North American Energy Partners Inc.
Form 6-K
August 08, 2012
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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 August 2012

Commission File Number 001-33161

NORTH AMERICAN ENERGY PARTNERS INC.

Suite 2400, 500 4th Avenue SW

Calgary, Alberta T2P 2V6

(403) 767-4825

(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): ¨

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Documents Included as Part of this Report

1. Interim consolidated financial statements of North American Energy Partners Inc. for the three months ended June 30, 2012.
2. Management s Discussion and Analysis for the three months ended June 30, 2012.

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SIGNATURES

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

NORTH AMERICAN ENERGY PARTNERS INC.

By: /s/ David Blackley
Name: David Blackley
Title: Chief Financial Officer

Date: August 8, 2012

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NORTH AMERICAN ENERGY PARTNERS INC.

Interim Consolidated Financial Statements

For the three months ended June 30, 2012

(Expressed in thousands of Canadian Dollars)

(Unaudited)

Interim Consolidated Balance Sheets

(Expressed in thousands of Canadian Dollars)

(Unaudited)

	June 30, 2012	March 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$91	$1,400
Accounts receivable, net (allowance for doubtful accounts of $206; March 31, 2012 $210)	144,691	214,129
Unbilled revenue (note 4)	118,510	86,859
Inventories	14,689	11,855
Prepaid expenses and deposits	8,373	6,315
Investment in and advances to unconsolidated joint venture		1,574
Deferred tax assets	1,222	2,991
	287,576	**325,123**
Other assets	20,011	21,743
Property, plant and equipment, net (accumulated depreciation of $218,907; March 31, 2012 $213,497)	312,988	312,775
Goodwill	32,901	32,901
Deferred tax assets	62,005	57,451
Total assets	**$715,481**	**$749,993**
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$142,383	$171,130
Accrued liabilities	30,341	36,795
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	9,347	7,514
Current portion of long-term debt (note 5(a))	13,870	14,402
Current portion of derivative financial instruments (note 8)	3,339	3,220
Deferred tax liabilities	21,868	21,512
	221,148	**254,573**
Long-term debt (note 5(a))	307,024	300,066
Derivative financial instruments (note 8)	5,785	5,926
Other long-term obligations	5,573	8,860
Deferred tax liabilities	52,224	52,788
	591,754	**622,213**
Shareholders equity		
Common shares (authorized unlimited number of voting common shares; issued and outstanding June 30, 2012 36,251,006 (March 31, 2012 36,251,006))	304,908	304,908
Additional paid-in capital	9,748	8,711
Deficit	(190,946)	(185,820)
Accumulated other comprehensive loss	17	(19)
	123,727	**127,780**
Total liabilities and shareholders equity	**$715,481**	**$749,993**
Contingencies (note 12)		

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Interim Consolidated Statements of Operations and Comprehensive Loss

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

(Unaudited)

	Three months ended June 30,	
	2012	2011
Revenue	**$235,922**	**$194,023**
Project costs	132,940	94,809
Equipment costs	64,088	62,614
Equipment operating lease expense	10,740	20,393
Depreciation	9,966	9,596
Gross profit	**18,188**	**6,611**
General and administrative expenses	17,718	10,601
(Gain) loss on disposal of property, plant and equipment	(225)	398
Gain on disposal of assets held for sale	(78)	
Amortization of intangible assets	1,144	1,878
Equity in earnings of consolidated joint venture	(596)	(597)
Operating income (loss) before the undernoted	**225**	**(5,669)**
Interest expense, net (note 7)	7,746	7,377
Foreign exchange loss (gain)	108	(85)
Unrealized gain on derivative financial instruments (note 8)	(22)	(337)
Loss before income taxes	**(7,607)**	**(12,624)**
Income tax benefit (note 9(c)):		
Current	512	235
Deferred	(2,993)	(3,845)
Net loss	**(5,126)**	**(9,014)**
Other comprehensive income (loss)		
Unrealized foreign currency translation gain (loss)	36	(11)
Comprehensive loss	**(5,090)**	**(9,025)**
Net loss per share basic (note 6)	**$(0.14)**	**$(0.25)**
Net loss per share diluted (note 6)	**$(0.14)**	**$(0.25)**

See accompanying notes to interim consolidated financial statements.

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Interim Consolidated Statements of Changes in Shareholders Equity

(Expressed in thousands of Canadian Dollars)

(Unaudited)

	Common shares	Additional paid-in capital	Deficit	Accumulated other comprehensive loss (income)	Total
Balance at March 31, 2011	**$304,854**	**$7,007**	**$(164,536)**	**$(59)**	**$147,266**
Net loss			(9,014)		(9,014)
Unrealized foreign currency translation loss				(11)	(11)
Share option plan		388			388
Reclassified to restricted share unit liability		(121)			(121)
Stock award plan		97			97
Exercised stock options	42	(14)			28
Repurchase of shares to settle stock award plan		(350)	(90)		(440)
Balance at June 30, 2011	**$304,896**	**$7,007**	**$(173,640)**	**$(70)**	**$138,193**
Balance at March 31, 2012	**$304,908**	**$8,711**	**$(185,820)**	**$(19)**	**$127,780**
Net loss			(5,126)		(5,126)
Unrealized foreign currency translation gain				36	36
Share option plan		284			284
Stock award plan		14			14
Repurchase of shares to settle stock award plan		(148)			(148)
Senior executive stock option plan		887			887
Balance at June 30, 2012	**$304,908**	**$9,748**	**$(190,946)**	**$17**	**$123,727**

See accompanying notes to interim consolidated financial statements.

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Interim Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)

(Unaudited)

	Three months ended June 30,	
	2012	2011
Cash provided by (used in):		
Operating activities:		
Net loss for the period	$(5,126)	$(9,014)
Items not affecting cash:		
Depreciation	9,966	9,596
Equity in earnings of consolidated joint venture	(596)	(597)
Amortization of intangible assets	1,144	1,878
Amortization of deferred lease inducements	(27)	(27)
Amortization of deferred financing costs (note 7)	401	433
(Gain) loss on disposal of property, plant and equipment	(225)	398
(Gain) on disposal of assets held for sale	(78)	
Unrealized gain on derivative financial instruments (note 8)	(22)	(337)
Stock-based compensation reversal (note 11(a))	(1,109)	(3,085)
Cash settlement of restricted share unit plan (note 11(d))	(1,631)	(318)
Settlement of stock award plan (note 11(f))	(148)	(440)
Accretion of asset retirement obligation	10	10
Deferred income taxes benefit	(2,993)	(3,845)
Net changes in non-cash working capital (note 9(b))	(6,559)	7,328
	(6,993)	**1,980**
Investing activities:		
Purchase of property, plant and equipment	(6,786)	(1,738)
Additions to intangible assets	(698)	(802)
Proceeds on wind up of unconsolidated joint venture	2,170	
Proceeds on disposal of property, plant and equipment	5,012	32
Proceeds on disposal of assets held for sale	156	
	(146)	**(2,508)**
Financing activities:		
Repayment of credit facilities	(102,821)	(28,077)
Increase in credit facilities	110,000	30,000
Financing costs		(60)
Proceeds from stock options exercised (note 11(b))		28
Repayment of capital lease obligations	(1,385)	(1,116)
	5,794	**775**
(Decrease) increase in cash and cash equivalents	**(1,345)**	**247**
Effect of exchange rate on changes in cash and cash equivalents	36	(11)
Cash and cash equivalents, beginning of period	1,400	722
Cash and cash equivalents, end of period	**$91**	**$958**

Supplemental cash flow information (note 9(a)).

See accompanying notes to interim consolidated financial statements.

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Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2012

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

1. Nature of operations

The Company undertakes several types of projects including mining and environmental services, heavy construction, industrial and commercial site development and pipeline and piling installations. The Company also designs and manufactures screw piles, provides tank maintenance services to the petro-chemical industry across Canada and the United States and sells pipeline anchoring systems globally.

2. Basis of presentation

These unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (US GAAP) for interim financial statements and do not include all of the disclosures normally contained in the Company s annual consolidated financial statements and as such these interim consolidated financial statements should be read in conjunction with the most recent annual financial statements. Material inter-company transactions and balances are eliminated upon consolidation.

3. Recent accounting pronouncements

a) Accounting pronouncements recently adopted

There have been no recently adopted accounting pronouncements during the three months ended June 30, 2012, as compared to the recently adopted accounting pronouncements described in the Company s Annual Report on Form 40-F, that are of significance, or of potential significance to the Company.

b) Issued accounting pronouncements not yet adopted

There have been no issued accounting pronouncements not yet adopted during the three months ended June 30, 2012, as compared to the issued accounting pronouncements not yet adopted described in the Company s Annual Report on Form 40-F, that are of significance, or of potential significance to the Company.

4. Unbilled revenue

As of June 30, 2012, an amount of $19,947 (March 31, 2012 $18,080) is recognized within unbilled revenue relating to a single long-term customer contract, whereby the normal operating cycle for this project is greater than one year. As described in note 2(b) of the annual consolidated financial statements of the Company for the year ended March 31, 2012, the estimated balances within unbilled revenue are subject to uncertainty concerning ultimate realization.

5. Long term debt

a) Long term debt are as follows:

Current:		
	June 30, 2012	March 31, 2012
Credit facilities (note 5(b))	$10,000	$10,000
Capital lease obligations	3,870	4,402
	$13,870	$14,402

Long term:

	June 30, 2012	March 31, 2012
Credit facilities (note 5(b))	$75,946	$68,767
Capital lease obligations	6,078	6,299
Series 1 Debentures (note 5(c))	225,000	225,000
	$307,024	$300,066

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b) Credit facilities

	June 30, 2012	March 31, 2012
Term A facility	$20,013	$20,950
Term B facility	35,933	37,496
Total term facilities	$55,946	$58,446
Revolving Facility	30,000	20,321
Total credit facilities	$85,946	$78,767
Less: current portion of term facilities	(10,000)	(10,000)
	$75,946	$68,767

As of June 30, 2012, the Company had outstanding borrowings of $55.9 million (March 31, 2012 $58.4 million) under the term facilities, $30.0 million (March 31, 2012 $20.3 million) under the Revolving Facility and had issued $12.3 million (March 31, 2012 $15.0 million) in letters of credit under the Revolving Facility to support performance guarantees associated with customer contracts. The funds available for borrowing under the Revolving Facility are reduced by any outstanding letters of credit.

Effective September 30, 2011, the Company entered into a Second Amending Agreement to the Fourth Amended and Restated Credit Agreement to provide a temporary increase in the amount available under the Revolving Facility from $85.0 million to $110.0 million. This increase, which was to remain in effect until March 31, 2012, provided additional borrowing availability to meet working capital requirements and to accommodate the issuance of letters of credit. The receipt of proceeds resulting from the settlement of the Canadian Natural Resources Limited (Canadian Natural) contract negotiations were used to repay amounts outstanding on the Revolving Facility and the amount available under the temporary increase was reduced by the $4.3 million received on December 22, 2011 from Canadian Natural resulting in a reduction in the total amount available under the Revolving Facility to $105.7 million.

In March 2012, the Company entered into a Third Amending Agreement to the Fourth Amended and Restated Credit Agreement to extend the maturity date of the credit agreement by six months to October 31, 2013 and temporarily amended Consolidated EBITDA related covenants as defined within the credit agreement to maintain covenant compliance at year end. The amendment also extended the term of the temporary increase to the Company s revolving credit facility to June 30, 2012. The Company s unused borrowing availability under the Revolving Facility was $70.4 million at March 31, 2012. The amendment required that 55.0% of any proceeds from asset sales to Canadian Natural would be used to repay amounts outstanding on the temporary credit facility addition and permanently reduce the amount available for borrowing to $85.0 million. Asset sale proceeds were received from Canadian Natural on April 30, 2012, which permanently eliminated the temporary addition to the revolving credit facility on that date. The Company s unused borrowing availability under the Revolving Facility was $42.7 million at June 30, 2012.

Interest on Canadian prime rate loans is paid at variable rates based on the Canadian prime rate plus the applicable pricing margin (as defined in 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 Canadian prime rate 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. Stamping fees and interest related to the issuance of Bankers Acceptances is paid in advance upon the issuance of such Bankers Acceptance. The weighted average interest rate on Revolving Facility and Term Facility borrowings at June 30, 2012 was 7.5%.

The credit facilities are secured by a first priority lien on substantially all of the Company s existing and after-acquired property and contain certain restrictive covenants including, but not limited to, incurring additional debt, transferring or selling assets, making investments including acquisitions, paying dividends or redeeming shares of capital stock. The Company is also required to meet certain financial covenants under the credit agreement and as at June 30, 2012 the company was in compliance with these covenants.

c) Series 1 Debentures

On April 7, 2010, the Company issued $225.0 million of 9.125% Series 1 Debentures (the Series 1 Debentures). The Series 1 Debentures mature on April 7, 2017. The Series 1 Debentures bear interest at 9.125% per annum and such interest is payable in equal instalments semi-annually in

arrears on April 7 and October 7 in each year, commencing on October 7, 2010.

The Series 1 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 Series 1 Debentures are effectively subordinated to all secured debt to the extent of collateral on such debt.

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6. Net loss per share

	Three months ended June 30,	
	2012	2011
Net loss available to common shareholders	$(5,126)	$(9,014)
Weighted average number of common shares (no dilutive effect)	36,251,006	36,247,358
Basic and diluted net loss per share	$(0.14)	$(0.25)

For the three months ended June 30, 2012, there were 2,568,394 stock options which were anti-dilutive and therefore were not considered in computing diluted earnings per share (three months ended June 30, 2011 1,632,114 stock options and 100,000 stock awards).

7. Interest expense

	Three months ended June 30,	
	2012	2011
Interest on capital lease obligations	$186	$138
Amortization of deferred financing costs	401	433
Interest on credit facilities	1,990	1,462
Interest on Series 1 Debentures	5,133	5,133
Interest on long term debt	$7,710	$7,166
Other interest	36	211
	$7,746	$7,377

8. Derivative financial instruments

June 30, 2012	Carrying Amount
Embedded price escalation features in certain long term supplier contracts	$9,124
Less: current portion	(3,339)
	$5,785

March 31, 2012	Carrying Amount
Embedded price escalation features in certain long term supplier contracts	$9,146
Less: current portion	(3,220)
	$5,926

The unrealized gain on derivative financial instruments is comprised as follows:

	Three months ended June 30,	
	2012	2011
Unrealized gain on embedded price escalation features in a long term customer construction contract	$	$(255)
Unrealized gain on embedded price escalation features in certain long term supplier contracts	(22)	(82)
	$(22)	$(337)

9. Other information

a) Supplemental cash flow information

	Three months ended June 30,	
	2012	2011
Cash paid during the period for:		
Interest	$12,551	$11,976
Income taxes	3,420	1,142
Cash received during the period for:		
Interest	6	357
Non-cash transactions:		
Acquisition of property, plant and equipment by means of capital leases	632	386
Net change in accounts payable related to purchase of property, plant and equipment	7,472	4,968
Net change in accrued liabilities related to current portion of RSU liability	(1,700)	1,919

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b) Net change in non-cash working capital

	Three months ended June 30,	
	2012	2011
Operating activities:		
Accounts receivable, net	$69,438	$38,718
Unbilled revenue	(31,651)	(14,521)
Inventories	(2,834)	(3,288)
Prepaid expenses and deposits	(1,327)	(2,748)
Accounts payable	(36,219)	(541)
Accrued liabilities	(4,754)	(7,686)
Long-term portion of liabilities related to equipment leases	(1,045)	(1,686)
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	1,833	(920)
	$(6,559)	$7,328

c) Income taxes

Income tax expense as a percentage of income before income taxes for the three months ended June 30, 2012 differs from the statutory rate of 25.13% primarily due to the effect of permanent differences. Income tax expense as a percentage of income before income taxes for the three months ended June 30, 2011 differs from the statutory rate of 26.25% primarily due to the changes in the timing of the reversal of temporary differences, effect of permanent differences and effect of changes in enacted tax rates.

10. Segmented information

a) General overview

Effective April 1, 2012, the Company restructured its reportable business segments to better reflect the organization, management and reporting structure within the Company. Previously the Company defined reportable operating segments based on the type of work performed by the operating segments. The comparative results have been restated to conform to the new segment presentation.

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, equipment rental to a variety of customers, environmental services including construction and modification of tailing ponds and reclamation of completed mine sites to environmental standards throughout Canada.

Commercial and Industrial Construction:
The Commercial and Industrial Construction segment provides deep foundation piling construction and design build services to a variety of industrial and commercial customers throughout Western Canada and Ontario. It designs and manufactures screw piles and pipeline anchoring systems and provides tank maintenance services to the petro-chemical industry across Canada and the United States and sells pipeline anchoring systems globally. The segment also 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 2 of the annual consolidated financial statements of the Company for the year ended March 31, 2012.

b) Results by business segment

	Three months ended June 30, 2012			Three months ended June 30, 2011		
	Heavy Construction and Mining	Commercial and Industrial Construction	Total	Heavy Construction and Mining	Commercial and Industrial Construction	Total
Revenue from external customers	$165,450	$70,472	$235,922	$163,391	$30,632	$194,023
Depreciation of property, plant and equipment	7,813	862	8,675	6,576	420	6,996
Segment profit	8,648	10,476	19,124	8,523	192	8,715
Capital expenditures	3,067	1,759	4,826	351	825	1,176

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	June 30, 2012			March 31, 2012		
	Heavy Construction and Mining	Commercial and Industrial Construction	Total	Heavy Construction and Mining	Commercial and Industrial Construction	Total
Segment assets	$381,273	$225,280	$606,553	$414,253	$225,105	$639,358

c) Reconciliations

i) Loss before income taxes

	Three months ended June 30,	
	2012	2011
Total profit for reportable segments	$19,124	$8,715
Less: Unallocated equipment costs ( )	936	2,104
Gross Profit	$18,188	$6,611
Less: unallocated corporate items:		
General and administrative expenses	17,718	10,601
(Gain) loss on disposal of property, plant and equipment	(225)	398
Gain on disposal of assets held for sale	(78)	
Amortization of intangible assets	1,144	1,878
Equity in earnings of unconsolidated joint venture	(596)	(597)
Interest expense, net	7,746	7,377
Foreign exchange loss (gain)	108	(85)
Unrealized gain on derivative financial instruments	(22)	(337)
Loss before income taxes	$(7,607)	$(12,624)

( ) 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.

ii) Total assets

	June 30, 2012	March 31, 2012
Corporate assets:		
Cash and cash equivalents	$91	$1,400
Property, plant and equipment	20,588	23,017
Deferred tax assets	63,227	60,442
Other	25,022	25,776
Total corporate assets	$108,928	$110,635
Total assets for reportable segments	606,553	639,358
Total assets	$715,481	$749,993

The Company s goodwill of $32,901 is assigned to the Commercial and Industrial Construction segment. All of the Company s assets are located in Canada and the United States.

iii) Depreciation of property, plant and equipment

	Three months ended June 30,	
	2012	2011
Total depreciation for reportable segments	$8,675	$6,996
Depreciation for corporate assets	1,291	2,600
Total depreciation	$9,966	$9,596

iv) Capital expenditures for long-lived assets

	Three months ended June 30,	
	2012	2011
Total capital expenditures for reportable segments	$4,826	$1,176
Capital expenditures for corporate assets	2,658	1,364
Total capital expenditures for long-lived assets	$7,484	$2,540

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d) Customers

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

	Three months ended June 30,	
	2012	2011
Customer A	17%	13%
Customer B	15%	18%
Customer C	14%	13%

The revenue by major customer was earned by the Heavy Construction and Mining segment.

e) Geographic information

i) The geographic revenue distribution for the Company is as follows:

	Three months ended June 30,	
	2012	2011
Canada	$230,623	$192,216
International	4,099	1,018
United States	1,200	789
	$235,922	$194,023

ii) The geographic distribution of long-lived assets is as follows:

	June 30,	March 31,
	2012	2012
Canada	$365,720	$367,240
United States	180	179
	$365,900	$367,419

11. Stock-based compensation

a) Stock-based compensation expenses

Stock-based compensation expenses included in general and administrative expenses are as follows:

	Three months ended June 30,	
	2012	2011
Share option plan (note 11(b))	$284	$388
Senior executive stock option plan (note 11(c))		(2,403)

Restricted share unit plan (note 11(d))	(521)	320
Director s deferred stock unit plan (note 11(e))	(886)	(1,487)
Stock award plan (note 11(f))	14	97
	$(1,109)	$(3,085)

b) Share option plan

	Three months ended June 30,			
	2012		2011	
		Weighted average exercise price		Weighted average exercise price
	Number of options	$ per share	Number of options	$ per share
Outstanding, beginning of period	1,834,794	8.79	1,647,474	9.25
Granted	790,000	2.90		
Exercised			(6,560)	(4.29)
Forfeited	(56,400)	(8.00)	(8,800)	(9.92)
Outstanding, end of period	2,568,394	6.99	1,632,114	9.27

Cash received from the option exercises for the three months ended June 30, 2012 was $nil (three months ended June 30, 2011 $28).

At June 30, 2012, the weighted average remaining contractual life of outstanding options is 7.1 years (March 31, 2012 6.3 years). The fair value of options vested during the three months ended June 30, 2012 was $362 (June 30, 2011 $609). At June 30, 2012, the Company had 1,080,414 exercisable options (March 31, 2012 1,031,774) with a weighted average exercise price of $8.98 (March 31, 2012 $8.82).

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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:

Three months ended June 30, 2012	
Number of options granted	790,000
Weighted average fair value per option granted ($)	1.94
Weighted average assumptions:	
Dividend yield	Nil%
Expected volatility	74.97%
Risk-free interest rate	1.01%
Expected life (years)	6.42

c) Senior executive stock option plan

The weighted average assumptions used in estimating the fair value of the 550,000 vested senior executive stock options as at June 30, 2012 are as follows:

Number of senior executive stock options	550,000
Weighted average fair value per option granted ($)	0.79
Weighted average assumptions:	
Dividend yield	Nil%
Expected volatility	74.80%
Risk-free interest rate	0.40%
Expected life (years)	2.86

d) Restricted share unit plan

	Three months ended June 30,	
	2012	2011
Outstanding, beginning of period	1,175,565	382,476
Granted	625,405	520,086
Exercised	(329,901)	(27,850)
Forfeited	(66,406)	(25,546)
Converted from DPSUs		227,875
Outstanding, end of period	1,404,663	1,077,041

At June 30, 2012, current portion of RSUs liabilities of $365 were included in accrued liabilities (March 31, 2012 $2,066) and long term portion of RSUs liabilities of $652 were included in other long-term obligations (March 31, 2012 $1,104) in the Interim Consolidated Balance Sheets. During the three months ended June 30, 2012, 329,901 units vested and were settled in cash for $1,631. The weighted average remaining contractual life of the RSUs outstanding was 2.2 years (March 31, 2012 1.4 years).

At June 30, 2012, the redemption value of these units was $2.51/unit (March 31, 2012 $4.91/unit).

Using the redemption value of $2.51/unit at June 30, 2012, there was approximately $2,553 of total unrecognized compensation cost related to non-vested share-based payment arrangements under the RSU Plan and these costs are expected to be recognized over the weighted average remaining contractual life of the RSUs of 2.2 years (March 31, 2012 1.4 years).

e) Director s deferred stock unit plan

	Three months ended June 30,	
	2012	2011
Outstanding, beginning of period	465,266	337,018
Issued	91,805	26,573
Outstanding, end of period	557,070	363,591

At June 30, 2012, the redemption value of these units was $2.51/unit (March 31, 2012 $4.91/unit). There is no unrecognized compensation expense related to the DDSUs, since these awards vest immediately when issued.

f) Stock award plan

During the three months ended June 30, 2012, 50,000 stock awards vested and were settled in common shares purchased on the open market for $148. As at June 30, 2012 there were no Stock Award Plan units outstanding.

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12. 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.

13. 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 segment 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 effect 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 affected in less active periods because the Company is likely to incur higher maintenance and repair costs due to its equipment being available for service.

14. Claims revenue

For the three months ended June 30, 2012, due to the timing of receipt of signed change orders, the Heavy Construction and Mining segment and the Commercial and Industrial Construction segment had approximately $1.9 million and $4.6 million in claims revenue recognized to the extent of costs incurred, respectively (three months ended June 30, 2011 $0.7 million and $1.0 million, respectively).

15. Comparative figures

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

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NORTH AMERICAN ENERGY PARTNERS INC.

Management s Discussion and Analysis

For the three months ended June 30, 2012

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Management s Discussion and Analysis

For the three months ended June 30, 2012

A. EXPLANATORY NOTES

August 8, 2012

The following Management s Discussion and Analysis (MD&A) is as of August 8, 2012 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the three months ended June 30, 2012 and notes that follow. These statements have been prepared in accordance with United States (US) generally accepted accounting principles (GAAP). Except where otherwise specifically indicated, all dollar amounts are expressed in Canadian dollars. This interim MD&A should also be read in conjunction with the audited consolidated financial statements and notes that follow for the year ended March 31, 2012, together with our annual MD&A for the year ended March 31, 2012. The consolidated financial statements and additional information relating to our business, including our most recent Annual Information Form, 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.

Caution Regarding Forward-Looking Information

Our MD&A is intended to enable readers to gain an understanding of our current results and financial position. To do so, we provide information and analysis comparing results of operations and financial position for the current year to those of the preceding periods. We also provide analysis and commentary that we believe is necessary to assess our future prospects. Accordingly, certain sections of this report contain forward-looking information that is based on current plans and expectations. This forward-looking information is affected by risks and uncertainties that could have a material impact on future prospects. Please refer to Forward-Looking Information, Assumptions and Risk Factors for a discussion of the risks and uncertainties related to such information. Readers are cautioned that actual events and results may vary from the forward-looking information.

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. In our MD&A, we use non-GAAP financial measures such as net income before interest expense, income taxes, depreciation and amortization (EBITDA) and Consolidated EBITDA (as defined in our fourth amended and restated credit agreement, our credit agreement).

Consolidated EBITDA 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, the impairment of goodwill, the amendment related to the fiscal 2011 $42.5 million revenue writedown on the Canadian Natural[1] overburden removal contract (described in the Significant Business Event Canadian Natural Contract section of this MD&A) 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 interest, income taxes, depreciation and amortization that are not directly related to the operating performance of our business. 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, both of which are calculated using Consolidated EBITDA. Non-compliance with these financial covenants could result in a requirement to immediately repay all amounts outstanding under our credit facility.

As EBITDA and Consolidated EBITDA are non-GAAP financial measures, 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 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; or
- 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 as well as 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 may need to be paid and in the case of realized losses, represents an actual use of cash during the period.

[1] Canadian Natural Resources Limited (Canadian Natural), owner and operator of the Horizon Oil Sands mine site.

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Where relevant, particularly for earnings-based measures, we provide tables in this document that reconcile non-GAAP measures used to amounts reported on the face of the consolidated financial statements.

Significant Business Events

Canadian Natural Contract

As discussed in the Explanatory Notes Significant Business Event section of our annual MD&A for the year ended March 31, 2012, we reached an agreement with Canadian Natural on March 27, 2012, related to amendments to the long-term overburden removal and mining services contract at the Horizon Oil Sands mine near Fort McMurray, Alberta (the Canadian Natural contract). We had previously recorded a $42.5 million revenue writedown related to the Canadian Natural contract (the revenue writedown) for the three months and year ended March 31, 2011. The revenue writedown reduced total revenue related to the contract to the extent of total costs incurred, representing a zero profit margin and reduced unbilled revenue by the same amount. Revenue related to the Canadian Natural contract for the three months ended June 30, September 30 and December 31, 2011, respectively, were similarly recorded only to the extent of costs incurred, representing a zero profit margin for such periods.

The amending agreement also replaces the previous higher risk unit-rate payment structure with a target-price contract structure. This new structure includes both a minimum margin and a mechanism to earn additional margin by achieving mutually agreed upon productivity and safety targets. Accordingly, revenue from January 1, 2012 to the completion of the contract will be recognized under the amended contract structure. The revenue treatment for the activity performed under the amending agreement will remain separate from the revenue treatment for the activity performed under the original contract.¿

In addition to the amending agreement, Canadian Natural committed to accelerate the buyout of approximately 30% of our assets that are contractually tied to the Canadian Natural contract (contract-related assets), some of which we owned outright and some of which we leased, along with all of the parts and tire-related inventory used by us on the Horizon site. We have realized $39.4 million of the anticipated $47.0 million net proceeds as of the three months ended June 30, 2012, which was applied against our non-cash working capital specific to the recording of this transaction in the year ended March 31, 2012. The balance of the net proceeds are expected upon final closing of the sale of the assets related to the Canadian Natural contract.¿

Because of the above transactions, operating lease and depreciation costs related to the Canadian Natural contract are expected to be approximately $8.0 million to $10.0 million lower in fiscal 2013 than in the previous year, and we anticipate an equivalent reduction in contract revenue to reflect our lower costs.¿

Change to our Business Strategy

While some sectors of our business have thrived over the past two years, others have under-performed. In particular, our business in the oil sands, both in terms of heavy construction and mining activities, has been negatively impacted by the reduction in the price of oil and a change in business strategy by our clients. While we continue to operate on many customer sites, our oil sands fleet is currently being under utilized as our customers are reducing their outsourcing requirements and either pushing back or indefinitely postponing major projects. In addition, our pipeline activities have also been negatively impacted by a highly competitive contracting environment and further affected by poor weather and other issues that have hampered our ability to execute contracts profitably. As a result of these factors, we have reported weaker-than-expected financial performance over the past two years.

To help address these issues and improve our poor financial performance we have taken the following actions:

1. **Business Re-segmentation**

In an effort to optimize our cost structure and gain efficiencies, we have consolidated the management and support organization of our operations under two main business segments:

Heavy Construction and Mining

Commercial and Industrial Construction

We have aligned our organization under this new structure and our chief operating decision makers will rely on the reporting of these two segments to allocate resources and assess the performance of these segments going forward. We will begin reporting our segmented results under these two business segments effective for the three months ended June 30, 2012. All prior year segment comparatives will also be reported under this revised segmentation. A more detailed discussion of these new business segments can be found below in New Business Segments .

2. Business Restructuring

To further streamline our organization and business processes, we have also implemented a business restructuring initiative. As a result of this restructuring, we recorded a $2.5 million charge in General and Administrative (G&A) expense for the three months ended June 30, 2012. Activities related to the restructuring initiative include:

Hiring a new President and Chief Executive Office, Martin Ferron;

Re-aligning our G&A, Asset Management and Operations Support departments with a focus on supporting our new business model, thus eliminating over 60 salaried positions;

¿ This paragraph contains forward-looking information. Please refer to Forward-Looking Information, Assumptions and Risk Factors for a discussion of the risks and uncertainties related to such information.

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Closing our corporate office in Calgary, Alberta and relocating our senior executive team to our Acheson, Alberta office;

Reducing outsourced equipment maintenance activities and increasing the utilization of our Acheson, Alberta maintenance facility for the more cost effective self-performance of major equipment overhauls;

Reducing our equipment maintenance hourly labour costs through a restructuring of our maintenance shift schedule and overtime strategy;

Reducing our site related overhead and camp accommodation costs in Fort McMurray;

We anticipate that the restructuring of our G&A support functions and the related staff reductions, discussed above, will provide a $12.0 million annualized G&A cost savings (excluding severance costs) while the restructuring of our equipment support costs will significantly reduce the unallocated equipment costs for each of our business segments during the remainder of the current fiscal year.¿

3. Right-Sizing our Equipment Fleet and Reducing our Capital Spend

We are continuing to assess and adjust the size and mix of our equipment fleet as we work to right-size the fleet for customer demand. As a result of our efforts, we have identified under-utilized equipment in our heavy equipment fleet that we intend to sell. We are also re-positioning some of our owned equipment fleet to reduce our rental fleet requirements and we are reducing the size of our light vehicle and service equipment fleet.

We have also reassessed our sustaining and growth capital needs and we anticipate our total capital spend will be reduced to approximately $40.0 million compared to over $60.0 million, reflecting a reduction in required maintenance capital and replacement equipment along with a freeze on growth capital spend for most of our business.¿

Asset Sales in the Current Year

As part of our equipment fleet right-sizing initiative, we disposed of 12 pieces of under-utilized equipment during the three months ended June 30, 2012. Included in this asset sale was the disposal of both owned and leased equipment, the elimination of associated capitalized maintenance and the buyout of related operating leases, resulting in:

Net proceeds of $8.7 million;

¡ Proceeds collected of $22.2 million offset by a $13.5 million buyout of operating leases;

Reduction in the net book value of equipment of $3.5 million;

Recovery of $4.1 million of operating lease expense in the quarter; and

Recording of a gain on sale of assets of $1.1 million.

We anticipate that the sale of this equipment will reduce our operating lease expense by approximately $1.3 million per quarter. In the short-term, we will have increased rental expense of approximately $0.7 million per month from June to November 2012 as we re-position our fleet to meet our committed customer demand.¿

B. NEW BUSINESS SEGMENTS

As discussed in Significant Business Events Changes to Business Strategy above, we have implemented a strategy to simplify our structure by aligning our operations management and support organizations under two main business segments:

- Heavy Construction and Mining
- Commercial and Industrial Construction

We continue to believe that our excellent safety record, coupled with our significant industry knowledge in the Canadian oil sands, commercial and industrial markets, experience, long-term customer relationships, equipment capacity, scale of operations and broad service offering, differentiate us from our competition. We have a specific capability of operating in the harsh climate and difficult terrain of northern Canada, particularly in the Canadian oil sands.

We believe we will continue to be positioned to respond to the needs of a wide range of other resource, commercial, industrial and public developers and we remain committed to expanding our operations outside of the Canadian oil sands.¿

Heavy Construction and Mining Segment

Our Heavy Construction and Mining segment focuses primarily on providing mining support, earthworks and below ground industrial services for oil sands and other natural resource developers across Canada. This includes activities such as:

- Land clearing, stripping, muskeg removal and overburden removal to expose the surface mining area;
- Supply of labour and equipment to supplement customers mining fleets supporting surface mining activities;
- General support mine services for surface and underground mine operations and treatment plant operations, including road building and maintenance, hauling of sand and gravel and relocation of treatment plants;

¿ This paragraph contains forward-looking information. Please refer to Forward-Looking Information, Assumptions and Risk Factors for a discussion of the risks and uncertainties related to such information.

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- Construction related to the expansion of existing projects, site development and earthworks, underground utilities and infrastructure;
- Construction and modification of tailing dams, dykes and ponds;
- Reclamation of mined-out areas; and
- Environmental and tailings management services to support oil sands tailing pond reduction initiatives related to Alberta s Directive 074.[2]

Commercial and Industrial Construction Segment

Our Commercial and Industrial Construction segment focuses primarily on providing below and above grade construction services to commercial, industrial and public construction markets across Canada. This includes activities such as:

- Large and smaller-scale projects related to the installation of various types of driven piles and drilled piles.
- Design and installation of shoring / earth retention / stabilization systems (secant pile, sheet pile, soldier pile and lagging walls) and micro piles, with Canadian operations extending from British Columbia to Ontario;
- Design, fabrication and supply of helical (screw) piles and pipeline anchor systems with sales in Canada, the US, Colombia, Malaysia, Indonesia, Thailand, Russia and Australia;
- Structural steel erection services;
- Oil and gas storage tank construction, repair and maintenance services across Canada;
- Mainline pipe integrity testing, repair and maintenance services. This will involve identifying weak portions of existing pipelines and carrying out repairs to reduce the risk of future leaks or ruptures with the capability to handle pipe diameters ranging from 2 to 60 inches in remote geographical locations; and
- Infrastructure development for oil and gas pipeline systems, including gathering and processing, transmission, storage and distribution.

Changes to the Financial Reporting of Business Segments

We will begin reporting our segmented results under the Heavy Construction and Mining and Commercial and Industrial Construction segments effective for the three months ended June 30, 2012. All prior-year segment comparatives will also be reported under the revised business segments with the additional segmentation of our unallocated equipment costs, as described below.

Prior to this fiscal year, our unallocated equipment costs were not included in our segment financial results nor were they discussed in our segment analysis. Our methodology for allocating equipment costs to projects is through the use of internal equipment rates per operating hour of equipment utilized on a project. The internal equipment rates are designed to cover all variable costs of our equipment, including depreciation and repairs and maintenance. In addition, the internal equipment rates per operating hour have a component that covers the fixed costs of our equipment, including operating leases, fleet management costs, shop overheads and capital costs. The fixed cost recovery component of our internal equipment rates is developed based on planned equipment operating hours by each of the different rate groups of our equipment. Each equipment rate group has a different fixed cost recovery component.

Unallocated equipment costs typically occur as a result of one or more of the following events:

- The reduced utilization of equipment results in lower operating hours, reducing the recovery of our fixed equipment costs;
- A change in equipment mix on a project site results in a change in the mix of equipment rates, reducing the recovery of our fixed equipment costs; and
- Timing between periods for the recovery for variable repairs and maintenance costs compared to when the actual repairs and maintenance costs are incurred.

In an effort to improve our reporting related to our unallocated equipment costs we have developed a process for segmenting our unallocated equipment costs which will allow us to report such costs within the revised segmented financial results for this and future fiscal years.

Recast of Fiscal 2012 and Fiscal 2011 Segment Financial Results

To allow for effective year over year comparisons of our financial results under our new business segmentation, the table below recasts quarterly segmented financial summaries for the past two years based on the new segmentation and the assignment of unallocated equipment costs to each segment s financial results. All financial results and analysis in this and future MD&A s will reflect the new business segments and assignment of unallocated equipment costs with comparisons to past periods based on the recast results.

[2] Directive 074: Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes , released February 3, 2009 by the Energy Resources Conservation Board (ERCB), an independent, quasi-judicial agency of the Government of Alberta, established to regulate the safe, responsible, and efficient development of Alberta's energy resources: oil, natural gas, oil sands, coal, and pipelines.

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New Business Segmentation Financial Summary

	Fiscal 2012									
(dollars in thousands)	Q1	% of Revenue	Q2	% of Revenue	Q3	% of Revenue	Q4	% of Revenue	Total	% of Revenue
Heavy Construction and Mining										
Revenue	$163,391	100.0%	$159,305	100.0%	$159,915	100.0%	$175,052	100.0%	$657,663	100.0%
Segment profit	8,523	5.2%	18,350	11.5%	8,264	5.2%	410	0.2%	35,547	5.4%
Commercial and Industrial Construction										
Revenue	$30,632	100.0%	$86,081	100.0%	$124,715	100.0%	$107,454	100.0%	$348,882	100.0%
Segment profit	192	0.6%	15,902	18.5%	12,993	10.4%	1,389	1.3%	30,476	8.7%

	Fiscal 2011									
(dollars in thousands)	Q1	% of Revenue	Q2	% of Revenue	Q3	% of Revenue	Q4	% of Revenue	Total	% of Revenue
Heavy Construction and Mining										
Revenue	$163,018	100.0%	$171,668	100.0%	$185,325	100.0%	$146,475	100.0%	$666,486	100.0%
Segment profit (loss)	16,254	10.0%	24,064	14.0%	22,985	12.4%	(16,288)	-11.1%	47,016	7.1%
Commercial and Industrial Construction										
Revenue	$20,576	100.0%	$63,190	100.0%	$79,761	100.0%	$28,035	100.0%	$191,562	100.0%
Segment profit (loss)	427	2.1%	5,813	9.2%	8,988	11.3%	(9)	0.0%	15,219	7.9%

Previous Business Segmentation Financial Summary

	Fiscal 2012									
(dollars in thousands)	Q1	% of Revenue	Q2	% of Revenue	Q3	% of Revenue	Q4	% of Revenue	Total	% of Revenue
Heavy Construction and Mining										
Revenue	$163,391	100.0%	$159,719	100.0%	$166,516	100.0%	$181,094	100.0%	$670,720	100.0%
Segment profit	21,781	13.3%	21,788	13.6%	19,580	11.8%	23,418	12.9%	86,567	12.9%
Piling										
Revenue	$31,534	100.0%								