

North American Energy Partners Inc.

Form 20-F

June 20, 2007

Table of Contents

Index to Financial Statements

---

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

Washington, D.C. 20549

---

**Form 20-F**

---

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED

MARCH 31, 2007

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-33161

---

# North American Energy Partners Inc.

*(Exact Name of the Registrant as Specified in its Charter)*

---

**Canada**

*(Jurisdiction of Incorporation or Organization)*

**Zone 3, Acheson Industrial Area, 2-53016 Hwy 60, Acheson, Alberta T7X 5A7**

*(Address of Principal Executive Offices)*

---

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title</u>	<u>Name of Exchange on which Registered</u>
Common Shares, No Par Value	New York Stock Exchange
Securities registered or to be registered pursuant to	Toronto Stock Exchange
Section 12(g) of the Act:	<b>NONE</b>
Securities for which there is a reporting obligation pursuant to	<b>NONE</b>
Section 15(d) of the Act:	

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 35,604,660 Common Shares at March 31, 2007

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES  NO

Indicate by check mark whether the Company: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the Company has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO



**Table of Contents****Index to Financial Statements****TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I</b>	
ITEM 1: <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	5
ITEM 2: <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	5
ITEM 3: <u>KEY INFORMATION</u>	5
ITEM 4: <u>INFORMATION ON THE COMPANY</u>	21
ITEM 5: <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	34
ITEM 6: <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	56
ITEM 7: <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	64
ITEM 8: <u>FINANCIAL INFORMATION</u>	67
ITEM 9: <u>THE OFFER AND LISTING</u>	68
ITEM 10: <u>ADDITIONAL INFORMATION</u>	68
ITEM 11: <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	69
ITEM 12: <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	70
<b>PART II</b>	
ITEM 13: <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	71
ITEM 14: <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	71
ITEM 15: <u>CONTROLS AND PROCEDURES</u>	71
ITEM 16: <u>[RESERVED]</u>	72
ITEM 16A: <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	72
ITEM 16B: <u>CODE OF ETHICS</u>	72
ITEM 16C: <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	72
ITEM 16D: <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	73
ITEM 16E: <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	73
<b>PART III</b>	
ITEM 17: <u>FINANCIAL STATEMENTS</u>	73
ITEM 18: <u>FINANCIAL STATEMENTS</u>	73
ITEM 19: <u>EXHIBITS</u>	73

**Table of Contents**

**Index to Financial Statements**

As used in this annual report on Form 20-F, unless the context otherwise indicates, the terms we, us, our, and the Company mean North American Energy Partners Inc. and its consolidated subsidiaries.

**EXCHANGE RATE INFORMATION**

The following tables set forth the exchange rates for one Canadian dollar, expressed in U.S. dollars, based on the inverse of the noon buying rate in the city of New York for cable transfers in Canadian dollars as certified for customs purposes by the Bank of Canada (the Noon Buying Rate). On May 31, 2007, the Noon Buying Rate was \$1.00 = US\$ 0.9347.

	2006		2007			
	December	January	February	March	April	May
High for period	0.8787	0.8598	0.8467	0.8696	0.9051	0.9376
Low for period	0.8569	0.844	0.8419	0.8462	0.8621	0.8958
	Year Ended March 31,					
	2003	2004	2005	2006	2007	
Average for period	0.6455	0.7412	0.7836	0.8378	0.8738	

**STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This document contains forward-looking statements. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of management, based on information currently available to management. Forward-looking statements are those that do not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as believe, expect, anticipate, intend, plan, estimate, should, may, objective, projection, forecast, continue, strategy, or the negative of those terms and variations of them or by comparable terminology. In particular, statements, express or implied, concerning future operating results or the ability to generate income or cash flow are forward-looking statements. Forward-looking statements include the information concerning possible or assumed future results of our operations set forth under Item 4: Information on the Company, Item 5: Operating and Financial Review and Prospects, Item 11: Quantitative and Qualitative Disclosures About Market Risk, and elsewhere in this annual report on Form 20-F.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Future actions, conditions, or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond management's ability to control or predict. Specific factors that could cause actual results to vary from those in the forward-looking statements include:

the timing and success of business development efforts;

changes in oil and gas prices;

our ability to hire and retain a skilled labor force;

our ability to bid successfully on new projects and accurately forecast costs associated with unit-price or lump-sum contracts;

our ability to establish and maintain effective internal controls;

our substantial debt, which could make us more vulnerable to adverse economic conditions and affect our ability to comply with the terms of the agreements governing our indebtedness;

**Table of Contents**

**Index to Financial Statements**

restrictive covenants in our debt agreements, which may restrict the manner in which we operate our business;

foreign currency exchange rate fluctuations, capital markets conditions and inflation rates;

weather conditions;

our ability to obtain surety bonds as required by some of our customers;

decreases in outsourcing work by our customers or shut-downs or cutbacks at major businesses that use our services;

our ability to purchase or lease equipment;

changes in laws or regulations, third-party relations and approvals, and decisions of courts, regulators and governmental bodies that may adversely affect our business or the business of the customers we serve;

our ability to successfully identify and acquire new businesses and assets and integrate them into our existing operations; and

those other factors discussed in Item 3.D Risk Factors.

*We believe the forward-looking statements in this document are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on our current expectations. Further, forward-looking statements speak only as of the date they are made, and, other than as required by applicable law, we undertake no obligation to update publicly any of them in light of new information or future events.*

**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, or SEC, and by the Canadian securities regulatory authorities as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. EBITDA is calculated as net income (loss) before interest expense, income taxes, depreciation and amortization. Consolidated EBITDA is defined as EBITDA, excluding the effects of foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, non-cash stock-based compensation expense, gain or loss on disposal of plant and equipment and certain other non cash items included in the calculation of net income (loss). We believe that EBITDA is a meaningful measure of the performance of our business because it excludes items, such as depreciation and amortization, interest and taxes, which are not directly related to the operating performance of our business. Management reviews EBITDA to determine whether capital assets are being allocated efficiently. In addition, our revolving credit facility requires us to maintain a minimum interest coverage ratio and a maximum senior leverage ratio, which includes the reference to Consolidated EBITDA. Non-compliance with this financial covenant could result in our being required to immediately repay all amounts outstanding under our revolving credit facility. EBITDA and Consolidated EBITDA are not measures of performance under Canadian GAAP or U.S. GAAP and our computations of EBITDA and Consolidated EBITDA may vary from others in our industry. EBITDA and Consolidated EBITDA should not be considered as alternatives to operating income or net income as measures of operating performance or cash flows as measures of liquidity. EBITDA and Consolidated EBITDA have important limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under Canadian GAAP or US GAAP. Our methods of calculating EBITDA and Consolidated EBITDA may vary from others in our industry.





**Table of Contents**

**Index to Financial Statements**

**PART I**

**ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

*Not applicable.*

**ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE**

*Not applicable.*

**ITEM 3: KEY INFORMATION**

**A. SELECTED FINANCIAL DATA**

We were initially formed in October 2003 in connection with the acquisition on November 26, 2003 (the Acquisition) of certain businesses from Norama Ltd. as discussed under Item 4.A History and Development of the Company. As a result, the selected financial data presented below as of and for the fiscal year ended March 31, 2003 and for the period from April 1, 2003 to November 25, 2003 is derived from the audited consolidated financial statements of Norama Ltd., our predecessor. The selected financial data presented below for the period from November 26, 2003 to March 31, 2004 and as of and for each of the fiscal years ended March 31, 2005, 2006 and 2007 is derived from our audited consolidated financial statements. As a result of the Acquisition, the consolidated financial data for the periods before November 26, 2003 is not necessarily comparable to the consolidated financial data for periods after November 25, 2003.

**Table of Contents****Index to Financial Statements**

The information presented below should be read in conjunction with Item 5 Operating and Financial Review and Prospects and our audited consolidated financial statements and related notes included at Item 17. All of the financial information presented below has been prepared in accordance with Canadian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us for the years ended March 31, 2007, 2006 and 2005, see note 27 to our consolidated financial statements included at Item 17.

	Year Ended March 31,			November 26,	Predecessor (a)	
	2007	2006	2005	2003 to March 31,	April 1, 2003 to November 25,	Year Ended March 31,
	(Dollars in thousands except shares and per share amounts)					
<b>Statement of operations data:</b>						
Revenue (b)	\$ 629,446	\$ 492,237	\$ 357,323	\$ 127,611	\$ 250,652	\$ 344,186
Project costs	363,930	308,949	240,919	83,256	156,976	219,979
Equipment costs	122,306	64,832	52,831	13,686	43,484	55,871
Equipment operating lease expense	19,740	16,405	6,645	1,430	10,502	16,357
Depreciation	31,034	21,725	20,762	6,674	6,566	10,974
Gross profit	92,436	80,326	36,166	22,565	33,124	41,005
General and administrative costs	39,769	30,903	22,873	6,065	7,783	12,233
Loss (gain) on sale of plant and equipment	959	(733)	494	131	(49)	(2,265)
Amortization of intangible assets	582	730	3,368	12,928		
Operating income	51,126	49,426	9,431	3,441	25,390	31,037
Management fee (c)					41,070	8,000
Interest expense (d)	37,249	68,776	31,141	10,079	2,457	4,162
Foreign exchange gain	(5,044)	(13,953)	(19,815)	(661)	(7)	(234)
Gain on repurchase of NACG Preferred Corp. Series A preferred shares (e)	(9,400)					
Loss on extinguishment of debt (e)	10,935	2,095				
Other income	(904)	(977)	(421)	(230)	(367)	
Realized and unrealized (gain) loss on derivative financial instruments	(196)	14,689	43,113	12,205		
Income (loss) before income taxes	18,486	(21,204)	(44,587)	(17,952)	(17,763)	19,109
Income taxes (benefit)	(2,593)	737	(2,264)	(5,670)	(6,622)	6,620
Net income (loss) (f)	\$ 21,079	\$ (21,941)	\$ (42,323)	\$ (12,282)	\$ (11,141)	\$ 12,489
<b>Earnings Per Share</b>						
Basic	\$ 0.87	\$ (1.18)	\$ (2.28)	\$ (0.66)	N/A	N/A
Diluted	\$ 0.83	\$ (1.18)	\$ (2.28)	\$ (0.66)	N/A	N/A
<b>Weighted average number of common shares</b>						
Basic	24,352,156	18,574,800	18,539,720	18,500,000	N/A	N/A

Edgar Filing: North American Energy Partners Inc. - Form 20-F

Diluted	25,443,907	18,574,800	18,539,720	18,500,000	N/A	N/A
---------	------------	------------	------------	------------	-----	-----

**Balance sheet data (end of period):**

Cash	\$ 7,895	\$ 42,804	\$ 17,924	\$ 36,595		\$ 651
Property, plant and equipment, net	255,963	184,562	177,089	167,905		76,234
Total assets	710,736	568,682	540,155	489,974		158,584
Total debt (g)	260,789	314,959	310,402	313,798		63,401
Other long-term financial liabilities (g)	60,863	141,179	86,723	46,266		
Total long-term financial liabilities (g)	297,957	453,092	395,354	352,027		40,342
NACG Preferred Corp. Series A preferred shares (e)		35,000	35,000	35,000		
NAEPI Series A preferred shares (e)		375				
NAEPI Series B preferred shares (e)		42,193				
Total shareholder s equity (e)	244,278	18,111	38,829	80,355		29,818

**Other financial data:**

EBITDA (h)	\$ 87,351	\$ 70,027	\$ 10,684	\$ 11,729	\$ (8,740)	\$ 34,245
Consolidated EBITDA (h)	90,235	72,422	34,448	23,462	(8,789)	31,980

- (a) The historical balance sheet and statement of operations and other financial data as at and for the years ended March 31, 2003 and the period from April 1 to November 25, 2003 have been derived from the historical financial statements of Norama Ltd. The financial statements for periods ended before November 26, 2003 are not necessarily comparable in all respects to the financial statements for periods ended after November 25, 2003.
- (b) Effective April 1, 2005, we changed our accounting policy regarding the recognition of revenue on claims. This change in accounting policy has been applied retroactively. Prior to this change, revenue from claims was included in total estimated contract revenue when awarded or received. After this change, claims are included in total estimated contract revenue, only to the extent that contract costs related to the claim have been incurred and when it is probable that the claim will result in a bona fide addition to contract value and can be reliably estimated. Those two conditions are satisfied when:
- (1) the contract or other evidence provides a legal basis for the claim or a legal opinion is obtained providing a reasonable basis to support the claim,

**Table of Contents**

**Index to Financial Statements**

(2) additional costs incurred were caused by unforeseen circumstances and are not the result of deficiencies in our performance,

(3) costs associated with the claim are identifiable and reasonable in view of work performed and

(4) evidence supporting the claim is objective and verifiable. No profit is recognized on claims until final settlement occurs.

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

Claims revenue recognized was \$14.5 million for the year ended March 31, 2007 (2006 \$12.9 million; 2005 \$nil), \$8.4 million of which is included in unbilled revenue and remains uncollected at the end of the year (2005 \$nil). Of the amount included in unbilled revenue at March 31, 2007, \$6.6 million was collected subsequent to year end.

The asset entitled unbilled revenue represents revenue recognized in advance of amounts invoiced. The liability entitled billings in excess of costs incurred and estimated earnings on uncompleted contracts represents amounts invoiced in excess of revenue recognized.

(c) Management fees paid to the corporate shareholder of our predecessor company, Norama Ltd., represented fees for services rendered and were determined with reference to taxable income. Subsequent to the Acquisition on November 26, 2003, these fees are no longer paid.

(d) Interest expense consists of the following:

	Year Ended March 31,		November 26, 2003 to March 31,	Predecessor April 1, 2003 to November 25,
	2007	2006	2005	2004
	(Dollars in thousands)			
Interest on senior notes	\$ 27,417	\$ 28,838	\$ 23,189	\$ 8,096
Interest on capital lease obligations	725	457	230	
Interest on senior secured credit facility		564	3,274	1,089
Interest on NACG Preferred Corp. Series A preferred shares	1,400			
Accretion and change in redemption value of NAEPI Series B preferred shares	2,489	34,668		
Accretion of NAEPI Series A preferred shares	625	54		
Interest on long-term debt	32,656	64,581	26,693	9,185
Amortization of deferred financing costs	3,436	3,338	2,554	814
Other interest	1,157	857	1,894	80
Interest expense	\$ 37,249	\$ 68,776	\$ 31,141	\$ 10,079
				\$ 2,457

(e) On November 28, 2006, prior to the consummation of the initial public offering ( IPO ) discussed below, NACG Holdings Inc. ( Holdings ) amalgamated with its wholly-owned subsidiaries, NACG Preferred Corp. and North American Energy Partners Inc. ( NAEPI ). The amalgamated entity continued under the name North American Energy Partners Inc. The voting common shares of the new entity, North American Energy Partners Inc., were the shares sold in the IPO. On November 28, 2006, prior to the amalgamation:

## Edgar Filing: North American Energy Partners Inc. - Form 20-F

Holdings acquired the NACG Preferred Corp. Series A preferred shares with a carrying value of \$35.0 million together with related accrued and subsequently forfeited dividends of \$1.4 million in exchange for a promissory note in the amount of \$27.0 million. The Company recorded a gain of \$9.4 million on the repurchase of the NACG Preferred Corp. Series A preferred shares.

Holdings repurchased the NAEPI Series A preferred shares for their redemption value of \$1.0 million. Holdings also cancelled the consulting and advisory services agreement with The Sterling Group, L.P., Genstar Capital, L.P., Perry Strategic Capital Inc., and SF Holding Corp. (collectively, the Sponsors), under which Holdings had received ongoing consulting and advisory services with respect to the organization of the companies, employee benefit and compensation arrangements and other matters. The consideration paid for the cancellation of the consulting and advisory services agreement on the closing of the offering was \$2.0 million, which was recorded as general and administrative expense in the consolidated statement of operations. Under the consulting and advisory services agreement, the Sponsors also received a fee of \$0.9 million, 0.5% of the aggregate gross proceeds to the Company from the offering, which was recorded as a share issue cost.

Each holder of NAEPI Series B preferred shares received 100 common shares of Holdings for each NAEPI Series B preferred share held as a result of Holdings exercising a call option to acquire the NAEPI Series B preferred shares. Upon exchange, the carrying value in the amount of \$44.7 million for the NAEPI Series B preferred shares on the exercise date was transferred to share capital.

On November 28, 2006, the Company completed an IPO of 8,750,000 common voting shares for total gross proceeds of \$158.5 million. Net proceeds from the IPO, after deducting underwriting fees and offering expenses, were \$140.9 million. Subsequent to the IPO, the underwriters exercised their overallotment option to purchase 687,500 additional voting common shares of the Company for gross proceeds of \$12.6 million. Net proceeds from the overallotment, after deducting underwriting fees and offering expenses, were \$11.7 million. Total net proceeds from the IPO and subsequent overallotment were \$152.6 million.

The net proceeds from the IPO and subsequent overallotment were used:

to repurchase all of the Company's outstanding 9% senior secured notes due 2010 for \$74.7 million plus accrued interest of \$3.0 million. The notes were redeemed at a premium of 109.26% resulting in a loss on extinguishment of \$6.3 million. The loss on extinguishment, along with the write-off of deferred financing fees of \$4.3 million and other costs of \$0.3 million, was recorded as a loss on extinguishment of debt in the consolidated statement of operations;

**Table of Contents**

**Index to Financial Statements**

to repay the promissory note in respect of the repurchase of the NACG Preferred Corp. Series A preferred shares for \$27.0 million as described above;

to purchase certain equipment leased under operating leases for \$44.6 million;

to cancel the consulting and advisory services agreement with the Sponsors for \$2.0 million; and

for general corporate purposes.

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

	Year Ended March 31,				Predecessor April 1,	
	2007	2006	2005	November 26, 2003 to March 31,	2003 to November 25,	Year Ended March 31,
	(Dollars in thousands)					
Net income (loss) Canadian GAAP	\$ 21,079	\$ (21,941)	\$ (42,323)	\$ (12,282)	\$ (11,141)	\$ 12,489
Capitalized interest(1)	249	847				
Depreciation of capitalized interest(1)	(143)					
Amortization using effective interest method(2)	1,246	590				
Realized and unrealized loss on derivative financial instruments(3)	348	(484)				
Difference between accretion of Series B Preferred Shares(4)	249					
Income (loss) before income taxes	23,028	(20,988)	(42,323)	(12,282)	(11,141)	12,489
Income taxes: Deferred income taxes	(954)					
Net income (loss) U.S. GAAP	\$ 22,074	\$ (20,988)	\$ (42,323)	\$ (12,282)	\$ (11,141)	\$ 12,489
Net income (loss) per share Basic U.S. GAAP	\$ 0.91	\$ (1.13)	\$ (2.28)	\$ (0.66)		
Net income (loss) per share Diluted U.S. GAAP	\$ 0.87	\$ (1.13)	\$ (2.28)	\$ (0.66)		

The cumulative effect of material differences between Canadian and U.S. GAAP on the consolidated shareholders' equity of the Company is as follows:

	March 31, 2007	March 31, 2006	March 31, 2005
	(Dollars in thousands)		
Shareholders' equity (as reported) Canadian GAAP	\$ 244,278	\$ 18,111	\$ 38,829
Capitalized interest(1)	1,096	847	
Depreciation of capitalized interest(1)	(143)		
Amortization using effective interest method(2)	1,836	590	
Realized and unrealized loss on derivative financial instruments(3)	(136)	(484)	

## Edgar Filing: North American Energy Partners Inc. - Form 20-F

Excess of fair value of amended Series B preferred shares over carrying value of original series B preferred shares(4)			(3,707)
Deferred income taxes		(954)	
Shareholders' equity U.S. GAAP		\$ 245,977	\$ 15,357
			\$ 38,829

- 
- (1) U.S. GAAP requires capitalization of interest costs as part of the historical cost of acquiring certain qualifying assets that require a period of time to prepare for their intended use. This is not required under Canadian GAAP. Accordingly, the capitalized amount is subject to depreciation in accordance with the Company's policies when the asset is placed into service.
  - (2) Under Canadian GAAP, the Company defers and amortizes debt issue costs on a straight-line basis over the stated term of the related debt. Under U.S. GAAP, the Company is required to amortize financing costs over the stated term of the related debt using the effective interest method resulting in a consistent interest rate over the term of the debt in accordance with Accounting Principles Board Opinion No. 21 ( APB 21 ).
  - (3) Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ) establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts and debt instruments) be recorded in the balance sheet as either an asset or liability measured at its fair value. On November 26, 2003, the Company issued 8 3/4% senior notes for US\$200 million (Canadian \$263 million). On May 19, 2005 the Company issued 9% senior secured notes for US\$60.4 million (Canadian \$76.3 million), subsequently retired on November 28, 2006. Both of these issues included certain contingent embedded derivatives which provided for the acceleration of redemption by the holder at a premium in certain instances. These embedded derivatives met the criteria for bifurcation from the debt contract and separate measurement at fair value. The embedded derivatives have been measured at fair value and classified as part of the carrying amount of the Senior Notes on the consolidated balance sheet, with changes in the fair value being recorded in net income as realized and unrealized (gain) loss on derivative financial instruments for the period under U.S. GAAP. Under Canadian GAAP, separate accounting of embedded derivatives from the host contract is not permitted by EIC-117.

**Table of Contents**

**Index to Financial Statements**

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

(g) Total Debt as of March 31, 2007 consists of the following (in thousands):

Revolving line of credit	\$ 20,500
Obligations under capital leases, including current portion	9,709
8 3/4% senior notes due 2011	230,580
 Total debt	 \$ 260,789

Our 8 3/4% senior notes are stated at the current exchange rate at each balance sheet date. We have entered into cross-currency and interest rate swaps, which represent an economic hedge of the 8 3/4% senior notes. At maturity, we will be required to pay \$263 million in order to retire these senior notes and the swaps. This amount reflects the fixed exchange rate of C\$1.315=US\$1.00 established as of November 26, 2003, the date of inception of the swap contracts.

Other long-term financial liabilities consist of derivative financial instruments and redeemable preferred shares.

Total long-term financial liabilities consists of total debt, excluding current portion, plus our redeemable shares and the value of the cross-currency and interest rate swaps recognized on our balance sheet.

(h) EBITDA is calculated as net income (loss) before interest expense, income taxes, depreciation and amortization. Consolidated EBITDA is defined as EBITDA, excluding the effects of foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, non-cash stock-based compensation expense, gain or loss on disposal of plant and equipment and certain other non cash items included in the calculation of net income (loss). We believe that EBITDA is a meaningful measure of the performance of our business because it excludes items, such as depreciation and amortization, interest and taxes, that are not directly related to the operating performance of our business. Management reviews EBITDA to determine whether capital assets are being allocated efficiently. In addition, our revolving credit facility requires us to maintain a minimum interest coverage ratio and a maximum senior leverage ratio, which are calculated using Consolidated EBITDA. Non-compliance with these financial covenants could result in our being required to immediately repay all amounts outstanding under our revolving credit facility. EBITDA and Consolidated EBITDA are not measures of performance under Canadian GAAP or U.S. GAAP and our computations of EBITDA and Consolidated EBITDA may vary from others in our industry. EBITDA and Consolidated EBITDA should not be considered as alternatives to operating income or net income as measures of operating performance or cash flows as measures of liquidity. EBITDA and Consolidated EBITDA have important limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under Canadian GAAP or U.S. GAAP. A reconciliation of net income (loss) to EBITDA and Consolidated EBITDA is as follows:

Year Ended March 31,				Predecessor April 1,		
				November 26, 2003 to March 31,	2003 to November 25,	Year Ended March 31,
2007	2006	2005	2004		2003	2003
(Dollars in thousands)						



Edgar Filing: North American Energy Partners Inc. - Form 20-F

Net income (loss)	\$ 21,079	\$ (21,941)	\$ (42,323)	\$ (12,282)	\$ (11,141)	\$ 12,489
Adjustments:						
Interest expense	37,249	68,776	31,141	10,079	2,457	4,162
Income taxes (benefit)	(2,593)	737	(2,264)	(5,670)	(6,622)	6,620
Depreciation	31,034	21,725	20,762	6,674	6,566	10,974
Amortization of intangible assets	582	730	3,368	12,928		
EBITDA	\$ 87,351	\$ 70,027	\$ 10,684	\$ 11,729	\$ (8,740)	\$ 34,245

**Table of Contents****Index to Financial Statements**

A reconciliation of EBITDA to Consolidated EBITDA is as follows:

	Year Ended March 31,				Predecessor	
	2007	2006	2005	November 26, 2003 to March 31,	April 1, 2003 to November 25,	Year Ended March 31, 2003
	(Dollars in thousands)					
EBITDA	\$ 87,351	\$ 70,027	\$ 10,684	\$ 11,729	\$ (8,740)	\$ 34,245
Adjustments:						
Unrealized foreign exchange gain on senior notes	\$ (5,017)	(14,258)	(20,340)	(740)		
Realized and unrealized (gain) loss on derivative financial instruments	\$ (196)	14,689	43,113	12,205		
Loss (gain) on disposal of plant and equipment	\$ 959	(733)	494	131	(49)	(2,265)
Stock-based compensation expense	\$ 2,101	923	497	137		
Write-off of deferred financing costs	\$ 4,342	1,774				
Write down of other assets to replacement cost	\$ 695					
Consolidated EBITDA	\$ 90,235	\$ 72,422	\$ 34,448	\$ 23,462	\$ (8,789)	\$ 31,980

**Table of Contents****Index to Financial Statements****EXCHANGE RATE DATA**

The following tables set forth the exchange rates for one Canadian dollar, expressed in U.S. dollars, based on the inverse of the noon buying rate in the city of New York for cable transfers in Canadian dollars as certified for customs purposes by the Bank of Canada (the "Noon Buying Rate"). On May 31, 2007, the Noon Buying Rate was \$1.00 = US\$ 0.9347.

	2006		2007			
	December	January	February	March	April	May
High for period	0.8787	0.8598	0.8467	0.8696	0.9051	0.9376
Low for period	0.8569	0.844	0.8419	0.8462	0.8621	0.8958
			Year Ended March 31,			
	2003	2004	2005	2006	2007	
Average for period	0.6455	0.7412	0.7836	0.8378	0.8738	

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**D. RISK FACTORS****Risk Factors**

*Anticipated major projects in the oil sands may not materialize.*

Notwithstanding the National Energy Board's estimates regarding new investment and growth in the Canadian oil sands, planned and anticipated projects in the oil sands and other related projects may not materialize. The underlying assumptions on which the projects are based are subject to significant uncertainties, and actual investments in the oil sands could be significantly less than estimated. Projected investments and new projects may be postponed or cancelled for any number of reasons, including among others:

changes in the perception of the economic viability of these projects;

shortage of pipeline capacity to transport production to major markets;

lack of sufficient governmental infrastructure to support growth;

shortage of skilled workers in this remote region of Canada; and

## Edgar Filing: North American Energy Partners Inc. - Form 20-F

cost overruns on announced projects.

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

Due to the amount of capital investment required to build an oil sands project, or construct a significant expansion to an existing project, investment decisions by oil sands operators are based upon long-term views of the economic viability of the project. Economic viability is dependent upon the anticipated revenues the project will produce, the anticipated amount of capital investment required and the anticipated cost of operating the project. The most important consideration is the customer's view of the long-term price of oil which is influenced by many factors, including the condition of developed and developing economies and the resulting demand for

**Table of Contents**

**Index to Financial Statements**

oil and gas, the level of supply of oil and gas, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political conditions in oil producing nations, including those in the Middle East, war or the threat of war in oil producing regions and the availability of fuel from alternate sources. If our customers believe the long-term outlook for the price of oil is not favorable, or believe oil sands projects are not viable for any other reason, they may delay, reduce or cancel plans to construct new oil sands projects or expansions to existing projects. Delays, reductions or cancellations of major oil sands projects could have a material adverse impact on our financial condition and results of operations.

*Insufficient pipeline, upgrading and refining capacity could cause our customers to delay, reduce or cancel plans to construct new oil sands projects or expand existing projects, which would, in turn, reduce our revenue from those customers.*

For our customers to operate successfully in the oil sands, they must be able to transport the bitumen produced to upgrading facilities and transport the upgraded oil to refineries. Some oil sands projects have upgraders at mine site and others transport bitumen to upgraders located elsewhere. While current pipeline and upgrading capacity is sufficient for current production, future increases in production from new oil sands projects and expansions to existing projects will require increased upgrading and pipeline capacity. If these increases do not materialize, whether due to inadequate economics for the sponsors of such projects, shortages of labor or materials or any other reason, our customers may be unable to efficiently deliver increased production to market and may therefore delay, reduce or cancel planned capital investment. Such delays, reductions or cancellations of major oil sands projects would adversely affect our prospects and could have a material adverse impact on our financial condition and results of operations.

*Lack of sufficient governmental infrastructure to support the growth in the oil sands region could cause our customers to delay, reduce or cancel their future expansions, which would, in turn, reduce our revenue from those customers.*

The development in the oil sands region has put a great strain on the existing government infrastructure, necessitating substantial improvements to accommodate growth in the region. The local government having responsibility for a majority of the oil sands region has been exceptionally impacted by this growth and is not currently in a position to provide the necessary additional infrastructure. In an effort to delay further development until infrastructure funding issues are resolved, the local governmental authority has intervened in two recent hearings considering applications by major oil sands companies to the EUB for approval to expand their operations. Similar action could be taken with respect to any future applications. The EUB has issued conditional approval for the expansion in respect of one of the hearings despite the intervention by the local government authority, and a decision in the second hearing is pending. The EUB has indicated that it believes that additional infrastructure investment in the oil sands region is needed and that there is a short window of opportunity to make these investments in parallel with continued oil sands development. If the necessary infrastructure is not put in place, future growth of our customers' operations could be delayed, reduced or canceled which could in turn adversely affect our prospects and could have a material adverse impact on our financial condition and results of operations.

*Shortages of qualified personnel or significant labor disputes could adversely affect our business.*

Alberta, and in particular the oil sands area, has had and continues to have a shortage of skilled labor and other qualified personnel. New mining projects in the area will only make it more difficult for us and our customers to find and hire all the employees required to work on these projects. We are continuously exploring innovative ways to hire the people we need, which include project managers, trades people and other skilled employees. We have expanded our efforts to find qualified candidates outside of Canada who might relocate to our area. In addition, we have undertaken more extensive training of existing employees and we are enhancing our use of technology and developing programs to provide better working conditions. We believe the labor shortage, which affects us and all of our major customers, will continue to be a challenge for everyone in the

**Table of Contents**

**Index to Financial Statements**

mining and oil and gas industries in western Canada for the foreseeable future. If we are not able to recruit and retain enough employees with the appropriate skills, we may be unable to maintain our customer service levels, and we may not be able to satisfy any increased demand for our services. This, in turn, could have a material adverse effect on our business, financial condition and results of operations. If our customers are not able to recruit and retain enough employees with the appropriate skills, they may be unable to develop projects in the oil sands area.

Substantially all of our hourly employees are subject to collective bargaining agreements to which we are a party or are otherwise subject. Any work stoppage resulting from a strike or lockout could have a material adverse effect on our business, financial condition and results of operations. In addition, our customers employ workers under collective bargaining agreements. Any work stoppage or labor disruption experienced by our key customers could significantly reduce the amount of our services that they need.

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

Oil sands development projects require substantial capital expenditures. In the past, several of our customers' projects have experienced significant cost overruns, impacting their returns. If cost overruns continue to challenge our customers, they could reassess future projects and expansions which could adversely affect the amount of work we receive from our customers.

*Our ability to grow our operations in the future may be hampered by our inability to obtain long lead time equipment and tires, which are currently in limited supply.*

Our ability to grow our business is, in part, dependent upon obtaining equipment on a timely basis. Due to the long production lead times of suppliers of large mining equipment, we must forecast our demand for equipment many months or even years in advance. If we fail to forecast accurately, we could suffer equipment shortages or surpluses, which could have a material adverse impact on our financial condition and results of operations.

Global demand for tires of the size and specifications we require is exceeding the available supply. For example, two of our trucks are currently not in service because we cannot get tires for these particular trucks. We expect the supply/demand imbalance for certain tires to continue for several years. Our inability to procure tires to meet the demands for our existing fleet as well as to meet new demand for our services could have an adverse effect on our ability to grow our business.

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

Most of our revenue comes from the provision of services to a small number of major oil sands mining companies. Revenue from our five largest customers represented approximately 65%, 70% and 68% of our total revenue for 2007, 2006 and 2005, respectively, and those customers are expected to continue to account for a significant percentage of our revenues in the future. In addition, the majority of our Pipeline revenues in previous fiscal years resulted from work performed for one customer. If we lose or experience a significant reduction of business from one or more of our significant customers, we may not be able to replace the lost work with work from other customers. Our long-term contracts typically allow our customers to unilaterally reduce or eliminate the work which we are to perform under the contract. Our contracts generally allow the customer to terminate the contract without cause. The loss of or significant reduction in business with one or more of our major customers, whether as a result of completion of a contract, early termination or failure or inability to pay amounts owed to us, could have a material adverse effect on our business and results of operations.

## Table of Contents

### Index to Financial Statements

*Because most of our customers are Canadian energy companies, a downturn in the Canadian energy industry could result in a decrease in the demand for our services.*

Most of our customers are Canadian energy companies. A downturn in the Canadian energy industry could cause our customers to slow down or curtail their current production and future expansions which would, in turn, reduce our revenue from those customers. Such a delay or curtailment could have a material adverse impact on our financial condition and results of operations.

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

Approximately 66%, 58% and 51% of our revenue for 2007, 2006 and 2005, respectively, was derived from lump-sum and unit-price contracts. See Critical Accounting Policies and Estimates Revenue Recognition. Lump-sum and unit-price contracts require us to guarantee the price of the services we provide and thereby expose us to losses if our estimates of project costs are lower than the actual project costs we incur. Our profitability under these contracts is dependent upon our ability to accurately predict the costs associated with our services. The costs we actually incur may be affected by a variety of factors beyond our control. Factors that may contribute to actual costs exceeding estimated costs and which therefore affect profitability include, without limitation:

site conditions differing from those assumed in the original bid;

scope modifications during the execution of the project;

the availability and cost of skilled workers;

the availability and proximity of materials;

unfavorable weather conditions hindering productivity;

inability or failure of our customers to perform their contractual commitments;

equipment availability and productivity and timing differences resulting from project construction not starting on time; and

the general coordination of work inherent in all large projects we undertake.

When we are unable to accurately estimate the costs of lump-sum and unit-price contracts, or when we incur unrecoverable cost overruns, the related projects result in lower margins than anticipated or may incur losses, which could adversely impact our results of operations, financial condition and cash flow.

*Until we establish and maintain effective internal controls over financial reporting, we cannot assure you that we will have appropriate procedures in place to eliminate future financial reporting inaccuracies and avoid delays in financial reporting.*

We have financial reporting obligations arising from our listings on the New York Stock Exchange and the Toronto Stock Exchange. We have had continuing problems providing accurate and timely financial information and reports and restated NAEPI's financial statements three times since the beginning of our 2005 fiscal year. In April of 2005, we had to restate NAEPI's financial statements for the first and second quarters of 2005 to properly account for costs incurred in those quarters. During 2006, we had to restate NAEPI's financial statements for each period after

## Edgar Filing: North American Energy Partners Inc. - Form 20-F

November 26, 2003 to the quarter ended December 31, 2004 and the quarter ended June 30, 2005 to eliminate the impact of hedge accounting with respect to the derivative financial instruments. We also had to restate NAEPI's financial statements for the first quarter of 2006 to correct the accounting for various aspects of the refinancing transactions which occurred in May 2005. Each of these restatements resulted in our inability to file NAEPI's financial statements within the deadlines imposed by covenants in the indentures governing our 8¼% senior notes and 9% senior secured notes.



**Table of Contents**

**Index to Financial Statements**

We have identified a number of significant weaknesses (as defined under Canadian auditing standards) in our financial reporting processes and internal controls. See Significant Weaknesses in Financial Reporting and Internal Controls. As a result, there can be no assurance that we will be able to generate accurate financial reports in a timely manner. Failure to do so would cause us to breach the U.S. and Canadian securities regulations with respect to reporting requirements in the future as well as the covenants applicable to our indebtedness. This could, in turn, have a material adverse effect on our business and financial condition. Until we establish and maintain effective internal controls and procedures for financial reporting, we may not have appropriate measures in place to eliminate financial statement inaccuracies and avoid delays in financial reporting.

*If, as of the end of our 2008 fiscal year, we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to confirm our assessment, investors could lose confidence in our reported financial information, and the trading price of our common shares and our business could be adversely affected.*

We are in the process of documenting, and plan to test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, commencing with our year ending March 31, 2008. Effective March 31, 2008 the Sarbanes-Oxley Act requires an annual assessment by management of the effectiveness of internal control over financial reporting and an attestation report by independent auditors on the effectiveness of internal control over financial reporting. We cannot be certain that we will be able to comply with all of our reporting obligations and successfully complete the procedures, certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner. During the course of our testing we may identify deficiencies that we may not be able to remedy in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. Effective internal control over financial reporting is important to help produce reliable financial reports and to prevent financial fraud. If, as of the end of fiscal 2008, we are unable to assert that our internal control over financial reporting is effective, or if our independent auditors are unable to attest that our internal control over financial reporting is effective, we could be subject to heightened regulatory scrutiny, investors could lose confidence in our reported financial information and the trading price of our common shares and our ability to maintain confidence in our business could be adversely affected.

*Our substantial debt could adversely affect us, make us more vulnerable to adverse economic or industry conditions and prevent us from fulfilling our debt obligations.*

We have a substantial amount of debt outstanding and significant debt service requirements. As of March 31, 2007, we had outstanding \$240.3 million of debt, including \$9.7 million of capital leases. We also had cross-currency and interest rate swaps with a balance sheet liability of \$60.9 million as of March 31, 2007. These swaps are secured equally and ratably with our revolving credit facility. We also had \$25.0 million of outstanding, undrawn letters of credit, which reduce the amount of available borrowings under our revolving credit facility. Our substantial indebtedness could have serious consequences, such as:

limiting our ability to obtain additional financing to fund our working capital, capital expenditures, debt service requirements, potential growth or other purposes;

limiting our ability to use operating cash flow in other areas of our business;

limiting our ability to post surety bonds required by some of our customers;

placing us at a competitive disadvantage compared to competitors with less debt;

increasing our vulnerability to, and reducing our flexibility in planning for, adverse changes in economic, industry and competitive conditions; and

## Edgar Filing: North American Energy Partners Inc. - Form 20-F

increasing our vulnerability to increases in interest rates because borrowings under our revolving credit facility and payments under some of our equipment leases are subject to variable interest rates.

**Table of Contents**

**Index to Financial Statements**

The potential consequences of our substantial indebtedness make us more vulnerable to defaults and place us at a competitive disadvantage. Further, if we do not have sufficient earnings to service our debt, we would need to refinance all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can guarantee we will be able to achieve on commercially reasonable terms, if at all.

*The terms of our debt agreements may restrict our current and future operations, particularly our ability to respond to changes in our business or take certain actions.*

Our revolving credit facility and the indenture governing our notes limit, among other things, our ability and the ability of our subsidiaries to:

incur or guarantee additional debt, issue certain equity securities or enter into sale and leaseback transactions;

pay dividends or distributions on our shares or repurchase our shares, redeem subordinated debt or make other restricted payments;

incur dividend or other payment restrictions affecting certain of our subsidiaries;

issue equity securities of subsidiaries;

make certain investments or acquisitions;

create liens on our assets;

enter into transactions with affiliates;

consolidate, merge or transfer all or substantially all of our assets; and

transfer or sell assets, including shares of our subsidiaries.

Our revolving credit facility and some of our equipment lease programs also require us, and our future credit facilities may require us, to maintain specified financial ratios and satisfy specified financial tests, some of which become more restrictive over time. Our ability to meet these financial ratios and tests can be affected by events beyond our control, and we may be unable to meet those tests.

As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be considered beneficial to us. The breach of any of these covenants could result in an event of default under our revolving credit facility or any future credit facilities or under the indenture governing our notes. Under our revolving credit facility, our failure to pay certain amounts when due to other creditors, including to certain equipment lessors, or the acceleration of such other indebtedness, would also result in an event of default. Upon the occurrence of an event of default under our revolving credit facility or future credit facilities, the lenders could elect to stop lending to us or declare all amounts outstanding under such credit facilities to be immediately due and payable. Similarly, upon the occurrence of an event of default under the indenture governing our notes, the outstanding principal and accrued interest on the notes may become immediately due and payable. If amounts outstanding under such credit facilities and indenture were to be accelerated, or if we were not able to borrow under our revolving credit facility, we could become insolvent or be forced into insolvency proceedings and you could lose your investment in us.

## Edgar Filing: North American Energy Partners Inc. - Form 20-F

Between March 31, 2004 and May 19, 2005, it was necessary to obtain a series of waivers and amend our then-existing credit agreement to avoid or to cure our default of various covenants contained in that credit agreement. We ultimately replaced that credit agreement with a new credit agreement on May 19, 2005, which was amended and restated on July 19, 2006, which we replaced with our current amended and restated credit agreement dated as of June 7, 2007.

Our inability to file NAEPI's financial statements for the periods ended December 31, 2004, March 31, 2005 and September 30, 2005 with the SEC within the deadlines imposed by the regulators caused us to be out of

**Table of Contents**

**Index to Financial Statements**

compliance with the covenants in the indentures governing our 8<sup>3/4</sup>% senior notes and our 9% senior secured notes (the latter indenture having been subsequently repaid and terminated on November 28, 2006). In each case, we filed these financial statements before the lack of compliance became an event of default under the indentures.

*We may not be able to generate sufficient cash flow to meet our debt service and other obligations due to events beyond our control.*

For 2005, we had negative operating cash flow of \$5.7 million. Our ability to generate sufficient operating cash flow to make scheduled payments on our indebtedness and meet other capital requirements will depend on our future operating and financial performance. Our future performance will be impacted by a range of economic, competitive and business factors that we cannot control, such as general economic and financial conditions in our industry or the economy generally.

A significant reduction in operating cash flows resulting from changes in economic conditions, increased competition, reduced work or other events could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to service our debt and other obligations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as selling assets, restructuring or refinancing our indebtedness, seeking additional equity capital or reducing capital expenditures. We may not be able to effect any of these alternative strategies on satisfactory terms, if at all, or they may not yield sufficient funds to make required payments on our indebtedness.

*Currency rate fluctuations could adversely affect our ability to repay our 8<sup>3/4</sup>% senior notes and may affect the cost of goods we purchase.*

We have entered into cross-currency and interest rate swaps that represent economic hedges of our 8<sup>3/4</sup>% senior notes, which are denominated in U.S. dollars. The current exchange rate between the Canadian and U.S. dollars as compared to the rate implicit in the swap agreement has resulted in a large liability on the balance sheet under the caption derivative financial instruments. If the Canadian dollar increases in value or remains at its current value against the U.S. dollar, then if we repay the 8<sup>3/4</sup>% senior notes prior to their maturity in 2011, we will have to pay this liability.

Exchange rate fluctuations may also cause the price of goods to increase or decrease for us. For example, a decrease in the value of the Canadian dollar compared to the U.S. dollar would proportionately increase the cost of equipment which is sold to us or priced in U.S. dollars. Between January 1, 2007 and May 31, 2007, the Canadian dollar/U.S. dollar exchange rate varied from a high of 0.9376 Canadian dollars per U.S. dollar to a low of 0.8419 Canadian dollars per U.S. dollar.

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

We are at times required to post a bid or performance bond issued by a financial institution, known as a surety, to secure our performance commitments. The surety industry experiences periods of unsettled and volatile markets, usually in the aftermath of substantial loss exposures or corporate bankruptcies with significant surety exposure. Historically, these types of events have caused reinsurers and sureties to reevaluate their committed levels of underwriting and required returns. If for any reason, whether because of our financial condition, our level of secured debt or general conditions in the surety bond market, our bonding capacity becomes insufficient to satisfy our future bonding requirements, our business and results of operations could be adversely affected.

Some of our customers require letters of credit to secure our performance commitments. Our second amended and restated revolving credit facility provides for the issuance of letters of credit up to \$125.0 million,

**Table of Contents**

**Index to Financial Statements**

and at March 31, 2007, we had \$25.0 million of issued letters of credit outstanding. One of our major contracts allows the customer to require up to \$50.0 million in letters of credit. If we were unable to provide letters of credit in the amount requested by this customer, we could lose business from such customer and our business and cash flow would be adversely affected. If our capacity to issue letters of credit under our revolving credit facility and our cash on hand are insufficient to satisfy our customers, our business and results of operations could be adversely affected.

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

Outsourced mining and site preparation services constitute a large portion of the work we perform for our customers. For example, our mining and site preparation project revenues constituted approximately 74% to 75% of our revenues in each of 2007, 2006 and 2005. The election by one or more of our customers to perform some or all of these services themselves, rather than outsourcing the work to us, could have a material adverse impact on our business and results of operations.

*Our operations are subject to weather-related factors that may cause delays in our project work.*

Because our operations are located in western Canada and northern Ontario, we are often subject to extreme weather conditions. While our operations are not significantly affected by normal seasonal weather patterns, extreme weather, including heavy rain and snow, can cause delays in our project work, which could adversely impact our results of operations.

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

A portion of our equipment fleet is currently leased from third parties. Further, we anticipate leasing substantial amounts of equipment to perform the work on contracts for which we have been engaged in the upcoming year, particularly the overburden removal contract with CNRL. Other future projects may require us to lease additional equipment. If equipment lessors are unable or unwilling to provide us with the equipment we need to perform our work, our results of operations will be materially adversely affected.

*Our business is highly competitive and competitors may outbid us on major projects that are awarded based on bid proposals.*

We compete with a broad range of companies in each of our markets. Many of these competitors are substantially larger than we are. In addition, we expect the anticipated growth in the oil sands region will attract new and sometimes larger competitors to enter the region and compete against us for projects. This increased competition may adversely affect our ability to be awarded new business.

Approximately 80% of the major projects that we pursue are awarded to us based on bid proposals, and projects are typically awarded based in large part on price. We often compete for these projects against companies that have substantially greater financial and other resources than we do and therefore can better bear the risk of underpricing projects. We also compete against smaller competitors that may have lower overhead cost structures and, therefore, may be able to provide their services at lower rates than we can. Our business may be adversely impacted to the extent that we are unable to successfully bid against these companies. The loss of existing customers to our competitors or the failure to win new projects could materially and adversely affect our business and results of operations.

*A significant amount of our revenue is generated by providing non-recurring services.*

More than 66% of our revenue for 2007 was derived from projects which we consider to be non-recurring. This revenue primarily relates to site preparation and piling services provided for the construction of extraction, upgrading and other oil sands mining infrastructure projects.

---

**Table of Contents**

**Index to Financial Statements**

*Demand for our services may be adversely impacted by regulations affecting the energy industry.*

Our principal customers are energy companies involved in the development of the oil sands and in natural gas production. The operations of these companies, including their mining operations in the oil sands, are subject to or impacted by a wide array of regulations in the jurisdictions where they operate, including those directly impacting mining activities and those indirectly affecting their businesses, such as applicable environmental laws. As a result of changes in regulations and laws relating to the energy production industry, including the operation of mines, our customers' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations may cause customers to discontinue or limit their operations, and may discourage companies from continuing development activities. As a result, demand for our services could be substantially affected by regulations adversely impacting the energy industry.

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

Our operations are subject to numerous environmental protection laws and regulations that are complex and stringent. We regularly perform work in and around sensitive environmental areas such as rivers, lakes and forests. Significant fines and penalties may be imposed on us or our customers for noncompliance with environmental laws and regulations, and our contracts generally require us to indemnify our customers for environmental claims suffered by them as a result of our actions. In addition, some environmental laws impose strict, joint and several liability for investigative and remediation costs in relation to releases of harmful substances. These laws may impose liability without regard to negligence or fault. We also may be subject to claims alleging personal injury or property damage if we cause the release of, or any exposure to, harmful substances.

We own or lease, and operate, several properties that have been used for a number of years for the storage and maintenance of equipment and other industrial uses. Fuel may have been spilled, or hydrocarbons or other wastes may have been released on these properties. Any release of substances by us or by third parties who previously operated on these properties may be subject to laws which impose joint and several liability for clean-up, without regard to fault, on specific classes of persons who are considered to be responsible for the release of harmful substances into the environment.

*Failure by our customers to obtain required permits and licenses may affect the demand for our services.*

The development of the oil sands requires our customers to obtain regulatory and other permits and licenses from various governmental licensing bodies. Our customers may not be able to obtain all necessary permits and licenses that may be required for the development of the oil sands on their properties. In such a case, our customers' projects will not proceed, thereby adversely impacting demand for our services.

*Our projects expose us to potential professional liability, product liability, warranty or other claims.*

We install deep foundations, often in congested and densely populated areas, and provide construction management services for significant projects. Notwithstanding the fact that we generally will not accept liability for consequential damages in our contracts, any catastrophic occurrence in excess of insurance limits at projects where our structures are installed or services are performed could result in significant professional liability, product liability, warranty or other claims against us. Such liabilities could potentially exceed our current insurance coverage and the fees we derive from those services. A partially or completely uninsured claim, if successful and of a significant magnitude, could result in substantial losses.

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

We intend to pursue selective acquisitions as a method of expanding our business. However, we may not be able to identify or successfully bid on businesses that we might find attractive. If we do find attractive acquisition

**Table of Contents**

**Index to Financial Statements**

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

*Aboriginal peoples may make claims against our customers or their projects regarding the lands on which their projects are located.*

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of western Canada. Any claims that may be asserted against our customers, if successful, could have an adverse effect on our customers which may, in turn, negatively impact our business.

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

The majority of our work is generated from the development, expansion and ongoing maintenance of oil sands mining, extraction and upgrading facilities. Unplanned shutdowns of these facilities due to events outside our control or the control of our customers, such as fires, mechanical breakdowns and technology failures, could lead to the temporary shutdown or complete cessation of projects in which we are working. When these events have happened in the past, our business has been adversely affected. Our ability to maintain revenues and margins may be affected to the extent these events cause reductions in the utilization of equipment.

*Many of our senior officers have either recently joined the company or have just been promoted and have only worked together as a management team for a short period of time.*

We recently made several significant changes to our senior management team. In May 2005, we hired a new Chief Executive Officer and promoted our Vice President, Operations to Chief Operating Officer. In January 2005 we hired a new Treasurer, who is now our Vice President, Supply Chain. In June 2006, we hired a new Vice President, Human Resources, Health, Safety and Environment. In September 2006, we hired a new Chief Financial Officer. Our Chief Operating Officer has resigned effective July 31, 2007. As a result of these and other recent changes in senior management, many of our officers have only worked together as a management team for a short period of time and do not have a long history with us. Because our senior management team is responsible for the management of our business and operations, failure to successfully integrate our senior management team could have an adverse impact on our business, financial condition and results of operations.

*We will incur significantly higher costs as a result of being a public company.*

As a public company, we will incur significantly higher legal, accounting and other expenses than we did as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as similar or related rules adopted by the Securities and Exchange Commission, Canadian securities regulatory authorities, the New York Stock Exchange and the Toronto Stock Exchange, have imposed substantial requirements on public companies, including requiring changes in corporate governance practices and requirements relating to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. We expect these rules and regulations will increase our legal and financial compliance costs and make some activities more time-consuming and costly.



---

**Table of Contents**

**Index to Financial Statements**

**ITEM 4: INFORMATION ON THE COMPANY**

**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

NACG Holdings Inc. ( Holdings ) was formed in October 2003 in connection with the Acquisition discussed below. Prior to the Acquisition, NACG Holdings Inc. had no operations or significant assets and the Acquisition was primarily a change of ownership of the businesses acquired.

On October 31, 2003, two wholly-owned subsidiaries of Holdings, as the buyers, entered into a purchase and sale agreement with Norama Ltd. and one of its subsidiaries, as the sellers. On November 26, 2003, pursuant to the purchase and sale agreement, Norama Ltd. sold to the buyers the businesses comprising North American Construction Group in exchange for total consideration of approximately \$405.5 million, net of cash received and including the impact of certain post-closing adjustments. The businesses we acquired from Norama Ltd. have been in operation since 1953. Subsequent to the Acquisition, we have operated the businesses in substantially the same manner as prior to the Acquisition.

On November 28, 2006, prior to the consummation of the initial public offering ( IPO ) discussed below, Holdings amalgamated with its wholly-owned subsidiaries, NACG Preferred Corp and North American Energy Partners Inc. The amalgamated entity continued under the name North American Energy Partners Inc. The voting common shares of the new entity, North American Energy Partners Inc., were the shares sold in the IPO and related secondary offering. On November 28, 2006, we completed the IPO in the United States and Canada of 8,750,000 voting common shares and a secondary offering of 3,750,000 voting common shares for \$18.38 per share (U.S. \$16.00 per share).

On November 22, 2006 our common shares commenced trading on the New York Stock Exchange and on the Toronto Stock Exchange on an if, as and when issued basis. On November 28, 2006, our common shares became fully tradable on the Toronto Stock Exchange.

Net proceeds from the IPO were \$140.9 million (gross proceeds of \$158.5 million, less underwriting discounts and costs and offering expenses of \$17.6 million). On December 6, 2006, the underwriters exercised their option to purchase an additional 687,500 common shares from us. The net proceeds from the exercise of the underwriters option were \$11.7 million (gross proceeds of \$12.6 million, less underwriting fees of \$0.9 million). Total net proceeds were \$152.6 million (total gross proceeds of \$171.1 million less total underwriting discounts and costs and offering expenses of \$18.5 million). As of March 31, 2007, our authorized capital consists of an unlimited number of voting and non-voting common shares, of which 35,192,260 voting and 412,400 non voting common shares were issued and outstanding.

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

**B. BUSINESS OVERVIEW**

**General**

We are a leading resource services provider to major oil and natural gas and other natural resource companies, with a primary focus in the Alberta oil sands. We provide a wide range of mining and site preparation, piling and pipeline installation services to our customers across the entire lifecycle of their projects. We are the largest provider of contract mining services in the oil sands area, and we believe we are the largest piling foundations installer in western Canada. In addition, we believe that we operate the largest fleet of equipment of any contract resource services provider in the oil sands. Our total fleet includes 690 pieces of diversified heavy construction equipment supported by over 660 ancillary vehicles. While our expertise covers heavy earth moving, piling and pipeline installation in any location, we have a specific capability operating in the harsh climate and difficult terrain of the oil sands and northern Canada. By understanding the terrain, having skilled personnel and a diverse, well-maintained and well-positioned fleet, we are able to meet the demands of a growing customer base.

**Table of Contents****Index to Financial Statements**

Our core market is the Alberta oil sands, where we generated 72% of our fiscal 2007 revenue. The oil sands are located in three regions of northern Alberta: Athabasca, Cold Lake and Peace River. According to the Alberta Energy and Utilities Board, or EUB, Canada's oil sands are estimated to hold 315 billion barrels of ultimately recoverable oil reserves, with established reserves of almost 174 billion barrels, second only to Saudi Arabia. According to the Canadian National Energy Board, or NEB, oil sands production of bitumen is expected to increase from 1.1 million barrels per day, or bpd, in 2005 to approximately 3.0 million bpd by 2015 and account for 75% of total Canadian oil output, compared to approximately 50% of output today. In order to achieve this increase in production, the NEB estimates that over \$95 billion of capital expenditures by companies operating in the oil sands will be required through 2015.

Our significant knowledge, experience, equipment capacity and scale of operations in the oil sands differentiates us from our competition. Our principal customers are the major operators in the oil sands, including all three of the producers that currently mine bitumen, being Syncrude Canada Ltd., Suncor Energy Inc. and Albian Sands Energy Inc. (a joint venture among Shell Canada Limited, Chevron Canada Limited and Western Oil Sands Inc.). Canadian Natural Resources Limited, or CNRL, another significant customer, is developing a bitumen-mining project in the oil sands. We provide services to every company in the oil sands that uses surface mining techniques for its production. These surface mining techniques account for over 70% of total oil sands production. We have also provided site construction services for in-situ producers, which use horizontally drilled wells to inject steam into deposits and pump bitumen to the surface.

We have long-term relationships with most of our customers. For example, we have been providing services to Syncrude and Suncor since they pioneered oil sands development over 30 years ago. We believe our customers' leases have an average remaining productive life of over 35 years. In addition, 34% of our revenues in fiscal 2007 were derived from recurring, long-term contracts, which assists in providing stability in our operations.

**Our Operations**

We provide our services through three interrelated yet distinct business units: mining and site preparation, piling and pipeline. Over the past 50 years, we have developed an expertise operating in the difficult working conditions created by the climate and terrain of western Canada. We provide our services primarily to oil and gas and other natural resource companies.

The chart below shows the revenues generated by each operating segment for the fiscal years ended March 31, 2005 through March 31, 2007:

	2007		Year Ended March 31, 2006		2005	
	(Dollars in thousands)					
Mining and site preparation	\$ 473,179	75.2%	\$ 366,721	74.5%	\$ 264,835	74.1%
Piling	109,266	17.3	91,434	18.6	61,006	17.1
Pipeline installation	47,001	7.5	34,082	6.9	31,482	8.8
Total	\$ 629,446	100.0%	\$ 492,237	100.0%	\$ 357,323	100.0%

*Mining and site preparation*

Our mining and site preparation segment encompasses a wide variety of services. Our contract mining business represents an outsourcing of the equipment and labor component of the oil and gas and other natural resources mining business. Our site preparation services include clearing, stripping, excavating and grading for mining operations and other general construction projects, as well as underground utility installation for plant, refinery and commercial building construction. This business unit utilizes the vast majority of our equipment fleet and employs over 900 people. The majority of the employees and equipment associated with this business unit are located in the Alberta oil sands area.

## **Table of Contents**

### **Index to Financial Statements**

For the fiscal years ended March 31, 2005, 2006 and 2007, revenues from this segment accounted for 74%, 75% and 75% of our total revenues, respectively.

Many oil sands and natural resource mining companies utilize contract services for mine site operations. Our mining services consist of overburden removal; the hauling of sand and gravel; mining of the ore body and delivery of the ore to the crushing facility; supply of labor and equipment to support the owners' mining operations; construction of infrastructure associated with mining operations; and reclamation activities, which include contouring of waste dumps and placement of secondary materials and muskeg. The major producers outsource mine site operations to contractors such as our company to allow them to focus their resources on exploration and property development and to benefit from a variety of cost efficiencies that we can provide. We believe mining contractors typically have wage rates lower than those of the mining company and more flexible operating arrangements with personnel allowing for improved uptime and performance.

Oil sands operators use our services to prepare their sites for the construction of the mining infrastructure, including extraction plants and upgrading facilities, and for the eventual mining of the oil sands ore located on their properties. Outside of the oil sands, our site preparation services are used to assist in the construction of roads, natural resource mines, plants, refineries, commercial buildings, dams and irrigation systems. In order to successfully provide these types of services in the oil sands, our operators are required to use heavy equipment to transform barren terrain and difficult soil or rock conditions into a stable environment for site development. Our extensive fleet of equipment is used for clearing the earth of vegetation and removing topsoil that is not usable as a stable subgrade and site grading, which includes grading, leveling and compacting the site to provide a solid foundation for transportation or building. We also provide utility pipe installation for the private and public sectors in western Canada. We are experienced in working with piping materials such as HDPE, concrete, PVC and steel. This work involves similar methods as those used for field, transmission and distribution pipelines in the oil and gas industry, but is generally more intricate and time consuming as the work is typically performed in existing plants with numerous tie-ins to live systems.

#### *Piling*

Our capabilities include the installation of all types of driven and drilled piles, caissons and earth retention and stabilization systems for commercial buildings; private industrial projects, such as plants and refineries; and infrastructure projects, such as bridges. Our piling business employs approximately 150 people. Oil and gas companies developing the oil sands and related infrastructure represented approximately 50% of our piling clients for fiscal 2007. The remaining 50% of our piling clients were primarily commercial construction builders operating in the Edmonton, Calgary, Regina and Vancouver areas.

In providing piling services, we currently operate a variety of crawler-mounted drill rigs, a fleet of 25- to 100-ton capacity piling cranes and pile driving hammers of all types from our Edmonton, Calgary, Regina, Vancouver and Fort McMurray locations. Piles and caissons are deep foundation systems that extend up to 30 meters below a structure. Piles are long narrow shafts that distribute a load from a supported structure (such as a building or bridge) throughout the underlying soil mass and are necessary whenever the available footing area beneath a structure is insufficient to support the load above it. The foundation chosen for any particular structure depends on the strength of the rock or soil, magnitude of structural loads and depth of groundwater level.

For the fiscal years ended March 31, 2005, 2006 and 2007, revenues from this segment accounted for 17%, 19% and 17% of our total revenues, respectively.

#### *Pipeline Installation*

We install field, transmission and distribution pipe made of steel, plastic and fiberglass materials. We employ our fleet of construction equipment and skilled technical operators to build and test the pipelines for the

## **Table of Contents**

### **Index to Financial Statements**

delivery of oil and natural gas from the producing field to the consumer. Our pipeline teams have expertise in hand welding selected grade pipe and in operating in the harsh conditions of remote regions in western and northern Canada.

Prior to fiscal 2007 virtually all of our revenues in our pipeline business resulted from work performed for EnCana. During fiscal 2007 we expanded our client base in the pipeline division performing work for Canadian Natural Resources Limited, Suncor Energy Inc. and Husky Energy Inc. We believe there are significant opportunities to further increase our market share by capitalizing on the projected pipeline expansion in Canada.

For the fiscal years ended March 31, 2005, 2006 and 2007, revenues from this segment accounted for 9%, 7% and 8% of our total revenues, respectively.

### **Our Markets**

Our business is primarily driven by the demand for our services from the development, expansion and operation of oil sands projects. Decisions by oil sands operators to make capital investments are driven by a number of factors, with one of the most important being the expected long-term price of oil.

#### *Canadian Oil Sands*

Oil sands are grains of sand covered by a thin layer of water and coated by heavy oil, or bitumen. Bitumen, because of its structure, does not flow, and therefore requires non-conventional extraction techniques to separate it from the sand and other foreign matter. There are currently two main methods of extraction: open pit mining, where bitumen deposits are sufficiently close to the surface to make it economically viable to recover the bitumen by treating mined sand in a surface plant; and in-situ, where bitumen deposits are buried too deep for open pit mining to be cost effective, and operators instead inject steam into the deposit so that the bitumen can be separated from the sand and pumped to the surface. We currently provide most of our services to companies operating open pit mines to recover bitumen reserves. These customers utilize our services for surface mining, site preparation, piling, pipe installation, site maintenance, equipment and labor supply and land reclamation.

According to the EUB, the oil sands contained almost 174 billion barrels of established oil reserves as of the end of 2005, approximately 32 billion barrels of which is recoverable by open pit mining techniques. This is second only to Saudi Arabia's 264 billion barrels and approximately six times the recoverable reserves in the United States. Beginning in the mid-1990s, increasing global energy demand and improvements in mining and in-situ technology resulted in a significant increase in oil sands investments. This increased level of investment was also driven by a revised royalty regime adopted by the Government of Alberta in 1997, which was designed to accelerate investment in the oil sands. Under the revised royalty structure, oil sands operators pay a royalty of 1% of gross revenue until the operator has recovered all its allowed costs in respect of a project plus a return allowance, after which the royalty increases to the greater of 25% of net revenue or 1% of gross revenue.

#### *Outlook*

According to the Canadian Association of Petroleum Producers, or CAPP, approximately \$42 billion was invested in the oil sands from 1998 through 2005. Oil sands production has grown four-fold since 1990 and exceeded one million barrels per day in 2005. The NEB expects oil sands production to reach approximately 3.0 million barrels per day and account for over 75% of total Canadian oil production by 2015. By comparison, the Ghawar field in Saudi Arabia currently produces 5.0 million barrels per day, representing over 6% of the world's total production and over 50% of Saudi Arabia's production.

According to the NEB's 2006 Energy Market Assessment, between 2006 and 2015, \$8.5 billion to \$10.9 billion of annual capital expenditures, for a total of \$95 billion, will be required to achieve expected increases in production. According to the NEB, as of June 2006, there were 21 mining and upgrader projects in various

## Table of Contents

### Index to Financial Statements

stages, ranging from announcement to construction, with start-up dates through 2010. If all of these projects proceed as scheduled, the planned investment in new projects for 2006 through 2010 will exceed \$38 billion and an additional \$17 billion will be invested in project additions or existing projects over the same period. Beyond 2010, several new multibillion dollar projects and a number of smaller multimillion dollar projects are being considered by various oil sands operators. We intend to pursue business opportunities from these projects.

#### *Pipeline Infrastructure and Construction*

To transport the increased production expected from the oil sands and to provide natural gas as an energy source to the oil sands region, significant investment will be required to expand pipeline capacity. To date, there have been significant greenfield and expansion projects announced, including:

Kinder Morgan Canada's proposal to expand the TransMountain pipeline system, which transports oil from the oil sands area to Burnaby, British Columbia.

Enbridge Inc.'s proposed Gateway pipeline, which will transport oil from the oil sands area to Kitimat, British Columbia.

The proposed Access Pipeline (a joint venture between MEG Energy Corp. and Devon ARL Canada Corp.), which will transport bitumen from the oil sands to refineries in Edmonton, Alberta and diluent from Edmonton, Alberta to the oil sands area.

TransCanada Corporation's proposed Keystone pipeline project, which will transport oil from Hardisty, Alberta to the Chicago area.

The proposed Spirit pipeline system (a joint venture between Kinder Morgan Canada and Pembina Pipeline Corporation), which will transport condensate from Kitimat, British Columbia to Edmonton, Alberta.

We are in various stages of discussions to provide services for some of these projects. We believe that our service offerings and pipeline construction experience position us well to compete for additional sizeable pipeline opportunities required for the expected growth in oil sands production.

#### *Conventional Oil and Gas*

We provide services to conventional oil and gas producers, in addition to our work in the oil sands. The Canadian Energy Pipeline Association estimates that over \$20 billion of pipeline investment in Canada will be required for the development of new long haul pipelines, feeder systems and other related pipeline construction. Conventional oil and gas producers require pipeline installation services in order to connect producing wells to nearby pipeline systems. According to CAPP, Canada is one of the world's largest producers of oil and gas, producing approximately 2.5 million barrels of oil per day and approximately 17.1 billion cubic feet of natural gas per day. Canadian natural gas production is expected to increase with the development of arctic gas reserves. A producer group has been formed by Imperial Oil Limited, ConocoPhillips Canada Limited, Shell Canada and the Aboriginal Pipeline Group for the purpose of bidding for work on construction of a pipeline proposed to extend 1,220 kilometers (758 miles) from the MacKenzie River delta in the Beaufort Sea to existing natural gas pipelines in northern Alberta. Under the group's proposal, Imperial Oil will lead the construction and operate the pipeline. We are actively working with Imperial Oil and have provided it with constructability and planning reviews. We hope to repeat our history of providing initial engineering assistance on projects and then subsequently being awarded contracts on these projects.

#### *Minerals Mining*

According to the government agency Natural Resources Canada, Canada is also one of the largest mining nations in the world, producing more than 60 different minerals and metals. In 2006, the mining and minerals processing industries contributed \$40 billion to the Canadian economy, an amount equal to approximately 3.7% of GDP. The value of minerals produced (excluding petroleum and natural gas) reached \$33.6 billion in

2006.

## **Table of Contents**

### **Index to Financial Statements**

According to the EUB, Canada ranks tenth in the world in total proven coal reserves. Alberta contains 70% of Canada's coal reserves and, by volume, produces approximately half of the coal mined in Canada annually.

The diamond mining industry in Canada is relatively new, having extracted diamonds for only eight years. According to Natural Resources Canada, the industry has grown from 2.6 million carats of production in 2000 to an estimated 13.2 million carats of production in 2006, representing a compounded annual growth rate of approximately 38%, and establishing Canada as the third largest diamond producing country in the world by value after Botswana and Russia. We believe Canadian diamond mining will continue to grow as existing mines increase production and new mine projects are developed. Outside the oil sands, we have identified the growing Canadian diamond mining industry as a primary target for new business opportunities.

Canada is the world leader in uranium mining. The two largest high-grade deposits in the world have been discovered in Canada. According to Natural Resources Canada, 80% of Canada's recoverable reserve base is categorized as "low-cost". Historically, exploration and production have taken place primarily in Saskatchewan. Recently, however, significant exploration efforts are underway in the Northwest Territories, Yukon, Nunavut, Quebec, Newfoundland and Labrador, Ontario, Manitoba and Alberta, with as many as 90 junior exploration companies involved.

We intend to build on our core services and strong regional presence to capitalize on the opportunities in the minerals mining industries of Canada. According to Natural Resources Canada's 2007 estimate, the capital and repair expenditures needed to support the minerals mining industry would be over \$8 billion in 2007.

### *Commercial and Public Construction*

According to the government agency, Statistics Canada, the Canadian commercial and public construction market was approximately \$25 billion in 2006. According to the Alberta government, the commercial and public construction market in Alberta is expected to grow 3% annually through 2009. As a result of the significant activity in the energy sector, western Canada has experienced and is expected to continue to experience strong economic and population growth. The Alberta government has responded to the potential strain that this growth will have on public facilities and infrastructure by allocating approximately \$18.2 billion to improvement and expansion projects from 2008 to 2010. This need for infrastructure to support growth, along with historic under investment in infrastructure, provides for a strong infrastructure spending outlook.

The success of the energy industry in western Canada is also leading to increased commercial development in many urban centers in British Columbia and Alberta. According to the Alberta government, as of May 2007, the inventory of commercial, retail and residential projects in Alberta was valued at approximately \$14.1 billion. These large expenditures will be further supplemented by the 2010 Olympic Winter Games, which will be held in the Vancouver area. The City of Vancouver estimates that the 2010 Olympic Winter Games will require an additional \$4.0 billion in infrastructure and construction spending. The significant resources and capital intensive nature of the core infrastructure and construction services required to meet these demands, along with our strong local presence and significant regional experience, position us to implement our business model to capitalize on the large and growing infrastructure and construction demands of western Canada.

### **Contracts**

We complete work under the following types of contracts: cost-plus, time-and-materials, unit-price and lump-sum. Each contract contains a different level of risk associated with its formation and execution.

**Cost-plus.** A cost-plus contract is where all work is completed based on actual costs incurred to complete the work. These costs include all labor, equipment, materials and any subcontractor's costs. In addition to these direct costs, all site and corporate overhead costs are charged to the job. An agreed upon fee in the form of a fixed percentage is then applied to all costs charged to the project. This type of contract is utilized where the project involves a large amount of risk or the scope of the project cannot be readily determined.

## **Table of Contents**

### **Index to Financial Statements**

**Time-and-materials.** A time-and-materials contract involves using the components of a cost-plus job to calculate rates for the supply of labor and equipment. In this regard, all components of the rates are fixed and we are compensated for each hour of labor and equipment supplied. The risk associated with this type of contract is the estimation of the rates and incurring expenses in excess of a specific component of the agreed-upon rate. Therefore, any cost overrun must come out of the fixed margin included in the rates.

**Unit-price.** A unit-price contract is utilized in the execution of projects with large repetitive quantities of work and is commonly utilized for site preparation, mining and pipeline work. We are compensated for each unit of work we perform (for example, cubic meters of earth moved, lineal meters of pipe installed or completed piles). Within the unit-price contract, there is an allowance for labor, equipment, materials and any subcontractor's costs. Once these costs are calculated, we add any site and corporate overhead costs along with an allowance for the margin we want to achieve. The risk associated with this type of contract is in the calculation of the unit costs with respect to completing the required work.

**Lump sum.** A lump-sum contract is utilized when a detailed scope of work is known for a specific project. Thus, the associated costs can be readily calculated and a firm price provided to the customer for the execution of the work. The risk lies in the fact that there is no escalation of the price if the work takes longer or more resources are required than were estimated in the established price. The price is fixed regardless of the amount of work required to complete the project.

The mix of contract types varies year-by-year. For the fiscal year ended March 31, 2007, our contracts consisted of 6% cost-plus, 28% time-and-materials, 53% unit-price and 13% lump sum.

In addition to the contracts listed above, we also use master service agreements for work in the oil and gas sector where the scope of the project is not known and timing is critical to ensure the work gets completed. The master service agreement is a form of a time-and-materials agreement that specifies what rates will be charged for the supply of labor and equipment to undertake work. The agreement does not identify any specific scope or schedule of work. In this regard, the customer's representative establishes what work is to be done at each location. We use master service agreements with the work we perform for Syncrude, Suncor and Albian.

We also do a substantial amount of work as a subcontractor where we are governed by the contracts with the general contractor to which we are not a party. Subcontracts vary in type and conditions with respect to the pricing and terms and are governed by one specific prime contract that governs a large project generally. In such cases, the contract with the subcontractors contains more specific provisions regarding a specified aspect of a project.

### **Seasonality**

We generally experience a decline in revenues during our first quarter of each fiscal year due to seasonality, as weather conditions make operations in our operating regions difficult during this period. The level of activity in our mining and site preparation and pipeline installation segments declines when frost leaves the ground and many secondary roads are temporarily rendered incapable of supporting the weight of heavy equipment. The duration of this period is referred to as "spring breakup" and has a direct impact on our activity levels. Our fourth-quarter revenues are typically our highest as ground conditions are best and customers often begin spending their new capital expenditure budgets. As a result, full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

### **Joint Venture**

We are party to a joint venture operated through a corporation called Noramac Ventures Inc., or Noramac, with Fort McKay Construction Ltd. This joint venture was created for the purpose of performing contracts for the construction, development and operation of open-pit mining projects within a 50-kilometre radius of Fort McKay,



## **Table of Contents**

### **Index to Financial Statements**

Alberta, which require the provision of heavy construction equipment. The affairs of Noramac are managed, and all decisions and determinations with respect to Noramac are made, by a management committee equally represented by us and our partner. The management committee is responsible for determining the percentage of work in relation to each contract that will be performed by us and by our partner, provided that contracts for a duration of less than two years and of a tender value between \$10.0 million and \$100.0 million, which require a parent guarantee or performance bond, will be subcontracted to us. The joint venture agreement provides that if the management committee does not tender for a contract, or fails to reach agreement on the terms upon which Noramac will tender for a contract, we or our partner may pursue the contract in our respective capacities without hindrance, interference or participation by the other party. The joint venture agreement does not prohibit or restrict us from undertaking and performing, for our own account, any work for existing customers other than work to be performed by Noramac pursuant to an existing contract between Noramac and such customer. The joint venture is accounted for as a variable interest entity and consolidated in our financial statements.

### **Major Suppliers**

We have long-term relationships with the following equipment suppliers: Finning International Inc. (45 years), Wajax Income Fund (20 years) and Brandt Tractor Ltd. (30 years). Finning is a major Caterpillar heavy equipment dealer for Canada. Wajax is a major Hitachi equipment supplier to us for both mining and construction equipment. We purchase or rent John Deere equipment, including excavators, loaders and small bulldozers, from Brandt Tractor. In addition to the supply of new equipment, each of these companies is a major supplier for equipment rentals, parts and service labor.

We obtain tires for our equipment from local distributors. Tires of the size and specifications we require are generally in short supply. We expect the supply/demand imbalance for certain tires to continue for some time.

### **Competition**

Our business is highly competitive in each of our markets. Historically, the majority of our new business was awarded to us based on past client relationships without a formal bidding process, in which, typically, a small number of pre-qualified firms submit bids for the project work. Recently, in order to generate new business with new customers, we have had to participate in formal bidding processes. As new major projects arise, we expect to have to participate in bidding processes on a meaningful portion of the work available to us on these projects. Factors that impact competition include price, safety, reliability, scale of operations, availability and quality of service. Most of our clients and potential clients in the oil sands area operate their own heavy mining equipment fleet. However, these operators have historically outsourced a significant portion of their mining and site preparation operations and other construction services.

Our principal competitors in the mining and site preparation segment include Cow Harbour, Cross Construction Ltd., Klemke Mining Corporation, Ledcor Construction Limited, Neegan Development Corporation Ltd., Peter Kiewit Sons Co., Tercon Contractors Ltd., Sureway Construction Ltd. and Thompson Bros. (Constr) Ltd. The main competition to our deep foundation piling operations comes from Agra Foundations Limited and Double Star Co. The primary competitors in the pipeline installation business include Ledcor Construction Limited, Washcuk Pipe Line Construction Ltd. and Midwest Management (1987) Ltd. Voice Construction Ltd. and I.G.L. Industrial Services are the major competitors in underground utilities installation.

In the public sector, we compete against national firms, and there is usually more than one competitor in each local market. Most of our public sector customers are local governments that are focused on serving only their home regions. Competition in the public sector continues to increase, and we typically choose to compete on projects only where we can utilize our equipment and operating strengths to secure profitable business.

## **Table of Contents**

### **Index to Financial Statements**

#### **Law and Regulations and Environmental Matters**

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

permitting and licensing requirements applicable to contractors in their respective trades,

building and similar codes and zoning ordinances,

laws and regulations relating to consumer protection and

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

We believe we have all material required permits and licenses to conduct our operations and are in substantial compliance with applicable regulatory requirements relating to our operations. Our failure to comply with the applicable regulations could result in substantial fines or revocation of our operating permits.

Our operations are subject to numerous federal, provincial and municipal environmental laws and regulations, including those governing the release of substances, the remediation of contaminated soil and groundwater, vehicle emissions and air and water emissions. These laws and regulations are administered by federal, provincial and municipal authorities, such as Alberta Environment, Saskatchewan Environment, the British Columbia Ministry of Environment, and other governmental agencies. The requirements of these laws and regulations are becoming increasingly complex and stringent, and meeting these requirements can be expensive. The nature of our operations and our ownership or operation of property expose us to the risk of claims with respect to environmental matters, and there can be no assurance that material costs or liabilities will not be incurred with such claims. For example, some laws can impose strict, joint and several liability on past and present owners or operators of facilities at, from or to which a release of hazardous substances has occurred, on parties who generated hazardous substances that were released at such facilities and on parties who arranged for the transportation of hazardous substances to such facilities. If we were found to be a responsible party under these statutes, we could be held liable for all investigative and remedial costs associated with addressing such contamination, even though the releases were caused by a prior owner or operator or third party. We are not currently named as a responsible party for any environmental liabilities on any of the properties on which we currently perform or have performed services. However, our leases typically include covenants which obligate us to comply with all applicable environmental regulations and to remediate any environmental damage caused by us to the leased premises. In addition, claims alleging personal injury or property damage may be brought against us if we cause the release of, or any exposure to, harmful substances.

Capital expenditures relating to environmental matters during the fiscal years ended March 31, 2005, 2006 and 2007 were not material. We do not currently anticipate any material adverse effect on our business or financial position as a result of future compliance with applicable environmental laws and regulations. Future events, however, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies or stricter or different interpretations of existing laws and regulations may require us to make additional expenditures which may be material.

#### **Employees and Labor Relations**

As of March 31, 2007, we had over 200 salaried and over 1,500 hourly employees. We also utilize the services of subcontractors in our construction business. Approximately 10% to 15% of the construction work we do is done through subcontractors. Approximately 1,300 employees are members of various unions and work under collective bargaining agreements. The majority of our work is done through employees governed by a collective bargaining agreement with the International Union of Operating Engineers Local 955, the primary term of which expires on October 31, 2009, and under a collective bargaining agreement with the Alberta Road Builders and Heavy Construction Association and the International Union of Operating Engineers Local 955, the primary term of which expired. This contract is currently being negotiated. Additionally, we recently signed a 10-year labor agreement for mining work at the CNRL site in the oil sands. We are subject to other industry and



**Table of Contents****Index to Financial Statements**

specialty collective agreements under which we complete work, and the primary terms of all of these agreements are currently in effect. We believe that our relationships with all our employees, both union and non-union, are satisfactory. We have never experienced a strike or lockout.

**Capital Expenditures**

The following table sets out capital expenditures for our main operating segments for the periods indicated, excluding new capital leases:

	Year Ended March 31,		
	2007	2006	2005
	(Dollars in thousands)		
Mining & Site Preparation	\$ 95,829	\$ 25,090	\$ 16,888
Piling	8,940	880	202
Pipeline	1,918	82	774
Other	3,332	2,800	6,975
Total	\$ 110,019	\$ 28,852	\$ 24,839

**Table of Contents**

**Index to Financial Statements**

**C. ORGANIZATIONAL STRUCTURE**

North American Energy Partners Inc. is the parent company of North American Construction Group Inc. and its operating subsidiaries. All of the entities in the chart are wholly-owned by their respective parents as at the date of filing of this Form 20-F.

---

(1) Midwest Foundations Technologies Ltd. purchased September 1, 2006 dissolved January 25, 2007.

**D. PLANT AND EQUIPMENT**

We operate and maintain 690 pieces of diversified heavy equipment, including crawlers, graders, loaders, mining trucks, compactors, scrapers and excavators, as well as over 660 ancillary vehicles, including various service and maintenance vehicles. The equipment is in good condition, normal wear and tear excepted. Our revolving credit facility is secured by liens on substantially all of our equipment. We lease some of this equipment under lease terms that include purchase options.

**Table of Contents****Index to Financial Statements**

The following table sets forth our heavy equipment fleet as at March 31, 2007:

Category	Capacity Range	Horsepower Range	Number in Fleet	Number Leased
<b>Mining and site preparation:</b>				
Articulating trucks	30-42 tons	305-460	54	
Mining trucks	50-330 tons	650-2,700	128	13
Shovels	36-58 cubic yards	2,600-3,760	5	2
Excavators	1-20 cubic yards	94-1,350	135	3
Crawler tractors	N/A	120-1,350	113	8
Graders	14-24 feet	150-500	25	3
Scrapers	28-31 cubic yards	450	14	
Loaders	1.5-16 cubic yards	110-690	52	
Skidsteer loaders	1-2.25 cubic yards	70-150	47	
Packers	44,175-68,796 lbs	216-315	25	
<b>Pipeline:</b>				
Snow cats	N/A	175	4	
Trenchers	N/A	165	2	
Pipelayers	16,000-140,000 lbs	78-265	35	
<b>Piling:</b>				
Drill rigs	60-135 feet (drill depth)	210-1,500	37	
Cranes	25-100 tons	200-263	14	
<b>Total</b>			<b>690</b>	<b>29</b>

For the fiscal years ended March 31, 2005, 2006 and 2007 we incurred expenses of \$52.8 million, \$64.8 million and \$122.3 million respectively, to maintain our equipment in good working condition.

Many of these units are among the largest pieces of equipment in the world and are designed for use in the largest earthmoving and mining applications globally. Our large, diverse fleet gives us flexibility in scheduling jobs and allows us to be responsive to our customers' needs. A well-maintained fleet is critical in the harsh climatic and environmental conditions we encounter. We operate four significant maintenance and repair centers, which are capable of accommodating the largest pieces of equipment in our fleet, on the sites of the major oil sands projects. These factors help us to be more efficient, thereby reducing costs to our customers to further improve our competitive edge, while concurrently increasing our equipment utilization and thereby improving our profitability.

**Table of Contents****Index to Financial Statements****Facilities**

We own and lease a number of buildings and properties for use in our business. Our administrative functions are located at our headquarters near Edmonton, Alberta, which also houses a major equipment maintenance facility. Project management and equipment maintenance are also performed at regional facilities in Calgary and Fort McMurray, Alberta; Vancouver, Fort Nelson and New Westminister, British Columbia; and Regina and Martensville, Saskatchewan. We occupy office and shop space in British Columbia, Alberta and Saskatchewan under leases which expire between late 2007 and 2011, subject to various renewal and termination rights. We expect to renew our office lease, which expires in 2007, with rates that are competitive with the prevailing markets rates at that time. We also occupy, without charge, some customer-provided lands. Our revolving credit facility is secured by liens on substantially all of our properties. The following table describes our primary facilities.

<b>Location</b>	<b>Function</b>	<b>Owned or Leased</b>	<b>Lease Expiration Date</b>
Acheson, Alberta	Corporate Headquarters and major equipment repair facility	Leased	11/30/2007
Calgary, Alberta	Regional office and major equipment repair facility piling operations	Building Owned Land Leased	12/31/2010
Syncrude Mine Site South End	Regional office and major equipment repair facility earth works and mining operations	Building Owned Land Provided	N/A
Fort McMurray, Alberta Syncrude Plant Site	Satellite office and minor repair facility all operations	Building Owned Land Leased	11/30/2009
Fort McMurray, Alberta CNRL Plant Site	Site office and maintenance facility	Facility Owned Land Provided	N/A
Fort McMurray, Alberta Aurora Mine Site	Satellite office and equipment facility all operations	Building Leased Land Provided	month-to-month
Fort McMurray, Alberta Albian Sands Mine Site	Satellite office and equipment facility all operations	Building Leased Land Provided	month-to-month
New Westminister, British Columbia	Regional office and equipment repair facility piling operations	Building Owned Land Leased	3/31/2010
Fort Nelson, British Columbia	Satellite office pipeline operations	Leased	7/10/2008
Regina, Saskatchewan	Regional office and equipment repair facility piling operations	Leased	3/14/2008
Martensville, Saskatchewan	Regional office and equipment repair facility piling operations	Leased	5/31/2012
Calgary, Alberta	Satellite office and shop for micropile division	Leased	month-to-month
Edmonton, Alberta	Satellite office and warehouse storage facility	Leased	3/31/2017
Edmonton, Alberta	Temporary satellite office	Leased	month-to-month

Our locations were chosen for their geographic proximity to our major customers. We believe our facilities are sufficient to meet our needs for the foreseeable future.

**ITEM 4A: UNRESOLVED STAFF COMMENTS**

None

---

**Table of Contents**

**Index to Financial Statements**

**ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

**Reorganization and Initial Public Offering ( IPO )**

On November 28, 2006, prior to the consummation of the IPO discussed below, NACG Holdings Inc. ( Holdings ) amalgamated with its wholly-owned subsidiaries, NACG Preferred Corp. and North American Energy Partners Inc. ( NAEPI ). The amalgamated entity continued under the name North American Energy Partners Inc. The voting common shares of the new entity, North American Energy Partners Inc., were the shares sold in the IPO.

On November 28, 2006, prior to the amalgamation, the following transactions took place:

Holdings repurchased the Series A preferred shares issued by NAEPI for their redemption value of \$1.0 million and terminated the advisory services agreement (the Advisory Services Agreement ) with The Sterling Group, L.P., Genstar Capital, L.P., Perry Strategic Capital Inc., and SF Holding Corp. (collectively, the Sponsors ), under which we had received ongoing consulting and advisory services with respect to the organization of the companies, employee benefit and compensation arrangements, and other matters. We paid the Sponsors a fee of \$2.0 million to terminate the agreement, which was charged to income in 2007. Under the consulting and advisory services agreement, the Sponsors also received a fee of \$0.9 million, equal to 0.5% of our aggregate gross proceeds from the IPO, which was included in share issue costs.

The \$35.0 million of Series A preferred shares issued by NACG Preferred Corp. were acquired by Holdings for a \$27.0 million promissory note issued to the holders of such shares and the forfeiture of accrued dividends of \$1.4 million.

Each holder of the Series B preferred shares issued by NAEPI received 100 Holdings common shares for each Series B preferred share held.

On November 28, 2006 we completed our IPO in the United States and Canada of 8,750,000 voting common shares for \$18.38 per share (U.S. \$16.00 per share). On November 22, 2006 our common shares commenced trading on the New York Stock Exchange and on an if, as and when issued basis on the Toronto Stock Exchange. On November 28, 2006, our common shares became fully tradable on the Toronto Stock Exchange. Net proceeds from the IPO were \$140.9 million (gross proceeds of \$158.5 million, less underwriting discounts and costs and offering expenses of \$17.6 million). In addition, on December 6, 2006, the underwriters exercised their option to purchase an additional 687,500 common shares from us. The net proceeds from the exercise of the underwriters option were \$11.7 million (gross proceeds of \$12.6 million, less underwriting fees of \$0.9 million). Total net proceeds were \$152.6 million (total gross proceeds of \$171.1 million less total underwriting discounts and costs and offering expenses of \$18.5 million).

We used the net proceeds from the IPO:

to repurchase all of our outstanding 9% senior secured notes due 2010 for \$74.7 million plus accrued interest of \$3.0 million on November 28, 2006. The notes were repurchased at a premium of 109.26%, resulting in a loss on extinguishment of \$6.3 million and the write-off of deferred financing fees of approximately \$4.3 million and third-party transaction costs of \$0.3 million. These items were charged to income in 2007;

to repay the \$27.0 million promissory note issued in respect of the repurchase of the NACG Preferred Corp. Series A preferred shares;



Edgar Filing: North American Energy Partners Inc. - Form 20-F

to purchase certain leased equipment for \$44.6 million;

to pay the \$2.0 million fee required to terminate the Advisory Services Agreement with the Sponsors; and

\$1.3 million for general corporate purposes.

**Table of Contents**

**Index to Financial Statements**

Following the offering and the above noted transactions the number of issued and outstanding common shares of the Company was 35,604,660.

The impact of the reorganization and IPO on income before income taxes and EBITDA (as defined below) for the year ended March 31, 2007 is as follows:

	Income before income taxes (in thousands)	EBITDA
Accretion of NAEPI Series A preferred shares	\$ (625)	\$ (625)
Termination of Advisory Services Agreement	(2,000)	(2,000)
Loss on retirement of 9% senior secured notes	(10,935)	(6,338)
Gain on repurchase NACG Preferred Corp. Series A preferred shares	9,400	9,400
	\$ (4,160)	\$ 437

**Consolidated Financial Highlights**

	2007		Year Ended March 31, 2006		2005	
			(in thousands)			
Revenue	\$ 629,446		\$ 492,237		\$ 357,323	
Gross profit	92,436	14.7%	80,326	16.3%	36,166	10.1%
General & administrative costs	39,769	6.3%	30,903	6.3%	22,873	6.4%
Operating income	51,126	8.1%	49,426	10.0%	9,431	2.6%
Net income (loss)	21,079	3.3%	(21,941)	(4.3%)	(42,323)	(11.8%)
Per unit/share information						
Net Income (loss) basic	0.87		(1.18)		(2.28)	
Net income (loss) diluted	0.83		(1.18)		(2.28)	
EBITDA(1)	87,351	13.9%	70,027	14.2%	10,684	3.0%
Consolidated EBITDA(1)	90,235	14.3%	72,422	14.7%	34,448	9.6%

- (1) EBITDA is calculated as net income (loss) before interest expense, income taxes, depreciation and amortization. Consolidated EBITDA is defined as EBITDA, excluding the effects of foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, non-cash stock-based compensation expense, gain or loss on disposal of plant and equipment and certain other non cash items included in the calculation of net income (loss). We believe that EBITDA is a meaningful measure of the performance of our business because it excludes items, such as depreciation and amortization, interest and taxes, that are not directly related to the operating performance of our business. Management reviews EBITDA to determine whether capital assets are being allocated efficiently. In addition, our revolving credit facility requires us to maintain a minimum interest coverage ratio and a maximum senior leverage ratio, which are calculated using Consolidated EBITDA. Non-compliance with these financial covenants could result in our being required to immediately repay all amounts outstanding under our revolving credit facility. EBITDA and Consolidated EBITDA are not measures of performance under Canadian GAAP or U.S. GAAP and our computations of EBITDA and Consolidated EBITDA may vary from others in our industry. EBITDA and Consolidated EBITDA should not be considered as alternatives to operating income or net income as measures of operating performance or cash flows as measures of liquidity. EBITDA and Consolidated EBITDA have important limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under Canadian GAAP or US GAAP. A reconciliation of net income (loss) to EBITDA is as follows:

	Year ended March 31,		
	2007	2006	2005
	(in thousands)		
Net income (loss)	\$ 21,079	\$ (21,941)	\$ (42,323)
Adjustments:			
Interest expense	37,249	68,776	31,141

Edgar Filing: North American Energy Partners Inc. - Form 20-F

Income taxes	(2,593)	737	(2,264)
Depreciation	31,034	21,725	20,762
Amortization of intangible assets	582	730	3,368
<b>EBITDA</b>	<b>\$ 87,351</b>	<b>\$ 70,027</b>	<b>\$ 10,684</b>

**Table of Contents**

**Index to Financial Statements**

A reconciliation of EBITDA to Consolidated EBITDA is as follows: