

North American Energy Partners Inc.

Form 6-K

June 10, 2010

[Table of Contents](#)

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 4th Avenue SW

Calgary, Alberta T2P 2V6

Edgar Filing: North American Energy Partners Inc. - Form 6-K

(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):

Table of Contents

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.

Table of Contents

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

Table of Contents

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
ASSETS		
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
LIABILITIES AND SHAREHOLDERS EQUITY		
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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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
Revenue	\$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
Gross profit	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
Operating income (loss) before the undernoted	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)
Income (loss) before income taxes	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
Net income (loss) and comprehensive income (loss) for the period	14,936	(14,964)	29,162	1,708
Net income (loss) per share <small>basic</small> (note 14(c))	\$0.41	\$(0.42)	\$0.81	\$0.05
Net income (loss) per share <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
Cash provided by (used in):				
Operating activities:				
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
Investing activities:				
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)
Financing activities:				
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)

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

Supplemental cash flow information (note 17(a))

See accompanying notes to unaudited interim consolidated financial statements.

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)

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.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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 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

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 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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

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)

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.

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)

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)

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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

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)

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.

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Balance, December 31, 2009	\$25,111
----------------------------	----------

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.

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)

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:

Net assets acquired at assigned values:	
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)
	\$5,410

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
	\$8,088	\$11,814

9. Property, plant and equipment

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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	

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)

	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).

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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 ³ / ₄ % 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

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 8³/₄% 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 8³/₄% 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 8³/₄% 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 8³/₄% 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

	Number of Shares	
Common voting shares		
Issued and outstanding at December 31, 2009 and March 31, 2009	36,038,476	\$303,431
b) Additional paid-in capital		
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

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)

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 ³ / ₄ % 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

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)

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 ⁽ⁱ⁾	\$209,436	\$208,273	\$255,756	\$181,469
Capital lease obligations ⁽ⁱⁱ⁾	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
Total fair value of derivative financial instruments	89,879	116
Less: current portion	17,756	
	\$72,123	\$116

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	

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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)

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 ³ / ₄ % senior notes	Derivative financial instruments	\$57,711	\$57,711
Interest rate swaps for U.S. dollar 8 ³ / ₄ % senior notes	Derivative financial instruments	17,057	17,057
Cross-currency and interest rate swaps for U.S. dollar 8³/₄% senior notes (note 16(a))	Derivative financial instruments	74,768	74,768
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 ³ / ₄ % senior notes (note 16(a))	Senior notes	116	116
		\$89,995	\$89,995

March 31, 2009	Location on Balance Sheet	Carrying Value	Level 2
Cross-currency swaps for U.S. dollar 8 ³ / ₄ % senior notes	Derivative financial instruments	\$11,573	\$11,573
Interest rate swaps for U.S. dollar 8 ³ / ₄ % senior notes	Derivative financial instruments	20,460	20,460
Cross-currency and interest rate swaps for U.S. dollar 8³/₄% senior notes (note 16(a))	Derivative financial instruments	32,033	32,033
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 ³ / ₄ % senior notes (note 16(a))	Senior notes	3,716	3,716
		\$58,203	\$58,203

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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 ³ / ₄ % 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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)

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 8³/₄% 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 8³/₄% 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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)

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 8³/₄% rate payable on the 8³/₄% senior notes into a fixed rate of 9.889% for the duration that the 8³/₄% 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 8³/₄% 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
----------------------	-------------------

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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 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
Total accounts receivable	\$89,864	\$78,323
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
Total	\$85,330	\$76,499

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
----------------	---------	---------

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

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)

b) Net change in non-cash working capital

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Operating activities:				
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)
Investing activities:				
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.

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)

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*

Edgar Filing: North American Energy Partners Inc. - Form 6-K

	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 ⁽ⁱ⁾	(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.

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)

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
Total corporate assets	167,775	158,608
Total assets	\$685,225	\$629,275

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
Total depreciation	\$10,543	\$9,727	\$30,693	\$27,793

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
----------------------------	---------	---------	----------	----------

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

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)

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:

Edgar Filing: North American Energy Partners Inc. - Form 6-K

	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.

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)

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)	

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Outstanding, end of period	376,503	99,172	376,503	99,172
----------------------------	---------	--------	---------	--------

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)).

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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)

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 8³/₄% 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.

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)

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
Gross profit	47,626	455	48,081
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	
Operating income before the undernoted	31,272	(168)	31,104
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
Income before income taxes	21,476	815	22,291
Income taxes:			
Current income taxes	591		591
Deferred income taxes (h)	5,949	174	6,123
Net income and comprehensive income for the period	14,936	641	15,577
Deficit, beginning of period	(143,879)	2,461	(141,418)
Deficit, end of period	\$(128,943)	\$3,102	\$(125,841)
Net income per share basic	\$0.41	\$0.02	\$0.43
Net income per share diluted	\$0.41	\$0.02	\$0.43

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)

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
Gross profit		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	
Operating income before the undernoted		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
Income before income taxes		39,563	3,615	43,178
Income taxes:				
Current income taxes		1,855		1,855
Deferred income taxes (h)		8,546	639	9,185
Net income and comprehensive income for the period		29,162	2,976	32,138
Deficit, beginning of period		(158,105)	126	(157,979)
Deficit, end of period		\$(128,943)	\$3,102	\$(125,841)
Net income per share basic		\$0.81	\$0.08	\$0.89
Net income per share diluted		\$0.79	\$0.08	\$0.87

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)

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
Gross profit	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
Operating loss before the undernoted	(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)
Loss before income taxes	(10,034)	565	(9,469)
Income taxes:			
Current income taxes	1,779		1,779
Deferred income taxes (h)	3,151	195	3,346
Net loss and comprehensive loss for the period	(14,964)	370	(14,594)
Retained earnings (deficit), beginning of period	(6,029)	(609)	(6,638)
Deficit, end of period	\$(20,993)	\$(239)	\$(21,232)
Net loss per share basic	\$(0.42)	\$0.01	\$(0.41)
Net loss per share diluted	\$(0.42)	\$0.01	\$(0.41)

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)

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
Gross profit	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
Operating income before the undernoted	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)
Income before income taxes	12,405	(3,011)	9,394
Income taxes:			
Current income taxes	1,842		1,842
Deferred income taxes (h)	8,855	(173)	8,682
Net income (loss) and comprehensive income (loss) for the period	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
Deficit, end of period	\$(20,993)	\$(239)	\$(21,232)
Net income (loss) per share basic	\$0.05	\$(0.08)	\$(0.03)
Net income (loss) per share diluted	\$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))
Assets				
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
Liabilities and Shareholders Equity				
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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

Consolidated Balance Sheets	March 31, 2009	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
Assets				
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
Liabilities and Shareholders Equity				
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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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 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				
Cash provided by (used in):				
Operating activities:				
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
Investing activities:				
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)
Financing activities:				
Repayment of long term debt		(3,037)		(3,037)
Repayment of capital lease obligations		(1,271)		(1,271)
		(4,308)		(4,308)

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

Consolidated Statement of Cash Flows	Nine months ended	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
December 31, 2009				
Cash provided by (used in):				
Operating activities:				
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
Investing activities:				
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)
Financing activities:				
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
Decrease in cash and cash equivalents		(4,003)	1,566	(2,437)
Cash and cash equivalents, beginning of period		98,880		98,880

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Cash and cash equivalents, end of period	\$94,877	\$1,566	\$96,443
---	----------	---------	----------

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)

Consolidated Statement of Cash Flows	Three months ended		Canadian GAAP (restated see note 25(i))
December 31, 2008		U.S. GAAP	Adjustments
Cash provided by (used in):			
Operating activities:			
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)	
Amortization of deferred financing costs		764	(545)
Loss on disposal of property, plant and equipment		1,022	
Impairment of goodwill		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	
Deferred income taxes		3,151	195
Net changes in non-cash working capital		22,026	
		60,911	
			60,911
Investing activities:			
Purchase of property, plant and equipment		(8,960)	
Addition to intangible assets		(409)	
Additions to assets held for sale		(350)	
Proceeds on disposal of property, plant and equipment		3,173	
Net changes in non-cash working capital		(2,068)	
		(8,614)	
			(8,614)
Financing activities:			
Cheques issued in excess of cash deposits		(665)	
Repayment of long term debt		(10,000)	
Repayment of capital lease obligations		(2,029)	
		(12,694)	
			(12,694)
Increase in cash and cash equivalents		39,603	
Cash and cash equivalents, beginning of period			39,603
Cash and cash equivalents, end of period		\$39,603	\$ 39,603

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)

Consolidated Statement of Cash Flows	Nine months ended	U.S. GAAP	Adjustments	Canadian GAAP (restated see note 25(i))
December 31, 2008				
Cash provided by (used in):				
Operating activities:				
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
Investing activities:				
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)
Financing activities:				
Repayment of capital lease obligations		(4,719)		(4,719)
Stock options exercised		702		702
		(4,017)		(4,017)
Increase in cash and cash equivalents				
Cash and cash equivalents, beginning of period		31,863		31,863
Cash and cash equivalents, end of period		\$39,603	\$	\$39,603

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

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)

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.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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,

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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)

47

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)

	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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

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)

- 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)

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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)

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 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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)

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)

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

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)

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.

Table of Contents

NORTH AMERICAN ENERGY PARTNERS INC.

Restated Interim Management's Discussion and Analysis

For the three and nine months ended December 31, 2009

Table of Contents

Restated Interim Management's Discussion and Analysis

For the three and nine months ended December 31, 2009

TABLE OF CONTENTS

A.	<u>EXPLANATORY NOTES</u>	3
	<u>Adoption of US Generally Accepted Accounting Principles (GAAP)</u>	3
B.	<u>FINANCIAL RESULTS</u>	3
	<u>Restatements Related to Previously Reported Canadian GAAP Results</u>	3
	<u>United States and Canadian accounting policy differences</u>	4
	<u>Analysis of Consolidated Results</u>	8
	<u>Segment Results</u>	10
	<u>Non-Operating Income and Expense</u>	12
	<u>Backlog</u>	13
	<u>Claims and Change Orders</u>	14
	<u>Summary of Consolidated Quarterly Results</u>	15
	<u>Summary of Consolidated Financial Position</u>	16
	<u>Summary of Consolidated Cash Flows</u>	16
C.	<u>OUTLOOK</u>	17
D.	<u>LEGAL AND LABOUR MATTERS</u>	18
	<u>Laws and Regulations and Environmental Matters</u>	18
	<u>Employees and Labour Relations</u>	18
E.	<u>RESOURCES AND SYSTEMS</u>	18
	<u>Outstanding Share Data</u>	18
	<u>Liquidity and Capital Resources</u>	18
	<u>Capital Commitments</u>	22
	<u>Debt Ratings</u>	22
	<u>Related Parties</u>	23
	<u>Internal Systems and Processes</u>	24
	<u>Significant Accounting Policies</u>	25
	<u>Change in General Accepted Accounting Principles</u>	27
	<u>Recently Adopted Accounting Policies</u>	27
	<u>Recent Accounting Pronouncements Not Yet Adopted</u>	29
	<u>Recently Adopted Accounting Policies (Canadian GAAP)</u>	30
	<u>Recent Accounting Pronouncements Not Yet Adopted (Canadian GAAP)</u>	30
F.	<u>FORWARD-LOOKING INFORMATION AND RISK FACTORS</u>	31
	<u>Forward-Looking Information</u>	31
	<u>Risk Factors</u>	33
	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	33
G.	<u>GENERAL MATTERS</u>	35
	<u>Additional Information</u>	35

Table of Contents

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 and the Securities and Exchange Commission's website at 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

Table of Contents**Restated Interim Management's Discussion and Analysis**

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

Table of Contents**Restated Interim Management's Discussion and Analysis**

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

Table of Contents

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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
Revenue	US GAAP	\$221,175	\$258,565	\$538,396	\$797,836
Revenue	Canadian GAAP	222,714	258,565	540,927	797,836
Operating income (loss)	US GAAP	31,272	(1,893)	60,347	42,112
Operating income (loss)	Canadian GAAP	31,104	(2,057)	59,852	41,621
Net income (loss)	US GAAP	14,936	(14,964)	29,162	1,708
Net income (loss)	Canadian GAAP	15,577	(14,594)	32,138	(1,130)
Basic EPS	US GAAP	\$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
Revenue		\$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
Gross profit		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
Net income (loss)		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 ⁽¹⁾		39,311	17.8%	7,403	2.9%	31,908
Consolidated EBITDA⁽¹⁾ (as defined within our credit agreement)		\$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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Revenue	\$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
Gross profit	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
Net income	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 ⁽¹⁾	91,419	17.0%	62,523	7.8%	28,896
Consolidated EBITDA⁽¹⁾ (as defined within our credit agreement)	\$95,216	17.7%	\$114,255	14.3%	(19,039)

⁽¹⁾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.

Table of Contents

Restated Interim Management's Discussion and Analysis

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
Net income (loss)	\$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
EBITDA	\$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)

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

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 Natural¹ as overburden removal returned to planned operational levels. The increase in recurring services revenue also reflects continued growth in mine support services to Shell Albion² under our three-year earthmoving master services agreement and increased mining services to Suncor³ 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 TMX⁴ project.

¹ Canadian Natural Resources Limited (Canadian Natural) Horizon project

² 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.

³ Suncor Energy Inc. (Suncor)

⁴ Kinder Morgan's Trans Mountain Expansion (TMX) Anchor Loop pipeline

Table of Contents**Restated Interim Management's Discussion and Analysis**

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 Syncrude⁵ 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

\$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

⁵ 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.

Table of Contents**Restated Interim Management's Discussion and Analysis**

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 8³/₄% 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 8³/₄% 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 8³/₄% senior notes, gains relating to embedded derivatives in long-term supplier contracts, cross-currency and interest rate swaps and redemption options in our 8³/₄% 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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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

⁶ 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.

Table of Contents**Restated Interim Management's Discussion and Analysis**

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.

Table of Contents**Restated Interim Management's Discussion and Analysis****Non-Operating Income and Expense**

(dollars in thousands)	2009	Three months ended December 31,		Nine months ended December 31,		
		2008	Change	2009	2008	Change
Interest expense						
Interest on 8 ³ / ₄ % 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
Total interest expense	\$6,764	\$7,319	\$(555)	\$19,725	\$21,276	\$(1,551)
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 ³/₄% 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 ³/₄% 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 ³/₄% 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 ³/₄% 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 ³/₄% 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 ³/₄% senior notes. Realized and unrealized gains and losses also include changes

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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
Total	\$8,010	\$(26,770)	\$34,780	\$43,185	\$(25,826)	\$69,011

Table of Contents**Restated Interim Management's Discussion and Analysis**

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 ³/₄% senior notes. Changes in the fair value of these swaps generally have an offsetting effect to changes in the value of our 8 ³/₄% 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 ³/₄% 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 ³/₄% 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

Table of Contents**Restated Interim Management's Discussion and Analysis**

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
By Segment				
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		
Total	\$742,272	\$752,502	\$676,212	\$665,157
By Contract Type				
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			
Total	\$742,272	\$752,502	\$676,212	\$665,157

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.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

Table of Contents**Restated Interim Management's Discussion and Analysis****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			
Revenue	\$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
Net income (loss)	14.9	4.3	9.9	(137.1)	(15.0)	2.9	13.8	17.9
Net income (loss) per share Basic ⁽¹⁾	\$0.41	\$0.12	\$0.28	\$(3.80)	\$(0.42)	\$0.08	\$0.38	\$0.50
Net income (loss) per share Diluted ⁽¹⁾	\$0.41	\$0.12	\$0.27	\$(3.80)	\$(0.42)	\$0.08	\$0.37	\$0.49

⁽¹⁾Net income (loss) per share for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total. Per-share calculations are based on full dollar and share amounts.

A number of factors have the potential to contribute to variations in our quarterly financial results between periods, including the capital project-based nature of our project development revenue, seasonal weather and ground conditions, capital spending decisions by our customers on large oil sands projects, the timing of equipment maintenance and repairs, claims and change orders and the accounting for unrealized non-cash gains and losses related to foreign exchange and derivative financial instruments.

We generally experience a decline in revenues during the first three months of each fiscal year due to seasonality, as weather conditions make performance in our 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 our activity levels. Revenues during the three months ended March 31 of each fiscal year are typically highest as ground conditions are most favourable in our operating regions. As a result, full-year results are not likely to be a direct multiple of any particular three month period or combination of three month periods. In addition to revenue variability, gross margins can be negatively impacted in less active periods because we are likely to incur higher maintenance and repair costs due to our equipment being available for servicing.

The timing of large projects can influence quarterly revenues. For example, Pipeline segment revenues were as high as \$87.5 million in the three months ended March 31, 2008, as low as \$0.1 million in the three months ended June 30, 2009 and are currently at \$17.0 million for the three months ended December 31, 2009. The Heavy Construction and Mining segment experienced reduced volumes in the three months ended December 31, 2008 and March 31, 2009 as a result of the temporary shut-down of overburden removal at the Horizon project while Canadian Natural prepared for operations start-up. Subsequent three month periods reflected the ramp up of overburden removal activities at the Horizon project through to the current three month period where activity has returned to planned activity levels. Changes in demand under our master service agreements with Shell Albion and Syncrude had a positive effect on our revenues for the three months ended June 30, 2008, September 30, 2008 and December 31, 2008 respectively. Changes in demand with Syncrude had a negative effect on our revenues for the three months subsequent to December 31, 2008, while master service agreement demand from Shell Albion continues to positively affect period-over-period comparatives.

Variations in quarterly results can also be caused by changes in our operating leverage. During periods of higher activity, we have experienced improvements in operating margin. This reflects the impact of relatively fixed costs, such as G&A costs, being spread over higher revenue levels. If activity decreases, these same fixed costs are spread over lower revenue levels. Net income and income per share are also subject to operating leverage as provided by fixed interest expense.

Profitability also varies from quarter-to-quarter as a result of claims and change orders. Claims and change orders are a normal aspect of the contracting business but can cause variability in profit margin due to the unmatched recognition of costs and revenues. For further explanation, see *Claims and Change Orders*. As an example, during the three months ended June 30, 2008, a \$5.3 million claim was recognized causing gross margins for the Pipeline segment to be higher than normal. The additional costs relating to this claim were incurred and recognized in the year

Edgar Filing: North American Energy Partners Inc. - Form 6-K

ended March 31, 2007 and in the three months ended June 30, 2007.

We have also experienced net income variability in all periods due to the recognition of unrealized non-cash gains and losses on both derivative financial instruments and our 8³/₄% senior notes, primarily driven by changes in the Canadian/US dollar exchange rates.

Table of Contents**Restated Interim Management's Discussion and Analysis****Summary of Consolidated Financial Position**

	As at December 31, 2009	As at March 31, 2009	Change
(dollars in thousands)			
Cash	\$94,877	\$98,880	\$(4,003)
Current assets (excluding cash)	200,271	157,858	42,413
Current liabilities	(136,903)	(127,957)	(8,946)
Net working capital	158,245	128,781	29,464
Property, plant and equipment	333,582	316,115	17,467
Total assets	685,225	629,275	55,950
Capital lease obligations			
(including current portion)	(14,370)	(17,484)	3,114
Total long-term financial liabilities ⁽¹⁾	(327,871)	(318,559)	(9,312)

⁽¹⁾Total long-term financial liabilities exclude the current portions of capital lease obligations, current portions of derivative financial instruments, long-term lease inducements, asset retirement obligation and both current and non-current deferred income tax balances.

At December 31, 2009, net working capital (cash and current assets less current liabilities) was \$158.3 million compared to \$128.8 million at March 31, 2009, an increase of \$29.5 million.

Current assets excluding cash increased \$42.4 million between March 31, 2009 and December 31, 2009. A \$11.5 million increase to trade receivables and holdbacks along with a \$25.5 million increase in unbilled revenue during the nine month period ended December 31, 2009 was partially offset by a \$3.7 million reduction of inventory from consumption of tires, previously stockpiled for new leased haul trucks (haul trucks do not arrive with tires included) and a \$4.0 million decrease in cash, reflective of the timing of semi-annual coupon payments on our 8³/₄% senior notes. The prior year trade receivables, holdbacks and unbilled revenue balances benefitted from the completion and settlement of projects at Suncor's Fort Hills and Kinder Morgan's TMX.

Current liabilities increased \$8.9 million between December 31, 2009 and March 31, 2009, a \$20.6 million increase in accounts payable offset by a \$29.1 million reduction in accrued liabilities primarily as a result of our December 1st interest payment for our 8³/₄% senior notes and interest rate swap. Equipment purchases of \$4.1 million, which are scheduled to be paid after December 31, 2009, are included in accounts payable as of December 31, 2009.

Property, plant and equipment increased by \$17.5 million between March 31, 2009 and December 31, 2009. This reflects the capital investment of \$51.2 million of equipment purchases and new capital leases during the current nine month period ended December 31, 2009, offset by equipment disposals of \$2.2 million (net book value) and depreciation of \$31.3 million.

Total long-term financial liabilities increased by \$9.3 million between March 31, 2009 and December 31, 2009, due to a \$30.1 million increase related to the cross-currency and interest rate swap agreements, an increase of \$23.9 million in the long-term portion of our term loan resulting from new term loans under our amended and restated credit agreement, an increase of \$3.7 million to contingent rental liability and an increase of \$5.2 million in the value of the long-term portion of the embedded derivatives in a long-term revenue construction contract. This was partially offset by a \$46.3 million decrease in the carrying amount of our 8³/₄% senior notes, a \$6.2 million decrease related to the long-term portion of the embedded derivatives in long-term supplier contracts and a \$3.0 million decrease in the non-current portion of our capital lease obligations.

Summary of Consolidated Cash Flows

Edgar Filing: North American Energy Partners Inc. - Form 6-K

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
Cash provided by operating activities	\$10,384	\$60,911	\$(50,527)	\$26,392	\$79,196	\$(52,804)
Cash used in investing activities	(8,690)	(8,614)	(76)	(54,299)	(67,439)	13,140
Cash (used in) provided by financing activities	(4,308)	(12,694)	8,386	23,904	(4,017)	27,921
(Decrease) increase in cash and cash equivalents	\$(2,614)	\$39,603	\$(42,217)	\$(4,003)	\$7,740	\$(11,743)
<i>Operating activities</i>						

Cash provided by operating activities for the three months ended December 31, 2009 was an inflow of \$10.4 million, compared to a cash inflow of \$60.9 million for the three months ended December 31, 2008. The lower cash provided by operating activities in the current period is primarily a result of lower gross profit, higher interest expense and increased non-cash net working capital.

Cash provided by operating activities for the nine months ended December 31, 2009 was an inflow of \$26.4 million, compared to a cash inflow of \$79.2 million for the nine months ended December 31, 2008. The lower cash provided by

Table of Contents

Restated Interim Management's Discussion and Analysis

operating activities in the current period is primarily a result of lower gross profit, higher interest expense and increased non-cash net working capital.

Investing activities

Cash used in net investing activities for the three months ended December 31, 2009 was an outflow of \$8.7 million compared with an outflow of \$8.6 million for the same period a year ago. Investing activities this year included capital expenditures of \$4.8 million along with a \$0.5 million final payment for the acquisition of DF Investments Limited, the parent company of Drillco Foundation Co. Ltd. Proceeds from asset dispositions of \$1.6 million and a net outflow from non-cash working capital of \$3.0 million lessened the effect of capital purchases and the acquisition. Cash used in investing activities last year included a net outflow from non-cash working capital of \$2.1 million and capital expenditures of \$9.4 million, offset by an inflow of proceeds from asset dispositions of \$3.2 million.

Cash used in net investing activities for the nine months ended December 31, 2009 was an outflow of \$54.3 million compared with an outflow of \$67.4 million for the same period a year ago. Current period investing activities included capital expenditures of \$48.0 million along with \$5.4 million for the acquisition of DF Investments Limited. A cash inflow of proceeds from asset dispositions of \$3.4 million and a net outflow from non-cash working capital of \$0.4 million lessened the effect of cash outflows for capital purchases and the acquisition. Cash used in investing activities last year included capital expenditures of \$78.3 million, partially offset by proceeds from asset dispositions of \$8.0 million and a net inflow from non-cash working capital of \$3.2 million.

Financing activities

Cash used in financing activities during the three months ended December 31, 2009 resulted in a cash outflow of \$4.3 million as a result of scheduled repayments on our term credit facility of \$3.0 million and the \$1.3 million repayment of capital lease obligations. Cash used in financing activities for the three months ended December 31, 2008 of \$12.7 million was a result of the repayment of \$10.0 million previously drawn on our revolving credit facility, the reduction of cheques issued in excess of cash and the \$2.0 million repayment of capital lease obligations.

Cash provided by financing activities during the nine month period ended December 31, 2009 resulted in a cash inflow of \$23.9 million. Capital expenditure financing of \$33.0 million, through our new term credit facility (net of term credit facility repayments), was partially offset by the \$3.7 million scheduled repayment of the new term facility, \$4.2 million repayment of capital lease obligations, \$1.1 million in financing costs for our amended and restated credit agreement and the repayment of debt assumed with the acquisition of DF Investments Ltd. Cash used in financing activities for the nine month period ended December 31, 2008 of \$4.0 million was primarily the result of the \$4.7 million repayment of capital lease obligations.

C. Outlook

Our expectation for the three months ending March 31, 2010 is for continued strong operating performance despite weak economic conditions. In particular, recurring services volumes are expected to continue gradually strengthening as a result of the return to normal overburden removal activity levels at Canadian Natural's Horizon project and steady demand from Shell Albian's oil sands sites. We are also continuing to pursue opportunities with other oil sands customers.*

Opportunities on the project development side of the oil sands are expected to expand as Imperial Oil's Kearl, ConocoPhillips's Surmont, Husky Energy's Sunrise and Suncor's Firebag projects increase demand on service providers. Overall, however, we expect that project development activity will move forward at a more moderate and sustainable pace than what was experienced in the past.*

The Pipeline segment is expected to continue increasing its revenue contribution through the balance of the fiscal year as existing projects ramp up to peak operations during the colder months. Tendering and bidding for new pipeline contracts continue at a strong pace, however competition in this market remains intense.*

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Activity in our Piling segment remains well below fiscal 2008 and 2009 levels, reflecting continued weakness in the commercial and industrial construction markets. Nonetheless, our recent acquisition of Drillco Foundation Co. Ltd., a piling company in the Ontario market, has been successfully integrated and the new business is expected to provide increasing segment contributions going forward.*

* 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.

⁷ Imperial Oil Limited Kearl (Kearl) oil sands mining and extraction project. Imperial Oil Limited holds a 70.96% participating interest in the Kearl oils sands project, a joint venture with ExxonMobil Canada Properties, a subsidiary of Exxon Mobil Corporation. Imperial Oil Limited is the project operator

⁸ ConocoPhillips Canada Resources Corporation's (ConocoPhillips) Surmont Oil Sand project is a 50/50 joint venture between ConocoPhillips Canada, a wholly owned subsidiary of ConocoPhillips Company and Total E&P Canada Ltd. (Total), a wholly owned subsidiary of Total SA. ConocoPhillips Canada is the project operator.

⁹ Husky Energy Inc.'s (Husky Energy) Sunrise Oil Sand project is a 50/50 joint venture with BP Canada Energy Company (BP), a wholly owned subsidiary of BP PLC. The Sunrise project is operated by Husky Energy.

Table of Contents

Restated Interim Management's Discussion and Analysis

Overall, expectations for the three months ending March 31, 2010 are fairly optimistic given the recent project announcements from ConocoPhillips and Husky Energy as well as our industry knowledge as a result of our significant presence in the Canadian mining and construction industry. Opportunities continue to exist in all areas of the business and we are focused on pursuing those contracts that leverage our strengths and enable us to maintain reasonable margins as we work to position ourselves for long-term business success. We are currently developing plans, with the assistance of our financial advisors, to take advantage of the favourable credit markets to refinance some or all of our existing 8^{3/4}% senior notes, which are due in December 2011.

D. Legal and Labour Matters

Laws and Regulations and Environmental Matters

Many aspects of our operations are subject to various federal, provincial and local laws and regulations, including:

permit and licensing requirements applicable to contractors in their respective trades;

building and similar codes and zoning ordinances;

laws and regulations relating to consumer protection; and

laws and regulations relating to worker safety and protection of human health.

For a more detailed discussion of laws and regulations and environmental matters applicable to us, see our most recent annual Management's Discussion and Analysis.

Employees and Labour Relations

As of December 31, 2009, we had 375 salaried employees and over 1,350 hourly employees. Our hourly workforce fluctuates according to the seasonality of our business and the staging and timing of projects by our customers. The hourly workforce typically ranges in size from 1,000 employees to approximately 2,100 employees depending on the time of year and duration of awarded projects. We also utilize the services of subcontractors in our construction business. An estimated 8% to 10% of the construction work we do is performed by subcontractors. Approximately 1,300 employees are members of various unions and work under collective bargaining agreements. The majority of our work is done through employees governed by our mining overburden collective bargaining agreement with the International Union of Operating Engineers Local 955, the primary term of which expired on October 31, 2009. Negotiations remain underway for the renewal of this union agreement and we are confident that a renewal agreement will be reached without dispute. Other collective agreements in operation include the provincial Industrial, Commercial and Institutional (ICI) agreements in Alberta and Ontario with both the Operating Engineers and Labourers Unions, Piling sector collective agreements in Saskatchewan with the Operating Engineers and Labourers, Pipeline sector agreements in both British Columbia and Alberta with the Christian Labour Association of Canada (CLAC) as well as an all-sector agreement with CLAC in Ontario. We are subject to other industry and specialty collective agreements under which we complete work and the primary terms of all of these agreements are currently in effect. We believe that our relationships with all our employees, both union and non-union, are strong. We have not experienced a strike or lockout.*

E. Resources and Systems

Outstanding Share Data

Edgar Filing: North American Energy Partners Inc. - Form 6-K

We are authorized to issue an unlimited number of voting Common Shares and an unlimited number of Non-Voting Common Shares. As at February 1, 2010, there were 36,049,276 voting Common Shares outstanding (36,038,476 as at March 31, 2009). We had no Non-Voting Common Shares outstanding on any of the foregoing dates.

Liquidity and Capital Resources

Liquidity requirements

Our primary uses of cash are for plant and equipment purchases, to fulfill debt repayment and interest payment obligations, to fund operating lease obligations and to finance working capital requirements.

We maintain a significant equipment and vehicle fleet comprised of units with remaining useful lives covering a variety of time spans. It is important to adequately maintain our large revenue-producing fleet in order to avoid equipment downtime, which can impact our revenue stream and inhibit our ability to satisfactorily perform on our projects. Once units reach the end of their useful lives, they are replaced as it becomes cost prohibitive to continue to maintain them. As a result, we are continually acquiring new equipment both to replace retired units and to support our growth as we take on new projects. In order to maintain a balance of owned and leased equipment, we have financed a portion of our heavy construction fleet through operating leases. In addition, we continue to lease our motor vehicle fleet through our capital lease facilities.

* 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.

Table of Contents**Restated Interim Management's Discussion and Analysis**

We require between \$30 million and \$40 million annually for sustaining capital expenditures and our total capital requirements typically range from \$125 million to \$200 million depending on our growth capital requirements. With the potential future customer demand for larger-sized heavy equipment in the oil sands, we expect our capital needs in the current fiscal year to be approximately \$100 to \$150 million, including a possible additional \$30 million to \$50 million of growth capital.*

We typically finance approximately 30% to 50% of our total capital requirements through our operating lease facilities and the remainder from cash flow from operations. We believe our operating and capital lease facilities and cash flow from operations will be sufficient to meet these requirements. Our equipment fleet value is currently split among owned (45%), leased (47%) and rented equipment (8%). Approximately 40% of our leased fleet is specific to one long-term overburden removal project. This equipment mix is a change from the mix reported in previous periods as a result of our declining need for the same levels of rental equipment along with the conversion of some rental equipment to operating leases to meet specific volume demands. Our equipment ownership strategy allows us to meet our customers' variable service requirements while balancing the need to maximize equipment utilization with the need to achieve the lowest ownership costs. We are continually evaluating our capital needs and continue to monitor equipment lead times with suppliers to ensure that we control our capital spending while still being in a position to respond to opportunities when they materialize.*

We continue to receive interest from finance companies to support our current lease requirements and we have availability under one of our suppliers' leasing program to meet our current equipment needs from this supplier. We are currently negotiating with these finance companies to secure financing for our other equipment needs over the balance of the fiscal year.

Our long-term debt includes US\$200 million of 8³/₄% senior notes due in December 2011. Prior to February 2, 2009, the foreign currency risk relating to both the principal and interest portions of these 8³/₄% senior notes was managed with a cross-currency swap and interest rate swaps, which went into effect concurrent with the issuance of the notes on November 26, 2003. The swap agreements were an economic hedge but had not been designated as hedges for accounting purposes. Prior to the cancellation of the US dollar interest rate swap, interest totaling \$13.0 million on the 8³/₄% senior notes and the swap was payable semi-annually in June and December of each year until the notes would mature on December 1, 2011. The US\$200 million principal amount was fixed at C\$1.315=US\$1.000, resulting in a principal repayment of \$263.0 million due on December 1, 2011. There are no principal repayments required on the 8³/₄% senior notes until maturity. Effective February 2, 2009, the US dollar interest rate swap was terminated by the counterparties and our interest expense increased by approximately US\$6.8 million per annum (based on the then current US Dollar LIBOR rates) for the remaining life of the 8³/₄% senior notes. This increase is net of US dollar floating interest payments on the cross-currency swap agreement we now receive every March 1, June 1, September 1 and December 1, effective March 1, 2009 until the notes mature on December 1, 2011. The value of the quarterly floating rate US dollar payments we receive is the prevailing three month US Dollar LIBOR rate plus a spread of 4.2% on the notional amount of US\$200 million. Our Canadian dollar interest rate swap and cross-currency swap agreements are not cancellable at the option of the counterparties and remain in effect.

A more detailed discussion of this cancellation can be found below in the Foreign exchange risk and Interest rate risk sections of Quantitative and Qualitative Disclosures about Market Risk.

One of our major contracts allows the customer to require that we provide up to \$50.0 million in letters of credit. As at December 31, 2009, we had \$20.0 million in letters of credit outstanding in connection with this contract (we have \$20.4 million in letters of credit outstanding in total for all customers as of December 31, 2009). Any change in the amount of the letters of credit required by this customer must be requested by November 1st in each year for an issue date of January 1st following the date of such request, for the remaining life of the contract. We have received notice from this customer that the letter of credit requirement has decreased to \$10.0 million effective January 6, 2010. In the event that we require additional letters of credit for either this major contract or other contracts, we have included an option in our June 24, 2009 amended and restated credit agreement to request an increase to the revolving portion of the credit facility, on a one-time basis, by an amount up to the lesser of \$25.0 million or the requested increase to the letters of credit for this customer.

Sources of liquidity

Our principal sources of cash are funds from operations and borrowings under our credit facility. As at December 31, 2009, we had approximately \$69.6 million of available borrowings under our Revolving Facility provided for in our amended and restated credit agreement, after taking into account \$20.4 million of outstanding and undrawn letters of credit to support performance guarantees associated with customer contracts. On December 1, 2009, we were notified by a major customer that they had reduced their letters of credit requirements from \$20.0

Edgar Filing: North American Energy Partners Inc. - Form 6-K

million to \$10.0 million which became effective on January 6, 2010.

* 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.

Table of Contents**Restated Interim Management's Discussion and Analysis**

As at December 31, 2009, we had \$10.3 million in trade receivables that were more than 30 days past due compared to \$16.0 million as at March 31, 2009. We have currently provided an allowance for doubtful accounts related to our trade receivables of \$2.3 million (\$2.6 million at March 31, 2009). We continue to monitor the credit worthiness of our customers. To date our exposure to potential write-downs in trade receivables has been limited to the financial condition of developers of condominiums and high-rise developments in our Piling segment.

Working capital fluctuations effect on cash

The seasonality of our business results in higher accounts receivable balance between December and early February during peak activity levels, which may result in an increase in our working capital requirements. Our working capital is also significantly affected by the timing of the completion of projects. In some cases, our customers are permitted to withhold payment of a percentage of the amount owing to us for a stipulated period of time (such percentage and time period is usually defined by the contract and in some cases provincial legislation). This amount acts as a form of security for our customers and is referred to as a holdback. Typically, we are only entitled to collect payment on holdbacks once substantial completion of the contract is performed, there are no outstanding claims by subcontractors or others related to work performed by us and we have met the time period specified by the contract (usually 45 days after completion of the work). However, in some cases, we are able to negotiate the progressive release of holdbacks as the job reaches various stages of completion. As at December 31, 2009, holdbacks totaled \$4.5 million, down from \$9.4 million as at March 31, 2009. Holdbacks represent 5.0% of our total accounts receivable as at December 31, 2009 (12.0% as at March 31, 2009). This decrease is attributable to the reduction of revenue in our Piling segment for the three months ended December 31, 2009 and March 31, 2009 compared to the same periods in the prior year. As at December 31, 2009, we carried \$2.8 million in holdbacks for three large customers.*

Cash requirements

As at December 31, 2009, our cash balance of \$94.9 million was \$4.0 million lower than our cash balance at March 31, 2009. The change in cash balance reflects the timing of capital expenditures and the timing of processing change orders and payment certificates. Offsetting these outflows of cash was the cash inflow of \$33.0 million secured through our amended and restated credit facility. We anticipate that we will generate a net cash surplus from operations at least through March 31, 2010. In the event that we require additional funding, we believe that any such funding requirements would be satisfied by the funds available from our credit facility described immediately below.*

Credit facility

We entered into an amended and restated credit agreement on June 24, 2009 with a syndicate of lenders that provided us with a credit facility, under which revolving loans, term loans and letters of credit may be issued. The facility will mature on June 8, 2011. The total credit facility remained unchanged at \$125.0 million and included 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. The Term Facility includes scheduled mandatory principal payments while the funds available under the Revolving Facility are reduced by any outstanding letters of credit.

As of December 31, 2009, the total credit facility includes the \$90.0 million Revolving Facility and the outstanding borrowings of \$30.0 million (March 31, 2009 \$nil) under the non-revolving Term Facility, after the mandatory principal payments of \$3.0 million in the quarter. As of December 31, 2009, we 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. Our unused borrowing availability under the credit facility was \$69.6 million at December 31, 2009. December 1, 2009, we were notified by a major customer that they had reduced their letters of credit requirements from \$20.0 million to \$10.0 million which became effective January 6, 2010.

Advances under the Revolving Facility may be repaid from time to time at our option. Beginning September 30, 2009, and at the end of each fiscal quarter thereafter, we must make quarterly repayments on the Term Facility of \$1.5 million through June 2011, with the balance due at that time. The credit facility bears interest at the Canadian prime rate, the US dollar base rate, the Canadian bankers' acceptance rate or the 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 our current debt rating. For a discussion on our current debt rating refer to the Debt Ratings section of this

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Management's Discussion and Analysis.

During the nine months ended December 31, 2009, financing fees of \$1.1 million were incurred in connection with the modifications to the amended and restated credit agreement. These fees were recorded as deferred financing costs and are amortized over the remaining term of the agreement using the effective interest method.

* 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.

20

Table of Contents

Restated Interim Management's Discussion and Analysis

Included in the amended and restated credit agreement is an option to request an increase to the total revolving credit facility commitments if our requirements for providing letters of credit to our customers exceed \$21.0 million. In that event we are permitted to request, on a one-time basis, an increase to the overall revolving credit facility by an amount up to the lesser of \$25.0 million or the requested increase to the letters of credit by our customers.

Under the credit agreement, we are required to satisfy certain financial covenants, including an amended minimum interest coverage ratio. The interest coverage covenant is determined based on a ratio of Consolidated EBITDA (as defined within the credit agreement) to consolidated cash interest expense. Measured as of the last day of each fiscal quarter, on a trailing four-quarter basis, the interest coverage ratio shall not be less than 2.0 times at any time up to June 29, 2010 and shall not be less than 2.5 times any time thereafter.

Covenants remaining unchanged in the credit agreement include:

The senior leverage covenant, which is determined based on a ratio of senior debt to Consolidated EBITDA (as defined within the credit agreement). Measured as of the last day of each fiscal quarter on a trailing four-quarter basis, the senior leverage ratio shall not exceed 2.0 times.

The current ratio covenant is determined based on the ratio of current assets to current liabilities (as defined within the credit agreement).

Measured as of the last day of each fiscal quarter, the current ratio shall not be less than 1.25 times.

Consolidated EBITDA is defined within the credit agreement. The amended and restated credit agreement clarifies the definition of Consolidated EBITDA to be the sum, without duplication, of (a) consolidated net income, (b) consolidated interest expense, (c) provision for taxes based on income, (d) total depreciation expense, (e) total amortization expense, (f) costs and expenses incurred by us in entering into the credit facility, (g) accrual of stock-based compensation expense to the extent not paid in cash or if satisfied by the issuance of new equity, (h) the non-cash currency translation losses or mark-to-market losses on any hedge agreement (defined in the credit agreement) or any embedded derivative, and (i) other non-cash items including goodwill impairment (other than any such non-cash item to the extent it represents an accrual of or reserve for cash expenditures in any future period) but only, in the case of clauses (b)-(i), to the extent deducted in the calculation of consolidated net income, less (i) the non-cash currency translation gains or mark-to-market gains on any hedge agreement or any embedded derivative to the extent added in the calculation of consolidated net income, and (ii) other non-cash items added in the calculation of consolidated net income (other than any such non-cash item to the extent it will result in the receipt of cash payments in any future period), all of the foregoing as determined on a consolidated basis in conformity with Canadian GAAP. The clarification of the definition of Consolidated EBITDA (as defined within the credit agreement) did not change our measurement of Consolidated EBITDA.

The credit facility may be prepaid in whole or in part without penalty, except for bankers' acceptances, which are not pre-payable prior to their maturity. However, the credit facility requires prepayments under various circumstances, such as: (i) 100% of the net cash proceeds of certain asset dispositions, (ii) 100% of the net cash proceeds from our issuance of equity (unless the use of such securities' proceeds is otherwise designated by the applicable offering document) and (iii) 100% of all casualty insurance and condemnation proceeds, subject to exceptions.

For a complete discussion of our credit facility, see our most recent annual Management's Discussion and Analysis.

Capital resources

We acquire our equipment requirements in three ways: capital expenditures, capital leases, and operating leases. Capital expenditures require the outflow of cash for the full value of the equipment at the time of purchase. Capital leases, while not considered capital expenditures, are restricted under the terms of our credit agreement to a maximum of \$30.0 million. Operating leases are not considered capital expenditures and are not restricted under the terms of our credit agreement.

We define our equipment requirements as either sustaining capital additions, those that are needed to keep our existing fleet of equipment at its optimal useful life through capital maintenance or replacement, or growth capital additions, those that are needed to perform larger or a greater

number of projects.

Table of Contents**Restated Interim Management's Discussion and Analysis**

A summary of equipment additions by nature and by period is shown on the table below:

(dollars in thousands)	Three months ended December 31,			Nine months ended December 31,		
	2009	2008	Change	2009	2008	Change
Capital Expenditures						
Sustaining	\$2,626	\$4,129	\$(1,503)	\$8,821	\$17,264	\$(8,443)
Growth	2,148	5,240	(3,092)	42,372	61,031	(18,659)
Total	\$4,774	\$9,369	\$(4,595)	\$51,193	\$78,295	\$(27,102)
Capital Leases						
Sustaining	\$449	\$152	\$297	\$449	\$3,040	\$(2,591)
Growth		7,839	(7,839)	656	10,067	(9,411)
Total	\$449	\$7,991	\$(7,542)	\$1,105	\$13,107	\$(12,002)
Total Sustaining Capital Additions	\$3,075	\$4,281	\$(1,206)	\$9,270	\$20,304	\$(11,034)
Total Growth Capital Additions	\$2,148	\$13,079	\$(10,931)	\$43,028	\$71,098	\$(28,070)
Operating Leases	\$28,669	\$52,192	\$(23,523)	\$59,341	\$85,207	\$(25,866)

The reduction in sustaining capital additions, for the three and nine months ended December 31, 2009, compared to the same periods in the prior year, is reflective of fewer equipment purchases due to lower volumes.

The reduction in growth capital additions, for both the three and nine months ended December 31, 2009, compared to the same periods in the prior year, reflects the impact of fewer development projects as a result of the current economic slowdown.

The decrease in operating leases, for the three and nine months ended December 31, 2009, compared to the same periods in the previous year, reflects the timing of scheduled equipment additions related to the Canadian Natural overburden project along with the impact of fewer development projects as a result of the current economic slowdown.

Capital Commitments*Contractual obligations and other commitments*

Our principal contractual obligations relate to our long-term debt, capital and operating leases and supplier contracts. The following table summarizes our future contractual obligations, excluding interest payments, unless otherwise noted, as of December 31, 2009.

(dollars in thousands)	Total	Payments due by fiscal year				
		2010	2011	2012	2013	2014 and after
Senior notes ⁽¹⁾	\$263,000	\$	\$	\$263,000	\$	\$
Term Facility	29,964	1,518	6,072	22,374		
Capital leases (including interest)	15,727	1,541	5,696	5,103	2,862	525
Operating leases	178,591	15,313	55,759	45,906	30,995	30,618
Supplier contracts	55,754	2,736	11,672	13,853	13,853	13,640
Total contractual obligations	\$543,036	\$21,108	\$79,199	\$350,236	\$47,710	\$44,783

(1) We have entered into cross-currency and interest rate swaps, which represent an economic hedge of the 8 3/4% senior notes. At maturity, we will be required to pay \$263.0 million in order to retire these senior notes and the swaps. This amount reflects the fixed exchange rate of C\$1.315=US\$1.00 established as of November 26, 2003, the inception date of the swap contracts (see Interest rate risk in Quantitative and Qualitative Disclosures about Market Risk regarding the cancellation of the US dollar interest rate swap effective February 2, 2009). At December 31, 2009, the carrying value of the derivative financial instruments was \$76.2 million, inclusive of the interest components.

Off-balance sheet arrangements

We have no off-balance sheet arrangements in place at this time.

Debt Ratings

Our debt ratings were last assessed in December 2009 and both Standard & Poor's and Moody's affirmed our current ratings.

Our corporate credit ratings from these two agencies are as follows:

Standard & Poor's
Moody's

B+ (negative outlook)
B2 (stable outlook)

Table of Contents**Restated Interim Management's Discussion and Analysis**

Our 8³ /4% senior notes are rated as follows:

Standard & Poor's	B+ (recovery rating of 4)
Moody's	B3 (loss given default rating of 5)

A credit rating is a current opinion of the credit worthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion evaluates the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default. A credit rating is not a statement of fact or recommendation to purchase, sell, or hold a financial obligation or make any investment decisions nor is it a comment regarding an issuer's market price or suitability for a particular investor. A credit rating speaks only as of the date it is issued and can be revised upward or downward or withdrawn at any time by the issuing rating agency if it decides circumstances warrant a revision. We undertake no obligation to maintain our credit ratings or to advise investors of a change in ratings.

A definition of the categories of each rating has been obtained from each respective rating organization's website as outlined below:

Standard & Poor's

An obligation rated B is regarded as having speculative characteristics, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

A recovery rating of 4 for the 8³ /4% senior notes indicates an expectation for an average of 30% to 50% recovery in the event of a payment default.

A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically nine months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action. A Stable outlook means that a rating is not likely to change.

Moody's

Obligations rated B are considered speculative and are subject to high credit risk. Moody's appends numerical modifiers to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Loss Given Default (LGD) assessments are opinions about expected loss given default on fixed income obligations expressed as a percent of principal and accrued interest at the resolution of the default. An LGD assessment (or rate) is the expected LGD divided by the expected amount of principal and interest due at resolution. A LGD rating of 5 indicates a loss range of greater than or equal to 70% and less than 90%.

A Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV contingent upon an event). In a few instances where an issuer has multiple ratings with outlooks of differing directions, an (m) modifier (indicating multiple, differing outlooks) will be displayed, and Moody's written research will describe any differences and provide the rationale for these differences. A RUR (Rating(s) Under Review) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, NOO (No Outlook) may be displayed. A Stable outlook means that a rating is not likely to change.

Related Parties

We may receive consulting and advisory services provided by the principals or employees of companies owned or operated by certain of our directors (the Sponsors) with respect to the organization of our employee benefit and compensation arrangements, and other matters, and no fee is charged for these consulting and advisory services.

In order for the Sponsors to provide such advice and consulting, we provide the Sponsors with reports, financial data and other information. This permits them to consult with and advise our management on matters relating to our operations, company affairs and finances. In addition, this permits them to visit and inspect any of our properties and facilities. These services are provided in the normal course of operations and are measured at the value of consideration established and agreed to by the related parties.

Additionally, we entered into a shared service agreement with our joint venture, Noramac Ventures Inc. There have been no transactions under this agreement during the three and nine months ended December 31, 2009.

Table of Contents

Restated Interim Management's Discussion and Analysis

Internal Systems and Processes

Overview of information systems

We currently use JDE (Enterprise One) as our Enterprise Resource Planning (ERP) tool and deploy the financial system, payroll, procurement, job-costing and equipment maintenance modules from this tool. We supplement this functionality with either third-party software (for our estimating system) or in-house developed tools (for project management).

The proper identification of costs is a critical part of our ability to recognize revenues and provide accurate management information for decision-making. We continue to focus resources to address this in our ERP system through the automation of transactional activities. We continue to work on improving the process for tracking and reporting equipment and maintenance costs. We have seen some improvements in the identification and tracking of our procurement costs.

During the year ended March 31, 2009, we completed a user-needs analysis and compared this to the functionality of our ERP system. As part of this analysis, we determined if we could implement additional modules in JDE or whether we needed to commence a review of industry-specific software to supplement our existing ERP functionality. We have started plans for the implementation of specific JDE modules based on this analysis.

Evaluation of disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information we are required to disclose is recorded, processed, summarized and reported with the time periods specified under Canadian and US securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

As of December 31, 2009, an evaluation was carried out under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934, as amended, and in National Instrument 52-109 under the Canadian Securities Administrators Rules and Policies. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that as a result of the material weaknesses in our internal control over financial reporting (ICFR) discussed below the disclosure controls and procedures were not effective as of June 30, 2009.

Material changes to internal controls over financial reporting

As of March 31, 2009, we assessed the effectiveness of our ICFR. During this process we identified a material weakness in internal controls over financial reporting described below and as a result we concluded that our ICFR was ineffective as of March 31, 2009.

We did not maintain effective processes and controls specific to revenue recognition. We did not effectively develop, communicate and implement an appropriate revenue recognition policy, a formal process to track claims and unapproved change orders and sufficient monitoring controls over the completeness and accuracy of forecasts, including the consideration of project changes subsequent to the end of each reporting period. The accounts that could be affected by these deficiencies are revenue, project costs, unbilled revenue and billings in excess of costs incurred and estimated earnings on uncompleted contracts. This material weakness in ICFR, which is pervasive in nature, resulted in material errors in the financial statements that were corrected prior to release of the financial statements. Further, there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis.

In response to the material weakness specific to revenue recognition identified above, during the three months ended and subsequent to March 31, 2009, we formalized our revenue recognition policy to assist in the understanding and consistent application of GAAP, initiated the development of a procedural manual to assist with applying the revenue recognition policy, designed new process-level controls and conducted staff training. These changes had a material effect on the Company's ICFR during the three and six months ended September 30, 2009.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

As of December 31, 2009, progress has been made on our remediation plans but this material weakness has not been fully remediated, as we plan to also establish a dedicated project team led by a senior member of our Finance team. This dedicated project team will develop and implement standard business practices and controls specific to ensuring the accuracy of forecast, including the consideration of project changes subsequent to the end of each reporting period. We will evaluate the effectiveness of these controls during the balance of the fiscal year to determine if they adequately address our ability to recognize revenue in accordance with GAAP. For a discussion of the risks associated with such weakness, please see our most recent annual Management's Discussion and Analysis.

During the nine months ended December 31, 2009, we identified an additional material weakness in ICFR, which is described below.

We did not maintain effective processes and controls specific to our reliance on the accuracy of data provided from third-party valuations specialists that is used to prepare our consolidated financial statements. Specifically, we did not

Table of Contents**Restated Interim Management's Discussion and Analysis**

maintain effective controls to validate the accuracy of a third-party valuation of our cross-currency and interest rate swaps related to our 8³/₄% senior notes. The accounts that could be affected by this deficiency are current portion of derivative financial instruments liabilities on the balance sheet and realized and unrealized loss (gain) on derivative financial instruments on the consolidated statements of operations and comprehensive income (loss). This material weakness in ICFR, which is isolated in nature, resulted in material errors in the financial statements prepared under Canadian GAAP that were not corrected prior to the original release of the financial statements prepared under Canadian GAAP on August 4, 2009. The material errors have been corrected in the United States and Canadian accounting policies differences note in the restated financial statements prepared under US GAAP released on June 10, 2010. The errors arising from this material weakness in internal controls were detected and corrected as at March 31, 2010 through detective controls applied to the settlement of the cross-currency and interest rate swaps related to our 8³/₄% senior notes in April 2010. The Company has no further material reliance on data provided by third-party valuations specialists.

As discussed in the section **Restatements Related to Previously Reported Canadian GAAP Results**, the financial statements for fiscal 2008 and fiscal 2009 have been amended under Canadian GAAP to correct an error related to the method of accounting for an incentive at the time of buying a previously leased asset, which was identified during the preparation of our fiscal 2010 consolidated financial statements. This error arose as a result of the previously disclosed material weakness in ICFR related to the lack of sufficient accounting and finance personnel with an appropriate level of technical accounting knowledge and training commensurate with the complexity of our financial accounting and reporting requirements. We rectified this material weakness in fiscal 2009 by reorganizing the corporate accounting group and recruiting new staff with the appropriate experience and technical skills to prevent a reoccurrence of these issues.

Significant Accounting Policies*Critical Accounting Estimates*

Certain accounting policies require management to make significant estimates and assumptions about future events that affect the amounts reported in our financial statements and the accompanying notes. Therefore, the determination of estimates requires the exercise of management's judgment. Actual results could differ from those estimates and any differences may be material to our financial statements.

Revenue recognition

We perform our 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 our 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, we 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 us and a customer, we will then consider it as a claim.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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.

Table of Contents

Restated Interim Management's Discussion and Analysis

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 our 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.

Our long-term contracts typically allow our 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.

Property, plant and equipment

The most significant estimates in accounting for property, plant and equipment are the expected useful life of the asset and the expected residual value. Most of our property, plant and equipment have long lives that can exceed 20 years with proper repair work and preventative maintenance. Useful life is measured in operating hours, excluding idle hours, and a depreciation rate is calculated for each type of unit. Depreciation expense is determined monthly based on daily actual operating hours. In determining the estimates of these useful lives, we take into account industry trends and company specific factors, including changing technologies and expectations for the in-service period of certain assets. On an annual basis, we re-assess our existing estimates of useful lives to ensure they match the anticipated life of the equipment from a revenue producing perspective. If technological change happens more quickly or in a different way than anticipated, we might have to reduce the estimated life of property, plant and equipment, which could result in a higher depreciation expense in future periods or we may record an

Edgar Filing: North American Energy Partners Inc. - Form 6-K

impairment charge to write down the value of property, plant and equipment.

Another key estimate is the expected cash flows from the use of an asset and the expected disposal proceeds in applying the ASC 360, Property, Plant and Equipment, on the impairment and disposal of long-lived assets. This standard requires the recognition of an impairment loss for a long-lived asset when changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value. The valuation of long-lived assets requires us to exercise judgment in the determination of an asset group and in making assumptions about future results, including revenue and cash flow projections for an asset group.

Allowance for doubtful accounts receivable

We regularly review our accounts receivable balances for each of our customers and we write down these balances to their expected realizable value when outstanding amounts are determined not to be fully collectible. This generally occurs when our customer has indicated an inability to pay, we were unable to communicate with our customer over an extended period of time and we have considered other methods to obtain payment without success. We determine estimates of the allowance for doubtful accounts 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.

Table of Contents

Restated Interim Management's Discussion and Analysis

Goodwill impairment

Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. The process of determining fair value is subjective and requires us to exercise judgment in making assumptions about future results, including revenue and cash flow projections at the reporting unit level and discount rates. We test goodwill annually on October 1. It is our intention to continue to complete goodwill impairment testing on October 1 going forward or whenever events or changes in circumstances indicate that impairment may exist. We completed our most recent annual goodwill impairment testing on October 1, 2009. We concluded that neither the fair value of our Heavy Construction and Mining reporting unit nor our Piling reporting unit had fallen below their carrying values as a result of the interim testing.

Financial instruments

In determining the fair value of financial instruments, we use 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 our 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.

Change in General Accepted Accounting Principles

As a Canadian-based company, we historically prepared our consolidated financial statements in conformity with accounting principles generally accepted in Canada (Canadian GAAP) and also provided reconciliation to United States generally accepted accounting principles (US 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 North American Energy Partners Inc., to file with Canadian securities regulators financial statements that are prepared in accordance with US GAAP and it is proposed that SEC registrants would be permitted to continue to report under US GAAP beyond 2011. As such, we have decided to adopt US GAAP instead of IFRS as our primary basis of financial reporting commencing in fiscal 2010.

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

Recently Adopted Accounting Policies

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 nongovernmental US GAAP, except for SEC rules and interpretative releases which, for our company, are also authoritative US GAAP. The ASC did not change current US GAAP, but was intended to simplify user access to all authoritative US 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 US GAAP. We adopted this standard during the quarter ended September 30, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

Fair value measurements

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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 nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applied to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. These remaining aspects of the fair value measurement standard were adopted by us prospectively beginning April 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

Business combinations

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), and, in April 2009, issued FAS 141 (R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise

Table of Contents

Restated Interim Management's Discussion and Analysis

from Contingencies, to amend and clarify SFAS No. 141(R), Business Combinations, now part of ASC 805, Business Combinations. Effective beginning on April 1, 2009, the standard established 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 established disclosure requirements that enable users of our financial statements to evaluate the nature and financial effects of the business combination. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

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. We prospectively adopted this ASC effective April 1, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements.

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. We adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

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. We adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements.

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 annually to be currently 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. We adopted the amendments to ASC 825 effective April 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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. We adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

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

Table of Contents**Restated Interim Management's Discussion and Analysis**

statement addresses accounting and disclosure requirements related to subsequent events. This statement also requires us to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on our expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. We adopted this ASC effective April 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

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. We adopted this ASU effective October 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

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 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. We 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 our interim consolidated financial statements.

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

Recent Accounting Pronouncements Not Yet Adopted*Consolidation of variable-interest entities*

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. The new guidance now part of ASC 810, *Consolidation*, revised the consolidation guidance for variable-interest entities. The modifications include the elimination of the exemption for qualifying special purpose entities and a new approach for determining who should consolidate a variable-interest entity. This standard is effective on April 1, 2010. We are currently evaluating the impact of this standard.

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. This ASU is effective prospectively for revenue arrangements entered into or materially modified on or

Edgar Filing: North American Energy Partners Inc. - Form 6-K

after April 1, 2011. We are currently evaluating the impact of this ASU on our consolidated financial statements.

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 beginning on January 1, 2010. We are currently evaluating the impact of this ASU on our consolidated financial statements.

Table of Contents

Restated Interim Management's Discussion and Analysis

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 beginning on April 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 beginning on April 1, 2011. We are currently evaluating the impact of this ASU on our consolidated financial statements.

Recently Adopted Accounting Policies (Canadian GAAP)

Goodwill and intangible assets

Effective April 1, 2009, we 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.

Business combinations

On July 1, 2009, we 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.

Consolidated financial statements

On July 1, 2009, we 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 our interim consolidated financial statements.

Non-controlling interests

On July 1, 2009, we early adopted CICA Handbook Section 1602, *Non-Controlling Interests*, effective April 1, 2009. The new standard 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 our interim consolidated financial statements.

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. We early adopted this standard effective April 1, 2009. The adoption of this standard did not have a material impact on our interim consolidated financial statements.

Financial instruments - recognition and measurement

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Effective July 1, 2009, we 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 our interim consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted (Canadian GAAP)

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. We are currently evaluating the impact of the amendments to the standard.

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

Table of Contents

Restated Interim Management's Discussion and Analysis

been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting 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. We are currently evaluating the impact of the amendments to the standard.

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. We are currently evaluating the impact of the amendments to the standard.

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. We are currently evaluating the impact of the amendments to the standard.

F. Forward-Looking Information and Risk Factors

Forward-Looking Information

This document contains forward-looking information that is based on expectations and estimates as of the date of this document. Our forward-looking information is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward-looking information. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as *believe*, *expect*, *anticipate*, *intend*, *plan*, *estimate*, *should*, *may*, *could*, *target*, *objective*, *projection*, *forecast*, *continue*, *strategy*, *intend*, *position* or the negative of those terms or other variations of them or terminology.

Examples of such forward-looking information in this document include, but are not limited to, statements with respect to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- (a) the amount of our backlog expected to be performed and realized in the twelve months ending December 31, 2010 and such estimate assists us in planning our activity levels and may not be suitable for other purposes;
- (b) that our expectations for the fourth quarter of fiscal 2010 are for continued strong operating performance despite weak economic conditions;
- (c) our expectation of recurring services volumes to continue to gradually strengthen as a result of the return to normal overburden removal activity levels at Canadian Natural's Horizon project and steady demand from Shell Albion's oil sands sites;

Edgar Filing: North American Energy Partners Inc. - Form 6-K

- (d) our expectation that opportunities on the project development side of the oil sands will expand as Imperial Oil's Kearl, ConocoPhillips's Surrmont, Husky Energy's Sunrise and Suncor's Firebag projects increase demand on service providers in our markets;
- (e) our expectation that project development activity will move forward at a more moderate and sustainable pace than what was experienced in the past;
- (f) our expectation that the Pipeline segment will continue increasing its revenue contribution through the balance of the fiscal year as existing projects ramp up to peak operations during the colder months;
- (g) our expectation that tendering and bidding for new pipeline contracts will continue at a strong pace, while competition in the pipeline market remains intense;
- (h) our expectation that the integration of Drillco Foundation Co. Ltd. will provide increasing segment contributions going forward;
- (i) the expected renewal agreement between our employees party to the collective bargaining agreement which expired October 31, 2009 and us;
- (j) our estimated capital needs in fiscal 2010 and further potential growth capital required for fiscal 2010 is accurate;
- (k) our operating and lease facilities and cash flow from operations will be sufficient to meet our capital requirements;

Table of Contents

Restated Interim Management's Discussion and Analysis

(l) we will generate a net cash surplus through March 31, 2010;

(m) the seasonality of our business results may result in an increase in working capital requirements; and

(n) any additional funding required by us will be satisfied by the credit facility.

The forward-looking information in paragraphs (a), (b), (c), (d), (e), (f), (g), (h), (j), (k), (m) and (n) rely on certain market conditions and demand for our services and are based on the assumptions that: despite the slowdown in the global economy and tightening of credit conditions, we still expect to see strong demand for our recurring services as the oil sands continue to be an economically viable source of energy, our customers and potential customers continue to invest in the oil sands and other natural resource developments; our customers and potential customers will continue to outsource the type of activities for which we are capable of providing service; and the Western Canadian economy continues to develop with additional investment in public construction; and are subject to the following risks and uncertainties, which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A, but are not limited to:

anticipated new major capital projects in the oil sands may not materialize;

demand for our services may be adversely impacted by regulations affecting the energy industry;

failure by our customers to obtain required permits and licenses may affect the demand for our services;

changes in our customers' perception of oil prices over the long-term could cause our customers to defer, reduce or stop their capital investment in oil sands projects, which would, in turn, reduce our revenue from those customers;

reduced financing as a result of the tightening credit markets may affect our customers' decisions to invest in infrastructure projects;

insufficient pipeline, upgrading and refining capacity or lack of sufficient governmental infrastructure to support growth in the oil sands region could cause our customers to delay, reduce or cancel plans to construct new oil sands projects or expand existing projects, which would, in turn, reduce our revenue from those customers;

a change in strategy by our customers to reduce outsourcing could adversely affect our results;

cost overruns by our customers on their projects may cause our customers to terminate future projects or expansions which could adversely affect the amount of work we receive from those customers;

because most of our customers are Canadian energy companies, a further downturn in the Canadian energy industry could result in a decrease in the demand for our services;

Edgar Filing: North American Energy Partners Inc. - Form 6-K

shortages of qualified personnel or significant labour disputes could adversely affect our business; and

unanticipated short term shutdowns of our customers' operating facilities may result in temporary cessation or cancellation of projects in which we are participating.

The forward-looking information in paragraphs (a), (b), (c), (d), (e), (f), (g), (h), (i), (j), (k), (l), (m) and (n) rely on our ability to execute our growth strategy and are based on the assumptions that the management team can successfully manage the business; we can maintain and develop our relationships with our current customers; we will be successful in developing relationships with new customers; we will be successful in the competitive bidding process to secure new projects; we will identify and implement improvements in our maintenance and fleet management practices; we will be able to benefit from increased recurring revenue base tied to the operational activities of the oil sands; we will be able to access sufficient funds to finance our capital growth; and are subject to the risks and uncertainties that:

continued reduced demand for oil and other commodities as a result of slowing market conditions in the global economy may result in reduced oil production and a decline in oil prices;

if we are unable to obtain surety bonds or letters of credit required by some of our customers, our business could be impaired;

we are dependent on our ability to lease equipment, and a tightening of this form of credit could adversely affect our ability to bid for new work and/or supply some of our existing contracts;

our business is highly competitive and competitors may outbid us on major projects that are awarded based on bid proposals;

our customer base is concentrated, and the loss of or a significant reduction in business from a major customer could adversely impact our financial condition;

lump-sum and unit-price contracts expose us to losses when our estimates of project costs are lower than actual costs;

our operations are subject to weather-related factors that may cause delays in our project work; and

environmental laws and regulations may expose us to liability arising out of our operations or the operations of our customers.

Table of Contents

Restated Interim Management's Discussion and Analysis

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See Risk Factors below and risk factors highlighted in materials filed with the securities regulatory authorities filed in the United States and Canada from time to time, including, but not limited to, our most recent Annual Information Form.

Risk Factors

For the three and nine months ended December 31, 2009, other than noted below, there has been no significant change in our risk factors discussed in our most recent annual Management's Discussion and Analysis, which was current as of June 9, 2009. The risk factors discussed in our most recent annual Management's Discussion and Analysis should be reviewed in conjunction with this interim Management's Discussion and Analysis. Significant developments since June 9, 2009 are as follows:

Reduced availability or increased cost of leasing our equipment fleet could adversely affect our results

A portion of our equipment fleet is currently leased from third parties. Further, we anticipate leasing substantial amounts of equipment to meet equipment acquisition commitments related to our long-term overburden removal contract in the upcoming fiscal year. Other future projects may require us to lease additional equipment. If equipment lessors are unable or unwilling to provide us with reasonable lease terms within our expectations, it will significantly increase the cost of leasing equipment or may result in more restrictive lease terms that require recognition of the lease as a capital lease. We are actively pursuing new lessor relationships to dilute our exposure to the loss of one or more of our lessors.

A change in strategy by our customers to reduce outsourcing could adversely affect our results.

Outsourced Heavy Construction and Mining segment services constitute a large portion of the work we perform for our customers. For example, our mining and site preparation project revenues constituted approximately 74%, 63% and 75% of our revenues in each of fiscal years 2009, 2008 and 2007, respectively. The election by one or more of our customers to perform some or all of these services themselves, rather than outsourcing the work to us, could have a material adverse impact on our business and results of operations. Certain customers perform some of this work internally and may choose to expand on the use of internal resources to complete this work. Additionally, the recent tightening of the credit market and worldwide economic downturn may result in our customers reducing their spending on outsourced mining and site preparation services if they believe they can perform this work in a more cost effective and efficient manner using their internal resources.

We may not be able to achieve the expected benefits from any future acquisitions, which would adversely affect our financial condition and results of operations.

We intend to pursue selective acquisitions as a method of expanding our business. However, we may not be able to identify or successfully bid on businesses that we might find attractive. If we do find attractive acquisition opportunities, we might not be able to acquire these businesses at a reasonable price. If we do acquire other businesses, we might not be able to successfully integrate these businesses into our then-existing business. We might not be able to maintain the levels of operating efficiency that acquired companies will have achieved or might achieve separately. Successful integration of acquired operations will depend upon our ability to manage those operations and to eliminate redundant and excess costs. Because of difficulties in combining operations, we may not be able to achieve the cost savings and other size-related efficiencies that we hoped to achieve through these acquisitions. Any of these factors could harm our financial condition and results of operations.

Quantitative and Qualitative Disclosures about Market Risk

Foreign exchange risk

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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. We have 8³/₄% senior notes denominated in US dollars in the amount of US \$200.0 million. In order to reduce our exposure to changes in the United States to Canadian dollar exchange rate, we 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, we also entered into a US dollar interest rate swap and a Canadian dollar interest rate swap. 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 US \$200.0 million and Canadian \$263.0 million.

Table of Contents

Restated Interim Management's Discussion and Analysis

On December 17, 2008, we received notice that all three swap counterparties had exercised the cancellation option on the US dollar interest rate swap and, effective February 2, 2009, the US dollar interest rate swap was terminated.

Our Canadian dollar interest rate swap and cross-currency swap agreements are not cancellable at the option of the counterparties and remain in effect. We 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, we received quarterly floating rate payments in US dollars on the cross-currency swap agreement at the prevailing three month US Dollar LIBOR rate plus a spread of 4.2% on the notional amount of US \$200.0 million.

As a result of the cancellation of the US dollar interest rate swap, we are exposed to changes in the value of the Canadian dollar versus the US dollar. To the extent that the three month US Dollar LIBOR rate is less than 4.6% (the difference between the 8³/₄% senior notes coupon and the 4.2% spread over three month US Dollar LIBOR on the cross-currency swap agreement), we will have to acquire US dollars to fund a portion of our semi-annual coupon payment on our 8³/₄% senior notes. At the three month US Dollar LIBOR rate of 0.253% 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.

We also regularly transact 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. We may fix our exposure in either the Canadian dollar or the US 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 US dollar related to the US dollar denominated 8³/₄% senior notes would decrease (increase) net income and decrease (increase) equity by approximately \$1.7 million, net of tax. With other variables unchanged, a \$0.01 increase (decrease) in exchange rates in the Canadian to the US dollar related to the cross-currency swap would increase (decrease) net income and increase (decrease) equity by approximately \$1.8 million, net of tax. The impact of similar exchange rate changes on short-term exposures would be insignificant and there would be no impact to other comprehensive income.

Interest rate risk

We are exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of our financial instruments. Amounts outstanding under our amended credit facilities are subject to a floating rate. Our 8³/₄% senior notes are subject to a fixed rate. Our interest risk arises from long-term borrowings issued at fixed rates that create fair value interest rate risk and variable rate 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 our 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. We may use derivative instruments to manage interest rate risk. We manage our 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.

We also entered into a US dollar interest rate swap and a Canadian dollar interest rate swap with the net effect of economically converting the 8.75% rate payable on the 8³/₄% senior notes into a fixed rate of 9.889% for the duration that the 8³/₄% senior notes are outstanding. These derivative financial instruments were not designated as hedges for accounting purposes. As a result of the US dollar interest rate swap cancellation, we are exposed to changes in interest rates. We have a fixed semi-annual coupon payment of 8³/₄% on our US \$200.0 million senior notes. With the termination of the US dollar interest rate swap, we will no longer receive fixed US dollar payments from the counterparties to offset the coupon payment on our 8³/₄% senior notes. As a result of this termination, our effective annual interest costs at the current US Dollar LIBOR rate will increase US \$8.6 million. In addition, we are now exposed to interest rate risk where a 100 basis point increase (decrease) in the three month US Dollar LIBOR rate will result in a US \$2.0 million decrease (increase) in effective annual interest costs. 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, net of tax, 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 US interest rates would impact the fair value of the interest rate swaps by \$0.1 million, net of tax, with this change in fair value being recorded in net income. As at December 31, 2009, holding

Edgar Filing: North American Energy Partners Inc. - Form 6-K

all other variables constant, a 100 basis point increase (decrease) of Canadian to US interest rate volatility would impact the fair value of the interest rate swaps by \$nil, net of tax, with this change in fair value being recorded in net income.

At December 31, 2009, we held \$30.0 million of floating rate debt pertaining to our term facility within our amended and restated credit facility (March 31, 2009 \$nil). As at December 31, 2009, holding all other variables constant, a

Table of Contents

Restated Interim Management's Discussion and Analysis

100 basis point increase (decrease) to interest rates on floating rate debt would result in a \$0.3 million increase (decrease) in effective annual interest costs. This assumes that the amount of floating rate debt remains unchanged from that which was held at December 31, 2009.

G. General Matters

Our executive head office is located at Suite 2400, 500 4th Avenue SW, Calgary, Alberta, T2P 2V6. Our executive head office telephone and facsimile numbers are 403-767-4825 and 403-767-4849, respectively.

Our corporate office is located at Zone 3, Acheson Industrial Area, #2, 53016 Hwy 60, Acheson, Alberta, T7X 5A7. Our telephone and facsimile numbers are 780-960-7171 and 780-960-7103, respectively.

Additional Information

Additional information relating to us, including our Annual Information Form dated June 10, 2010, can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR) database at www.sedar.com, the Securities and Exchange Commission's website at www.sec.gov and our company's web site at www.nacg.ca.

Table of Contents

NORTH AMERICAN ENERGY PARTNERS INC.

CANADIAN SUPPLEMENT TO:

Restated Interim Management's Discussion and Analysis

For the three and nine months ended December 31, 2009

This document supplements the Restated Interim Management's Discussion and Analysis for the three and nine months ended December 31, 2009 and has been prepared pursuant to Section 5.2 of National Instrument 51-102-

Continuous Disclosure Obligations

Table of Contents

Canadian Supplement to Restated Interim Management's Discussion and Analysis

For the three and nine months ended December 31, 2009

Summary of differences between US GAAP and Canadian GAAP

June 10, 2010

The interim unaudited consolidated financial statements for the three and nine months ended December 31, 2009 and the accompanying interim Management's Discussion and Analysis (MD&A) have been restated in accordance with US generally accepted accounting principles (GAAP). As required by the National Instrument 52-107, for the fiscal year of adoption of US GAAP and one subsequent fiscal year, we are required to provide a Canadian Supplement to our MD&A (Canadian Supplement) 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. The Canadian Supplement should be read in conjunction with our restated unaudited financial statements and restated interim MD&A included in our interim report for the three and nine months ended December 31, 2009 prepared in accordance with US GAAP (Restated Interim Report) and our annual financial statements for the year ended March 31, 2010 and related MD&A included in our annual report for the fiscal year ended March 31, 2010 (Annual Report). Note 25 of our interim restated financial statements explains and quantifies the material differences between US GAAP and Canadian GAAP on our financial position and results of operations.

This supplement has been prepared as of February 1, 2010 and has not been updated to reflect new facts, events or circumstances since that date, except where denoted herein.

The tables in this supplement highlight the differences between Canadian and US GAAP. We have shown the Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit for the three and nine months ended December 31, 2009 and an extract of the Interim Consolidated Balance Sheets as at December 31, 2009, so that the areas impacted by the GAAP differences can be clearly identified. Figures included in this supplement are in thousands of Canadian dollars, except per share information.

Table of Contents**Canadian Supplement to Restated Interim Management's Discussion and Analysis****Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit**

(dollars in thousands, except per share information)	Three months ended December 31,						
	2009 Canadian GAAP	(restated (j) GAAP)	Adjustments	2009 (US GAAP)	2008 (restated (j) Canadian GAAP)	Adjustments	2008 (US GAAP)
Revenue (g)	\$222,714		\$(1,539)	\$221,175	\$258,565	\$	\$258,565
Project costs (g)	90,322		(1,115)	89,207	129,912		129,912
Equipment costs	57,512			57,512	55,549		55,549
Equipment operating lease expense	16,287			16,287	11,934		11,934
Depreciation (a)	10,512		31	10,543	9,696	31	9,727
Gross profit	48,081		(455)	47,626	51,474	(31)	51,443
General and administrative costs (c) and (g)	14,847		(315)	14,532	19,156	14	19,170
Loss on disposal of property, plant and equipment	743			743	1,022		1,022
Loss on disposal of assets held for sale	649			649			
Amortization of intangible assets (b)	738		(210)	528	600	(209)	391
Equity in earnings of unconsolidated joint venture (g)			(98)	(98)			
Impairment of goodwill					32,753		32,753
Operating income (loss) before the undernoted	31,104		168	31,272	(2,057)	164	(1,893)
Interest expense, net (b)	6,127		637	6,764	6,774	545	7,319
Foreign exchange (gain) loss (b)	(5,403)		(46)	(5,449)	32,504	431	32,935
Realized and unrealized loss (gain) on derivative financial instruments (d)	7,618		392	8,010	(26,523)	(247)	(26,770)
Other expense (income)	471			471	(5,343)		(5,343)
Income (loss) before income taxes	22,291		(815)	21,476	(9,469)	(565)	(10,034)
Current income taxes	591			591	1,779		1,779
Deferred income taxes (h)	6,123		(174)	5,949	3,346	(195)	3,151
Net income (loss) and comprehensive income (loss) for the period	15,577		(641)	14,936	(14,594)	(370)	(14,964)
Deficit, beginning of the period	(141,418)		(2,461)	(143,879)	(6,638)	609	(6,029)
Deficit, end of the period	\$(125,841)		\$(3,102)	\$(128,943)	\$(21,232)	\$239	\$(20,993)
Per share information							
Net income (loss) basic	\$0.43		\$(0.02)	\$0.41	\$(0.41)	\$(0.01)	\$(0.42)
Net income (loss) diluted	\$0.43		\$(0.02)	\$0.41	\$(0.41)	\$(0.01)	\$(0.42)
EBITDA	\$39,668		\$(357)	\$39,311	\$7,601	\$(198)	\$7,403
Consolidated EBITDA (as defined within our credit agreement) (i)	\$43,844		\$	\$43,844	\$47,900	\$	\$47,900

Table of Contents**Canadian Supplement to Restated Interim Management's Discussion and Analysis**

(dollars in thousands, except per share information)	Nine months ended December 31,					
	2009 (restated (j) Canadian GAAP)	Adjustments	2009 (US GAAP)	2008 (restated (j) Canadian GAAP)	Adjustments	2008 (US GAAP)
Revenue (g)	\$540,927	\$(2,531)	\$538,396	\$797,836	\$	\$797,836
Project costs (g)	210,834	(1,928)	208,906	433,504		433,504
Equipment costs	147,915		147,915	168,746		168,746
Equipment operating lease expense	44,320		44,320	30,317		30,317
Depreciation (a)	30,600	93	30,693	27,700	93	27,793
Gross profit	107,258	(696)	106,562	137,569	(93)	137,476
General and administrative costs (c) and (g)	43,928	(502)	43,426	57,717	43	57,760
Loss on disposal of property, plant and equipment	1,044		1,044	3,778		3,778
Loss on disposal of assets held for sale	373		373	24		24
Amortization of intangible assets (b)	2,061	(623)	1,438	1,676	(627)	1,049
Equity in earnings of unconsolidated joint venture (g)		(66)	(66)			
Impairment of goodwill				32,753		32,753
Operating income before the undernoted	59,852	495	60,347	41,621	491	42,112
Interest expense, net (b)	17,885	1840	19,725	19,663	1,613	21,276
Foreign exchange (gain) loss (b)	(42,480)	(450)	(42,930)	39,099	522	39,621
Realized and unrealized loss (gain) on derivative financial instruments (d)	40,465	2,720	43,185	(21,171)	(4,655)	(25,826)
Other expense (income)	804		804	(5,364)		(5,364)
Income before income taxes	43,178	(3,615)	39,563	9,394	3,011	12,405
Current income taxes	1,855		1,855	1,842		1,842
Deferred income taxes (h)	9,185	(639)	8,546	8,682	173	8,855
Net income (loss) and comprehensive income (loss) for the period	32,138	(2,976)	29,162	(1,130)	2,838	1,708
Deficit, beginning of the period	(157,979)	(126)	(158,105)	(21,093)	(1,608)	(22,701)
Change in accounting policies related to inventories (f)				991	(991)	
Deficit, end of the period	\$(125,841)	(3,102)	\$(128,943)	\$(21,232)	239	\$(20,993)
Per share information						
Net income (loss) basic	\$0.89	\$(0.08)	\$0.81	\$(0.03)	\$0.08	\$0.05
Net income (loss) diluted	\$0.87	\$(0.08)	\$0.79	\$(0.03)	\$0.07	\$0.05
EBITDA	\$93,724	\$(2,305)	\$91,419	\$58,433	\$4,090	\$62,523
Consolidated EBITDA (as defined within our credit agreement) (i)	\$95,216	\$	\$95,216	\$114,255	\$	\$114,255

Table of Contents**Canadian Supplement to Restated Interim Management's Discussion and Analysis****Extract of the Interim Consolidated Balance Sheets**

The following table highlights the differences between Canadian and US GAAP on the Interim Consolidated Balance Sheets. We have focused on the line items that have been impacted by the GAAP differences.

(dollars in thousands, except per share information)	December 31, 2009 (restated (j))		December 31, 2009 (US GAAP)	March 31, 2009 (restated (j))		March 31, 2009 (US GAAP)
	Canadian GAAP	Adjustments		Canadian GAAP	Adjustments	
Cash and cash equivalents (g)	\$96,443	\$(1,566)	\$94,877	\$98,880	\$	\$98,880
Accounts receivable, net (g)	91,716	(1,852)	89,864	78,323		78,323
Unbilled revenue (g)	82,232	(835)	81,397	55,907		55,907
Prepaid expenses and deposits (g)	7,982	(14)	7,968	4,781		4,781
Property, plant and equipment (a)	333,016	566	333,582	315,455	660	316,115
Intangible assets (b)	8,380	(1,260)	7,120	6,711	(767)	5,944
Deferred financing costs (b)		6,544	6,544		7,910	7,910
Investment in and advances to unconsolidated joint venture (g)		2,939	2,939			
Accounts payable (g)	(78,097)	1,328	(76,769)	(56,204)		(56,204)
Senior notes (b) and (d)	(204,953)	(4,483)	(209,436)	(252,899)	(2,857)	(255,756)
Deferred tax liabilities (h)	(36,678)	(785)	(37,463)	(29,322)	(1,423)	(30,745)
Common shares (e)	(299,973)	(3,458)	(303,431)	(299,973)	(3,458)	(303,431)
Additional paid-in capital (c) and (h)	(7,135)	(226)	(7,361)	(5,275)	(191)	(5,466)
Deficit (a) (d) and (f) (h)	125,841	3,102	128,943	157,979	126	158,105

Canadian and United States accounting policies differences

A detailed reconciliation of our results for the third quarter 2010 is included in note 25 of our interim consolidated financial statements for the three and nine months ended December 31, 2009.

The differences between US GAAP and Canadian GAAP that have the most significant impact on our financial position and results of operations for the three and nine months ended December 31, 2009, include accounting for: capitalization of interest, financing costs, discounts and premiums, derivative financial instruments, stock-based compensation and modification of Series B Preferred Shares.

a) Capitalization of interest

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.

b) 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.

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

Edgar Filing: North American Energy Partners Inc. - Form 6-K

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 Facility as deferred financing costs on the Consolidated Balance Sheets with the amortization charge classified as interest on the Consolidated Statement 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.

Table of Contents**Canadian Supplement to Restated Interim Management's Discussion and Analysis***c) 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 our 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.

d) 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 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 US GAAP, ASC 815 (formerly Statement of Financial Accounting Standards 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.

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 \$9.7 million, with a corresponding increase in opening deficit of \$7.0 million, net of future income taxes of \$2.8 million for Canadian GAAP purposes. Under US GAAP, we 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 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, 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 US 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 US GAAP, NAEPI 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 NAEPI as a charge to minority interest

Edgar Filing: North American Energy Partners Inc. - Form 6-K

(as opposed to retained earnings in the accounts of NAEPI) under US GAAP and interest expense in NAEPI's financial statements under Canadian GAAP.

On November 28, 2006, NAEPI 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, NAEPI 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

Table of Contents

Canadian Supplement to Restated Interim Management's Discussion and Analysis

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.

f) 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 \$0.1 million net of future 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. Please refer to note 3 aa) of our restated interim consolidated financial statements for the three and nine months ended December 31, 2009.

g) Joint venture

We own a 49% interest in Noramac Ventures Inc., a nominee company for our Noramac Joint Venture (JV) and we have joint control of this entity. Under US GAAP, we record our share of earnings 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.

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 US GAAP. In addition, Canadian GAAP generally refers to additional paid-in capital as contributed surplus for financial statement presentation purposes.

i) Consolidated EBITDA

A difference arises in computing EBITDA for the three and nine months ended December 31, 2009 and December 31, 2008 respectively as result of US GAAP and Canadian GAAP differences stated above (a) to (d) and (f). Under US GAAP, equity in earnings of unconsolidated joint venture is added back in computing consolidated EBITDA for the three and nine months ended December 31, 2009 and December 31, 2008 respectively.

j) 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 our fiscal 2010 financial statements:

Edgar Filing: North American Energy Partners Inc. - Form 6-K

- 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 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) **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 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

Table of Contents**Canadian Supplement to Restated Interim Management's Discussion and Analysis**

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) Future 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 Future income taxes by \$0.1 million and \$0.2 million, and increased Net Income 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 Future income taxes 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 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 Future income taxes 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.

Management's discussion and analysis under US GAAP

Please refer to our restated interim consolidated financial statements for the three and nine months ended December 31, 2009 and our accompanying Management's Discussion and Analysis (MD&A) under US GAAP. The differences between US GAAP and Canadian GAAP, described above, impact the discussion and analysis in several sections of our restated MD&A.

Additional information

The consolidated financial statements and additional information relating to us, including our Annual Information Form dated June 10, 2010, are available on the Canadian Securities Administrators' SEDAR System at www.sedar.com, the Securities and Exchange Commission's website at www.sec.gov and our company web site at www.nacg.ca.

Table of Contents

FORM 52-109F2R

CERTIFICATION OF REFILED INTERIM FILINGS

This certificate is being filed on the same date that North American Energy Partners Inc. (the issuer) has refiled the interim unaudited consolidated financial statements, accompanying notes and interim MD&A for the interim period ended December 31, 2009 in conformity with US GAAP, as required by applicable securities law in connection with the preparation of its financial statements for the year ended March 31, 2010 in conformity with US GAAP.

I, Rodney J. Ruston, the Chief Executive Officer of North American Energy Partners Inc., certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the interim filings) of the issuer for the interim period ended December 31, 2009.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Control framework: The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is COSO and COBIT.

5.2 **ICFR material weakness relating to design:** The issuer has disclosed in its interim MD&A for each material weakness relating to design existing at the end of the interim period

(a) a description of the material weakness;

(b) the impact of the material weakness on the issuer's financial reporting and its ICFR; and

(c) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

5.3 **Limitation on scope of design:** N/A

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: June 10, 2010

/s/ Rodney J. Ruston
Chief Executive Officer

Table of Contents

FORM 52-109F2R

CERTIFICATION OF REFILED INTERIM FILINGS

This certificate is being filed on the same date that North American Energy Partners Inc. (the issuer) has refiled the interim unaudited consolidated financial statements, accompanying notes and interim MD&A for the interim period ended December 31, 2009 in conformity with US GAAP, as required by applicable securities law in connection with the preparation of its financial statements for the year ended March 31, 2010 in conformity with US GAAP.

I, David Blackley, the Chief Financial Officer of North American Energy Partners Inc., certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the interim filings) of the issuer for the interim period ended December 31, 2009.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1

Edgar Filing: North American Energy Partners Inc. - Form 6-K

Control framework: The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is COSO and COBIT.

5.2 **ICFR material weakness relating to design:** The issuer has disclosed in its interim MD&A for each material weakness relating to design existing at the end of the interim period

(a) a description of the material weakness;

(b) the impact of the material weakness on the issuer's financial reporting and its ICFR; and

(c) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

5.3 **Limitation on scope of design:** N/A

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: June 10, 2010

/s/ David Blackley
Chief Financial Officer