts payable (g)	\$76,769	\$1,328	\$78,097
Accrued liabilities	15,907		15,907
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	1,901		1,901
Current portion of capital lease obligations	5,287		5,287
Current portion of derivative financial instruments	17,756		17,756
Current portion of long term debt	6,072		6,072
Deferred tax liabilities	13,211		13,211
	136,903	1,328	138,231
Deferred lease inducements	788		788
Long term accrued liabilities	10,864		10,864
Capital lease obligations	9,083		9,083

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Long term debt	23,892		23,892
Senior notes (b) and (d)	209,436	(4,483)	204,953
Director deferred stock unit liability	1,834		1,834
Restricted share unit liability	639		639
Derivative financial instruments	72,123		72,123
Asset retirement obligation	351		351
Deferred tax liabilities (h)	37,463	(785)	36,678
	503,376	(3,940)	499,436
Shareholders' equity:			
Common shares (authorized unlimited number of voting and non-voting common shares; issued and outstanding December 31, 2009 36,038,476 voting common shares (March 31, 2009 36,038,476 voting common shares) (e)	303,431	(3,458)	299,973
Additional paid-in capital (c) and (h)	7,361	(226)	7,135
Deficit (a) to (d) and (f) (h)	(128,943)	3,102	(125,841)
	181,849	(582)	181,267
	\$685,225	\$ (4,522)	\$680,703

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Balance Sheets	March 31, 2009	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
<b>Assets</b>				
Current assets:				
Cash and cash equivalents		\$98,880	\$	\$98,880
Accounts receivable, net		78,323		78,323
Unbilled revenue		55,907		55,907
Inventories		11,814		11,814
Prepaid expenses and deposits		4,781		4,781
Deferred tax assets		7,033		7,033
		256,738		256,738
Prepaid expenses and deposits		3,504		3,504
Assets held for sale		2,760		2,760
Property, plant and equipment (a)		316,115	(660)	315,455
Intangible assets (b)		5,944	767	6,711
Deferred financing costs (b)		7,910	(7,910)	
Goodwill		23,872		23,872
Deferred tax assets		12,432		12,432
		\$629,275	\$ (7,803)	\$621,472
<b>Liabilities and Shareholders Equity</b>				
Current liabilities:				
Accounts payable		\$56,204	\$	\$56,204
Accrued liabilities		45,001		45,001
Billings in excess of costs incurred and estimated earnings on uncompleted contracts		2,155		2,155
Current portion of capital lease obligations		5,409		5,409
Current portion of derivative financial instruments		11,439		11,439
Deferred tax liabilities		7,749		7,749
		127,957		127,957
Deferred lease inducements		836		836
Long term accrued liabilities		7,134		7,134
Capital lease obligations		12,075		12,075
Senior notes (b) and (d)		255,756	(2,857)	252,899
Director deferred stock unit liability		546		546
Derivative financial instruments		43,048		43,048
Asset retirement obligation		386		386
Deferred tax liabilities (h)		30,745	(1,423)	29,322
		478,483	(4,280)	474,203

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Shareholders' equity:

Common shares (authorized unlimited number of voting and non-voting common shares; issued and outstanding March 31, 2009 36,038,476 voting common shares (March 31, 2008 35,929,476 voting common shares) (e))	303,431	(3,458)	299,973
Additional paid-in capital (c) and (h)	5,466	(191)	5,275
Deficit (a) to (d) and (f) (h)	(158,105)	126	(157,979)
	150,792	(3,523)	147,269
	\$629,275	\$ (7,803)	\$621,472

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

The cumulative effect of material differences between U.S. and Canadian GAAP on the consolidated statement of cash flows of the Company is as follows:

Consolidated Statement of Cash Flows	Three months ended	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
December 31, 2009				
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income for the period		\$14,936	\$641	\$15,577
Items not affecting cash:				
Depreciation		10,543	(31)	10,512
Equity in earnings of unconsolidated joint venture		(98)	98	
Amortization of intangible assets		528	210	738
Amortization of deferred lease inducements		(19)		(19)
Amortization of deferred financing costs		847	(637)	210
Loss on disposal of property, plant and equipment		743		743
Loss on disposal of assets held for sale		649		649
Unrealized foreign exchange gain on senior notes		(5,120)	46	(5,074)
Unrealized loss on derivative financial instruments measured at fair value		3,818	(392)	3,426
Stock-based compensation expense		1,439	(11)	1,428
Accretion of asset retirement obligation		8		8
Deferred income taxes		5,949	174	6,123
Net changes in non-cash working capital		(23,839)	(644)	(24,483)
		10,384	(546)	9,838
<b>Investing activities:</b>				
Acquisition		(530)		(530)
Purchase of property, plant and equipment		(3,542)		(3,542)
Addition to intangible assets		(1,232)		(1,232)
Additions to assets held for sale		(125)		(125)
Investment in and advances to unconsolidated joint venture		(1,887)	1,887	
Proceeds on disposal of property, plant and equipment		454		454
Proceeds on disposal of assets held for sale		1,170		1,170
Net changes in non-cash working capital		(2,998)		(2,998)
		(8,690)	1,887	(6,803)
<b>Financing activities:</b>				
Repayment of long term debt		(3,037)		(3,037)
Repayment of capital lease obligations		(1,271)		(1,271)
		(4,308)		(4,308)



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<b>Decrease in cash and cash equivalents</b>	(2,614)	1,341	(1,273)
Cash and cash equivalents, beginning of period	97,491	225	97,716
<b>Cash and cash equivalents, end of period</b>	<b>\$94,877</b>	<b>\$1,566</b>	<b>\$96,443</b>

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Statement of Cash Flows	Nine months ended	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
December 31, 2009				
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income for the period		\$29,162	\$2,976	\$32,138
Items not affecting cash:				
Depreciation		30,693	(93)	30,600
Equity in earnings of unconsolidated joint venture		(66)	66	
Amortization of intangible assets		1,438	623	2,061
Amortization of deferred lease inducements		(80)		(80)
Amortization of deferred financing costs		2,489	(1,840)	649
Loss on disposal of property, plant and equipment		1,044		1,044
Loss on disposal of assets held for sale		373		373
Unrealized foreign exchange gain on senior notes		(42,720)	450	(42,270)
Unrealized loss on derivative financial instruments measured at fair value		31,793	(2,720)	29,073
Stock-based compensation expense		3,888	(35)	3,853
Accretion of asset retirement obligation		(4)		(4)
Deferred income taxes		8,546	639	9,185
Net changes in non-cash working capital		(40,164)	(1,373)	(41,537)
		26,392	(1,307)	25,085
<b>Investing activities:</b>				
Acquisition		(5,410)		(5,410)
Purchase of property, plant and equipment		(46,002)		(46,002)
Addition to intangible assets		(2,037)		(2,037)
Additions to assets held for sale		(1,058)		(1,058)
Investment in and advances to unconsolidated joint venture		(2,873)	2,873	
Proceeds on disposal of property, plant and equipment		1,150		1,150
Proceeds on disposal of assets held for sale		2,282		2,282
Net changes in non-cash working capital		(351)		(351)
		(54,299)	2,873	(51,426)
<b>Financing activities:</b>				
Repayment of long term debt		(3,688)		(3,688)
Increase in long term debt		33,000		33,000
Repayment of capital lease obligations		(4,219)		(4,219)
Cash settlement of stock options		(66)		(66)
Financing costs		(1,123)		(1,123)
		23,904		23,904
<b>Decrease in cash and cash equivalents</b>		(4,003)	1,566	(2,437)
Cash and cash equivalents, beginning of period		98,880		98,880

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<b>Cash and cash equivalents, end of period</b>	\$94,877	\$1,566	\$96,443
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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Statement of Cash Flows	Three months ended		Canadian GAAP (restated see note 25(i))
December 31, 2008		U.S. GAAP	Adjustments
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Net loss for the period		\$(14,964)	\$370
Items not affecting cash:			
Depreciation		9,727	(31)
Amortization of intangible assets		391	209
Amortization of deferred lease inducements		(26)	(26)
Amortization of deferred financing costs		764	(545)
Loss on disposal of property, plant and equipment		1,022	1,022
Impairment of goodwill		32,753	32,753
Unrealized foreign exchange loss on senior notes		32,940	(431)
Unrealized gain on derivative financial instruments measured at fair value		(27,437)	247
Stock-based compensation expense		511	(14)
Accretion of asset retirement obligation		53	53
Deferred income taxes		3,151	195
Net changes in non-cash working capital		22,026	22,026
		60,911	60,911
<b>Investing activities:</b>			
Purchase of property, plant and equipment		(8,960)	(8,960)
Addition to intangible assets		(409)	(409)
Additions to assets held for sale		(350)	(350)
Proceeds on disposal of property, plant and equipment		3,173	3,173
Net changes in non-cash working capital		(2,068)	(2,068)
		(8,614)	(8,614)
<b>Financing activities:</b>			
Cheques issued in excess of cash deposits		(665)	(665)
Repayment of long term debt		(10,000)	(10,000)
Repayment of capital lease obligations		(2,029)	(2,029)
		(12,694)	(12,694)
<b>Increase in cash and cash equivalents</b>		39,603	39,603
Cash and cash equivalents, beginning of period			
<b>Cash and cash equivalents, end of period</b>		\$39,603	\$ 39,603

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

Consolidated Statement of Cash Flows	Nine months ended	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
December 31, 2008				
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income for the period		\$1,708	\$(2,838)	\$(1,130)
Items not affecting cash:				
Depreciation		27,793	(93)	27,700
Amortization of intangible assets		1,049	627	1,676
Amortization of deferred lease inducements		(79)		(79)
Amortization of deferred financing costs		2,190	(1,613)	577
Loss on disposal of property, plant and equipment		3,778		3,778
Loss on disposal of assets held for sale		24		24
Impairment of goodwill		32,753		32,753
Unrealized foreign exchange loss on senior notes		39,347	(522)	38,825
Unrealized gain on derivative financial instruments measured at fair value		(27,827)	4,655	(23,172)
Stock-based compensation expense		1,846	(43)	1,803
Accretion of asset retirement obligation		159		159
Deferred income taxes		8,855	(173)	8,682
Net changes in non-cash working capital		(12,400)		(12,400)
		79,196		79,196
<b>Investing activities:</b>				
Purchase of property, plant and equipment		(76,354)		(76,354)
Addition to intangible assets		(1,941)		(1,941)
Additions to assets held for sale		(350)		(350)
Proceeds on disposal of property, plant and equipment		7,821		7,821
Proceeds on disposal of assets held for sale		194		194
Net changes in non-cash working capital		3,191		3,191
		(67,439)		(67,439)
<b>Financing activities:</b>				
Repayment of capital lease obligations		(4,719)		(4,719)
Stock options exercised		702		702
		(4,017)		(4,017)
<b>Increase in cash and cash equivalents</b>				
Cash and cash equivalents, beginning of period		31,863		31,863
<b>Cash and cash equivalents, end of period</b>		<b>\$39,603</b>	<b>\$</b>	<b>\$39,603</b>

The areas of material difference between Canadian and U.S. GAAP and their impact on the Company's consolidated financial statements are described below:

**a) Capitalization of interest**

U.S. GAAP requires capitalization of interest costs as part of the historical cost of acquiring certain qualifying assets that require a period of time to prepare for their intended use. This is not required under Canadian GAAP. The capitalized amount is subject to depreciation in accordance with the Company's policies when the asset is placed into service.

**b) Financing costs, discounts and premiums**

Under U.S. GAAP, deferred financing costs incurred in connection with the Company's senior notes are being amortized over the term of the related debt using the effective interest method. Prior to April 1, 2007, for Canadian GAAP purposes, these transaction costs were recorded as a deferred asset under Canadian GAAP and these deferred financing costs were being amortized on a straight-line basis over the term of the debt.

Effective April 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, on a retrospective basis without restatement as described below. Although Section 3855 also requires the use of the effective interest method to account for the amortization of finance costs, the requirement to bifurcate the issuer's early prepayment option on issuance of the debt (which is not required under U.S. GAAP) resulted in an additional premium that is being amortized over the term of the debt under Canadian GAAP. In addition, foreign denominated transaction costs, discounts and premiums are considered as part of the carrying value of the related financial liability under Canadian GAAP and are subject to foreign currency gains or losses resulting from periodic

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

translation procedures as they are treated as a monetary item under Canadian GAAP. Under U.S. GAAP, foreign denominated transaction costs are considered non-monetary and are not subject to foreign currency gains and losses resulting from periodic translation procedures.

In connection with the adoption of Section 3855, transaction costs incurred in connection with the Company's Revolving facility of \$1,622 were reclassified from deferred financing costs to intangible assets on April 1, 2007 under Canadian GAAP and these costs continue to be amortized on a straight-line basis over the term of the facility. Under U.S. GAAP, the Company continues to amortize these transaction costs over the stated term of the related debt using the effective interest method. The Company discloses the financing costs for both the senior notes and the Revolving facility as deferred financing costs on the Consolidated Balance Sheets with the amortization charge classified as interest on the Consolidated Statements of Operations and Comprehensive Income (Loss). Under Canadian GAAP, the financing costs related to the senior notes are included in the Senior notes balance on the Consolidated Balance Sheets.

**c) Stock-based compensation**

Up until April 1, 2006, the Company followed the provisions of ASC 718, Share-Based Payment (formerly Statement of Financial Accounting Standards No. 123, Stock-Based Compensation), for U.S. GAAP purposes. As the Company uses the fair value method of accounting for all stock-based compensation payments under Canadian GAAP, there were no differences between Canadian and U.S. GAAP prior to April 1, 2006. On April 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123R), which is now a part of ASC 718. As the Company used the minimum value method for purposes of complying with Statement of Financial Accounting Standards No. 123, it was required to adopt the provisions under the revised guidance prospectively. Under Canadian GAAP, the Company was permitted to exclude volatility from the determination of the fair value of stock options granted until the filing of its initial registration statement relating to the initial public offering of voting shares on July 21, 2006. As a result, for options issued between April 1, 2006 and July 21, 2006, there is a difference between Canadian and U.S. GAAP relating to the determination of the fair value of options granted.

**d) Derivative financial instruments**

Under Canadian GAAP, the Company determined that the issuer's early prepayment option included in the senior notes should be bifurcated from the host contract, along with a contingent embedded derivative in the senior notes that provides for accelerated redemption by the holders in certain instances. These embedded derivatives were measured at fair value at the inception of the senior notes and the residual amount of the proceeds was allocated to the debt. Changes in fair value of the embedded derivatives are recognized in net income and the carrying amount of the senior notes is accreted to par value over the term of the notes using the effective interest method and is recognized as interest expense as discussed in b) above. Prior to April 1, 2007 under Canadian GAAP, separate accounting of embedded derivatives from the host contract was not permitted by EIC-117.

Under U.S. GAAP, ASC 815 (formerly Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133)) establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts and debt instruments) be recorded in the balance sheet as either an asset or liability measured at its fair value. The contingent embedded derivative in the senior notes that provide for accelerated redemption by the holders in certain instances met the criteria for bifurcation from the debt contract and separate measurement at fair value. The embedded derivative has been measured at fair value and changes in fair value recorded in net income for all periods presented. The issuer's early prepayment option included in the senior notes does not meet the criteria as an embedded derivative under ASC 815 (formerly SFAS 133) and was not bifurcated from the host contract and measured at fair value resulting in a U.S. GAAP and Canadian GAAP difference.

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On adoption of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, the Company reviewed the accounting treatment of a number of outstanding contracts and determined that a price escalation feature in a revenue construction contract and supplier contracts entered into prior to April 1, 2007 contained embedded derivatives that are not closely related to the host contract under Canadian GAAP. The Company recorded the fair value of these embedded derivatives on April 1, 2007 of \$9,720, with a corresponding increase in opening deficit of \$6,950, net of future income taxes of \$2,770 for Canadian GAAP purposes. Under U.S. GAAP, the Company had recognized and measured these embedded derivatives since inception of the related contracts.

### e) NAEPI Series B Preferred Shares

Prior to the modification of the terms of the North American Energy Partners Inc. ( NAEPI ) Series B preferred shares on March 30, 2006, there were no differences between Canadian GAAP and U.S. GAAP related to the NAEPI Series B preferred shares. As a result of the modification of terms of NAEPI s Series B preferred shares, under Canadian GAAP,



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NACG continued to classify the NAEPI Series B preferred shares as a liability and was accreting the carrying amount of \$42.2 million on the amendment date (March 30, 2006) to their December 31, 2011 redemption value of \$69.6 million using the effective interest method. Under U.S. GAAP, NACG recognized the fair value of the amended NAEPI Series B preferred shares as minority interest as such amount was recognized as temporary equity in the accounts of NAEPI in accordance with EITF Topic D-98 and recognized a charge of \$3.7 million to retained earnings for the difference between the fair value and the carrying amount of the Series B preferred shares on the amendment date. Under U.S. GAAP, NACG was accreting the initial fair value of the amended NAEPI Series B preferred shares of \$45.9 million recorded on their amendment date (March 30, 2006) to the December 31, 2011 redemption value of \$69.6 million using the effective interest method, which was consistent with the treatment of the NAEPI Series B preferred shares as temporary equity in the financial statements of NAEPI. The accretion charge was recognized by NACG as a charge to minority interest (as opposed to retained earnings in the accounts of NAEPI) under U.S. GAAP and interest expense in NACG's financial statements under Canadian GAAP.

On November 28, 2006, NACG exercised a call option to acquire all of the issued and outstanding NAEPI Series B preferred shares in exchange for 7,524,400 common shares of NACG. For Canadian GAAP purposes, NACG recorded the exchange by transferring the carrying value of the NAEPI Series B preferred shares on the exercise date of \$44,682 to common shares. For U.S. GAAP purposes, the conversion has been accounted for as a combination of entities under common control as all of the shareholders of the NAEPI Series B preferred shares are also common shareholders of NACG resulting in the reclassification of the carrying value of the minority interest on the exercise date of \$48,140 to common shares. NACG and NAEPI were amalgamated later in 2006 and the amalgamated entity continued as NAEPI.

**f) Inventories**

Effective April 1, 2008, the Company retrospectively adopted CICA Handbook Section 3031, Inventories, without restatement of prior periods. This standard requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including the allocation of overheads and other costs to inventories, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there are subsequent increases in the value of inventories. This new standard also clarifies that spare component parts that do not qualify for recognition as property, plant and equipment should be classified as inventory. In adopting this new standard, the Company reversed a tire impairment that was previously recorded at March 31, 2008 in other assets of \$1,383 with a corresponding decrease to opening deficit of \$991 net of future taxes of \$392.

During the year ended March 31, 2008, the replacement cost (i.e. market) of spare tire inventory was lower than the original carrying amount of inventory. As a result, the Company recorded an inventory write-down of \$1.4 million under Canadian GAAP. Under U.S. GAAP, market means current replacement cost. However, market under U.S. GAAP should not exceed the net realizable value nor should it be less than net realizable value reduced by an allowance for a normal profit margin. The Company established that the net realizable value and net realizable value less an allowance for a normal profit margin was greater than or equal to cost and as such a write-down of spare tires was not appropriate under U.S. GAAP for the year ended March 31, 2008. Please refer to note 3 aa).

**g) Joint venture**

The company owns a 49% interest in Noramac Ventures Inc., a nominee company for the company's Noramac Joint Venture (JV) and the Company has joint control of this entity. Under US GAAP, the Company records its share of earnings (loss) of the JV using the equity method of accounting. Under Canadian GAAP, the Company uses the proportionate consolidation method of accounting for the JV. Under the proportionate consolidation method, the Company recognizes its share of the results of operations, cash flows, and financial position of the JV on a line-by-line basis in its consolidated financial statements and eliminates its share of all material intercompany transactions with the JV. While there is no impact on net income or earnings per share as a result of the US GAAP treatment of the joint venture, as compared to Canadian GAAP, there are presentation differences affecting the disclosures in the consolidated financial statements and supporting notes. Under Canadian GAAP, the following assets, liabilities, revenues and expenses and cash flows would be recorded using the proportionate

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consolidation method:

	December 31, 2009
Current assets	\$4,263
Long term assets	4
Current liabilities	1,328
Long term liabilities	2,970
Net equity	(31)

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2009
Gross revenues	\$1,539	\$2,582
Gross profit	424	613
Expense	(326)	(547)
Net income	\$98	\$66
	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2009
Cash flow resulting from operating activities	\$(538)	\$(1,299)
Decrease in cash and cash equivalents	(538)	(1,299)

**h) Other matters**

Other adjustments relate to the tax effect of items (a) through (f) above. The tax effects of temporary differences are described as future income taxes under Canadian GAAP whereas in these financial statements such amounts are described as deferred income taxes under U.S. GAAP. In addition, Canadian GAAP generally refers to additional paid-in capital as contributed surplus for financial statement presentation purposes.

**i) Restatement**

The financial statements for the three and nine months ended December 30, 2009 and 2008 under Canadian GAAP have been restated to correct the following errors identified during the preparation of the Company's fiscal 2010 financial statements:

- i) **Reclassification of accrued liabilities.** The financial statements for fiscal 2009 have been amended to correct a classification error with respect to accrued liabilities identified during the preparation of the Company's fiscal 2010 consolidated financial statements. Certain operating lease agreements provide a maximum hourly usage limit, above which the Company will be required to pay for the over hour usage. These contingent rentals are recognized when payment is considered probable and are due at the end of the lease term. The Company has historically classified the contingent rentals as a current liability; however, certain of the amounts are due beyond one year from the balance sheet date. In the current year, the Company has reclassified amounts due beyond one year, from the balance sheet date, as a long term liability and has reclassified comparative figures accordingly. The amount reclassified on the Consolidated Balance Sheet was \$10,864 and \$7,134 as at December 31, 2009 and March 31, 2009 respectively.
- ii) **Buy-out of leased assets.** The financial statements for fiscal 2008 have been amended under Canadian GAAP to correct an error related to the method of accounting for an incentive at the time of buying previously leased assets, which was identified during the preparation of the Company's fiscal 2010 consolidated financial statements. When an asset is leased under an operating lease agreement, as stated in the paragraph above, contingent rentals are recognized when payment is considered probable and are due at the end of the lease term. The

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Company can buy the asset at the end of the lease term at a pre-determined market price at which point the liability is extinguished since the lease agreement is cancelled. The Company has been traditionally extinguishing the liability for such lease buyouts by reducing equipment costs related to leased equipment, instead of considering the extinguishment of the liability as an incentive to purchase the asset and therefore reducing the cost of the asset. The correction of this error increased Equipment costs by \$nil and \$6,600, reduced

Depreciation by \$150 and \$450, increased (reduced) Future income taxes by \$45 and \$(1,845), and increased (reduced) Net income loss and comprehensive income (loss) by \$105 and \$(4,305) from the amounts originally reported in the Consolidated Statements of Operations and Comprehensive Income (loss) for the three and nine months ended December 31, 2008, respectively. The financial statements for fiscal 2009 have also been amended under Canadian GAAP to correct an error related to the method of accounting for an incentive at time of buying previously leased assets, which was identified during the preparation of the Company's fiscal 2010 consolidated financial statements as stated above. The correction of this error reduced Depreciation by \$200 and \$600, increased Future income taxes by \$60 and \$180, and increased Net income and comprehensive income by \$140 and \$420 from the amounts originally reported in the Consolidated Statements of Operations and Comprehensive Income (loss) for the three and nine months ended December 31, 2009, respectively. It also reduced Property, plant and equipment by \$7,980 and \$8,580, reduced long term Future income taxes liabilities by \$2,394 and \$2,574, and increased Deficit by \$5,586 and \$6,006 from the amounts originally reported in the Consolidated Balance Sheet as at December 31, 2009 and March 31, 2009, respectively.

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For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

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- iii) Valuation of derivative financial instruments. The financial statements for fiscal 2009 have also been amended under Canadian GAAP to correct an error related to the determination of the fair value of the cross-currency and interest rate swap liabilities (collectively, the swap liability) which was identified on settlement of the swap liability on April 8, 2010. The Company recorded the fair value of the swap liability and in addition recorded accrued interest on the swap liability. This resulted in the swap liability being misstated and the changes in the fair value of the swap liability being misstated by the change in the amount of the accrued interest at each reporting period from March 31, 2009. The periods before March 31, 2009 were not materially impacted because prior to February 2, 2009, the Canadian Dollar interest rate swap was still in place (note 16(c)(ii)), and therefore the net accrued interest payable under the swap liability was not material. The error increased Realized and unrealized loss (gain) on derivative financial instruments by \$6,456 and \$6,120, reduced income tax expense by \$1,096 and \$1,458, and reduced net income by \$5,360 and \$4,662 from amounts originally reported in the Interim Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended December 31, 2009, respectively. It also reduced Derivative financial instruments by \$1,394 and \$7,514 increased long term Future income taxes by \$217 and \$1,676, and reduced Deficit by \$1,177 and \$5,838 in the Consolidated Balance Sheet as at December 31, 2009 and March 31, 2009, respectively. The impact of the above corrections under Canadian GAAP on the Consolidated Statements of Operations and Comprehensive Income for three and nine months ended December 31, 2009 and December 31, 2008 are as follows:

For the three months ended December 31, 2009	As previously reported	Adjustments	As restated
Depreciation	\$10,712	\$(200)	\$10,512
Realized and unrealized loss on derivative financial instruments	1,162	6,456	7,618
Future income taxes	7,159	(1,036)	6,123
Net income and comprehensive income for the period	20,797	(5,220)	15,577
Deficit, end of period	(121,431)	(4,410)	(125,841)
Net income per share basic	\$0.58	\$(0.15)	\$0.43
Net income per share diluted	\$0.57	\$(0.14)	\$0.43

For the nine months ended December 31, 2009	As previously reported	Adjustments	As restated
Depreciation	\$31,200	\$(600)	\$30,600
Realized and unrealized loss on derivative financial instruments	34,345	6,120	40,465
Future income taxes	10,463	(1,278)	9,185
Net income and comprehensive income for the period	36,380	(4,242)	32,138
Deficit, end of period	(121,431)	(4,410)	(125,841)
Net income per share basic	\$1.01	\$(0.12)	\$0.89
Net income per share diluted	\$0.99	\$(0.12)	\$0.87

For the three months ended December 31, 2008	As previously reported	Adjustments	As restated
Depreciation	\$9,846	\$(150)	\$9,696
Future income taxes	3,301	45	3,346
Net loss and comprehensive loss for the period	(14,699)	105	(14,594)
Deficit, end of period	(15,121)	(6,111)	(21,232)

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Net loss per share	basic	\$	(0.41)	\$	(0.41)
Net loss per share	diluted	\$	(0.41)	\$	(0.41)

For the nine months ended December 31, 2008	As previously reported	Adjustments	As restated				
Equipment costs	\$162,146	\$6,600	\$168,746				
Depreciation	28,150	(450)	27,700				
Future income taxes	10,527	(1,845)	8,682				
Net income (loss) and comprehensive income (loss) for the period	3,175	(4,305)	(1,130)				
Deficit, end of period	(15,121)	(6,111)	(21,232)				
Net income (loss) per share	basic	\$	0.09	\$	(0.12)	\$	(0.03)
Net income (loss) per share	diluted	\$	0.09	\$	(0.12)	\$	(0.03)

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For the three and nine months ended December 31, 2009

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(Unaudited)

The impact of the above corrections under Canadian GAAP on the Consolidated Balance Sheets as at December 31, 2009 and March 31, 2009 are as follows:

December 31, 2009	As previously reported	Adjustments	As restated
Property, plant and equipment	\$340,996	\$(7,980)	\$333,016
Accrued liabilities	26,771	(10,864)	15,907
Current portion of derivative financial instruments	5,084	12,672	17,756
Long term accrued liabilities		10,864	10,864
Derivative financial instruments	86,189	(14,066)	72,123
Future income taxes	38,855	(2,177)	36,678
Deficit, end of period	(121,431)	(4,410)	(125,841)

March 31, 2009	As previously reported	Adjustments	As restated
Property, plant and equipment	\$324,035	\$(8,580)	\$315,455
Accrued liabilities	52,135	(7,134)	45,001
Long term accrued liabilities		7,134	7,134
Derivative financial instruments	50,562	(7,514)	43,048
Future income taxes	30,220	(898)	29,322
Deficit, end of period	(157,811)	(168)	(157,979)

The impact of the above corrections under Canadian GAAP on the Consolidated Statements of Cash Flows for three and nine months ended December 31, 2009 and December 31, 2008 are as follows:

For the three months ended December 31, 2009	As previously reported	Adjustments	As restated
Net income	\$20,797	\$(5,220)	\$15,577
Depreciation	10,712	(200)	10,512
Unrealized (gain) loss on derivative financial instruments measured at fair value	(3,030)	6,456	3,426
Future income taxes	7,159	(1,036)	6,123

For the nine months ended December 31, 2009	As previously reported	Adjustments	As restated
Net income	\$36,380	\$(4,242)	\$32,138
Depreciation	31,200	(600)	30,600
Unrealized loss on derivative financial instruments measured at fair value	22,953	6,120	29,073
Future income taxes	10,463	(1,278)	9,185

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For the three months ended December 31, 2008	As previously reported	Adjustments	As restated
Net loss	\$(14,699)	\$105	\$(14,594)
Depreciation	9,846	(150)	9,696
Future income taxes	3,301	45	3,346

For the nine months ended December 30, 2008	As previously reported	Adjustments	As restated
Net income	\$3,175	\$(4,305)	\$(1,130)
Depreciation	28,150	(450)	27,700
Future income taxes	10,527	(1,845)	8,682
Cash flow from operating activities	85,796	(6,600)	79,196
Purchase of property, plant and equipment	(82,954)	6,600	(76,354)
Cash flow from investing activities	(74,039)	6,600	(67,439)



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**Notes to Interim Consolidated Financial Statements**

For the three and nine months ended December 31, 2009

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

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**j) Recently adopted Canadian accounting pronouncements**

*i) Goodwill and intangible assets*

Effective April 1, 2009, the Company adopted, on a retrospective basis, CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs* and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard IAS 38, *Intangible Assets*. The adoption of this standard resulted in the reclassification for certain qualifying assets related to software from property, plant and equipment to intangible assets for all periods presented.

*ii) Business combinations*

On July 1, 2009, the Company early adopted CICA Handbook Section 1582, *Business Combinations*, effective April 1, 2009. This section establishes standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred, that restructuring charges will be expensed in periods after the acquisition date and that non-controlling interests should be measured at fair value at the date of acquisition. This standard is to be applied prospectively to business combinations with acquisition dates on or after April 1, 2009. This new standard was applied to the acquisition of DF Investments Limited and its subsidiary Drillco Foundation Co. Ltd. (note 7).

*iii) Consolidated financial statements*

On July 1, 2009, the Company early adopted CICA Handbook Section 1601, *Consolidated Financial Statements*, effective April 1, 2009. The new standard replaces Section 1600 *Consolidated Financial Statements*. This Section carries forward existing Canadian guidance for preparing consolidated financial statements other than guidance for non-controlling interests. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

*iv) Non-controlling interests*

Effective July 1, 2009, the Company early adopted CICA Handbook Section 1602, *Non-Controlling Interests*, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

*v) Equity*

In August 2009, the CICA amended presentation requirements of Handbook Section 3251, *Equity*, as a result of issuing Section 1602, *Non-Controlling Interests*. The amendments apply only to entities that have adopted Section 1602. The Company early adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

*vi) Financial instruments – recognition and measurement*

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Effective July 1, 2009, the Company adopted CICA amendments to Handbook Section 3855, *Financial Instruments – Recognition and Measurement* which add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. The adoption of these amendments did not have a material impact on the Company's interim consolidated financial statements.

### **k) Recent Canadian accounting pronouncements not yet adopted**

#### *i) Accounting changes*

In June 2009, the CICA amended Handbook Section 1506, *Accounting Changes*, to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendment applies to interim and annual financial statements relating to fiscal years beginning on or after July 1, 2009. The Company is currently evaluating the impact of the amendments to the standard.

#### *ii) Financial instruments – recognition and measurement*

In June 2009, the CICA amended Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting

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purposes. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after May 1, 2009 for the amendments relating to the effective interest method and on or after January 1, 2011 for the amendments relating to embedded prepayment options. The Company is currently evaluating the impact of the amendments to the standard.

*iii) Financial instruments disclosure*

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments Disclosures*, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company is currently evaluating the impact of the amendments to the standard.

*iv) Comprehensive revaluation of assets and liabilities*

In August 2009, the CICA amended Handbook Section 1625, *Comprehensive Revaluation of Assets and Liabilities*, as a result of issuing Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, provided that Section 1582 is also adopted. The Company is currently evaluating the impact of the amendments to the standard.

**1) Reclassification of previously reported amounts**

Certain of the previously reported amounts under Canadian GAAP have been reclassified to conform to the method of presentation adopted under U.S. GAAP.

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**NORTH AMERICAN ENERGY PARTNERS INC.**

**Restated Interim Management's Discussion and Analysis**

**For the three and nine months ended December 31, 2009**

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**Restated Interim Management's Discussion and Analysis**

For the three and nine months ended December 31, 2009

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**Restated Interim Management's Discussion and Analysis**

**A. Explanatory Notes**

June 10, 2010

*The following discussion and analysis for the three months and nine months ended December 31, 2009 has been restated. This restated interim Management's Discussion and Analysis (MD&A) should be read in conjunction with the attached restated unaudited consolidated financial statements for the three and nine months ended December 31, 2009 and the audited consolidated financial statements for the year ended March 31, 2009, together with our annual MD&A for the year ended March 31, 2009.*

**Adoption of US Generally Accepted Accounting Principles (GAAP)**

As a Canadian based company, we have historically prepared our consolidated financial statements in accordance with Canadian GAAP and provided reconciliations to US GAAP. In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that significantly affected financial reporting requirements for Canadian public companies. The AcSB strategic plan outlined the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected five-year transitional period. In February 2008, the AcSB confirmed that IFRS would be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011, unless we, as a Securities and Exchange Commission (SEC) registrant and as permitted by AcSB National Instrument 52-107, were to adopt US GAAP on or before this date.

After significant analysis and consideration regarding the merits of reporting under IFRS or US GAAP, we have decided not to adopt IFRS and instead to adopt US GAAP, commencing for the year ended March 31, 2010, as our primary reporting standard for our consolidated financial statements. Our audited consolidated financial statements, for the year ended March 31, 2010, including related notes and our annual Management's Discussion and Analysis (MD&A) for the year ended March 31, 2010, together with this restated interim MD&A have therefore been prepared in accordance with US GAAP. All comparative figures contained in these documents have been restated to reflect our results as if they had been historically reported in accordance with US GAAP as our reporting standard. All consolidated financial statements and MD&A's previously filed were prepared in accordance with Canadian GAAP.

The information contained in this restated interim MD&A is as at February 1, 2010 (as revised) unless otherwise indicated. Accordingly, this restated interim MD&A has not been updated to reflect new facts, events or circumstances since February 1, 2010. Except where otherwise specifically indicated, all dollar amounts are expressed in Canadian dollars. These consolidated financial statements, our most recent annual Management's Discussion and Analysis and additional information relating to our business, including our most recent Annual Information Form (AIF), are available on the Canadian Securities Administrators' SEDAR System at [www.sedar.com](http://www.sedar.com) and the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

As required by the National Instrument 52-107, for the fiscal year of adoption of US GAAP and one subsequent fiscal year, we will provide a Canadian Supplement to our MD&A that restates, based on financial information reconciled to Canadian GAAP, those parts of our MD&A that would contain material differences if they were based on financial statements prepared in accordance with Canadian GAAP. In support of the adoption of US GAAP commencing in the year ended March 31, 2010, we will restate and refile our unaudited consolidated financial statements, accompanying notes and MD&A's for the interim periods ending June 30, September 30 and December 31, 2009. We will also provide Canadian Supplement MD&A's for each of these restated interim periods. The impact to our financial statements of the adoption of US GAAP as our reporting standard is discussed under "Differences between US and Canadian GAAP" in the Financial Results section of this MD&A.

**B. Financial Results**

**Restatements Related to Previously Reported Canadian GAAP Results**

The financial statements for the three and nine months ended December 30, 2009 and 2008 under Canadian GAAP have been restated to correct the following errors identified during the preparation of the our fiscal 2010 financial statements:

- i) **Reclassification of accrued liabilities:** The financial statements for fiscal 2009 have been amended to correct a classification error with respect to accrued liabilities identified during the preparation of our fiscal 2010 consolidated financial statements. Certain operating lease agreements provide a maximum hourly usage limit, above which we will be required to pay for the over hour usage. These contingent rentals are recognized when payment is considered probable and are due at the end of the lease term. We have historically classified the contingent rentals as a current liability; however, certain of the amounts are due beyond one year from the balance

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sheet date. In the current year, we reclassified amounts due beyond one year, from the balance sheet date, as a long term liability and reclassified comparative figures accordingly. The amount reclassified on the Consolidated Balance Sheet was \$10.9 million and \$7.1 million as at December 31, 2009 and March 31, 2009 respectively.

- ii) **Buyout of leased assets:** The financial statements for fiscal 2008 have been amended under Canadian GAAP to correct an error related to the method of accounting for an incentive at the time of buying previously leased assets, which was identified during the preparation of our fiscal 2010 consolidated financial statements. When an asset is leased under an operating lease agreement, as stated in the paragraph above, contingent rentals are recognized when payment is considered probable and are due at the end of the lease term. We can buy the asset at the end of the lease term at a pre-determined market price at which point the liability is extinguished since the lease agreement is cancelled. We have been traditionally extinguishing the liability for such lease buyouts by reducing equipment costs related to leased equipment, instead of considering the extinguishment of the liability as an incentive to purchase the asset and therefore reducing the cost of the asset. The correction of this error increased Equipment costs by \$nil and \$6.6 million, reduced Depreciation by \$0.2 million and \$0.5 million, increased (reduced) Deferred income taxes by \$nil and \$(1.8) million, and increased (reduced) Net Income (Loss) and Comprehensive Income (Loss) by \$0.1 million and \$(4.3) million from the amounts originally reported in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended December 31, 2008, respectively. The financial statements for fiscal 2009 have also been amended under Canadian GAAP to correct an error related to the method of accounting for an incentive at time of buying previously leased assets, which was identified during the preparation of our fiscal 2010 consolidated financial statements as stated above. The correction of this error reduced Depreciation by \$0.2 million and \$0.6 million, increased Deferred income taxes by \$0.1 million and \$0.2 million, and increased Net Income (Loss) and Comprehensive Income (Loss) by \$0.1 million and \$0.4 million from the amounts originally reported in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended December 31, 2009, respectively. It also reduced Property, plant and equipment by \$8.0 million and \$8.6 million, reduced long term Deferred income tax liabilities by \$2.4 million and \$2.6 million, and increased Deficit by \$5.6 million and \$6.0 million from the amounts originally reported in the Consolidated Balance Sheet as at December 31, 2009 and March 31, 2009, respectively.
- iii) **Valuation of derivative financial instruments:** The financial statements for fiscal 2009 have also been amended under Canadian GAAP to correct an error related to the determination of the fair value of the cross-currency and interest rate swap liabilities (collectively, the swap liability) which was identified on settlement of the swap liability on April 8, 2010. We recorded the fair value of the swap liability and in addition recorded accrued interest on the swap liability. This resulted in the swap liability being misstated and the changes in the fair value of the swap liability being misstated by the change in the amount of the accrued interest at each reporting period from March 31, 2009. The periods before March 31, 2009 were not materially impacted because prior to February 2, 2009, the Canadian Dollar interest rate swap was still in place (see Interest rate risk in Quantitative and Qualitative Disclosures about Market Risk section), and therefore the net accrued interest payable under the swap liability was not material. The error increased Realized and unrealized loss (gain) on derivative financial instruments by \$6.5 million and \$6.1 million, reduced income tax expense by \$1.1 million and \$1.5 million, and reduced net income by \$5.4 million and \$4.7 million from amounts originally reported in the Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended December 31, 2009, respectively. It also reduced Derivative financial instruments by \$1.4 million and \$7.5 million increased long term Deferred income tax liabilities by \$0.2 million and \$1.7 million, and reduced Deficit by \$1.2 million and \$5.8 million in the Consolidated Balance Sheet as at December 31, 2009 and March 31, 2009, respectively.

The above error also impacted previously reported US GAAP amounts for the years ended March 31, 2009 and 2008 respectively, which were previously only reported on an annual basis. Please refer to note 3 aa) and 25(i) of our interim consolidated financial statements for the three and nine months ended December 31, 2009 for further information on these items.

**United States and Canadian accounting policy differences**

The adoption of US GAAP as our reporting standard has the following impacts on our financial statements:

*Capitalization of interest*



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US GAAP requires capitalization of interest costs as part of the historical cost of acquiring certain qualifying assets that require a period of time to prepare for their intended use. This is not required under Canadian GAAP. The capitalized amount is subject to depreciation in accordance with our policies when the asset is placed into service.

### *Financing costs, discounts and premiums*

Under US GAAP, deferred financing costs incurred in connection with our senior notes are being amortized over the term of the related debt using the effective interest method. Prior to April 1, 2007, for Canadian GAAP purposes, these transaction costs were recorded as a deferred asset under Canadian GAAP and these deferred financing costs were being amortized on a straight-line basis over the term of the debt.

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Effective April 1, 2007, we adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, on a retrospective basis without restatement as described below. Although Section 3855 also requires the use of the effective interest method to account for the amortization of finance costs, the requirement to bifurcate the issuer's early prepayment option on issuance of the debt (which is not required under US GAAP) resulted in an additional premium that is being amortized over the term of the debt under Canadian GAAP. In addition, foreign denominated transaction costs, discounts and premiums are considered as part of the carrying value of the related financial liability under Canadian GAAP and are subject to foreign currency gains or losses resulting from periodic translation procedures as they are treated as a monetary item under Canadian GAAP. Under US GAAP, foreign denominated transaction costs are considered non-monetary and are not subject to foreign currency gains and losses resulting from periodic translation procedures.

In connection with the adoption of Section 3855, transaction costs incurred in connection with our revolving credit facility of \$1.6 million were reclassified from deferred financing costs to intangible assets on April 1, 2007 under Canadian GAAP and these costs continue to be amortized on a straight-line basis over the term of the facility. Under US GAAP, we continue to amortize these transaction costs over the stated term of the related debt using the effective interest method. We disclose the financing costs for both the senior notes and the revolving credit facility as deferred financing costs on the Consolidated Balance Sheets with the amortization charge classified as interest on the Consolidated Statements of Operations and Comprehensive Income. Under Canadian GAAP, the financing costs related to the senior notes are included in the Senior notes' balance on the Consolidated Balance Sheets.

*Stock-based compensation*

Up until April 1, 2006, we followed the provisions of ASC 718, *Share-Based Payment* (formerly Statement of Financial Accounting Standards No. 123, *Stock-Based Compensation*), for US GAAP purposes. As we use the fair value method of accounting for all stock-based compensation payments under Canadian GAAP, there were no differences between Canadian and US GAAP prior to April 1, 2006. On April 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123R), which is now a part of ASC 718. As we used the minimum value method for purposes of complying with Statement of Financial Accounting Standards No. 123, we were required to adopt the provisions under the revised guidance prospectively. Under Canadian GAAP, we were permitted to exclude volatility from the determination of the fair value of stock options granted until the filing of our initial registration statement relating to the initial public offering of voting shares on July 21, 2006. As a result, for options issued between April 1, 2006 and July 21, 2006, there is a difference between Canadian and US GAAP relating to the determination of the fair value of options granted reflected in General and Administrative expense.

*Derivative financial instruments*

Under Canadian GAAP, we determined that the issuer's early prepayment option included in the senior notes should be bifurcated from the host contract, along with a contingent embedded derivative in the senior notes that provide for accelerated redemption by the holders in certain instances. These embedded derivatives were measured at fair value at the inception of the senior notes and the residual amount of the proceeds was allocated to the debt. Changes in fair value of the embedded derivatives are recognized in net income and the carrying amount of the senior notes is accreted to par value over the term of the notes using the effective interest method and is recognized as interest expense. Prior to April 1, 2007 under Canadian GAAP, separate accounting of embedded derivatives from the host contract was not permitted by EIC-117.

Under US GAAP, ASC 815 (formerly Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133)) establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts and debt instruments) be recorded in the balance sheet as either an asset or liability measured at its fair value. The contingent embedded derivative in the senior notes that provide for accelerated redemption by the holders in certain instances met the criteria for bifurcation from the debt contract and separate measurement at fair value. The embedded derivative has been measured at fair value and changes in fair value recorded in net income for all periods presented. The issuer's early prepayment option included in the senior notes does not meet the criteria as an embedded derivative under ASC 815 (formerly SFAS 133) and was not bifurcated from the host contract and measured at fair value resulting in a US GAAP and Canadian GAAP difference for all periods presented.

On adoption of CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, we reviewed the accounting treatment of a number of outstanding contracts and determined that a price escalation feature in a revenue construction contract and supplier contracts entered into prior to April 1, 2007 contained embedded derivatives that are not closely related to the host contract under Canadian GAAP. We recorded the fair value of these embedded derivatives on April 1, 2007 of \$9,720, with a corresponding increase in opening deficit of \$6,950, net of

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Deferred income taxes of \$2,770 for Canadian GAAP purposes. Under US GAAP, we had recognized and measured these embedded derivatives since inception of the related contracts.

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### **Restated Interim Management's Discussion and Analysis**

#### *NAEPI Series B Preferred Shares*

Prior to the modification of the terms of the North American Energy Partners Inc. ( NAEPI ) Series B preferred shares on March 30, 2006, there were no differences between Canadian GAAP and US GAAP related to the NAEPI Series B preferred shares. As a result of the modification of terms of NAEPI's Series B preferred shares, under Canadian GAAP, we continued to classify the NAEPI Series B preferred shares as a liability and was accreting the carrying amount of \$42.2 million on the amendment date (March 30, 2006) to their December 31, 2011 redemption value of \$69.6 million using the effective interest method. Under US GAAP, we recognized the fair value of the amended NAEPI Series B preferred shares as minority interest as such amount was recognized as temporary equity in the accounts of NAEPI in accordance with EITF Topic D-98 and recognized a charge of \$3.7 million to retained earnings for the difference between the fair value and the carrying amount of the Series B preferred shares on the amendment date. Under US GAAP, we were accreting the initial fair value of the amended NAEPI Series B preferred shares of \$45.9 million recorded on their amendment date (March 30, 2006) to the December 31, 2011 redemption value of \$69.6 million using the effective interest method, which was consistent with the treatment of the NAEPI Series B preferred shares as temporary equity in the financial statements of NAEPI. The accretion charge was recognized by us as a charge to minority interest (as opposed to retained earnings in the accounts of NAEPI) under US GAAP and interest expense in our financial statements under Canadian GAAP.

On November 28, 2006, we exercised a call option to acquire all of the issued and outstanding NAEPI Series B preferred shares in exchange for 7,524,400 common shares of NAEPI. For Canadian GAAP purposes, we recorded the exchange by transferring the carrying value of the NAEPI Series B preferred shares on the exercise date of \$44.7 million to common shares. For US GAAP purposes, the conversion has been accounted for as a combination of entities under common control as all of the shareholders of the NAEPI Series B preferred shares are also common shareholders of NAEPI, resulting in the reclassification of the carrying value of the minority interest on the exercise date of \$48.1 million to common shares. NACG and NAEPI were amalgamated later in 2006 and the amalgamated entity continued as NAEPI.

#### *Inventories*

Effective April 1, 2008, we retrospectively adopted CICA Handbook Section 3031, *Inventories*, without restatement of prior periods. This standard requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including the allocation of overheads and other costs to inventories, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use and the reversal of previous write-downs to net realizable value when there are subsequent increases in the value of inventories. This new standard also clarifies that spare component parts that do not qualify for recognition as property, plant and equipment should be classified as inventory. In adopting this new standard, we reversed a tire impairment that was previously recorded at March 31, 2008 in other assets of \$1.4 million with a corresponding decrease to opening deficit of \$1.0 million net of deferred income taxes of \$0.4 million.

During the year ended March 31, 2008, the replacement cost (i.e. market) of spare tire inventory was lower than the original carrying amount of inventory. As a result, we recorded an inventory write-down of \$1.4 million under Canadian GAAP. Under US GAAP, market means current replacement cost. However, market under US GAAP should not exceed the net realizable value nor should it be less than net realizable value reduced by an allowance for a normal profit margin. We established that the net realizable value and net realizable value less an allowance for a normal profit margin was greater than or equal to cost and as such a write-down of spare tires was not appropriate under US GAAP for the year ended March 31, 2008.

#### *Joint venture*

We own a 49% interest in Noramac Ventures Inc., a nominee company for our Noramac Joint Venture (JV) and we have joint 50/50 control of this entity. Under US GAAP, we record our share of earnings (loss) of the JV using the equity method of accounting. Under Canadian GAAP, we use the proportionate consolidation method of accounting for the JV. Under the proportionate consolidation method, we recognize our share of the results of operations, cash flows and financial position of the JV on a line-by-line basis in our consolidated financial statements and eliminate our share of all material intercompany transactions with the JV. While there is no impact on net income or earnings per share as a result of the US GAAP treatment of the joint venture, as compared to Canadian GAAP, there are presentation differences affecting the disclosures in the consolidated financial statements and supporting notes.

#### *Other matters*

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Other adjustments relate to the tax effect of items *Capitalization of interest* through *Inventories* above. The tax effects of temporary differences are described as future income taxes under Canadian GAAP whereas in these financial statements such amounts are described as deferred income taxes under US GAAP. In addition, Canadian GAAP generally refers to additional paid-in capital as contributed surplus for financial statement presentation purposes.

**Table of Contents****Restated Interim Management's Discussion and Analysis***Summary of differences between US and Canadian GAAP*

The impacts of the differences between US and Canadian GAAP are described in detail in a reconciliation to Canadian GAAP provided in note 25 *United States and Canadian accounting policy differences* in our interim consolidated financial statements for the three and nine months ended December 31, 2009. A summary of these impacts appears below:

(dollars in thousands)		Three months ended		Nine months ended	
		December 31, 2009	2008	December 31, 2009	2008
<b>Revenue</b>	<b>US GAAP</b>	\$221,175	\$258,565	\$538,396	\$797,836
Revenue	Canadian GAAP	222,714	258,565	540,927	797,836
<b>Operating income (loss)</b>	<b>US GAAP</b>	31,272	(1,893)	60,347	42,112
Operating income (loss)	Canadian GAAP	31,104	(2,057)	59,852	41,621
<b>Net income (loss)</b>	<b>US GAAP</b>	14,936	(14,964)	29,162	1,708
Net income (loss)	Canadian GAAP	15,577	(14,594)	32,138	(1,130)
<b>Basic EPS</b>	<b>US GAAP</b>	\$0.41	\$(0.42)	\$0.81	\$0.05
Basic EPS	Canadian GAAP	\$0.43	\$(0.41)	\$0.89	\$(0.03)

**Consolidated Three and Nine Month Results**

(dollars in thousands)		Three months ended December 31,				
		2009	% of Revenue	2008	% of Revenue	Change
<b>Revenue</b>		\$221,175	100.0%	\$258,565	100.0%	\$(37,390)
Project costs		89,207	40.3%	129,912	50.2%	(40,705)
Equipment costs		57,512	26.0%	55,549	21.5%	1,963
Equipment operating lease expense		16,287	7.4%	11,934	4.6%	4,353
Depreciation		10,543	4.8%	9,727	3.8%	816
<b>Gross profit</b>		47,626	21.5%	51,443	19.9%	(3,817)
General and administrative costs		14,532	6.6%	19,170	7.4%	(4,638)
Operating income (loss)		31,272	14.1%	(1,893)	(0.7)%	33,165
<b>Net income (loss)</b>		14,936	6.8%	(14,964)	(5.8)%	29,900
Per share information						
Net income (loss) basic		\$0.41		\$(0.42)		\$0.83
Net income (loss) diluted		\$0.41		\$(0.42)		\$0.83
EBITDA <sup>(1)</sup>		39,311	17.8%	7,403	2.9%	31,908
<b>Consolidated EBITDA<sup>(1)</sup> (as defined within our credit agreement)</b>		\$43,844	19.9%	\$47,900	18.5%	\$(4,056)

(dollars in thousands)		Nine months ended December 31,				
		2009	% of Revenue	2008	% of Revenue	Change

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<b>Revenue</b>	\$538,396	100.0%	\$797,836	100.0%	\$(259,440)
Project costs	208,906	38.8%	433,504	54.3%	(224,598)
Equipment costs	147,915	27.5%	168,746	21.2%	(20,831)
Equipment operating lease expense	44,320	8.2%	30,317	3.8%	14,003
Depreciation	30,693	5.7%	27,793	3.5%	2,900
<b>Gross profit</b>	106,562	19.8%	137,476	17.2%	(30,914)
General and administrative costs	43,426	8.1%	57,760	7.2%	(14,334)
Operating income	60,347	11.2%	42,112	5.3%	18,235
<b>Net income</b>	29,162	5.4%	1,708	0.2%	27,454
Per Share information					
Net income basic	\$0.81		\$0.05		\$0.76
Net income diluted	\$0.79		\$0.05		\$0.74
EBITDA <sup>(1)</sup>	91,419	17.0%	62,523	7.8%	28,896
<b>Consolidated EBITDA<sup>(1)</sup> (as defined within our credit agreement)</b>	\$95,216	17.7%	\$114,255	14.3%	(19,039)

<sup>(1)</sup>Non-GAAP Financial measures The body of generally accepted accounting principles applicable to us is commonly referred to as GAAP. A non-GAAP financial measure is generally defined by the Securities and Exchange Commission (SEC) and by the Canadian securities regulatory authorities as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. EBITDA is calculated as net income before interest expense, income taxes, depreciation and amortization.

Consolidated EBITDA is a measure defined by our credit agreement. This measure is defined as EBITDA, excluding the effects of unrealized foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, non-cash stock-based compensation expense, gain or loss on disposal of plant and equipment and certain other non-cash items included in the calculation of net income. We believe that EBITDA is a meaningful measure of the performance of our business because it excludes items, such as depreciation and amortization, interest and taxes that are not directly related to the operating performance of our business.

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Management reviews EBITDA to determine whether plant and equipment are being allocated efficiently. In addition, our credit facility requires us to maintain a minimum interest coverage ratio and a maximum senior leverage ratio, which are calculated using Consolidated EBITDA. Non-compliance with these financial covenants could result in our being required to immediately repay all amounts outstanding under our credit facility. EBITDA and Consolidated EBITDA are non-GAAP financial measures and our computations of EBITDA and Consolidated EBITDA may vary from others in our industry. EBITDA and Consolidated EBITDA should not be considered as alternatives to operating income or net income as measures of operating performance or cash flows as measures of liquidity. EBITDA and Consolidated EBITDA have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under Canadian GAAP or US GAAP. For example, EBITDA and Consolidated EBITDA do not:

reflect our cash expenditures or requirements for capital expenditures or capital commitments;

reflect changes in our cash requirements for our working capital needs;

reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;

include tax payments that represent a reduction in cash available to us; and

reflect any cash requirements for assets being depreciated and amortized that may have to be replaced in the future.

Consolidated EBITDA excludes unrealized foreign exchange gains and losses and realized and unrealized gains and losses on derivative financial instruments, which, in the case of unrealized losses, may ultimately result in a liability that will need to be paid and in the case of realized losses, represents an actual use of cash during the period.

A reconciliation of net income (loss) to EBITDA and Consolidated EBITDA is as follows:

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
<b>Net income (loss)</b>	\$14,936	\$(14,964)	\$29,900	\$29,162	\$1,708	\$27,454
Adjustments:						
Interest expense	6,764	7,319	(555)	19,725	21,276	(1,551)
Income taxes	6,540	4,930	1,610	10,401	10,697	(296)
Depreciation	10,543	9,727	816	30,693	27,793	2,900
Amortization of intangible assets	528	391	137	1,438	1,049	389
<b>EBITDA</b>	\$39,311	\$7,403	\$31,908	\$91,419	\$62,523	\$28,896
Adjustments:						
Unrealized foreign exchange (gain) loss on senior notes	(5,120)	32,940	(38,060)	(42,720)	39,347	(82,067)
Realized and unrealized loss (gain) on derivative financial instruments	8,010	(26,770)	34,780	43,185	(25,826)	69,011
Loss on disposal of property, plant and equipment and assets held for sale	1,392	1,022	370	1,417	3,802	(2,385)
Stock-based compensation expense	349	552	(203)	1,981	1,656	325
Equity in earnings of unconsolidated joint venture	(98)		(98)	(66)		(66)
Impairment of goodwill		32,753	(32,753)		32,753	(32,753)



<b>Consolidated EBITDA (as defined within our credit agreement)</b>	\$43,844	\$47,900	\$(4,056)	\$95,216	\$114,255	\$(19,039)
<b>Analysis of Consolidated Results</b>						

*Revenue*

For the three months ended December 31, 2009, consolidated revenues of \$221.2 million were \$37.4 million lower than in the same period last year. As anticipated, recurring services grew during the quarter, reflecting higher activity on our long-term contract with Canadian Natural<sup>1</sup> as overburden removal returned to planned operational levels. The increase in recurring services revenue also reflects continued growth in mine support services to Shell Albion<sup>2</sup> under our three-year earthmoving master services agreement and increased mining services to Suncor<sup>3</sup> under our 12-month agreement. This agreement was due to expire on December 31, 2009 but was extended by Suncor for an additional 12 months with an increase in scope. These gains were offset by ongoing weakness in commercial and industrial construction markets and by reduced project development activity in the oil sands. Pipeline revenue was stable year-over-year as revenues from new projects replaced revenues from the completed Kinder Morgan's TMX<sup>4</sup> project.

<sup>1</sup> Canadian Natural Resources Limited (Canadian Natural) Horizon project

<sup>2</sup> Shell Canada Energy, a division of Shell Canada Limited, the operator of the Shell Albion Sands (Shell Albion) oils sands mining and extraction operations on behalf of Athabasca Oil Sands Project (AOSP), a joint venture amongst Shell Canada Limited (60%), Chevron Canada Limited (20%) and Marathon Oil Canada Corporation (20%). Prior to January 1, 2009, these operations were run by Albion Sands Energy Inc.

<sup>3</sup> Suncor Energy Inc. (Suncor)

<sup>4</sup> Kinder Morgan's Trans Mountain Expansion (TMX) Anchor Loop pipeline

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For the nine months ended December 31, 2009, revenues of \$538.4 million were \$259.4 million lower than the same period last year. The year-over-year change in revenues reflects reduced development activity in the oil sands, a sharp decline in Pipeline segment revenues and continued weakness in commercial and industrial construction markets. Recurring services remained stable year-over-year with increased services to Shell Albian, Suncor and Canadian Natural, partially offset by lower mining services volumes at Syncrude<sup>5</sup> while that customer undertook a major maintenance program.

*Gross Profit*

Gross profit for the three months ended December 31, 2009 was \$47.6 million, a decrease of \$3.8 million from the same period last year. The decline in gross profit was primarily related to lower revenue notwithstanding an improvement in gross profit margin to 21.5%, from 19.9% in the prior year period. This improvement reflects reduced equipment costs resulting from the timing of planned repairs and maintenance, as well as the benefits of our company-wide efforts to improve efficiency and reduce expenses.

Project costs, as a percentage of revenue, decreased to 40.3% during the three months ended December 31, 2009, from 50.2% in the same period last year. This change reflects the reduction in project development activity, which is traditionally more labour, material and subcontractor intensive, partially offset by growth in our recurring services business, which is traditionally more equipment intensive. For the three months ended December 31, 2009, equipment costs increased to 26.0% of revenue, from 21.5% last year, while equipment operating lease expense increased \$4.4 million to \$16.3 million or 7.4% of revenue, compared to 4.6% of revenue in the same period last year. The increase in equipment operating lease expense reflects our commissioning of a second electric cable shovel at the Canadian Natural site in December 2008, as well as planned growth in the size of our leased equipment fleet to support our long-term overburden removal contract. Depreciation increased to 4.8% of revenue in the three months ended December 31, 2009, from 3.8% of revenue in the same period last year. The higher depreciation reflects increased contribution from the Heavy Construction and Mining segment and a reduction in the use of rental equipment. Tire expenses for the three months ended December 31, 2009 were down \$1.3 million from the same period last year as a result of lower operating hours.

Gross profit for the nine months ended December 31, 2009 was \$106.6 million, a decrease of \$30.9 million compared to the same period last year. The change in gross profit was primarily related to lower revenues. As a percentage of revenue, gross profit margin increased to 19.8%, reflecting a reduction in equipment costs related to the timing of planned repairs and maintenance, as well as company-wide efforts to improve efficiency and reduce expenses. Prior year gross profit margins of 17.2% were bolstered by the \$5.3 million settlement of claims revenue on a pipeline project. Excluding this settlement, gross profit margins would have been 16.6% for the nine month period last year.

Project costs, as a percentage of revenue, decreased to 38.8% during the nine months ended December 31, 2009, from 54.3% in the same period last year. The reduction in project development activity was a key factor in this decrease, partially offset by an increase in the more equipment-intensive recurring services business. Equipment costs increased to 27.5% of revenue during the nine months ended December 31, 2009, from 21.2% of revenue in the same period last year. Equipment operating lease expense increased \$14.0 million year-over-year to \$44.3 million, reflecting the planned increase to the fleet to support our long-term overburden removal contract. Depreciation also increased to 5.7% of revenue in the nine month period ended December 31, 2009, compared to 3.5% in the same period last year, reflecting the increased contribution from the Heavy Construction and Mining segment, a reduction in the use of rental equipment and an accelerated depreciation charge of \$3.4 million, compared to \$0.8 million in the same period last year, as certain aging equipment was prepared for resale. Tire expenses for the nine months ended December 31, 2009 were down \$5.4 million from the same period last year as a result of lower operating hours and a supply/demand-related reduction in tire prices.

*Operating income (loss)*

For the three months ended December 31, 2009, we recorded operating income of \$31.3 million or 14.1% of revenue, up from an operating loss of \$1.9 million during the same period last year. The operating loss from last year included a charge of \$32.8 million for goodwill impairment. Excluding this impairment, operating income would have been \$30.9 million or 11.9% of revenue. General and administrative (G&A) costs decreased by \$4.6 million compared to the same three month period last year. This improvement reflects the benefits of reorganization and cost-reduction initiatives implemented in the prior fiscal year.

For the nine months ended December 31, 2009, we recorded operating income of \$60.3 million or 11.2% of revenue, compared to operating income of \$42.1 million or 5.3% of revenue during the same period last year. Included in the prior year period operating income was a charge of

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\$32.8 million for goodwill impairment. Excluding this impairment, operating income would have been \$74.9 million or 9.4% of revenue. G&A costs decreased by \$14.3 million compared

<sup>5</sup> Syncrude Canada Limited (Syncrude), a joint venture between Canadian Oil Sands Limited (36.74%), Imperial Oil Limited (25.0%), Suncor Energy Inc. (12.0%) (Previously Petro-Canada Ltd.), ConocoPhillips Oil Sand Partnership II (9.03%), Nexen Oil Sands Partnership (7.23%), Mocal Energy Limited (5.0%) and Murphy Oil Company Ltd. (5.0%). Syncrude is the project operator.

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to the same nine month period last year. This improvement is in part due to the benefits of our reorganization and cost-reduction initiatives, partially offset by a \$2.0 million year-over-year increase to stock-based compensation, impacted by fluctuations of our share price on the valuation of our deferred director share units and restricted share units.

*Net income (loss)*

We recorded net income of \$14.9 million (basic income per share of \$0.41 and diluted income per share of \$0.41) for the three months ended December 31, 2009, compared to a net loss of \$15.0 million (basic loss per share of \$0.42) during the same period last year. The non-cash items affecting these results included the positive foreign exchange impact of the strengthening Canadian dollar on our 8<sup>3</sup>/<sub>4</sub>% senior notes, a gain on our cross-currency and interest rate swaps, gains relating to embedded derivatives in long-term supplier contracts and redemption options in our 8<sup>3</sup>/<sub>4</sub>% senior notes. These items were partially offset by a loss relating to embedded derivatives in a long-term customer contract. Net loss for the same period last year was negatively affected by the non-cash impact of a goodwill impairment charge. Excluding the above items, net income for the three months ended December 31, 2009 would have been \$13.9 million (basic income per share of \$0.39 and diluted income per share of \$0.38), compared to net income of \$21.2 million (basic and diluted income per share of \$0.59) during the same period last year.

For the nine months ended December 31, 2009, we recorded net income of \$29.2 million (basic income per share of \$0.81 and diluted income per share of \$0.79), compared to net income of \$1.7 million (basic and diluted income per share of \$0.05) during the same period last year. The non-cash items affecting these results included the positive foreign exchange impact of the strengthening Canadian dollar on our 8<sup>3</sup>/<sub>4</sub>% senior notes, gains relating to embedded derivatives in long-term supplier contracts, cross-currency and interest rate swaps and redemption options in our 8<sup>3</sup>/<sub>4</sub>% senior notes. These items were partially offset by a loss relating to embedded derivatives in a long-term customer contract. Net income for the same period last year was also negatively affected by the non-cash impact of the goodwill impairment charge as described above. Excluding the above items net income for the nine months ended December 31, 2009 would have been \$21.0 million (basic income per share of \$0.58 and diluted income per share of \$0.57), compared to net income of \$42.2 million during the same period last year (basic income per share of \$1.17 and diluted income per share of \$1.15).

**Segment Results****Heavy Construction and Mining**

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
Segment revenue	\$183,631	\$198,620	\$(14,989)	\$469,512	\$564,101	\$(94,589)
Segment profit	36,237	38,639	(2,402)	81,730	80,266	1,464
Profit margin	19.7%	19.5%		17.4%	14.2%	

For the three months ended December 31, 2009, Heavy Construction and Mining segment revenues declined \$15.0 million, as compared to the same period last year to \$183.6 million, reflecting reduced project development revenue, partially offset by increased recurring services revenue. Growth in our recurring services revenue was driven by increased services to Shell Albion under our three-year earthmoving and mine services contract, a return to planned operational levels on our long-term overburden removal contract at Canadian Natural and increased mining services provided to Suncor under a 12-month agreement, which was recently extended for an additional 12 months and expanded to include additional scope. Project development revenues in the prior year period included activity at Suncor's Fort Hills project, which has since been deferred, as well as site development activity at other Suncor sites, which was completed by December 2009. Revenues in the prior year period were further bolstered by a tire premium surcharge as well as a higher volume of third-party materials supply on certain contracts.

For the nine months ended December 31, 2009, the Heavy Construction and Mining segment reported revenues of \$469.5 million, a \$94.6 million decrease compared to the same period last year. Recurring services revenue was stable year-over-year with increased services to Shell Albion, Suncor and Canadian Natural helping to offset reduced activity at the Syncrude site during that customer's major upgrader maintenance program. Project development revenues were down year-over-year reflecting the deferral of activity at Suncor's Fort Hills project and the completion of site development activity at other Suncor sites. Revenues in the prior year period were further bolstered by a tire premium surcharge as well as a higher volume of third-party materials supply on certain contracts. Third-party materials supply involves the supply of

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fuel and/or construction materials such as gravel to a project. In some cases, the supply of materials can be a significant component of the contract and result in higher revenue; however, the cost of the materials is typically passed through to the customer with a minimal mark-up.

For the three months ended December 31, 2009, Heavy Construction and Mining profit margin was 19.7% of revenue, compared to 19.5% of revenue during the same period last year. The change in Heavy Construction and Mining profit

<sup>6</sup> Fort Hills LP (Suncor Fort Hills) a limited partnership between Suncor Energy Inc. (60%), UTS Energy Corporation (20%) and Teck Resources Limited (20%). Suncor Energy Inc., the new project operator, acquired Petro-Canada Limited, the previous majority partner and project operator in 2009.

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margin primarily reflects higher-margin on recurring services revenue due to improvements in contract execution, reduced volumes of low margin third-party materials supply, lower equipment rental costs and the successful completion of a construction project for a major oil sands customer.

For the nine months ended December 31, 2009, Heavy Construction and Mining profit margin increased to 17.4% of revenue from 14.2% of revenue during the same period last year. This improvement reflects the positive impact of higher margin on recurring services revenue due to improvements in contract execution and reduced volumes of low margin third-party materials supply and lower rental equipment costs, partially offset by the margin reduction on a long-term contract. The prior year profit margin was negatively affected by production challenges on a single project.

**Piling**

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
Segment revenue	\$20,592	\$41,565	\$(20,973)	\$50,268	\$132,709	\$(82,441)
Segment profit	4,505	12,740	(8,235)	9,139	32,445	(23,306)
Profit margin	21.9%	30.7%		18.2%	24.4%	

For the three months ended December 31, 2009, the Piling segment recorded revenues of \$20.6 million, a decrease of \$21.0 million as compared to the same period last year. For the nine months ended December 31, 2009, Piling segment revenue of \$50.3 million was down \$82.4 million compared to the same period last year. The change in Piling segment revenue for both the three month and nine month periods reflect the significant decline in activity levels in the commercial and industrial construction markets due to the current economic slowdown, as well as a reduction in high-volume oil sands projects.

For the three months ended December 31, 2009, Piling profit margin decreased to 21.9% of revenue, from 30.7% of revenue a year ago. For the nine months ended December 31, 2009, Piling profit margin decreased to 18.2% from 24.4% a year ago. The year-over-year declines in profit margin reflect reduced commercial and industrial construction market activity and increased competition for available work. Prior year profit margins also benefitted from project close out activities and processing of change orders for the three months ended December 31, 2008.

**Pipeline**

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
Segment revenue	\$16,952	\$18,380	\$(1,428)	\$18,616	\$101,026	\$(82,410)
Segment profit	1,072	5,589	(4,517)	1,301	22,464	(21,163)
Profit margin	6.3%	30.4%		7.0%	22.2%	

For the three months ended December 31, 2009, the Pipeline segment reported revenues of \$17.0 million, compared to \$18.4 million a year ago. During the current period, the segment benefited from work on two contracts in British Columbia, while a year ago, it benefited from revenues related to completion of the TMX Anchor Loop project. For the nine months ended December 31, 2009, the Pipeline segment reported revenues of \$18.6 million, compared to \$101.0 million during the same period a year ago. The significant change in Pipeline revenue reflects completion of the TMX project in October 2008.

For the three months ended December 31, 2009, Pipeline profit margins decreased to 6.3%, from 30.4% a year ago. Segment profit in the prior year period increased sharply from earlier periods as closeout activities and final change orders related to the TMX project were processed. For the nine months ended December 31, 2009, segment margin was 7.0%, compared to 22.2% during the same period last year. Current three and nine month period profit margin reflects the negative effect of lower productivity due to unfavourable weather conditions in northern British Columbia. Pipeline profit margin in the prior nine month period included the benefit of a \$5.3 million settlement of claims revenue. Excluding this settlement, Pipeline profit margins for the prior year nine month period would have been 16.0% of revenue.



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(dollars in thousands)	2009	Three months ended December 31,		Nine months ended December 31,		
		2008	Change	2009	2008	Change
<b>Interest expense</b>						
Interest on 8 <sup>3</sup> / <sub>4</sub> % senior notes	\$4,517	\$5,834	\$(1,317)	\$14,468	\$17,503	\$(3,035)
Interest on capital lease obligations	244	341	(97)	805	887	(82)
Amortization of deferred financing costs	847	764	83	2,489	2,190	299
Interest on credit facilities	893	116	777	1,385	206	1,179
Interest on long-term debt	6,501	7,055	(554)	19,147	20,786	(1,639)
Other interest	263	264	(1)	578	490	88
<b>Total interest expense</b>	<b>\$6,764</b>	<b>\$7,319</b>	<b>\$(555)</b>	<b>\$19,725</b>	<b>\$21,276</b>	<b>\$(1,551)</b>
Foreign exchange (gain) loss	(5,449)	32,935	(38,384)	(42,930)	39,621	(82,551)
Realized and unrealized (gain) loss on derivative financial instruments	8,010	(26,770)	34,780	43,185	(25,826)	69,011
Other expense (income)	471	(5,343)	5,814	804	(5,364)	6,168
Income tax expense	6,540	4,930	1,610	10,401	10,697	(296)
<i>Interest expense</i>						

The cancellation of one leg of the swap agreement on February 2, 2009, one of three swap agreements hedging the interest and currency risk associated with our US dollar denominated 8 <sup>3</sup>/<sub>4</sub>% senior notes, led to an increase in the interest rate swap payment as shown in the Realized and unrealized loss (gain) on derivative financial instruments section below. The combination of our interest expense on 8 <sup>3</sup>/<sub>4</sub>% senior notes and the swap interest payment loss reflects the higher cost to us as a result of the counterparties' cancellation of this US dollar interest rate swap. With the cancellation of this US dollar interest rate swap, by the counterparties, we also became exposed to currency risk and interest rate risk on the coupon payment. A more detailed discussion about our currency and interest rate risk can be found under Quantitative and Qualitative Disclosures about Market Risk .

Compared to the corresponding periods in the prior years, interest on our 8 <sup>3</sup>/<sub>4</sub>% senior notes decreased \$1.3 million and \$3.0 million for the three months and nine months ended December 31, 2009, respectively. The cancellation of the interest rate swap along with the strengthening of the Canadian dollar in the current year resulted in this decrease. The corresponding increases in swap interest payment loss of \$3.5 million and \$9.4 million for the three months and nine months ended December 31, 2009, respectively, reflects the combined impact of the counterparties' cancellation of this US dollar interest rate swap.

*Foreign exchange (gain) loss*

The foreign exchange gains recognized in the current and prior year three month periods relate primarily to changes in the strength of the Canadian dollar against the US dollar on conversion of the US\$200 million 8 <sup>3</sup>/<sub>4</sub>% senior notes. A significant increase in the value of the Canadian dollar, from 0.7935 CAN/US at March 31, 2009 to 0.9555 CAN/US at December 31, 2009, resulted in a significant unrealized foreign exchange gain. A more detailed discussion about our foreign currency risk can be found under Qualitative and Quantitative Disclosures about Market Risk Foreign exchange risk .

*Realized and unrealized (gain) loss on derivative financial instruments*

The realized and unrealized (gain) loss on derivative financial instruments reflect changes in the fair value of derivatives embedded in our US dollar denominated 8 <sup>3</sup>/<sub>4</sub>% senior notes, as well as changes in the fair value of the cross-currency and interest rate swaps that we employ to provide an economic hedge for our US dollar denominated 8 <sup>3</sup>/<sub>4</sub>% senior notes. Realized and unrealized gains and losses also include changes



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to embedded derivatives in a long-term construction contract and in supplier maintenance agreements. The realized and unrealized (gains) and losses on these derivative financial instruments, for the three and nine months ended December 31, 2009, are detailed in the table below:

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
Swap liability loss (gain)	\$3,916	\$(28,754)	\$32,670	\$42,733	\$(36,311)	\$79,044
Redemption option embedded derivative (gain) loss	(186)	(605)	419	(3,598)	1,911	(5,509)
Supplier contracts embedded derivatives (gain) loss	(254)	10,346	(10,600)	(13,958)	19,499	(33,457)
Customer contract embedded derivative loss (gain)	342	(8,424)	8,766	6,615	(12,927)	19,542
Swap interest payment loss	4,192	667	3,525	11,393	2,002	9,391
<b>Total</b>	<b>\$8,010</b>	<b>\$(26,770)</b>	<b>\$34,780</b>	<b>\$43,185</b>	<b>\$(25,826)</b>	<b>\$69,011</b>

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The Swap liability (gain) loss reflects changes in the fair value of the cross-currency and interest rate swaps that we employ to provide an economic hedge for our US dollar denominated 8 <sup>3</sup>/<sub>4</sub>% senior notes. Changes in the fair value of these swaps generally have an offsetting effect to changes in the value of our 8 <sup>3</sup>/<sub>4</sub>% senior notes (and resulting foreign exchange gains and losses), with both being triggered by variations in the Canadian or US exchange rate. However, the valuations of the derivative financial instruments are also impacted by changes in interest rates and the remaining present value of scheduled interest payments on the swaps, which occur in June and December of each year until maturity.

The redemption option embedded derivative (gain) loss reflects changes in the fair value of the derivative embedded in our US dollar denominated 8 <sup>3</sup>/<sub>4</sub>% senior notes. Changes in fair value result from changes in long-term bond interest rates during a reporting period.

With respect to the supplier contracts, the embedded derivative related to a long-term maintenance contract was increased as a result of the addition of certain pieces of heavy equipment to the repair and maintenance program with the supplier contract in the three months ended December 31, 2009. For the nine months ended December 31, 2009, the embedded derivative related to our equipment purchase agreement was reduced with the commissioning of certain pieces of heavy equipment. Included in the embedded derivative valuation was the impact of fluctuations in provisions that require a price adjustment to reflect changes in the Canadian/US dollar exchange rate and the United States government published Producers' Price Index (US-PPI) for Mining Machinery and Equipment from the original contract amount.

With respect to the long-term construction contract, there is a provision that requires an adjustment to customer billings to reflect actual exchange rates and price indices. The embedded derivative instrument takes into account the impact on revenues, but does not consider the impact on costs as a result of fluctuations in these measures.

The measurement of embedded derivatives, as required by GAAP, causes our reported net income to fluctuate as Canadian/US dollar exchange rates, interest rates and the US-PPI for Mining Machinery and Equipment change. The accounting for these derivatives has no impact on operations, Consolidated EBITDA (as defined within our credit agreement) or how we evaluate performance.

The measurement of swap interest payment loss reflects the realized loss on our swap interest payments. As of February 2, 2009, one of three swap agreements hedging the interest and currency risk associated with our US dollar denominated 8 <sup>3</sup>/<sub>4</sub>% senior notes was cancelled by the counterparties. The counterparties' cancellation of this US dollar interest rate swap increased swap interest payments and we are now exposed to interest rate and foreign currency risk. For the current year, we paid higher swap interest payments net of swap counterparty receipts.

As discussed in the interest expense discussion of this MD&A, the financial impact of the counterparties' cancellation of this US dollar interest rate swap is reported in swap interest payment loss. The year-over-year increases in swap interest payment loss of \$3.5 million and \$9.4 million for the three and nine months ended December 31, 2009, respectively, reflect the effect of the counterparties' cancellation of this US dollar interest rate swap as the semi-annual fixed payments exceed the floating quarterly interest received from our swap counterparties.

*Income tax expense*

For the three months ended December 31, 2009, we recorded current income taxes of \$0.6 million and deferred income tax of \$5.9 million for a total income tax expense of \$6.5 million. This compares to combined income tax expense of \$4.9 million for the same period last year. For the three months ended December 31, 2009, income tax expense as a percentage of income before income taxes differs from the statutory rate of 28.91% primarily due to the impact of changes in enacted tax rates and the benefit from changes in the timing of the reversal of temporary differences. For the three months ended December 31, 2008, income tax expense as a percentage of income before income taxes differed from the statutory rate of 29.38% primarily due to the same reasons, as well as a permanent difference relating to the \$32.8 million non-deductible goodwill impairment.

For the nine months ended December 31, 2009, we recorded current income taxes of \$1.9 million and deferred income tax expense of \$8.5 million for a total income tax expense of \$10.4 million. This compares to combined income tax expense of \$10.7 million for the same period last year. For the nine months ended December 31, 2009, income tax expense as a percentage of income before income taxes differs from the statutory rate of 28.91% primarily due to the impact of changes in enacted tax rates and the benefit from changes in the timing of the reversal of temporary differences. For the nine month period ended December 31, 2008, income tax expense as a percentage of income before income taxes differed from the statutory rate of 29.38% primarily due to the same reasons as well as a permanent difference relating to the \$32.8 million non-deductible goodwill impairment.

**Backlog**

Backlog is a measure of the amount of secured work we have outstanding and, as such, is an indicator of a base level of future revenue potential. Backlog is not a GAAP measure. As a result, the definition and determination of a backlog will vary among different organizations ascribing a value to backlog. Although backlog reflects business that we consider to be firm, cancellations or reductions may occur and may reduce backlog and future income.

We define backlog as work that has a high certainty of being performed as evidenced by the existence of a signed contract or work order specifying job scope, value and timing. We have also set a policy that our definition of backlog will

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be limited to contracts or work orders with values exceeding \$500,000 and work that will be performed in the next five years, even if the related contracts extend beyond five years.

Our measure of backlog does not define what we expect our future workload to be. We work with our customers using cost-plus, time-and-materials, unit-price and lump-sum contracts. This mix of contract types varies year-by-year. Our definition of backlog results in the exclusion of a range of services to be provided under cost-plus and time-and-material contracts performed under master service agreements where scope is not clearly defined. For the three and nine months ended December 31, 2009, the total amount of revenue earned from time-and-material contracts performed under our master services agreements was approximately \$117.0 million and \$306.0 million respectively.

Our estimated backlog by segment and contract type as at December 31, 2009 and 2008 as well as September 30, 2009 and March 31, 2009 was:

(dollars in thousands)	December 31, 2009	September 30, 2009	March 31, 2009	December 31, 2008
<b>By Segment</b>				
Heavy Construction and Mining	\$718,418	\$740,665	\$667,674	\$651,086
Piling	9,091	3,630	8,538	14,071
Pipeline	14,763	8,207		
<b>Total</b>	<b>\$742,272</b>	<b>\$752,502</b>	<b>\$676,212</b>	<b>\$665,157</b>
<b>By Contract Type</b>				
Unit-Price	\$722,663	\$742,555	\$672,725	\$658,752
Lump-Sum	9,102	9,947	3,487	6,405
Time-and-Materials and Cost-Plus	10,507			
<b>Total</b>	<b>\$742,272</b>	<b>\$752,502</b>	<b>\$676,212</b>	<b>\$665,157</b>

A contract with a single customer represented approximately \$681.4 million of our December 31, 2009 backlog compared to \$687.8 million reported as backlog in our interim Management's Discussion and Analysis for the six months ended September 30, 2009 and \$664.1 million in our annual Management's Discussion and Analysis for the year ended March 31, 2009. The increase in the five-year backlog for this customer relates to the timing of scheduled volumes through the life of the contract.

We expect that approximately \$183.6 million of total backlog will be performed and realized in the twelve months ending December 31, 2010.\*

**Claims and Change Orders**

Due to the complexity of the projects we undertake, changes often occur after work has commenced. These changes include but are not limited to:

changes in client requirements, specifications and design;

changes in materials and work schedules; and

changes in ground and weather conditions.

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Contract change management processes require that we prepare and submit change orders to the client requesting approval of scope and/or price adjustments to the contract. Accounting guidelines require that we consider changes in cost estimates that have occurred up to the release of the financial statements and reflect the impact of these changes in the financial statements. Conversely, potential revenue associated with increases in cost estimates is not included in financial statements until an agreement is reached with a client or specific criteria for the recognition of revenue from unapproved change orders and claims are met. This can, and often does, lead to costs being recognized in one period and revenue being recognized in subsequent periods.

Occasionally, disagreements arise regarding changes, their nature, measurement, timing and other characteristics that impact costs and revenue under the contract. If a change becomes a point of dispute between our customer and us, we then consider it to be a claim. Historical claim recoveries should not be considered indicative of future claim recoveries.

For the three and nine months ended December 31, 2009, due to the timing of receipt of signed change orders, the Heavy Construction and Mining segment had approximately \$0.2 million and \$1.1 million respectively in claims revenue recognized to the extent of costs incurred, the Piling segment had \$0.8 million and \$1.0 million respectively in claims revenue recognized to the extent of costs incurred, and the Pipeline segment had \$0.2 million and \$1.7 million respectively in claims revenue recognized to the extent of costs incurred. We are working with our customers to come to resolution on additional amounts, if any, to be paid to us in respect to these additional costs.

\* This paragraph contains forward-looking information. Please refer to [Forward-Looking Information and Risk Factors](#) for a discussion on the risks and uncertainties related to such information.

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**Summary of Consolidated Quarterly Results**

	Dec 31, 2009	Sept 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008
	Fiscal 2010				Fiscal 2009			Fiscal 2008
<b>Revenue</b>	\$221.2	\$170.7	\$146.5	\$174.7	\$258.6	\$280.3	\$259.0	\$323.6
Gross profit	47.6	33.8	25.1	32.9	51.4	44.7	41.3	60.0
Operating income (loss)	31.3	18.9	10.1	(129.2)	(1.9)	23.4	20.6	40.1
<b>Net income (loss)</b>	14.9	4.3	9.9	(137.1)	(15.0)			