North American Energy Partners Inc.
Form 6-K
February 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of February 2009

Commission File Number 001-33161

NORTH AMERICAN ENERGY PARTNERS INC.

Zone 3 Acheson Industrial Area

2-53016 Highway 60

Acheson, Alberta

Canada T7X 5A7

(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 _X_

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): ____

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, 2008.

2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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SIGNATURES

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

NORTH AMERICAN ENERGY PARTNERS INC.

By: /s/ Peter Dodd
Name: Peter Dodd
Title: Chief Financial Officer

Date: February 5, 2009

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NORTH AMERICAN ENERGY PARTNERS INC.

Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2008

(Expressed in thousands of Canadian dollars)

(Unaudited)

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NORTH AMERICAN ENERGY PARTNERS INC.

Interim Consolidated Balance Sheets

(In thousands of Canadian dollars)	December 31, 2008 (Unaudited)	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,309	$ 32,871
Accounts receivable	143,248	166,002
Unbilled revenue	60,657	70,883
Inventory (note 3(c))	15,210	110
Prepaid expenses and deposits	6,817	9,300
Other assets (note 3(c))		3,703
Future income taxes	2,488	8,217
	270,729	291,086
Future income taxes	13,317	18,199
Assets held for sale	1,206	1,074
Plant and equipment (note 6)	338,749	281,039
Goodwill (note 4)	167,319	200,072
Intangible assets, net of accumulated amortization of $2,927 (March 31, 2008 $2,105)	1,306	2,128
	$ 792,626	**$ 793,598**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 93,321	$ 113,143
Accrued liabilities	29,872	45,078
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	6,842	4,772
Current portion of capital lease obligations	10,202	4,733
Current portion of derivative financial instruments (note 11(a))	12,226	4,720
Future income taxes	10,387	10,907
	162,850	183,353
Deferred lease inducements	862	941
Capital lease obligations	12,962	10,043
Director deferred stock unit liability	380	190
Senior notes (note 7(b))	244,214	198,245
Derivative financial instruments (note 11(a))	55,774	93,019
Asset retirement obligation (note 8)	470	
Future income taxes	25,269	24,443
	502,781	510,234
Shareholders equity:		
Common shares (authorized unlimited number of voting and non-voting common shares; issued and outstanding 36,038,476 voting common shares (March 31, 2008 35,929,476 voting common shares) (note 9(a))	299,973	298,436
Contributed surplus (note 9(b))	4,993	4,215
Deficit	(15,121)	(19,287)
	289,845	283,364

Revolving credit facility (note 7(a))		
	$ 792,626	**$ 793,598**

See accompanying notes to unaudited interim consolidated financial statements.

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NORTH AMERICAN ENERGY PARTNERS INC.

Interim Consolidated Statements of Operations, Comprehensive (Loss) Income and Deficit

(In thousands of Canadian dollars, except per share amounts)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
(Unaudited)		Restated (See note 5)		Restated (See note 5)
Revenue	**$ 258,565**	**$ 274,894**	**$ 797,836**	**$ 666,096**
Project costs	129,912	167,323	433,504	397,262
Equipment costs	55,549	44,231	162,146	131,582
Equipment operating lease expense	11,934	4,825	30,317	12,329
Depreciation	10,178	7,885	29,004	24,179
Gross profit	**50,992**	**50,630**	**142,865**	**100,744**
General and administrative costs	19,156	17,009	57,717	48,996
Loss on disposal of plant and equipment	1,022	5	3,778	850
Loss on disposal of asset held for sale			24	316
Amortization of intangible assets	268	443	822	766
Impairment of goodwill (note 4)	32,753		32,753	
Operating (loss) income before the undernoted	**(2,207)**	**33,173**	**47,771**	**49,816**
Interest expense (note 10)	6,774	7,399	19,663	20,333
Foreign exchange loss/(gain)	32,504	(1,784)	39,099	(33,136)
Realized and unrealized (gain)/loss on derivative financial instruments (note 11(a))	(26,523)	(4,510)	(21,171)	36,690
Other income (note 11(b))	(5,343)	(115)	(5,364)	(351)
(Loss) income before income taxes	**(9,619)**	**32,183**	**15,544**	**26,280**
Income taxes (note 13(c)):				
Current income taxes	1,779	8	1,842	29
Future income taxes	3,301	7,469	10,527	6,951
Net (loss) income and comprehensive (loss) income for the period	**(14,699)**	**24,706**	**3,175**	**19,300**
Deficit, beginning of period as previously reported	(422)	(64,477)	(19,287)	(55,526)
Change in accounting policy related to financial instruments (note 5)				(3,545)
Change in accounting policy related to inventory (note 3(c))			991	
Deficit, end of period	**$ (15,121)**	**$ (39,771)**	**$ (15,121)**	**$ (39,771)**
Net (loss) income per share basic (note 9(c))	**$ (0.41)**	**$ 0.69**	**$ 0.09**	**$ 0.54**
Net (loss) income per share diluted (note 9(c))	**$ (0.41)**	**$ 0.67**	**$ 0.09**	**$ 0.52**

See accompanying notes to unaudited interim consolidated financial statements.

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NORTH AMERICAN ENERGY PARTNERS INC.

Interim Consolidated Statements of Cash Flows

(In thousands of Canadian dollars) (Unaudited)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007 Restated (See note 5)	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007 Restated (See note 5)
Cash provided by (used in):				
Operating activities:				
Net (loss) income for the period	$ (14,699)	$ 24,706	$ 3,175	$ 19,300
Items not affecting cash:				
Depreciation	10,178	7,885	29,004	24,179
Write-down of other assets to replacement cost				1,848
Amortization of intangible assets	268	443	822	766
Amortization of deferred lease inducements	(26)	(26)	(79)	(78)
Loss on disposal of plant and equipment	1,022	5	3,778	850
Loss on disposal of assets held for sale			24	316
Impairment of goodwill (note 4)	32,753		32,753	
Unrealized foreign exchange loss/(gain) on senior notes	32,509	(1,612)	38,825	(32,626)
Amortization of bond issue costs, premiums and financing costs	219	162	577	669
Unrealized change in the fair value of derivative financial instruments	(27,189)	(5,177)	(23,172)	34,688
Stock-based compensation expense (note 15)	497	276	1,803	1,023
Accretion expense asset retirement obligation (note 8)	53		159	
Future income taxes	3,301	7,469	10,527	6,951
Net changes in non-cash working capital (note 13(b))	24,377	(1,294)	(10,702)	3,531
	63,263	**32,837**	**87,494**	**61,417**
Investing activities:				
Acquisition, net of cash acquired				(1,581)
Purchase of plant and equipment	(9,369)	(8,021)	(84,895)	(51,566)
Additions to assets held for sale	(350)		(350)	(2,248)
Proceeds on disposal of plant and equipment	3,173	120	7,821	4,036
Proceeds on disposal of assets held for sale			194	10,200
Net changes in non-cash working capital (note 13(b))	(2,068)	(18,976)	3,191	(4,727)
	(8,614)	**(26,877)**	**(74,039)**	**(45,886)**
Financing activities:				
Cheques issued in excess of cash deposits	(311)			
(Decrease) increase in revolving credit facility	(10,000)	20,000		(500)
Repayment of capital lease obligations	(2,029)	(900)	(4,719)	(2,508)
Issue of common shares		859		1,599
Stock options exercised (note 9(a))			702	
Financing costs		(7)		(774)
	(12,340)	**19,952**	**(4,017)**	**(2,183)**
Increase in cash and cash equivalents	**42,309**	**25,912**	**9,438**	**13,348**
Cash and cash equivalents, beginning of period		(4,669)	32,871	7,895
Cash and cash equivalents, end of period	**$ 42,309**	**$ 21,243**	**$ 42,309**	**$ 21,243**

Supplemental cash flow information (note 13(a))

See accompanying notes to unaudited interim consolidated financial statements.

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NORTH AMERICAN ENERGY PARTNERS INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2008

(Amounts in thousands of Canadian dollars, except per share amounts or unless otherwise specified)

(Unaudited)

1. Nature of operations

North American Energy Partners Inc. was incorporated under the Canada Business Corporations Act on October 17, 2003. On November 26, 2003, North American Energy Partners Inc. (the Company) purchased all of 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 and substantially all of the plant and equipment, prepaids and accounts payable of North American Equipment Ltd. 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, pipeline and piling installations in Canada.

2. Basis of presentation

These unaudited interim consolidated financial statements (the financial statements) are prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and do not include all of the disclosures normally contained in the Company s annual consolidated financial statements. Since the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. Except as disclosed in note 3, these financial statements follow the same significant accounting policies as described and used in the most recent annual consolidated financial statements of the Company for the year ended March 31, 2008 and should be read in conjunction with those consolidated financial statements.

These financial statements include the accounts of the Company, its wholly-owned subsidiaries, NACGI and NACG Finance LLC, the Company s joint venture, Noramac Ventures Inc. and the following 100% owned subsidiaries of NACGI:

- North American Caisson Ltd.
- North American Construction Ltd.
- North American Engineering Ltd.
- North American Enterprises Ltd.
- North American Industries Inc.
- North American Mining Inc.
- North American Maintenance Ltd.
- North American Pipeline Inc.
- North American Road Inc.
- North American Services Inc.
- North American Site Development Ltd.
- North American Site Services Inc.
- North American Pile Driving Inc.

3. Recently adopted Canadian accounting pronouncements

a) Financial instruments disclosure and presentation

Effective April 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments Disclosures , which replaces disclosure guidance in CICA Handbook Section 3861 and provides expanded disclosure requirements that enable users to evaluate the significance of financial instruments on the entity s financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. This standard harmonizes

NORTH AMERICAN ENERGY PARTNERS INC.

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(Amounts in thousands of Canadian dollars, except per share amounts or unless otherwise specified)

(Unaudited)

disclosures with International Financial Reporting Standards. The Company has provided the required disclosures in note 11 to its interim consolidated financial statements for the three and nine months ended December 31, 2008.

Effective April 1, 2008, the Company adopted CICA Handbook Section 3863, Financial Instruments Presentation , which carries forward presentation guidance in CICA Handbook Section 3861. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. The adoption of this standard did not have a material impact on the presentation of financial instruments in the Company s financial statements.

b) Capital disclosures

Effective April 1, 2008, the Company prospectively adopted CICA Handbook Section 1535, Capital Disclosures , which requires disclosure of qualitative and quantitative information that enables users to evaluate the Company s objectives, policies and process for managing capital. The Company has provided the required disclosures in note 12 to its interim consolidated financial statements for the three and nine months ended December 31, 2008.

c) 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 is 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. To adopt the 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. The Company then reclassified $5,086 of tires and spare component parts from Other assets to Inventory . As at December 31, 2008, inventory is comprised of tires and spare component parts of $13,152 and job materials of $2,058. The Company carries inventory at the lower of weighted average cost and net realizable value. The carrying amount of inventory pledged as security for borrowings under the revolving credit facility (note 7 (a)) is approximately $15,210 as at December 31, 2008. The adoption of this standard did not have a significant impact on net (loss) income for the three and nine months ended December 31, 2008.

d) Recent Canadian accounting pronouncements not yet adopted

i. Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets , which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, 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

NORTH AMERICAN ENERGY PARTNERS INC.

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For the three and nine months ended December 31, 2008

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(Unaudited)

intangible assets, are equivalent to the corresponding provisions of International Accounting Standard IAS 38, Intangible Assets. This new standard is effective for the Company s interim and annual consolidated financial statements commencing April 1, 2009. The Company is currently evaluating the impact of this standard.

4. Goodwill

In accordance with the Company s accounting policy, a goodwill impairment test is completed annually on October 1 of each fiscal year or whenever events or changes in circumstances indicate that an impairment may exist. The Company conducted its annual goodwill impairment test on October 1, 2008 and concluded that the fair value of each of its reporting segments exceeded carrying amount. However, at December 31, 2008, based on adverse changes in the Company s principal markets, the recent decline in the Company s market capitalization and updated long-term financial forecasts, which resulted in lower near-term and longer-term revenues and cash flows for each reporting unit, the Company concluded that an interim test for impairment of goodwill was appropriate.

In performing the goodwill assessment at December 31, 2008, the Company considered discounted cash flows, market capitalization and other factors, including observable market data to determine the fair value of each reporting unit. Although implied market comparable valuation multiples and transaction premiums were considered in the analysis, there are significant differences in the products, services, and operating characteristics of the reporting units as compared to a set of selected comparable companies. As a result, the Company relied primarily on the discounted cash flow method, using management projections for each reporting unit and risk-adjusted discount rates to determine fair value. Expected cash flows of each of the reporting units were discounted using estimated discount rates ranging from 18.0% to 27.0% to calculate fair value. As a result of this analysis, the Company concluded that the carrying value of the Pipeline Operating Segment (also a separate reporting unit) exceeded its fair value and the Company recorded an impairment charge of $32,753, calculated as the difference between the carrying value of goodwill of the Pipeline Operating Segment and its implied fair value of the Pipeline Operating Segment of $nil at December 31, 2008. The implied fair value of goodwill was determined in the same manner as the value of goodwill is determined in a business combination. The impairment charge is included in the caption Impairment of goodwill in the Consolidated Statement of Operations, Comprehensive (Loss) Income and Deficit during the three and nine months period ended December 31, 2008.

At December 31, 2008, the Company determined that there was no impairment to any other reporting units as their fair values exceeded their carrying values. However, given conditions in the financial markets and the global economic downturn and their current impact on the Company s principal markets, events or changes on circumstances could occur in the future, which may cause actual performance in the near-term and/or longer-term to be materially different from current forecasts and may result in further impairment of goodwill. Circumstances that would require us to perform an interim test for impairment of goodwill include further updates to our long-term financial forecasts resulting in lower near-term and longer-term revenue and cash flow forecasts for all our operating segments, actual performance being materially different from our forecasts, continued adverse changes in our principal market; and a continuing weakness and/or declines in our market capitalization.

The change in goodwill during the nine months ended is as follows:

For the nine months ended	December 31, 2008
Balance, beginning of period	$ 200,072
Impairment of goodwill	(32,753)

Balance, end of period	$ 167,319

NORTH AMERICAN ENERGY PARTNERS INC.

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(Amounts in thousands of Canadian dollars, except per share amounts or unless otherwise specified)

(Unaudited)

5. Restatement

In preparing the financial statements for the year ended March 31, 2008, the Company determined that its previously issued interim unaudited consolidated financial statements for the three and nine months ended December 31, 2007 did not properly account for an embedded derivative that is not closely related to the host contract with respect to price escalation features in a supplier maintenance contract. As disclosed in the annual consolidated statements, the Company has restated its original transition adjustment on adoption of CICA Handbook Section 3855, Financial Instruments Recognition and Measurement disclosed in the financial statements for the three and nine months ended December 31, 2007 and recorded the fair value of this embedded derivative liability of $2,474 on April 1, 2007, with a corresponding increase in the opening deficit of $1,769, net of future income taxes of $705.

The embedded derivative is measured at fair value and included in derivative financial instruments on the consolidated balance sheet with changes in fair value recognized in net income since April 1, 2007 and the comparative figures for the three and nine months ended December 31, 2007 have been restated to account for this embedded derivative.

The impact of this restatement on the Interim Consolidated Statements of Operations, Comprehensive (Loss) Income and Deficit is as follows:

Three Months Ended December 31, 2007	As Previously Reported	Adjustments	As Restated
Realized and unrealized gain on derivative financial instruments	$ (5,419)	$ 909	$ (4,510)
Future income taxes	7,707	(238)	7,469
Net income	25,377	(671)	24,706
Deficit, beginning of period	(65,557)	1,080	(64,477)
Deficit, end of period	(40,180)	409	(39,771)
Basic net income per share	0.71	(0.02)	0.69
Diluted net income per share	0.69	(0.02)	0.67

Nine Months Ended December 31, 2007	As Previously Reported	Adjustments	As Restated
Realized and unrealized loss on derivative financial instruments	$ 39,766	$ (3,076)	$ 36,690
Future income taxes	6,053	898	6,951
Net income	17,122	2,178	19,300
Change in accounting policy related to financial instruments	(1,776)	(1,769)	(3,545)
Deficit, end of period	(40,180)	409	(39,771)
Basic net income per share	0.48	0.06	0.54
Diluted net income per share	0.46	0.06	0.52

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(Unaudited)

The impact of this restatement on the Interim Consolidated Balance Sheets is as follows:

As at December 31, 2007	As Previously Reported	Adjustments	As Restated
Derivative financial instruments	$ 101,316	$ (602)	$ 100,714
Future income taxes (long-term asset)	30,059	(193)	29,866
Deficit	(40,180)	409	(39,771)

The impact of this restatement on the Interim Consolidated Statements of Cash Flows is as follows:

Three Months Ended December 31, 2007	As Previously Reported	Adjustments	As Restated
Net income	$ 25,377	$ (671)	$ 24,706
Unrealized change in fair value of derivative financial instruments	(6,086)	909	(5,177)
Future income taxes	7,707	(238)	7,469

Nine Months Ended December 31, 2007	As Previously Reported	Adjustments	As Restated
Net income	$ 17,122	$ 2,178	$ 19,300
Unrealized change in fair value of derivative financial instruments	37,764	(3,076)	34,688
Future income taxes	6,053	898	6,951

6. Plant and equipment

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Heavy equipment	$ 324,660	$ 72,749	$ 251,911
Major component parts in use	21,283	2,178	19,105
Other equipment	21,442	7,692	13,750
Licensed motor vehicles	11,549	7,002	4,547
Office and computer equipment	12,083	4,959	7,124
Buildings	20,128	4,557	15,571
Leasehold improvements	6,475	1,640	4,835
Assets under capital lease	33,338	11,432	21,906
	$ 450,958	$ 112,209	$ 338,749

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NORTH AMERICAN ENERGY PARTNERS INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2008

(Amounts in thousands of Canadian dollars, except per share amounts or unless otherwise specified)

(Unaudited)

March 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Heavy equipment	$ 281,975	$ 62,539	$ 219,436
Major component parts in use	12,291	4,797	7,494
Other equipment	17,086	6,232	10,854
Licensed motor vehicles	8,981	6,110	2,871
Office and computer equipment	9,016	3,479	5,537
Buildings	19,530	3,443	16,087
Leasehold improvements	6,272	1,107	5,165
Assets under capital lease	23,271	9,676	13,595
	$ 378,422	$ 97,383	$ 281,039

During the three and nine months ended December 31, 2008, additions of plant and equipment included $7,991 and $13,107, respectively, for capital leases (three and nine months ended December 31, 2007 $4,255 and $4,553 respectively). Depreciation of equipment under capital leases of $1,337 and $3,570 for the three and nine months ended December 31, 2008, respectively is included in depreciation expense (three and nine months ended December 31, 2007 $783 and $1,929 respectively).

7. Debt

a) Revolving credit facility

On June 7, 2007, the Company modified its amended and restated credit agreement to provide for borrowings of up to $125.0 million (previously $55.0 million) under which revolving loans and letters of credit may be issued. This facility matures on June 7, 2010. Advances under the revolving credit facility may be repaid from time to time at the option of the Company. Based upon the Company s current credit rating, prime rate revolving loans under the agreement will bear interest at the Canadian prime rate plus 0.25% per annum, Canadian bankers acceptances have stamping fees equal to 1.75% per annum and letters of credit are subject to a fee of 1.25% per annum.

This credit facility is secured by a first priority lien on substantially all 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.

As of December 31, 2008, the Company had outstanding borrowings of $nil (March 31, 2008 $nil) under the revolving credit facility and had issued $20.8 million in letters of credit to support performance guarantees associated with customer contracts. The funds available under the revolving credit facility are reduced for any outstanding letters of credit. The Company s borrowing availability under the facility was $104.2 million at December 31, 2008.

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NORTH AMERICAN ENERGY PARTNERS INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2008

(Amounts in thousands of Canadian dollars, except per share amounts or unless otherwise specified)

(Unaudited)

b) Senior notes

	December 31, 2008	March 31, 2008
Principal outstanding of 8 3/4% senior unsecured notes due in 2011 ($US)	$ 200,000	$ 200,000
Unrealized foreign exchange	44,920	5,574
Unamortized bond issue costs, financing costs and premiums, net	(3,003)	(3,059)
Fair value of embedded prepayment and early redemption options	2,297	(4,270)
	$ 244,214	$ 198,245

The 8 3/4% senior notes were issued on November 26, 2003 in the amount of U.S. $200 million (Canadian $263 million). These notes mature on December 1, 2011 with interest payable semi-annually on June 1 and December 1 of each year.

The 8 3/4% 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 8 3/4% senior notes are redeemable at the option of the Company, in whole or in part, at any time on or after: December 1, 2007 at 104.4% of the principal amount; December 1, 2008 at 102.2% of the principal amount; December 1, 2009 at 100.0% of the principal amount; plus, in each case, interest accrued to the redemption date.

If a change of control occurs, the Company will be required to offer to purchase all or a portion of each holder s 8 3/4% 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.

As at December 31, 2008, the Company s effective weighted average interest rate on its 8 3/4% senior notes, including the effect of financing costs and premiums, net, was approximately 9.42%.

8. Asset retirement obligation

During the quarter ended June 30, 2008, the Company recorded an asset retirement obligation related to the future retirement of a facility on leased land. Accretion expense associated with this obligation is included in equipment costs in the Interim Consolidated Statements of Operations, Comprehensive (Loss) Income and Deficit.

The following table presents the reconciliation of the liability for the asset retirement obligation:

At December 31, 2008	Amount
Balance, beginning of period	$

Obligation relating to the future retirement of a facility on leased land	311
Accretion expense	159
Balance, end of period	$ 470

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NORTH AMERICAN ENERGY PARTNERS INC.

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(Amounts in thousands of Canadian dollars, except per share amounts or unless otherwise specified)

(Unaudited)

At December 31, 2008, estimated undiscounted cash flows required to settle the obligation were $1,454. The credit adjusted risk-free rate assumed in measuring the asset retirement obligation was 8.94%. The Company expects to settle this obligation in 2021.

9. Shares

a) Common shares

Authorized:

Unlimited number of common voting shares

Unlimited number of common non-voting shares

Issued:

	Number of Shares	Amount
Common voting shares		
Outstanding at March 31, 2008	35,929,476	$ 298,436
Issued on exercise of options	109,000	702
Transferred from contributed surplus on exercise of options		835
Outstanding at December 31, 2008	36,038,476	$ 299,973

b) Contributed surplus

Balance, March 31, 2008	$ 4,215
Stock-based compensation (note 15)	1,391
Deferred performance share unit plan (note 15)	222
Transferred to common shares on exercise of options	(835)
Balance, December 31, 2008	$ 4,993

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(Unaudited)

c) Net (loss) income per share

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007 (Restated note 5)	2008	2007 (Restated note 5)
Basic net (loss) income per share				
Net (loss) income available to common shareholders	$ (14,699)	$ 24,706	$ 3,175	$ 19,300
Weighted average number of common shares	36,038,476	35,809,141	36,015,172	35,744,406
Basic net (loss) income per share	$ (0.41)	$ 0.69	$ 0.09	$ 0.54
Diluted net (loss) income per share				
Net (loss) income available to common shareholders	$ (14,699)	$ 24,706	$ 3,175	$ 19,300
Weighted average number of common shares	36,038,476	35,809,141	36,015,172	35,744,406
Dilutive effect of:				
Stock options		919,297	668,687	1,110,011
Weighted average number of diluted common shares	36,038,476	36,728,438	36,683,859	36,854,417
Diluted net (loss) income per share	$ (0.41)	$ 0.67	$ 0.09	$ 0.52

For the three months ended December 31, 2008, the effect of outstanding stock options on loss per share was anti-dilutive. As such, the effect of outstanding stock options used to calculate the diluted net loss per share has not been disclosed.

10. Interest expense

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Interest on senior notes	$ 5,834	$ 5,834	$ 17,503	$ 17,503
Amortization of bond issue costs and premiums	219	162	577	669
Interest on revolving credit facility	116	270	206	457
Interest on capital lease obligations	341	165	887	497

Interest on long-term debt	6,510	6,431	19,173	19,126
Other interest	264	968	490	1,207
	$ 6,774	$ 7,399	$ 19,663	$ 20,333

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11. Financial instruments and risk management

a) Fair value and classification of financial instruments

Based on the measurement categories set out in CICA Handbook Section 3855, Financial Instruments Recognition and Measurement , the Company s financial instruments are classified as follows:

Cash and cash equivalents are classified as financial assets held for trading and are recorded at fair value, with realized and unrealized gains and losses reported in net income;

Accounts receivable and unbilled revenue are classified as loans and receivables and are initially recorded at fair value and subsequent to initial recognition are accounted for at amortized cost using the effective interest method;

The Company has classified cheques issued in excess of cash deposits, amounts due under its revolving credit facility, accounts payable, accrued liabilities, and senior notes as other financial liabilities. Other financial liabilities are accounted for on initial recognition at fair value and subsequent to initial recognition at amortized cost using the effective interest method with gains and losses reported in net income in the period that the liability is derecognized; and

Derivative financial instruments, including non-financial derivatives, are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in the Consolidated Statement of Operations, Comprehensive Income (Loss) and Deficit, unless exempted from derivative treatment as a normal purchase or sale.

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 accounts receivable, unbilled revenue, cheques issued in excess of cash deposits, 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 credit 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 loans with similar terms. Based on these estimates and by using the outstanding balance of $nil at December 31, 2008 and March 31, 2008, the fair value of amounts due under the revolving credit facility as at December 31, 2008 and March 31, 2008 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 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.

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Asset (Liability)	December 31, 2008 Carrying Amount	December 31, 2008 Fair Value	March 31, 2008 Carrying Amount	March 31, 2008 Fair Value
Senior notes(i)	$ (244,214)	$ (198,385)	$ (198,245)	$ (209,178)
Capital lease obligations(ii)	(23,164)	(22,542)	(14,776)	(14,776)

(i) The fair value of the $US 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, 2008 and March 31, 2008.

(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 loans with similar terms.

Derivative financial instruments that are used for risk management purposes, as described in Note 11(b) under Risk Management consist of the following:

December 31, 2008	Derivative Financial Instruments	Senior Notes
Cross-currency and interest rate swaps	$ 45,338	
Embedded price escalation features in a long-term revenue construction contract	1,894	
Embedded price escalation features in long-term supplier contracts	20,768	
Embedded prepayment and early redemption options on senior notes		2,296
Total fair value of derivative financial instruments	68,000	2,296
Less: current portion	12,226	
	$ 55,774	2,296

March 31, 2008	Derivative Financial Instruments	Senior Notes
Cross-currency and interest rate swaps	$ 81,649	
Embedded price escalation features in a long-term revenue construction contract	14,821	
Embedded price escalation features in a long-term supplier contract	1,269	
Embedded prepayment and early redemption options on senior notes		(4,270)
Total fair value of derivative financial instruments	97,739	(4,270)
Less: current portion	4,720	
	$ 93,019	(4,270)

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

	Three Months Ended December 31		Nine months Ended December 31	
	2008	2007 (Restated note 5)	2008	2007 (Restated note 5)
Realized and unrealized (gain)/loss on cross-currency and interest rate swaps	$ (28,087)	$ (3,925)	$ (34,309)	$ 26,248
Unrealized (gain)/loss on embedded price escalation features in a long-term revenue construction contract	(8,424)	(2,630)	(12,927)	8,961
Unrealized loss/(gain) on embedded price escalation features in long-term supplier contracts	10,346	909	19,499	(3,076)
Unrealized (gain)/loss on embedded prepayment and early redemption options on senior notes	(358)	1,136	6,566	4,557
	$ (26,523)	$ (4,510)	$ (21,171)	$ 36,690

b) Risk Management

The Company is exposed to market, credit and liquidity risks 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 ensure that all significant risks related to the Company and its operations have been reviewed and assessed to reflect changes in market conditions and the Company s operating activities.

Market Risk

Market risk is the risk of loss that results from changes in market factors 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. Market risk exposures are monitored regularly and tolerances and control processes are in place to monitor that only authorized activities are undertaken.

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

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i. Foreign exchange risk

The Company has 8 3/4 % 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 11(b)(ii) below. These derivative financial instruments were not designated as hedges for accounting purposes. At December 31, 2008 and March 31, 2008, the notional principal amount of the cross-currency swaps 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 cancelation 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 will pay 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 Consolidated Statement of Operations, Comprehensive (Loss) Income and Deficit for the three and nine months ended December 31, 2008.

The Company s Canadian dollar interest rate swap and cross-currency swap agreement 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 will receive quarterly floating rate payments in U.S. dollars on the cross-currency swap agreement at the prevailing 3-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 3-month LIBOR rate is less than 4.6% (the difference between the 8 3/4% Senior Notes coupon and the 4.2% spread over 3-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 3-month U.S. LIBOR rate of 1.4% at December 31, 2008, a $0.01 increase (decrease) in exchange rates in the Canadian dollar would result in a Canadian $0.03 million 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, 2008, 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 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 by approximately $2.0 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.

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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 notes are subject to a fixed rate.

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.

In conjunction with the cross-currency swap agreement discussed in note 11(b)(i) above, the Company also entered into a U.S. dollar interest rate swap and a Canadian dollar interest rate swap with the net effect of economically converting the 8 3/4% rate payable on the 8 3/4% senior notes into a fixed rate of 9.765% for the duration that the 8 3/4% senior notes are outstanding. On May 19, 2005, in connection with the Company s new revolving credit facility at that time, this fixed rate was increased to 9.889%. These derivative financial instruments were not designated as a hedge for accounting purposes.

As a result of the U.S. dollar interest swap cancelation described in note 11(b)(i), the Company is exposed to changes in interest rates. The Company has a fixed semi-annual coupon payment of 8 3/4% 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, our annual interest expense at current LIBOR rate will increase U.S. $6.3 million. In addition, we are now exposed to interest rate risk where a 100 basis point increase (decrease) in the 3-month U.S. LIBOR rate will result in a U.S. $2.0 million decrease (increase) in annual interest expense.

At December 31, 2008 and March 31, 2008, the notional principal amounts of the interest rate swaps were U.S. $200.0 million and Canadian $263.0 million.

As at December 31, 2008, 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 $5.8 million with this change in fair value being recorded in net income. As at December 31, 2008, 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 $0.8 million with this change in fair value being recorded in net income. As at December 31, 2008, 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, 2008, the Company held $nil of floating rate debt pertaining to its revolving credit facility (March 31, 2008 $nil). As at December 31, 2008, holding all other variables constant, a 100 basis point increase (decrease) to interest rates would not have a significant impact on net income or equity. This assumes that the amount of floating rate debt remains unchanged from that which was held at December 31, 2008.

Credit Risk

Credit risk is the financial loss to the Company 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 reputable financial institutions. The Company is 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.

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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, 2008 and March 31, 2008, the following customers represented 10% or more of accounts receivable and unbilled revenue:

	December 31, 2008	March 31, 2008
Customer A	23%	19%
Customer B	13%	8%
Customer C	13%	9%
Customer D	9%	11%
Customer E	1%	11%
Customer F	0%	18%

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.

The Company s maximum exposure to credit risk for trade accounts receivable is the carrying value of $136,352 as at December 31, 2008 (March 31, 2008 $157,237), other receivables is the carrying value of $6,896 (March 31, 2008 $8,765) and unbilled revenue is the carrying value of $60,657 as at December 31, 2008 (March 31, 2008 $70,883). On a geographic basis as at December 31, 2008, approximately 99% (March 31, 2008 89%) of the balance of trade accounts receivable (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, 2008 and March 31, 2008 trade receivables are aged as follows:

	December 31, 2008	March 31, 2008
Not past due	$ 96,562	$ 124,211
Past due 1-30 days	11,190	19,790
Past due 31-60 days	10,286	1,896
More than 61 days	18,314	11,340
Total	$ 136,352	$ 157,237

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As at December 31, 2008, the Company has recorded an allowance for doubtful accounts of $3,259 (March 31, 2008 $742) of which 87% relates to amounts that are more than 61 days past due.

The allowance is an estimate of the December 31, 2008 trade receivable balances that are considered uncollectible. Changes to the allowance during the three and nine months ended December 31, 2008 consisted of payments received on outstanding balances of $nil and $100 respectively (three and nine months ended December 31, 2007 $nil and $nil, respectively), bad debt expense of $1,225 and $2,625 for the three and nine months ended December 31, 2008 (three and nine months ended December 31, 2007 $nil and $nil, respectively) and write off of $8 and $8 for the three and nine months ended December 31, 2008 (three and nine months ended December 31, 2007 $nil and $nil, respectively).

Credit risk on cross-currency and interest rate swap agreements 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.

Liquidity Risks

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure and financial leverage, as outlined in note 12 to the unaudited interim consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company s reputation. The Company believes that forecasted cash flows from operating activities, along with the available lines of credit, will provide sufficient cash requirements to cover the Company s forecasted normal operating and budgeted capital expenditures.

The Company s principal sources of cash are funds from operations and borrowings under our revolving credit facility.

The Company s revolving credit facility contains covenants that restrict its activities, including, but not limited to, incurring additional debt, transferring or selling assets and making investments including acquisitions. Under the revolving credit agreement, Consolidated Capital Expenditures during any applicable period cannot exceed 120.0% of the amount in the capital expenditure plan. In addition, the Company is required to satisfy certain financial covenants, including a minimum interest coverage ratio and a maximum senior leverage ratio, both of which are calculated using Consolidated EBITDA as defined in the revolving credit agreement, as well as a minimum current ratio.

At December 31, 2008, the Company was in compliance with its senior leverage, its interest coverage, and working capital covenants.

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The following are the undiscounted contractual cash flows of financial liabilities and other contractual cash flows measured at period end exchange rates:

			Fiscal Year					
	Carrying Amount	Contractual Cash Flows	Remaining 2009	2010	2011	2012	2013	2014 and Thereafter
Accounts payable and accrued liabilities	$ 121,026	$ 121,026	$ 121,026	$	$	$	$	$
Capital lease obligations (including interest)	23,164	24,930	6,352	6,188	5,233	4,629	2,369	159
Senior notes(i)	244,214	244,920				244,920		
Interest on senior notes	2,167	69,039		23,013	23,013	23,013		
Cross-currency and interest rate swaps(i)	45,338	71,988		2,996	2,996	65,996		

(i) The contractual cash flows of the Senior Notes represents the gross loan commitments of U.S. $200.0 million translated at the exchange rate of 1.2246 as at December 31, 2008, which reflects an unrealized foreign exchange commitment of $44,920. However, as disclosed in note 11(b), the Company entered into a cross currency swap agreement which fixes this obligation related to the Senior Notes and cross currency and interest swaps contracts at $263.0 million payable at the December 1, 2011 maturity date.

12. Capital disclosures

The Company s objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income (loss) and deficit. The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company s working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through a normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets.

The Company monitors debt leverage ratios as part of the management of liquidity and shareholders return and to sustain future development of the business. The Company is also subject to externally imposed capital requirements under its revolving credit facility and indenture agreement governing the U.S. dollar denominated 8 $^{3}/4$% senior notes, which 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 s overall strategy with respect to capital risk management remains unchanged from the year ended March 31, 2008.

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The Company is subject to restrictive covenants under its banking agreements with its principal lenders related to its revolving credit facility (note 7(a)), its capital lease obligations and senior notes (note 7(b)) that are measured on a quarterly basis. These covenants include, but are not limited to, a current ratio, senior leverage ratio, and interest coverage ratio. As at December 31, 2008, the Company was in compliance with all externally imposed covenant requirements.

13. Other information

a) Supplemental cash flow information

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Cash paid during the period for:				