

North American Energy Partners Inc.  
Form 6-K  
August 06, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of August 2014

Commission File Number 001-33161

NORTH AMERICAN ENERGY PARTNERS INC.

Suite 300, 18817 Stony Plain Road

Edmonton, Alberta T5S 0C2

(780) 960-7171

(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

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

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Documents Included as Part of this Report

1. Interim consolidated financial statements of North American Energy Partners Inc. for the three and six months ended June 30, 2014.
  2. Management's Discussion and Analysis for the three and six months ended June 30, 2014.
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SIGNATURES

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

NORTH AMERICAN ENERGY PARTNERS INC.

By: /s/ David Blackley  
Name: David Blackley  
Title: Chief Financial Officer  
Date: August 6, 2014

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NORTH AMERICAN ENERGY PARTNERS INC.  
Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2014  
(Expressed in thousands of Canadian Dollars)  
(Unaudited)

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Interim Consolidated Balance Sheets  
 (Expressed in thousands of Canadian Dollars)  
 (Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash	\$9,744	\$13,742
Accounts receivable (net of allowance for doubtful accounts of \$134, December 31, 2013 – \$nil)	43,710	70,177
Unbilled revenue	60,485	32,168
Inventories	4,876	5,907
Prepaid expenses and deposits	4,265	2,152
Deferred tax assets	4,592	3,678
	127,672	127,824
Plant and equipment (net of accumulated depreciation of \$195,875, December 31, 2013 – \$188,996)	295,832	277,975
Other assets	12,278	12,182
Deferred tax assets	35,294	27,660
Total assets	\$471,076	\$445,641
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$57,942	\$48,438
Accrued liabilities	14,164	15,655
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	8,846	6,357
Current portion of capital lease obligation	19,680	14,996
Deferred tax liabilities	11,896	8,036
	112,528	93,482
Long term debt (note 4)	65,000	75,000
Capital lease obligation	43,638	28,299
Other long term obligations	7,920	7,207
Deferred tax liabilities	53,275	49,818
	282,361	253,806
Shareholders' equity		
Common shares (authorized – unlimited number of voting common shares; issued and outstanding – June 30, 2014 – 35,305,236 (December 31, 2013 – 34,746,236)) (note 8(a))	294,128	290,517
Treasury shares (June 30, 2014 - 193,540 (December 31, 2013 - nil))(note 8(a))	(1,675	) —
Additional paid-in capital	15,068	14,750
Deficit	(118,806	) (113,432
	188,715	191,835
Total liabilities and shareholders' equity	\$471,076	\$445,641

See accompanying notes to interim consolidated financial statements.

## NOA

Interim Consolidated Statements of Operations and  
Comprehensive Loss(Expressed in thousands of Canadian Dollars, except per share amounts)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 116,189	\$ 115,046	\$ 223,923	\$ 245,327
Project costs	52,182	43,373	87,353	95,157
Equipment costs	44,383	54,590	92,012	112,003
Depreciation	10,342	8,722	20,086	20,860
Gross profit	9,282	8,361	24,472	17,307
General and administrative expenses	10,177	8,563	21,068	21,095
Loss on disposal of plant and equipment	438	596	734	2,427
(Gain) loss on disposal of assets held for sale	(82	) 751	(82	) 929
Amortization of intangible assets	910	761	1,873	1,655
Operating (loss) income before the undernoted	(2,161	) (2,310	) 879	(8,799
Interest expense, net (note 5)	3,000	5,681	5,836	11,573
Foreign exchange loss (gain)	15	(61	) 23	(114
Unrealized gain on derivative financial instruments	—	(405	) —	(515
Premium on redemption of Series 1 Debentures (note 4(b))	304	—	304	—
Loss before income taxes	(5,480	) (7,525	) (5,284	) (19,743
Income tax benefit				
Current	(83	) (117	) (83	) (2,557
Deferred	(1,301	) (1,766	) (1,231	) (2,318
Net loss from continuing operations	(4,096	) (5,642	) (3,970	) (14,868
(Loss) income from discontinued operations, net of tax (note 6)	—	(97	) —	4,462
Net loss	(4,096	) (5,739	) (3,970	) (10,406
Other comprehensive income				
Unrealized foreign currency translation gain	—	18	—	57
Comprehensive loss	(4,096	) (5,721	) (3,970	) (10,349
Per share information (note 8)				
Net loss from continuing operations - basic & diluted	\$(0.12	) \$(0.16	) \$(0.11	) \$(0.41
Net income from discontinued operations - basic & diluted	\$0.00	\$0.00	\$0.00	\$0.12
Net loss - basic & diluted	\$(0.12	) \$(0.16	) \$(0.11	) \$(0.29
Cash dividends per share (note 8(c))	\$0.02	\$0.00	\$0.04	\$0.00

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Changes in  
Shareholders' Equity  
(Expressed in thousands of Canadian Dollars)  
(Unaudited)

	Common shares	Treasury shares	Additional paid-in capital	Deficit	Accumulated other comprehensive (loss) gain	Total
Balance at December 31, 2012	\$304,908	\$—	\$10,292	\$(182,616 )	\$ (27 )	\$132,557
Net loss	—	—	—	(10,406 )	—	(10,406 )
Unrealized foreign currency translation gain	—	—	—	—	57	57
Exercised stock options	9	—	(3 )	—	—	6
Stock-based compensation	—	—	638	—	—	638
Balance at June 30, 2013	\$304,917	\$—	\$10,927	\$(193,022 )	\$ 30	\$122,852
Balance at December 31, 2013	\$290,517	\$—	\$14,750	\$(113,432 )	\$—	\$191,835
Net loss	—	—	—	(3,970 )	—	(3,970 )
Exercised stock options	1,830	—	(661 )	—	—	1,169
Exercised senior executive stock options	1,781	—	(721 )	—	—	1,060
Stock-based compensation	—	—	1,700	—	—	1,700
Dividends (note 8(c))	—	—	—	(1,404 )	—	(1,404 )
Purchase of treasury shares for restricted share unit settlement (note 8(a))	—	(1,675 )	—	—	—	(1,675 )
Balance at June 30, 2014	\$294,128	\$(1,675 )	\$15,068	\$(118,806 )	\$—	\$188,715

See accompanying notes to interim consolidated financial statements.

## NOA

Interim Consolidated Statements of Cash Flows  
(Expressed in thousands of Canadian Dollars)  
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities:				
Net loss from continuing operations	\$ (4,096	) \$ (5,642	) \$ (3,970	) \$ (14,868
Adjustments to reconcile to net cash from operating activities:				
Depreciation	10,342	8,722	20,086	20,860
Amortization of intangible assets	910	761	1,873	1,655
Amortization of deferred lease inducement asset	27	—	27	—
Amortization of deferred lease inducement liability	(27	) (27	) (53	) (53
Amortization of deferred financing costs (note 5)	599	306	846	683
Lease inducement paid on sublease	(1,200	) —	(1,200	) —
Loss on disposal of plant and equipment	438	596	734	2,427
(Gain) loss on disposal of assets held for sale	(82	) 751	(82	) 929
Unrealized gain on derivative financial instruments	—	(405	) —	(515
Premium on redemption of Series 1 Debentures (note 4(b))	304	—	304	—
Stock-based compensation expense (note 7(a))	2,263	234	5,893	2,644
Cash settlement of restricted share unit plan (note 7(d))	(2,240	) (727	) (2,240	) (727
Cash settlement of deferred stock unit plan (note 7(e))	(556	) —	(556	) —
Accretion of asset retirement obligation	12	11	24	22
Deferred income tax benefit	(1,301	) (1,766	) (1,231	) (2,318
Net changes in non-cash working capital (note 9(b))	8,274	897	10,327	14,053
	13,667	3,711	30,782	24,792
Investing activities:				
Purchase of plant and equipment	(14,686	) (7,932	) (17,349	) (14,178
Additions to intangible assets	(239	) (348	) (491	) (2,375
Proceeds on disposal of plant and equipment	636	774	653	1,317
Proceeds on disposal of assets held for sale	864	1,873	864	1,960
	(13,425	) (5,633	) (16,323	) (13,276
Financing activities:				
Repayment of credit facilities	—	(73,977	) —	(168,419
Increase in credit facilities	—	75,000	—	152,396
Redemption of Series 1 Debentures	(10,304	) —	(10,304	) —
Proceeds from options exercised (note 7(b))	768	6	1,169	6
Proceeds from senior executive stock options exercised (note 7(c))	826	—	1,060	—
Dividend payment (note 8(c))	(698	) —	(698	) —
Purchase of treasury shares for restricted share unit settlement (note 8(a))	(1,675	) —	(1,675	) —
Repayment of capital lease obligations	(4,270	) (3,482	) (8,009	) (6,823
	(15,353	) (2,453	) (18,457	) (22,840

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Decrease in cash from continuing operations	(15,111	) (4,375	) (3,998	) (11,324	)
Cash provided by (used in) discontinued operations:					
Operating activities	—	9,373	—	47,705	
Investing activities	—	(2,941	) —	(34,717	)
Financing activities	—	(41	) —	(253	)
Increase in cash provided by discontinued operations	—	6,391	—	12,735	
(Decrease) increase in cash	(15,111	) 2,016	(3,998	) 1,411	
Effect of exchange rate on changes in cash	—	18	—	57	
Cash, beginning of period	24,855	598	13,742	1,164	
Cash, end of period	\$9,744	\$2,632	\$9,744	\$2,632	

Supplemental cash flow information (note 9(a))

See accompanying notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2014

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

1) Nature of operations

North American Energy Partners Inc. ("the Company") provides a wide range of mining and heavy construction services to customers in the resource development and industrial construction sectors, primarily within Western Canada.

2) Basis of presentation

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

3) Recent accounting pronouncements

a) Accounting pronouncements recently adopted

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carry Forward Exists. This accounting standard eliminates the diversity in practice in the presentation of unrecognized tax benefits. The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry forward, similar tax loss, or tax credit carry forward exists. The Company adopted this ASU effective January 1, 2014. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

b) Issued accounting pronouncements not yet adopted

i. Presentation of financial statements and property, plant and equipment

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disposals of Components of an Entity. This accounting standard changes the requirements for reporting discontinued operations. The amendments in this ASU change the definition of what will be reported as a discontinued operation by limiting discontinued operations to disposals of components of an entity that will have a major effect on an entities operations and financial results. This ASU will be effective for disposals recorded on or after January 1, 2015. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

ii. Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This accounting standard updates the revenue recognition guidance to require that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU provides specific steps that entities should apply to recognize revenue. This ASU will be effective commencing January 1, 2017. The Company is currently assessing the effect the adoption of this standard will have on its consolidated financial statements.

## NOA

## iii. Compensation - Stock Compensation

In May 2014, the FASB issued ASU No. 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This accounting standard update requires that performance targets affecting vesting of stock awards which could be achieved after the requisite service period be treated as a performance condition. Currently, US GAAP does not provide specific guidance regarding treatment of performance targets that could be achieved after the service period. This ASU will be effective commencing January 1, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

## 4) Long term debt

## a) Credit Facility

The Company signed a three-year Fifth Amended and Restated Credit Agreement (the "Credit Facility") on October 9, 2013 with its existing banking syndicate. The Credit Facility is secured through a combination of working capital and equipment. The Credit Facility allows borrowing of up to \$85.0 million, broken into two tranches, contingent upon the value of the borrowing base. Tranche A supports both borrowing under the revolving facility and letters of credit up to \$60.0 million and Tranche B allows up to \$25.0 million in letters of credit.

The Credit Facility provides a borrowing base, determined by the value of receivables and equipment, which reduces financial covenants to a Senior Leverage Ratio, which is to be maintained at less than 2.00 to 1.00 and a Fixed Charge Cover Ratio, which must be maintained at greater than 1.20 to 1.00. As at June 30, 2014, the Company was in compliance with the covenants.

As of June 30, 2014, there were \$nil (December 31, 2013 - \$nil) outstanding borrowings under Tranche A of the Credit Facility and there were \$5.5 million (December 31, 2013 - \$3.1 million) of issued and undrawn letters of credit under Tranche B of the Credit Facility. The June 30, 2014 borrowing base allowed for a maximum draw of \$53.8 million between the two tranches. At June 30, 2014, the Company's unused borrowing availability under the revolving facility was \$48.3 million (December 31, 2013 - \$60.0 million).

## b) Series 1 Debentures

The Series 1 Debentures bear interest of 9.125% and mature on April 7, 2017. Interest is payable in equal installments semi-annually in arrears on April 7 and October 7 in each year.

On February 28, 2014, the Company announced that it elected to redeem \$10.0 million of the Series 1 Debentures. Holders of record at the close of business on April 4, 2014 had their Series 1 Debentures redeemed on a pro rata basis for 103.042% of the principal amount, plus accrued and unpaid interest. On April 8, 2014, the Company redeemed \$10.0 million of aggregate principal amount of notes and recorded a premium on redemption of debentures of \$0.3 million. At June 30, 2014, there was \$65.0 million outstanding under the Series 1 Debentures.

## 5) Interest expense, net

	Three months ended		Six months ended		
	June 30, 2014	2013	June 30, 2014	2013	
Interest on capital lease obligations	\$677	\$659	\$1,331	\$1,355	
Amortization of deferred financing costs	599	306	846	683	
Interest on Credit Facility	249	817	500	1,825	
Interest on Series 1 Debentures	1,502	3,893	3,213	7,726	
Interest on long term debt	\$3,027	\$5,675	\$5,890	\$11,589	
Interest (income) expense	(27	) 6	(54	) (16	)
	\$3,000	\$5,681	\$5,836	\$11,573	

## 6) Discontinued operations

In prior years, the Company disposed of two businesses and classified their results as discontinued operations. On November 22, 2012, the Company sold its pipeline related assets and exited the pipeline business. On July 12, 2013,



the Company sold its piling related assets and liabilities, excluding accounts receivable and unbilled revenue on a certain customer contract, and exited the piling, foundation, pipeline anchor and tank services businesses.

There were no results or cash from discontinued operations in the three and six months ended June 30, 2014. The discontinued operations results for the prior year are as follows:

	Three months ended June 30, 2013			Six months ended June 30, 2013		
	Pipeline	Piling	Total	Pipeline	Piling	Total
Revenue	\$—	\$42,824	\$42,824	\$—	\$90,091	\$90,091
Project costs	—	38,259	38,259	1,321	71,671	72,992
Depreciation	—	—	—	—	706	706
Gross profit (loss)	\$—	\$4,565	\$4,565	\$(1,321)	\$17,714	\$16,393
General and administrative expenses	—	2,879	2,879	312	6,097	6,409
Gain on disposal of assets and liabilities	—	—	—	17	—	17
Amortization of intangible assets	—	—	—	—	351	351
Operating income (loss)	\$—	\$1,686	\$1,686	\$(1,650)	\$11,266	\$9,616
Interest expense	—	1,830	1,830	—	3,761	3,761
(Loss) income before income taxes	\$—	\$(144)	\$(144)	\$(1,650)	\$7,505	\$5,855
Deferred income tax (benefit) expense	—	(47)	(47)	(510)	1,903	1,393
Net (loss) income	\$—	\$(97)	\$(97)	\$(1,140)	\$5,602	\$4,462

Cash provided by (used in) discontinued operations is summarized as follows:

	Three months ended June 30, 2013			Six months ended June 30, 2013		
	Pipeline	Piling	Total	Pipeline	Piling	Total
Operating activities	\$—	\$9,373	\$9,373	\$(1,587)	\$49,292	\$47,705
Investing activities	—	(2,941)	(2,941)	—	(34,717)	(34,717)
Financing activities	—	(41)	(41)	—	(253)	(253)
	\$—	\$6,391	\$6,391	\$(1,587)	\$14,322	\$12,735

## 7) Stock-based compensation

### a) Stock-based compensation expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Share option plan (note 7(b))	\$242	\$313	\$471	\$661
Liability classified restricted share unit plan (note 7(d(i)))	968	(156)	2,475	869
Equity classified restricted share unit plan (note 7(d(ii)))	105	—	116	—
Liability classified deferred stock unit plan (note 7(e(i)))	531	77	1,463	1,114
Equity classified deferred stock unit plan (note 7(e(ii)))	417	—	1,368	—
	\$2,263	\$234	\$5,893	\$2,644

## NOA

## b) Share option plan

	Three months ended June 30, 2014		2013	
	Number of options	Weighted average exercise price \$ per share	Number of options	Weighted average exercise price \$ per share
Outstanding, beginning of period	2,086,080	5.65	2,985,722	5.72
Exercised <sup>‡</sup>	(220,000 )	3.49	(1,600 )	3.69
Forfeited	(1,200 )	13.50	(27,020 )	5.58
Outstanding, end of period	1,864,880	5.90	2,957,102	5.72
	Six months ended June 30, 2014		2013	
	Number of options	Weighted average exercise price \$ per share	Number of options	Weighted average exercise price \$ per share
Outstanding, beginning of period	2,213,280	5.51	3,029,734	5.70
Exercised <sup>‡</sup>	(347,200 )	3.37	(1,600 )	3.69
Forfeited	(1,200 )	13.50	(71,032 )	4.88
Outstanding, end of period	1,864,880	5.90	2,957,102	5.72

<sup>‡</sup> All stock options exercised resulted in new common shares being issued

## c) Senior executive stock option plan

During the three and six months ended June 30, 2014, 165,000 and 211,800 of the senior executive stock options were exercised and settled in common shares. At June 30, 2014, there were 338,200 vested senior executive stock option plan units outstanding (December 31, 2013 - 550,000).

The fair value of the outstanding senior executive stock options was calculated as at June 30, 2014 assuming an expected volatility of 26.24%, a risk-free interest rate of 0.11%, an expected life of 0.9 years and a dividend yield of 0.93% (December 31, 2013 - expected volatility of 39.12%, a risk-free interest rate of 0.22%, an expected life of 1.4 years and no dividend yield). The weighted average fair value per option was \$3.53 at June 30, 2014 (December 31, 2013 - \$1.71).

## d) Restricted share unit plan

The Company intends to settle all restricted share unit ("RSU") grants and dividend equivalent grants issued after February 19, 2014 with common shares purchased on the open market through a trust arrangement ("equity classified RSUs"). The Company will continue to settle the existing RSUs with cash ("liability classified RSUs"). Similar to the liability classified RSUs, the equity classified RSUs are granted to executives and other key employees each year with respect to services provided in the three years following the grant date and they vest at the end of a three-year term. Per the RSU plan, if dividends are paid on common shares, additional RSUs shall be credited to the Participant's RSU account as of the dividend payment date. The number of additional RSUs (including fractional RSUs, if any) to be credited to the Participant's RSU account shall be determined by dividing the dollar amount of the dividends payable in respect of the number of common shares equal to the number of RSUs credited to the Participants RSU account by the fair market value per common share on the dividend payment date. Such additional RSUs shall be granted subject to the same service criteria as the underlying RSUs, and the date of grant of such additional RSUs shall be deemed to be the date of the grant of the underlying RSUs to which such additional RSUs relate.

## i) Liability classified restricted share unit plan

(units)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Outstanding, beginning of period	912,064	936,515	1,023,944	1,110,275
Granted	—	555,204	—	555,204
Dividend equivalents granted	465	—	695	—
Vested	(182,129 )	—	(272,271 )	(154,330 )
Forfeited	—	(381,226 )	(21,968 )	(400,656 )
Outstanding, end of period	730,400	1,110,493	730,400	1,110,493

At June 30, 2014, the current portion of RSU liabilities of \$2,588 were included in accrued liabilities (December 31, 2013 – \$1,933) and the long term portion of RSU liabilities of \$1,314 were included in other long term obligations (December 31, 2013 – \$1,734) in the Consolidated Balance Sheets.

## ii) Equity classified restricted share unit plan

	Three months ended June 30, 2014		2013	
	Number of units	Weighted average exercise price \$ per share	Number of units	Weighted average exercise price \$ per share
Outstanding, beginning of period	2,335	7.81	—	—
Granted	230,499	7.87	—	—
Dividend equivalents granted	1,772	8.61	—	—
Outstanding, end of period	234,606	7.88	—	—
	Six months ended June 30, 2014		2013	
	Number of units	Weighted average exercise price \$ per share	Number of units	Weighted average exercise price \$ per share
Outstanding, beginning of period	—	—	—	—
Granted	230,499	7.87	—	—
Dividend equivalents granted	4,107	8.25	—	—
Outstanding, end of period	234,606	7.88	—	—

## e) Deferred stock unit plan

As of February 19, 2014, the Company modified its directors deferred stock unit ("DDSU") plan to permit awards to Executives in addition to Directors. As a result of this change, the plan will be referred to as the deferred stock unit ("DSU") plan going forward. During the three months ended March 31, 2014, a portion of the 2013 Executive bonus compensation was converted to DSUs which were issued to Executives in February 2014.

The Company intends to settle all DSU grants and dividend equivalent grants issued after February 19, 2014 with common shares purchased on the open market through a trust arrangement ("equity classified DSUs"). Similar to the liability classified DSUs, the equity classified DSUs vest immediately upon issuance and are only redeemable upon death or retirement of the participants.

Per the DSU plan, if dividends are paid on common shares, additional DSUs shall be credited to the participant's RSU account as of the dividend payment date. The number of additional DSUs (including fractional DSUs, if any) to be credited to the participant's DSU account shall be determined by dividing the dollar amount of the dividends payable in respect of the number of common shares equal to the number of DSUs credited to the participants DSU account by

the fair market value per common share on the dividend payment date. Such additional DSUs shall be granted subject to the same service criteria as the underlying DSUs and the date of grant of such additional DSUs shall be deemed to be the date of the grant of the underlying DSUs to which such additional DSUs relate.

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## i) Liability classified deferred stock unit plan

(units)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Outstanding, beginning of period	588,215	667,944	586,834	625,156
Issued <sup>‡</sup>	6,293	42,380	7,674	85,168
Redeemed	(63,886)	) —	(63,886)	) —
Outstanding, end of period	530,622	710,324	530,622	710,324

<sup>‡</sup> Certain DSUs issued during the three months ended June 30, 2014 were liability classified as they were redeemed before establishment of the trust arrangement.

## ii) Equity classified deferred stock unit plan

	Three months ended June 30, 2014		2013	
	Number of units	Weighted average exercise price \$ per share	Number of units	Weighted average exercise price \$ per share
Outstanding, beginning of period	108,449	6.89	—	—
Issued	10,817	8.90	—	—
Dividend equivalents issued	1,351	8.70	—	—
Outstanding, end of period	120,617	7.09	—	—
	Six months ended June 30, 2014		2013	
	Number of units	Weighted average exercise price \$ per share	Number of units	Weighted average exercise price \$ per share
Outstanding, beginning of period	—	—	—	—
Issued	117,487	7.06	—	—
Dividend equivalents issued	3,130	8.20	—	—
Outstanding, end of period	120,617	7.09	—	—

## 8) Shares

## a) Common shares

Issued and outstanding:

The Company is authorized to issue an unlimited number of voting and non-voting common shares.

	Common shares	Treasury shares	Total shares
Voting common shares			
Number of common shares outstanding as at December 31, 2013	34,746,236	—	34,746,236
Issued upon exercise of stock options	347,200	—	347,200
Issued upon exercise of senior executive stock options	211,800	—	211,800
Purchase of treasury shares for restricted share unit settlement	—	(193,540)	(193,540)
Issued and outstanding at June 30, 2014	35,305,236	(193,540)	35,111,696

On June 12, 2014 the Company entered into a trust fund agreement whereby the trustee will purchase and hold treasury shares until such time that units issued under the equity classified RSU plan (note 7(d(ii))) and equity classified DSU plan (note 7(e(ii))) are to be settled.



## b) Net loss per share

	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Weighted average number of common shares (no dilutive effect)	34,811,415	36,251,201	34,924,232	36,251,112

For both the three and six months ended June 30, 2014, there were 1,864,880 stock options which were anti-dilutive and therefore were not considered in computing diluted earnings per share (both the three and six months ended June 30, 2013 – 2,957,102 stock options).

## c) Dividends

On June 11, 2014, the Company declared its second quarter 2014 dividend of \$0.02 per share payable to shareholders of record as of June 30, 2014. At June 30 2014, the dividend payable of \$706 was included in accrued liabilities and was subsequently paid to shareholders on July 21, 2014.

On February 19, 2014, the Company declared its first quarter 2014 dividend of \$0.02 per share totaling \$698 which was paid on April 21, 2014 to shareholders of record as of March 31, 2014.

## 9) Other information

## a) Supplemental cash flow information

	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Cash paid during the period for:				
Interest	\$4,351	\$12,456	\$5,262	\$15,484
Income taxes	—	81	—	92
Cash received during the period for:				
Interest	28	1	55	5
Income taxes	88	1,627	88	2,048
Non-cash transactions:				
Addition of plant and equipment by means of capital leases	24,045	5,155	28,032	6,804
Reclass from plant and equipment to assets held for sale	(770)	(805)	(995)	(3,543)
Non-cash working capital exclusions:				
Net change in accounts payable related to purchase of plant and equipment	(8,251)	4,338	(5,056)	9,284
Net change in accounts payable related to change in estimated financing costs	—	—	(101)	—
Net change in accounts payable related to change in the lease inducement paid on the sublease	300	—	300	—
Net change in long term portion of equipment lease liabilities related to purchase of plant and equipment	—	—	—	(10)
Net change in accrued liabilities related to current portion of RSU liability	(30)	202	655	417
Net change in accrued liabilities related to current portion of DSU liability	—	489	—	591
Net change in accrued liabilities related to dividend payable	8	—	706	—

## NOA

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

	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Operating activities:				
Accounts receivable	\$12,549	\$18,191	\$26,467	\$17,664
Unbilled revenue	(24,168 )	1,428	(28,317 )	7,688
Inventories	448	(897 )	1,031	(1,385 )
Prepaid expenses and deposits	(1,961 )	(2,397 )	(2,852 )	(1,599 )
Accounts payable	21,934	(7,766 )	14,361	(16,339 )
Accrued liabilities	(2,037 )	(7,771 )	(2,852 )	8,154
Long term portion of liabilities related to equipment leases	—	(60 )	—	(155 )
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	1,509	169	2,489	25
	\$8,274	\$897	\$10,327	\$14,053

## 10) Customers

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

	Three months ended		Six months ended		
	June 30, 2014	2013	June 30, 2014	2013	
Customer A	30	% 31	% 33	% 27	%
Customer B	10	% 16	% 18	% 23	%
Customer C	31	% —	% 16	% —	%
Customer D	11	% 10	% 12	% 7	%
Customer E	10	% 11	% 8	% 11	%
Customer F	3	% 6	% 6	% 11	%
Customer G	—	% 20	% 1	% 16	%

## 11) Claims revenue

Due to the timing of receipt of signed change orders, the Company recognized claims revenue to the extent of costs incurred for the three and six months ended June 30, 2014 of \$64 and \$77, respectively (three and six months ended June 30, 2013 - \$4,986 and \$12,158, respectively).

## 12) Comparative figures

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

NORTH AMERICAN ENERGY PARTNERS INC.  
Management's Discussion and Analysis  
For the three and six months ended June 30, 2014

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Management's Discussion and Analysis

For the three and six months ended June 30, 2014

A. EXPLANATORY NOTES

August 6, 2014

The following Management's Discussion and Analysis ("MD&A") is as of August 6, 2014 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the three and six months ended June 30, 2014 and notes that follow. These statements have been prepared in accordance with United States ("US") generally accepted accounting principles ("GAAP"). Except where otherwise specifically indicated, all dollar amounts are expressed in Canadian dollars. This interim MD&A should also be read in conjunction with the audited consolidated financial statements and notes that follow for the year ended December 31, 2013, together with our annual MD&A for the year ended December 31, 2013. The consolidated financial statements and additional information relating to our business, including our most recent Annual Information Form, are available on the Canadian Securities Administrators' SEDAR System at [www.sedar.com](http://www.sedar.com), the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov) and our company website at [www.nacg.ca](http://www.nacg.ca).

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

NON-GAAP FINANCIAL MEASURES

A non-GAAP financial measure is generally defined by the Securities and Exchange Commission ("SEC") and by the Canadian securities regulatory authorities as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. In our MD&A, we use non-GAAP financial measures such as EBITDA which is "net income before interest expense, income taxes, depreciation and amortization", "Consolidated EBITDA" (as defined in our Fifth Amended and Restated Credit Agreement, "the Credit Facility"), "Piling Business EBITDA" and "backlog". Where relevant, particularly for earnings-based measures, we provide tables in this document that reconcile non-GAAP measures used to amounts reported on the face of the consolidated financial statements.

EBITDA and Consolidated EBITDA

Consolidated EBITDA is defined as EBITDA, excluding the effects of unrealized foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, non-cash stock-based compensation expense, gain or loss on disposal of plant and equipment, the impairment of goodwill, the amendment related to the 2011 \$42.5 million revenue write-down on the Canadian Natural<sup>1</sup> overburden removal contract and certain other non-cash items included in the calculation of net income.

We believe that EBITDA is a meaningful measure of the performance of our business because it excludes interest, income taxes, depreciation and amortization that are not directly related to the operating performance of our business. Management reviews EBITDA to determine whether plant and equipment are being allocated efficiently. In addition, our Credit Facility requires us to maintain both a fixed charges coverage ratio and a senior leverage ratio, which are calculated using Consolidated EBITDA from continuing operations, and also identifies limits to our annual capital spend. Non-compliance with these financial covenants could result in a requirement to immediately repay all amounts outstanding under our credit facility.

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<sup>1</sup> Canadian Natural Resources Limited (Canadian Natural), owner and operator of the Horizon Oil Sands mine site.



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As EBITDA and Consolidated EBITDA are non-GAAP financial measures, our computations of EBITDA and Consolidated EBITDA may vary from others in our industry. EBITDA and Consolidated EBITDA should not be considered as alternatives to operating income or net income as measures of operating performance or cash flows as measures of liquidity. EBITDA and Consolidated EBITDA have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under US GAAP. For example, EBITDA and Consolidated EBITDA do not:

- reflect our cash expenditures or requirements for capital expenditures or capital commitments or proceeds from capital disposals;
  - reflect changes in our cash requirements for our working capital needs;
  - reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
  - include tax payments or recoveries that represent a reduction or increase in cash available to us; or
  - reflect any cash requirements for assets being depreciated and amortized that may have to be replaced in the future.
- Consolidated EBITDA excludes unrealized foreign exchange gains and losses and realized and unrealized gains and losses on derivative financial instruments, which, in the case of unrealized losses may ultimately result in a liability that may need to be paid and in the case of realized losses, represents an actual use of cash during the period.

#### Consolidated EBITDA from Continuing Operations

With the sale of our Pipeline construction related assets (November 22, 2012) and our Piling related assets and liabilities (July 12, 2013) and the exit from both businesses, the results from these businesses are reported as results from "discontinued operations". We believe that our performance should be measured on our continuing operations and compared against historical results from continuing operations. "Consolidated EBITDA from Continuing Operations" is defined as Consolidated EBITDA excluding results from discontinued operations.

#### Piling Business EBITDA

As part of the sale of our Piling related assets and liabilities, as discussed in "Significant Business Events - Divestiture of Piling Related Assets and Liabilities", we may receive contingent proceeds based on certain profitability thresholds being achieved from the use of the assets and liabilities sold. The calculation of the actual profitability performance, for the purpose of determining the contingent proceeds that we should receive, is defined in the purchase and sale agreement using substantially our definition of Consolidated EBITDA, as described above, as it applies to the Piling business with a limit placed on incremental corporate general & administrative ("G&A") costs that can be included in the determination of such EBITDA (the "Piling Business EBITDA").

#### Backlog

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

We define backlog as work that has a high certainty of being performed as evidenced by the existence of a signed contract, work order, work authorization or change order specifying job scope, value and timing. Our definition of backlog is limited to contracts or work orders with values exceeding \$500,000.

**B. SIGNIFICANT BUSINESS EVENTS****Employee Fatality**

On June 2, 2014, we regretfully experienced an employee fatality at our designated work area within the Millennium mine site. We suspended all of our activities on this site while we worked with our customer and the appropriate authorities to complete a thorough and comprehensive investigation into the cause of the incident. On July 4, 2014, we began a graduated "return to work" plan at the site.

**Secondary Offering**

On May 8, 2014, we announced that the Company, HGI Funding LLC ("HGI Funding") and Front Street Re (Cayman) Ltd ("Front Street") entered into an agreement with a syndicate of investment dealers with respect to a secondary offering by HGI Funding and Front Street of our common shares. Under the agreement, the syndicate agreed to purchase 7,032,322 common shares at a purchase price of \$8.55 per common share. On June 10, 2014, upon closing of the secondary offering of our common shares, 1,486,036 common shares were sold by HGI Funding and 5,546,286 common shares were sold by Front Street for aggregate proceeds of \$60.1 million. We did not receive any proceeds from the offering.

HGI Funding and Front Street were collectively our largest shareholder and owned an equivalent of 20.1% of the issued and outstanding common shares on a non-diluted basis. After the completion of the secondary offering, both HGI Funding and Front Street do not own any common shares of the Company.

**Upgrade to Debt Rating**

On May 2, 2014, as a result of our improved financial risk profile in 2013 and its belief that this improvement should be sustainable, Standard & Poor's ("S&P")<sup>2</sup> upgraded the ratings on our long-term corporate credit rating and our senior unsecured debt to "B" from the previous ratings of "B-".

An upgrade in our credit ratings by S&P has reduced the interest rate payable on borrowings under our Fifth Amended and Restated Credit Agreement ("the Credit Facility"). This recent upgrade has improved our cost of borrowing under the Credit Facility as follows:

- ▲ reduction of 0.5% in interest charged on outstanding revolver borrowing

- ▲ reduction of 0.3% in interest charged on outstanding letters of credit used as guarantees, drawn against either Tranche A or Tranche B

- ▲ reduction of 0.12% in standby fee interest charged on any unused portion of the \$85.0 million Credit Facility

For a full discussion of our debt ratings, see "Resources and Systems - Debt Ratings" and for a full discussion of our Credit Facility, see "Resources and Systems - Credit Facility", both in this MD&A.

**Modification to our Stock-Based Compensation Plan**

Effective January 1, 2014, we modified the Directors Deferred Stock Unit ("DDSU") plan to include our executives as participants of this plan, joining the members of our Board of Directors. We will refer to this plan as the Deferred Stock Unit ("DSU") plan going forward. During the three months ended March 31, 2014, a portion of the 2013 executive bonus compensation, payable in 2014, was converted to DSUs and issued to executives in the current period.

As of February 19, 2014 we intend to settle all newly issued DSUs and newly granted Restricted Share Units ("RSU") and dividend equivalent DSUs and RSUs with common shares purchased on the open market through a trust arrangement ("equity classified DSU" and "equity classified RSU"). All DSUs issued and RSUs granted prior to February 19, 2014 will continue to be settled in cash ("liability classified DSU" and "liability classified RSU").

In the three months ended June 30, 2014, we recorded \$2.3 million of stock-based compensation expense, of which \$0.8 million related to equity classified awards including our new equity classified DSUs and equity classified RSUs. In the six months ended June 30, 2014 we recorded \$5.9 million of stock-based compensation expense, of which \$2.0 million related to our equity classified awards.

<sup>2</sup>Standard and Poor's Ratings Services ("S&P"), a division of the McGraw-Hill Companies, Inc.



On June 12, 2014, we entered into a trust fund agreement whereby the trustee will purchase and hold treasury shares until such time that units granted under the equity classified RSU plan are to be settled. At June 30, 2014, the trust fund related to the RSU plan held 193,540 common shares at a cost of \$1.7 million, which were classified as treasury shares on our consolidated balance sheets.

#### Dividends

On February 19, 2014, we announced that as part of the Company's long term strategy to maximize shareholders' value and broaden our shareholder base, the Board of Directors had approved the implementation of a new dividend policy (the "Dividend Policy"). Pursuant to the Dividend Policy, we intend to pay an annual aggregate dividend of eight Canadian cents (\$0.08) per common share, payable on a quarterly basis.

The Board of Directors declared a dividend (the "Dividend") of two Canadian cents (\$0.02) on each of the common shares issued and outstanding on the Record Dates of March 31, 2014 and June 30, 2014. The Dividend payouts were made respectively on April 21, 2014 and July 21, 2014.

Our RSU and DSU plans require that if dividends are paid on common shares, additional RSUs or DSUs shall be credited to the participant's RSU or DSU account as of the dividend payment date. The number of additional units to be credited to the participant's account on a quarterly basis is determined at \$0.02 per DSU or RSU, divided by the fair market value of our common shares at the dividend record date. These new units vest and are payable on the same schedule as the underlying units. The accounting for these dividend equivalent units is aligned with the accounting for the underlying units and as such, we recorded the associated expense per the vesting schedule, with the offset being respectively recorded to stock-based compensation liabilities and additional paid-in capital for the liability classified and equity classified awards. Upon settlement of the units, as with the underlying units, the payout will result in a reduction to the related liability or additional paid-in capital balance.

#### Partial Redemption of 9.125% Series 1 Senior Unsecured Debentures Due 2017

On February 28, 2014, we announced that we would redeem \$10.0 million of our 9.125% Series 1 Senior Unsecured Debentures due 2017 ("Series 1 Debentures"). Holders of record at the close of business on April 4, 2014 had their Series 1 Debentures redeemed on a pro rata basis on April 8, 2014 for 103.042% of the principal amount, plus accrued and unpaid interest. Included in our interest expense for the quarter and year-to-date ended June 30, 2014 is an additional \$0.3 million relating to the write-off of a portion of our deferred financing fees on the Series 1 Debentures. The redemption reduced our outstanding balance of Series 1 Debentures to \$65.0 million and is expected to reduce annual interest cost for the Series 1 Debentures by approximately \$0.9 million to \$5.9 million.<sup>†</sup>

#### Approval to Proceed with Amendments to the Fifth Amended and Restated Credit Agreement

On August 6, 2014, we received approval from our existing banking syndicate to proceed with an amendment to our Fifth Amended and Restated Credit Agreement. The amendment is expected to allow further flexibility in our financing needs as we plan for the future. Once finalized, the amended agreement is expected to include the following changes:

Modification of the Senior Leverage Ratio covenant of Senior Debt to Consolidated EBITDA from less than 2.00 to 1.00 to less than 2.50 to 1.00. This change reflects our improved risk profile and lower Series 1 Debenture debt and will improve our liquidity.

Increase to the allowable debt in respect of capital leases by \$15.0 million to \$90.0 million. This will allow us to continue to eliminate operating leases and to finance capital expenditures with low cost debt, thereby freeing up cash for new opportunities or to retire other more costly debt.

Pre-approval to redeem up to \$20.0 million of the 9.125% Series 1 Debentures. This will increase our flexibility to balance our mix of lower cost secured debt versus higher cost unsecured debt.<sup>†</sup>

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



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Divestiture of Piling Related Assets and Liabilities

On July 12, 2013, we sold our Canadian based Piling related assets and liabilities and our US based Cyntech US Inc. legal entity (the "Piling sale") to the Keller Group plc (the "Keller Group" or the "Purchaser") for consideration of \$227.5 million, plus \$5.9 million of working capital adjustment. Net proceeds of \$219.4 million were realized after the assignment to the Purchaser of \$5.9 million of capital leases and selling and disposal costs of \$8.1 million. A pre-tax gain on disposal of \$98.1 million was recorded. We may receive up to \$92.5 million in additional proceeds over the next three years, contingent on the Purchaser achieving prescribed profitability thresholds from the assets and liabilities sold. These contingent proceeds will be recognized as the Piling Business EBITDA targets are achieved. For a discussion on the contingent proceeds related to the Piling sale see "Financial Results - Contingent Proceeds" in this MD&A.<sup>†</sup>

In conjunction with the Piling sale, we have exited the piling, foundation, pipeline anchor and tank services businesses. The results of piling operations are included in net income from discontinued operations for all periods presented.

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

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## C. FINANCIAL RESULTS

## Summary of Consolidated Three and Six Months Results

(dollars in thousands, except per share amounts)	Three months ended June 30,			Change	
	2014	2013			
Revenue	\$116,189	\$115,046	\$1,143		
Project costs	52,182	43,373	8,809		
Equipment costs	44,383	54,590	(10,207)	)	
Depreciation	10,342	8,722	1,620		
Gross profit	\$9,282	\$8,361	\$921		
Gross profit margin	8.0	% 7.3	% 0.7		%
Select financial information:					
General and administrative expenses (excluding stock-based compensation)	7,914	8,329	(415)	)	
Stock based compensation expense	2,263	234	2,029		
Operating loss	(2,161)	) (2,310)	) 149		
Interest expense	3,000	5,681	(2,681)	)	
Net loss from continuing operations	(4,096)	) (5,642)	) 1,546		
Net loss margin from continuing operations	(3.5	)% (4.9	)% 1.4		%
Net loss from discontinued operations	—	(97)	) 97		
Net loss	(4,096)	) (5,739)	) 1,643		
EBITDA from continuing operations <sup>(1)</sup>	8,772	7,639	1,133		
Consolidated EBITDA from continuing operations <sup>(1)</sup>	10,196	8,894	1,302		
Consolidated EBITDA margin from continuing operations	8.8	% 7.7	% 1.1		%
Basic per share information (no dilutive effect):					
Net loss from continuing operations	\$(0.12)	) \$(0.16)	) \$0.04		
Net income from discontinued operations	\$0.00	\$0.00	\$0.00		
Net loss	\$(0.12)	) \$(0.16)	) \$0.04		
Cash dividends per share	\$0.02	\$0.00	\$0.02		

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(dollars in thousands, except per share amounts)	Six months ended June 30,			
	2014	2013	Change	
Revenue	\$223,923	\$245,327	\$(21,404 )	
Project costs	87,353	95,157	(7,804 )	
Equipment costs	92,012	112,003	(19,991 )	
Depreciation	20,086	20,860	(774 )	
Gross profit	\$24,472	\$17,307	\$7,165	
Gross profit margin	10.9	% 7.1	% 3.8	%
Select financial information:				
General and administrative expenses (excluding stock based compensation)	15,175	18,451	(3,276 )	
Stock based compensation expense	5,893	2,644	3,249	
Operating income (loss)	879	(8,799 )	9,678	
Interest expense	5,836	11,573	(5,737 )	
Net loss from continuing operations	(3,970 )	(14,868 )	10,898	
Net loss margin from continuing operations	(1.8 )%	(6.1 )%	4.3 %	
Net income from discontinued operations	—	4,462	(4,462 )	
Net loss	(3,970 )	(10,406 )	6,436	
EBITDA from continuing operations <sup>(1)</sup>	22,511	14,345	8,166	
Consolidated EBITDA from continuing operations <sup>(1)</sup>	25,422	17,847	7,575	
Consolidated EBITDA margin from continuing operations	11.4	% 7.3	% 4.1	%
Basic per share information (no dilutive effect):				
Net loss from continuing operations	\$(0.11 )	\$(0.41 )	\$0.30	
Net income from discontinued operations	\$0.00	\$0.12	\$(0.12 )	
Net loss	\$(0.11 )	\$(0.29 )	\$0.18	
Cash dividends per share	\$0.04	\$—	\$0.04	

(1) A reconciliation of net loss from continuing operations to EBITDA and Consolidated EBITDA from continuing operations is as follows:

(dollars in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Net loss from continuing operations	\$(4,096 )	\$(5,642 )	\$(3,970 )	\$(14,868 )
Adjustments:				
Interest expense	3,000	5,681	5,836	11,573
Income tax benefit	(1,384 )	(1,883 )	(1,314 )	(4,875 )
Depreciation	10,342	8,722	20,086	20,860
Amortization of intangible assets	910	761	1,873	1,655
EBITDA from continuing operations	8,772	7,639	22,511	14,345
Adjustments:				
Unrealized gain on derivative financial instruments	—	(405 )	—	(515 )
Loss on disposal of plant and equipment	438	596	734	2,427
(Gain) loss on disposal of assets held for sale	(82 )	751	(82 )	929
Equity classified stock-based compensation expense	764	313	1,955	661
Premium on redemption of Series 1 Debenture	304	—	304	—
Consolidated EBITDA from continuing operations	\$10,196	\$8,894	\$25,422	\$17,847
Analysis of Consolidated Results from Continuing Operations				

Revenue

For the three months ended June 30, 2014, revenue was \$116.2 million, up from \$115.0 million in the same period last year. Revenue for the quarter was similar to the prior year as the ramp-up of civil construction work at the Fort Hills mine, the addition of heavy civil construction and Mechanically Stabilized Earth ("MSE") wall construction activity at the Horizon mine and road building activity on the Alberta Transportation Highway 63 project replaced the heavy civil construction and MSE wall construction performed last year on the Mildred Lake mine relocation ("MLMR") project at Base Plant mine. Revenue was down in the quarter on the Horizon mine overburden removal contract with the reduction of maintenance costs eligible for reimbursement under the contract as the client has taken over the procurement of equipment maintenance parts this year. Revenue was also down at the Millennium mine with the suspension of work in June. For a discussion on the work suspension, see "Significant Business Events - Employee fatality".

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For the six months ended June 30, 2014, revenue was \$223.9 million, down from \$245.3 million in the same period last year. Revenue for the period dropped as a result of lower reclamation volumes in the first quarter combined with the timing of the startup of new heavy civil construction and MSE wall construction activities for Fort Hills and Horizon mine sites which replaced the work that was completed on the MLMR project at Base Plant mine.

**Gross profit**

For the three months ended June 30, 2014, gross profit was \$9.3 million, or 8.0% of revenue, up from \$8.4 million, or 7.3% of revenue in the same period last year. The improvement in both gross profit and margin are primarily driven by reduced operating lease expense, the contribution from the ramp up of activity at the Fort Hills mine and the addition of non-overburden work at the Horizon mine, coupled with improved margins on mine service activity. Current gross profit and gross margin were both negatively affected by the cost impacts of the June shutdown at the Millennium mine combined with the reduced contribution from heavy civil construction volumes and accelerated depreciation recorded on assets held for sale. Gross margin was also partially eroded by an increase in the use of rental equipment and a larger proportion of labour and sub-contractor costs in project costs as we mobilized to support the increased civil construction volumes.

For the three months ended June 30, 2014, equipment cost dropped by \$10.2 million compared to the prior year, primarily as a result of the aforementioned reduction of maintenance parts spend on the Horizon mine overburden removal contract. The reduced spend negatively affected gross profit due to the corresponding loss of revenue and related margin on this cost reimbursable contract. Contributing to the lower equipment cost in the quarter was a reduction in operating lease expense (\$4.4 million, down from \$6.4 million in the same period last year).

For the three months ended June 30, 2014, depreciation was \$10.3 million, up from \$8.7 million in the same period last year. Current quarter depreciation included a \$1.9 million write-down of assets held for sale compared to no such write-downs in the prior year.

For the six months ended June 30, 2014, gross profit was \$24.5 million, or 10.9% of revenue, up from \$17.3 million, or 7.1% of revenue in the same period last year. The improvement in both gross profit and margin primarily reflects lower operating lease expense and improved productivity on a mine services project and the benefit from project closeout activities on a large heavy civil construction project. These improvements helped to offset the cost impacts of the June shutdown at the Millennium mine and the negative margin impact of an increase in the use of rental equipment to support the civil construction volumes. Last year's margins were negatively affected by unsigned change orders related to startup delays on several projects.

For the six months ended June 30, 2014, equipment cost dropped by \$20.0 million compared to the prior year, primarily as a result of the reduction of Horizon mine maintenance parts spend which negatively affected gross profit due to the corresponding loss of revenue and related margin. Contributing to the lower equipment cost in the quarter was a reduction in operating lease expense (\$8.6 million, down from \$14.7 million in the same period last year).

For the six months ended June 30, 2014, depreciation was \$20.1 million, down from \$20.9 million in the same period last year. Current year depreciation included a \$2.5 million write-down of assets held for sale compared to a \$3.3 million write-down on disposed assets last year.

**Operating loss**

For the three months ended June 30, 2014, we recorded an operating loss of \$2.2 million, a slight improvement from the operating loss of \$2.3 million for the same period last year. G&A expense, excluding stock-based compensation, was \$7.9 million for the quarter, down from \$8.3 million for the same period last year. The current year G&A reflects the benefits from the simplification of our business and the associated restructuring activities initiated during the prior year. Liability classified stock-based compensation costs increased \$1.6 million, largely due to an increase in share price during the quarter while equity classified stock-based compensation costs increased \$0.4 million due to this year's implementation of our new equity classified RSU and DSU awards, discussed in "Significant Business Events - Modification to the Stock-Based Compensation Plan" in this MD&A. We recorded a \$0.4 million loss from the sale of both plant and equipment and assets held for sale in the period, compared to a \$1.3 million loss recorded for the same activities last year.

For the six months ended June 30, 2014, we recorded operating income of \$0.9 million, compared to an operating loss of \$8.8 million in the same period last year. G&A expense, excluding stock-based compensation, was \$15.2



million, down from \$18.5 million last year. The current year G&A reflects the benefits from the simplification of our business and the associated restructuring activities implemented during the prior year. Liability classified stock-based compensation costs increased \$2.0 million, largely due to an increase in share price during the year while equity classified stock-based compensation costs increased \$1.5 million due to the implementation of our new equity classified RSU and DSU awards discussed in "Significant Business Events - Modification to the Stock Based Compensation Plan" in this MD&A. We recorded a \$0.7 million loss from the sale of both plant and equipment and assets held for sale in the period, compared to a \$3.4 million loss recorded for the same activities last year.

Net loss from continuing operations

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Continuing operations per share information				
Net loss per share - basic & diluted	\$(0.12 )	\$(0.16 )	\$(0.11 )	\$(0.41 )

For the three months ended June 30, 2014, we recorded a \$4.1 million net loss from continuing operations (basic and diluted loss per share of \$0.12), an improvement from a \$5.6 million net loss from continuing operations (basic and diluted loss per share of \$0.16) for the same period last year. For the six months ended June 30, 2014, we recorded a \$4.0 million net loss from continuing operations (basic and diluted loss per share of \$0.11), up from \$14.9 million net loss from continuing operations (basic and diluted loss per share of \$0.41) for the same period last year.

Non-Operating Income and Expense For Continuing Operations

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2014	2013	Change	2014	2013	Change
Interest expense						
Long term debt						
Interest on Series 1 Debentures	\$1,502	\$3,893	\$(2,391 )	\$3,213	\$7,726	\$(4,513 )
Interest on Credit Facility	249	817	(568 )	500	1,825	(1,325 )
Interest on capital lease obligations	677	659	18	1,331	1,355	(24 )
Amortization of deferred financing costs	599	306	293	846	683	163
Interest on long term debt	\$3,027	\$5,675	\$(2,648 )	\$5,890	\$11,589	\$(5,699 )
Interest (income) expense	(27 )	6	(33 )	(54 )	(16 )	(38 )
Total interest expense	\$3,000	\$5,681	\$(2,681 )	\$5,836	\$11,573	\$(5,737 )
Foreign exchange loss (gain)	15	(61 )	76	23	(114 )	137
Unrealized gain on derivative financial instruments	—	(405 )	405	—	(515 )	515
Income tax benefit	(1,384 )	(1,883 )	499	(1,314 )	(4,875 )	3,561

Total interest expense was \$3.0 million during the three months ended June 30, 2014, down from \$5.7 million in the prior year. During the six months ended June 30, 2014, total interest expense was \$5.8 million, down from \$11.6 million in the prior year.

Our debt restructuring, including the redemption of \$150.0 million of our Series 1 Debentures in the third quarter of last year and the \$10.0 million redemption completed early in the second quarter of this year, resulted in reduced interest expense on our Series 1 Debentures to \$1.5 million and \$3.2 million, respectively during the three and six months ended June 30, 2014, from \$3.9 million and \$7.7 million in the corresponding periods last year.

Interest on our Credit Facility was \$0.2 million for the three months ended June 30, 2014, down from \$0.8 million in the same period last year. The current six month interest expense on our Credit Facility was \$0.5 million, down from \$1.8 million in the same period last year. At June 30, 2014, we had no borrowings on our revolver and \$5.5 million in letters of credit drawn on our Credit Facility, compared to a combined \$45.2 million outstanding on our term and revolving facilities and \$3.1 million in letters of credit at June 30, 2013. Interest on our Credit Facility includes standby charges for the unused portion of our Credit Facility.

Interest on capital lease obligations of \$0.7 million and \$1.3 million in the three and six months ended June 30, 2014, respectively, was comparable to such interest incurred in the prior year periods.

## NOA

## Foreign exchange loss (gain)

The foreign exchange losses and gains relate primarily to the effect of changes in the exchange rate of the Canadian dollar against the US dollar on purchases of equipment parts. A more detailed discussion about our foreign currency risk can be found under “Quantitative and Qualitative Disclosures about Market Risk – Foreign Exchange Risk”.

## Unrealized gain on derivative financial instruments

At December 31, 2013, we eliminated the embedded derivative in certain maintenance agreements. The unrealized gain on derivative financial instruments for the prior year reflects changes in the value of embedded derivatives in these maintenance agreements.

## Income tax

For the three months ended June 30, 2014, we recorded a current income tax benefit of \$0.1 million and a deferred income tax benefit of \$1.3 million, providing a net income tax benefit of \$1.4 million. This compares to a combined income tax benefit of \$1.9 million for the same period last year.

For the six months ended June 30, 2014, we recorded a current income tax benefit of \$0.1 million and a deferred income tax benefit of \$1.2 million, providing a net income tax benefit of \$1.3 million. This compares to a combined tax benefit of \$4.9 million for the same period last year.

Income tax as a percentage of income before income taxes for the three and six months ended June 30, 2014 differs from the statutory rate of 25.26% primarily due to permanent differences resulting from equity settled stock-based compensation expense and book to filing differences.

Income tax as a percentage of income before income taxes for the six months ended June 30, 2013 differs from the statutory rate of 25.21% primarily due to the effect permanent tax differences and prior-year current tax adjustments.

## Summary of Consolidated Cash Flows from Continuing Operations

(dollars in thousands)	Three months ended			Six months ended		
	June 30, 2014	2013	Change	June 30, 2014	2013	Change
Cash provided by operating activities	\$13,667	\$3,711	\$9,956	\$30,782	\$24,792	\$5,990
Cash used in investing activities	(13,425 )	(5,633 )	(7,792 )	(16,323 )	(13,276 )	(3,047 )
Cash used in financing activities	(15,353 )	(2,453 )	(12,900 )	(18,457 )	(22,840 )	4,383
Net decrease in cash	\$(15,111)	\$(4,375)	\$(10,736)	\$(3,998)	\$(11,324)	\$7,326

## Operating activities

Cash provided by operating activities for the three months ended June 30, 2014 was \$13.7 million, compared to \$3.7 million for the three months ended June 30, 2013. The increased cash flow from operations in the current quarter is largely a result of an improved contribution from non-cash working capital of \$8.3 million, compared to \$0.9 million in the prior year combined with an improved net income in the current quarter. Current quarter non-cash working capital benefitted from the invoicing and collection of project closeout activities on a large heavy civil construction project which mitigated the negative affect on working capital from the ramp up of multiple projects at the Fort Hills mine.

Cash provided by operating activities for the six months ended June 30, 2014, was \$30.8 million, compared to \$24.8 million for the six months ended June 30, 2013. The increased cash flow from operations in the current period is largely a result of improved net income, offset by a reduced contribution of cash from non-cash working capital.

Current period non-cash working capital benefitted from improved customer collections, but was negatively affected by an increase in working capital from the ramp up of multiple projects at the Fort Hills mine.

## Investing activities

Cash used in investing activities for the three months ended June 30, 2014 was \$13.4 million, compared to \$5.6 million for the three months ended June 30, 2013. Current period investing activities included \$14.9 million for the purchase of plant and equipment and intangible assets, offset by cash inflows of \$1.5 million for proceeds on the

disposal of plant and equipment and assets held for sale. Prior year investing activities of \$5.6 million included \$8.3 million for the purchase of plant and equipment and intangible assets partially offset by \$2.6 million in proceeds on the disposal of plant and equipment and assets held for sale. The increased capital spend in the current period primarily reflects capitalized maintenance performed on plant and equipment.

Cash used in investing activities for the six months ended June 30, 2014 was \$16.3 million, compared to \$13.3 million for the six months ended June 30, 2013. Current period investing activities included \$17.8 million for the purchase of plant and equipment and intangible assets, offset by cash inflows of \$1.5 million in proceeds on the disposal of plant and equipment and assets held for sale. Prior year investing activities of \$13.3 million included \$16.6 million for the purchase of plant and equipment and intangible assets partially offset by \$3.3 million in proceeds on the disposal of plant and equipment and assets held for sale.

#### Financing activities

Cash used in financing activities during the three months ended June 30, 2014 was \$15.4 million primarily as a result of a \$10.3 million payment for the redemption of Series 1 Debentures and the \$1.7 million purchase of treasury shares held in trust. Cash used in financing activities for the three months ended June 30, 2013 was \$2.5 million, due to a net \$1.0 million increase in our credit facilities and scheduled capital lease obligation repayments of \$3.5 million.

Cash used in financial activities during the six months ended June 30, 2014 of \$18.5 million was primarily driven by the same factors as the second quarter. Cash used in financing activities for the six months ended June 30, 2013 was \$22.8 million, resulting from a \$16.0 million net repayment to our credit facilities and scheduled capital lease obligation repayments of \$6.8 million.

#### Summary of Consolidated Quarterly Results

A number of factors have the potential to contribute to variations in our quarterly financial results between periods, including:

- the timing and size of capital projects undertaken by our customers on large oil sands projects;
- changes in the mix of work from earthworks, with heavy equipment, to more labour intensive, light construction projects;
- seasonal weather and ground conditions;
- certain types of work that can only be performed during cold, winter conditions when the ground is frozen;
- the timing of equipment maintenance and repairs;
- the timing of project ramp-up costs as we move between seasons or types of projects
- claims and change orders;
- the accounting for unrealized non-cash gains and losses related to foreign exchange and derivative financial instruments; and
- the level of borrowing under our Series 1 Debentures and Credit Facility and the corresponding interest expense recorded against the outstanding balance of each.

## NOA

The table, below, summarizes our consolidated results for the preceding eight quarters:

(dollars in millions, except per share amounts)	Three Months Ended							
	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012
Revenue	\$116.2	\$107.7	\$108.9	\$116.2	\$115.0	\$130.3	\$116.8	\$123.5
Gross profit	9.3	15.2	16.8	11.6	8.4	8.9	9.8	8.3
Operating (loss) income	(2.2 )	3.0	5.6	0.6	(2.3 )	(6.5 )	(1.7 )	(0.7 )
Net (loss) income from continuing operations	(4.1 )	0.1	5.5	(8.7 )	(5.6 )	(9.2 )	(4.9 )	(5.0 )
Net income (loss) from discontinued operations	—	—	—	82.7	(0.1 )	4.6	9.5	8.8
Net (loss) income	(4.1 )	0.1	5.5	74.1	(5.7 )	(4.7 )	4.6	3.7
Basic net (loss) income per share‡								
From continuing operations	\$(0.12 )	\$0.00	\$0.15	\$(0.24 )	\$(0.16 )	\$(0.26 )	\$(0.13 )	\$(0.14 )
From discontinued operations	\$0.00	\$0.00	\$0.00	\$2.28	\$0.00	\$0.13	\$0.26	\$0.24
Total	\$(0.12 )	\$0.00	\$0.15	\$2.04	\$(0.16 )	\$(0.13 )	\$0.13	\$0.10
Cash dividend per share	\$0.02	\$0.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

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

Per-share calculations are based on full dollar and share amounts.

For a full discussion on the factors that can generally contribute to the variations in our quarterly financial results please see “Financial Results – Summary of Consolidated Quarterly Results” in our annual MD&A for the year ended December 31, 2013.

Overall, full-year results are not likely to be a direct multiple or combination of any one quarter or quarters. In addition to revenue variability, gross margins can be negatively impacted in less active periods because we are likely to incur higher maintenance and repair costs due to our equipment being available for servicing.

Profitability also varies from quarter-to-quarter as a result of claims and change orders. While claims and change orders are a normal aspect of the contracting business, they can cause variability in profit margin due to delayed recognition of revenues. For further explanation, see "Claims and Change Orders".

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

#### Expectation of Future Workload

We have estimated our remaining backlog (a non-GAAP measurement) on our Canadian Natural contract at the Horizon mine at \$92.7 million at June 30, 2014, compared to \$118.6 million at March 31, 2014 and \$145.8 million at December 31, 2013. The change in the value of the backlog on this contract from December 31, 2013 reflects work performed under the contract. Additionally, we have approximately \$147.3 million of backlog remaining on contracts with other clients. We anticipate performing \$240.0 million of our combined backlog within the next twelve months ending June 30, 2015.<sup>†</sup>

In addition to work with defined scope that forms part of our backlog, many of our contracts are performed under master services agreements with a range of services to be provided under cost-plus and time-and-material contracts where scope is not clearly defined. We work with our customers using cost-plus, time-and-materials, unit-price and lump-sum contracts. Some of our contracts have defined scope which may allow us to estimate future workload based on that defined scope. However the same estimated backlog is subject to future adjustments due to client delays, cancellations or reductions in outsourcing activities.

Given that work under MSAs is not usually included in backlog, we believe that the backlog number should be looked at together with current MSAs in place to fully understand the potential for future work. The following are

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

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active MSAs and long-term contracts with oil sands clients at their mines in Fort McMurray:

• Base Plant mine:

4-year master services agreement covering mining services and construction (expires November 2014)

• Millennium and Steep Bank mines:

5-year master services agreement covering mining services and construction (expires July 2016)

• Foslyn mine:

2-year initial site development contract (extended to September 2014)

• Kearn mine:

5-year master services agreement covering civil mine support services (expires November 2017)

• Horizon mine:

10-year overburden removal contract and master services agreement covering mining services and construction (expires June 2015)

The mix of work performed under these MSAs and contracts varies year-by-year.

For a complete discussion of these MSA agreements and contracts see "Projects, Competition and Major Suppliers" in our most recent AIF.

In general, we base our expectation of future workload on a combination of factors:

• signed customer contracts with defined scope;

• an estimation of work to be secured under master services agreements based on annual mine plans provided by our customers;

• an estimation of work to be performed under signed purchase orders with defined scope issued under MSA agreements; and

• an estimation of work to be secured through our bidding process based on annual mine plans and construction plans provided by our customers.

For a discussion on our expectation of workload in the near-term future, please see the "Outlook" section of this MD&A.

#### Claims and Change Orders

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

• changes in client requirements, specifications and design;

• changes in materials and work schedules; and

• changes in ground and weather conditions.

Contract change management processes require that we prepare and submit change orders to the client requesting approval of scope and/or price adjustments to the contract. Accounting guidelines require that we consider changes in cost estimates that have occurred up to the release of the consolidated financial statements and reflect the impact of these changes in the consolidated financial statements.

Conversely, potential revenue associated with increases in cost estimates is not included in the consolidated financial statements until an agreement is reached with a client or specific criteria for the recognition of revenue from claims and unapproved or unpriced change orders are met. This can, and often does, lead to costs being recognized in one period and revenue being recognized in subsequent periods.

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

For the three and six months ended June 30, 2014, due to the timing of receipt of signed change orders we had approximately \$0.1 million and \$0.1 million, respectively, in claims revenue recognized to the extent of costs incurred.



## NOA

We are working with our customers to come to a resolution on additional amounts, if any, to be paid to us with respect to these additional costs incurred.

As at June 30, 2014, we had \$3.1 million of unresolved claims and change orders recorded on our balance sheet. This compares to \$13.1 million of unresolved claims and change orders recorded on our balance sheet for the year ended December 31, 2013. We are working with our customers in accordance with the terms of our contracts to come to resolution on additional amounts, if any, to be paid to us with respect to these unresolved claims.

## Contingent Proceeds

On July 12, 2013 we sold our Canadian based Piling related assets and liabilities and our US based Cyntech US Inc. legal entity to the Keller Group. As part of the sale we may receive up to \$92.5 million in additional proceeds, contingent on the Purchaser achieving prescribed profitability thresholds from the assets and liabilities sold.<sup>†</sup>

The first part of the contingent proceeds of up to \$57.5 million may be earned over the next two years based upon the Purchaser achieving annual results ranging between \$30.0 million and \$45.0 million in Piling Business EBITDA as follows:

A maximum of \$30.0 million cash paid no later than September 30, 2014, with the full amount being paid in the event that the business earns annualized Piling Business EBITDA (“First Year Piling Business EBITDA”) of \$45.0 million or more in the period from closing to June 30, 2014. The amount payable will be \$2 for every \$1 that First Year Piling Business EBITDA is greater than \$30.0 million (with the maximum payment of \$30.0 million where First Year Piling Business EBITDA is \$45.0 million or greater).

A maximum of \$27.5 million cash paid no later than September 30, 2015, with the full amount being paid in the event that the business earns Piling Business EBITDA (“Second Year Piling Business EBITDA”) of \$45.0 million or more in the period from July 1, 2014 to June 30, 2015. The amount payable will be \$1.833 for every \$1 that Second Year Piling Business EBITDA is greater than \$30.0 million (with the maximum payment of \$27.5 million where Second Year Piling Business EBITDA is \$45.0 million or greater).

The remaining contingent proceeds of up to \$35.0 million, equal to \$0.5 for every \$1 by which cumulative Piling Business EBITDA in the period from closing to June 30, 2016 exceeds \$135.0 million (with the maximum payment of \$35.0 million where Piling Business EBITDA is \$205.0 million or greater), will be calculated and paid as follows:

- a. no later than September 30, 2014, the Purchaser will pay an amount equal to \$0.375 for every \$1 by which First Year Piling Business EBITDA exceeds \$45.0 million;
- b. no later than September 30, 2015, the Purchaser will pay an amount equal to \$0.375 for every \$1 by which the aggregate of First Year Piling Business EBITDA and Second Year Piling Business EBITDA exceeds \$90.0 million, less any monies paid to the vendor under (a) above; and
- c. no later than September 30, 2016, the Purchaser will pay an amount equal to \$0.5 for every \$1 by which the aggregate of First Year Piling Business EBITDA, Second Year Piling Business EBITDA and Piling Business EBITDA for the period from July 1, 2015 to June 30, 2016 exceeds \$135.0 million, less any monies paid to the vendor under (a) and (b) above.

The \$45.0 million annual Piling Business EBITDA target is comparable to our Consolidated EBITDA level for the year ended March 31, 2013 for the Piling business. The cumulative two year \$90.0 million Piling Business EBITDA target and the cumulative three year \$135.0 million Piling Business EBITDA target are multiples of such annual Piling Business EBITDA target. We anticipate that the Purchaser will continue to grow the Piling business, resulting in the payment of some or all of these contingent proceeds.<sup>†</sup>

These contingent proceeds will be recognized as the Piling Business EBITDA targets are achieved. We have retained the right to verify the Piling Business EBITDA reported by the Purchaser during the period for which the contingent proceeds are being calculated.

On Monday August 4, 2014, the Keller Group released their “Interim Results for the six months ended 30 June 2014”. Within this release the Keller Group indicated that Keller Canada’s profits, which we believe are primarily related to the Piling Business, are below those expected at the time of acquisition. Consequently, Keller Group stated that it does not expect to pay any deferred consideration in respect of the acquisition. As yet, the Keller Group has not provided

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to us the Piling Business financial statements for the period ended June 30, 2014 and their assessment of the performance against the Piling Business EBITDA target for contingent proceeds pursuant to the terms of the acquisition agreement. When we do receive these financial statements we will review their performance against the target.

In the event that the Piling business does not achieve their first year target, we still have the potential to realize a portion of the contingent proceeds next year, up to \$27.5 million.<sup>†</sup>

#### D. OUTLOOK

Our clients continue to plan expansions to their existing operations; however, they are being cautious in evaluating their investment strategies and continue to focus on their cost control efforts. Although some competitors' equipment has been sold or removed from the oil sands market and the supply of available equipment has been reduced due to recent awards, an oversupply of service providers' equipment remains in the oil sands market, leading to downward pressures on pricing in this competitive market. The market conditions remain challenging and our overall activity levels may reflect this competitive environment. Additionally, the environment that we operate in experiences a certain amount of seasonality. Lower-margin, labor-intensive light civil construction projects, are typically more prominent in the spring months. Higher-margin, heavy civil construction activities are typically reduced as the weather transitions through spring break-up.<sup>†</sup>

Site development revenue will continue to benefit from activity at the Fort Hills mine, where we are actively bidding additional projects. We continue to expand our mine support activities at the Kearl mine, under our five year master services agreement. We anticipate comparable activity levels supporting production efforts at the Horizon mine. Activity levels at Base Plant, Millennium and Steepbank mines are predicted to be down from past levels. In addition, with the announcement of a development hold being placed on the Joslyn mine, we are completing the final stages of our contract and will begin demobilizing from the site. We anticipate this reduced activity being offset by activity at the Fort Hills and Kearl mines and from non-oil sands activities. Construction services activity levels are more difficult to predict. We continue to pursue heavy and light civil construction contracts in the oil sands and with other major resource companies in Canada.<sup>†</sup>

Our near term outlook remains cautiously optimistic as there is continued bidding activity since the beginning of 2014 on existing mines, the new Fort Hills mine and civil earthworks activity in other non-oil sands mining resource areas, such as liquefied natural gas ("LNG"), hydroelectric, steam assisted gravity drainage ("SAGD") and refinery construction. We have replaced all of our non-recurring revenue from 2013 and we are working to build upon that momentum over the second half of 2014. As always, our goal is to continue to manage our resources and costs with a focus towards providing a safe work environment, maintaining profitability and improving shareholder value.

#### E. LEGAL AND LABOUR MATTERS

##### Laws and Regulations and Environmental Matters

Please see "Laws and Regulations and Environmental Matters—Legal and Labour Matters" in our most recent annual information form ("AIF") for a complete discussion on this topic.

##### Employees and Labour Relations

As at June 30, 2014, we had approximately 275 salaried employees and approximately 1,450 hourly employees in our operations. Our hourly workforce fluctuates according to the seasonality of our business and the staging and timing of projects by our customers. The hourly workforce for our ongoing operations typically ranges in size from 1,000 employees to approximately 1,400 employees depending on the time of year and duration of awarded projects. We also utilize the services of subcontractors in our business. Subcontractors perform an estimated 7% to 10% of the work we undertake. As at June 30, 2014, approximately 1,200 employees are members of various unions and work under collective bargaining agreements.

The majority of our work in our ongoing operations is carried out by employees governed by our mining overburden collective bargaining agreement with the International Union of Operating Engineers ("IUOE") Local 955, the primary term of which expires on March 31, 2015. Other collective agreements in effect include the provincial collective agreement between the Operating Engineers and the Alberta Roadbuilders and Heavy Construction

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

## NOA

Association ("ARBHCA"), which expires February 28, 2015 and the collective agreement specific to work performed in our Acheson maintenance shop between the Operating Engineers and North American Maintenance Ltd., which expires August 31, 2014. Negotiations to renew the latter agreement have commenced and the mood at the bargaining table is amicable and cooperative.

We believe that our relationships with all our employees, both union and non-union, are strong. We have not experienced a strike or lockout.

## F. RESOURCES AND SYSTEMS

## LIQUIDITY AND CAPITAL RESOURCES

## Liquidity

## Liquidity requirements

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

## Sources of liquidity

Our principal sources of cash are funds from operations and borrowings under our Credit Facility. At June 30, 2014, our cash balance of \$9.7 million was \$4.0 million lower than our cash balance at December 31, 2013.

We anticipate that we will likely have enough cash from operations to fund our annual expenses and capital additions.

In the event that we require additional funding, we believe that any such funding requirements would be satisfied by the funds available from our credit facility.<sup>†</sup>

## Summary of Consolidated Financial Position

(dollars in thousands)	June 30, 2014	December 31, 2013	Change
Cash	\$9,744	\$13,742	\$(3,998)
Current assets (excluding cash)	117,928	114,082	3,846
Current liabilities	(112,528)	(93,482)	(19,046)
Net working capital	\$15,144	\$34,342	\$(19,198)
Intangible assets	—	7,043	(7,043)
Plant and equipment	295,832	277,975	17,857
Total assets	471,076	445,641	25,435
Capital lease obligations (including current portion)	(63,318)	(43,295)	(20,023)
Total long term financial liabilities <sup>‡</sup>	(116,437)	(109,635)	(6,802)

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

## Working capital fluctuations effect on liquidity

At June 30, 2014, we had \$13.0 million in trade receivables that were more than 30 days past due compared to \$5.1 million as at December 31, 2013. At June 30, 2014, the allowance for doubtful accounts related to our trade receivables was \$0.1 million (\$nil at December 31, 2013). We continue to monitor the credit worthiness of our customers.

Contract change management processes often lead to a timing difference between project disbursements and our ability to invoice our customers for executed change orders. Until the time of invoice, revenue for unexecuted change orders is recorded only to the extent of costs incurred within unbilled revenue. As at June 30, 2014, we had \$3.1 million of unresolved claims and change orders recorded on our balance sheet (\$13.1 million as at December 31, 2013). For a more detailed discussion on claims revenue refer to "Claims and Change Orders".

The variability of our business through the year due to the timing of construction project awards or the execution of work that can only be performed during winter months can result in an increase in our working capital requirements

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



from high accounts receivable and unbilled revenue balances at the start of such projects.

Our working capital is also significantly affected by the timing of the completion of projects and the contractual terms of the project. In some cases, our customers are permitted to withhold payment of a percentage of the amount owing to us for a stipulated period of time (such percentage and time period is usually defined by the contract and in some cases provincial legislation). This amount acts as a form of security for our customers and is referred to as a "holdback". Typically, we are only entitled to collect payment on holdbacks if substantial completion of the contract has been performed, there are no outstanding claims by subcontractors or others related to work performed by us and we have met the period specified by the contract (usually 45 days after completion of the work). However, in some cases, we are able to negotiate the progressive release of holdbacks as the job reaches various stages of completion. As at June 30, 2014, holdbacks totaled \$5.1 million, down from \$9.1 million as at December 31, 2013. Holdbacks represented 11.7% of our total accounts receivable as at June 30, 2014 (12.9% as at December 31, 2013). The current year decrease in holdbacks represents a decrease in construction services projects and the timing of substantial completion.

#### Plant, Equipment and Intangible Asset Purchases

We maintain a significant equipment and light vehicle fleet comprised of units with remaining useful lives covering a variety of time spans. It is important for us to have an effective maintenance program to support our large revenue producing fleet to avoid equipment downtime, which can affect our revenue stream and inhibit our project profits. As part of our maintenance program for our larger sized equipment, it is often cost effective to replace major components of the equipment, such as engines, drive trains and under carriages to extend the useful life of the equipment. The cost of these major equipment overhauls are recorded as capital expenditures and depreciated over the life of the replacement component. We refer to this type of equipment as "multi-life component" equipment. Once it is no longer cost effective to replace a major component to extend the useful life of a multi-life component piece of equipment, the equipment is disposed of and replacement capital is analyzed based on historical utilization and anticipated future demand.

For the balance of our heavy and light equipment fleet, it is not cost effective to replace individual components, thus once these units reach the end of their useful lives, they are disposed of and replacement capital is likewise assessed based on historical utilization and anticipated future demand. We refer to this type of equipment as "single-life component" equipment.

In addition, we may acquire new equipment to replace disposed assets and/or support our growth as we take on new projects. This includes the addition of revenue producing fleet and site infrastructure assets to support the maintenance activities of the fleet.

We typically require between \$15.0 million to \$25.0 million, annually, for capitalized maintenance that extends the useful life of our existing equipment fleet and an additional \$10.0 million to \$20.0 million (net of proceeds from disposals) to replace equipment that has reached the end of its useful life. We have increased our equipment replacement program in the current year to an estimated \$20.0 million to \$30.0 million to replace some of our aging single-life heavy equipment fleet which we anticipate will reduce our need for rental equipment and improve our maintenance costs. A portion of the current year increased spend is a carry-forward from the previous year's unspent equipment replacement budget. This fleet replacement was primarily focused on our smaller, civil construction equipment and reflects the current and anticipated continued high demand and utilization of these fleets. This increase in fleet replacement activity is expected to be primarily financed through capital leases.

We believe that our current fleet size and mix is in alignment with the current and near-term growth expectations of equipment demands from our clients. We continue to assess and adjust the size and mix of our fleet to reflect our current and anticipated future demand with a focus on continued increases of utilization and reduction of maintenance costs, which in turn produces the highest return on these capital assets. Our estimate of our capital needs (net of proceeds from disposal) for this year is approximately \$35.0 million to \$55.0 million, primarily related to capital maintenance and equipment replacement capital requirements. We believe our cash flow from operations, net proceeds from the sale of under-utilized equipment and our leasing capacity will be sufficient to meet these requirements.<sup>†</sup>

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

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A summary of cash changes to plant, equipment and intangible assets by nature and by period is shown in the table below:

(dollars in thousands)	Three months ended			Six months ended		
	June 30, 2014	2013	Change	June 30, 2014	2013	Change
New plant and equipment - capital expenditures						
Sustaining	\$6,325	\$3,490	\$2,835	\$11,188	\$9,712	\$1,476
Growth	68	360	(292 )	573	2,044	(1,471 )
Subtotal	\$6,393	\$3,850	\$2,543	\$11,761	\$11,756	\$5
New intangible assets - capital expenditures						
Sustaining	\$30	\$37	\$(7 )	\$80	\$1,139	\$(1,059 )
Growth	209	55	154	411	980	(569 )
Subtotal	\$239	\$92	\$147	\$491	\$2,119	\$(1,628 )
Total new additions to capital assets	\$6,632	\$3,942	\$2,690	\$12,252	\$13,875	\$(1,623 )
Items affecting cash additions to capital assets:						
Equipment buyouts	\$42	\$—	\$42	\$532	\$—	\$532
Change in non-cash working capital	8,251	4,338	3,913	5,056	2,678	2,378
Cash outflow on additions to plant, equipment and intangible assets	\$14,925	\$8,280	\$6,645	\$17,840	\$16,553	\$1,287
Capital asset disposal						
Proceeds on disposal of plant and equipment	\$636	\$774	\$(138 )	\$653	\$1,317	\$(664 )
Proceeds on disposal of assets held for sale	864	1,873	(1,009 )	864	1,960	(1,096 )
Cash inflow for proceeds on disposal of capital assets	\$1,500	\$2,647	\$(1,147 )	\$1,517	\$3,277	\$(1,760 )
Net decrease in cash related to capital assets	\$13,425	\$5,633	\$7,792	\$16,323	\$13,276	\$3,047

Equipment lease buyout activity in the current periods only includes the buyout of equipment leases that we have capitalized in plant and equipment. We consider the lease buyout activity to be a change in financing, not an addition to our equipment fleet, as we would have previously reported the addition to our equipment fleet under non-cash additions.

Proceeds on the disposal of plant and equipment for the periods presented only includes proceeds specific to the assets we owned.

In order to maintain a balance of owned and leased equipment, we have financed a portion of our heavy construction fleet through capital and operating leases and we continue to lease our motor vehicle fleet through our capital lease facilities. In addition, we develop or acquire our intangible assets through capital expenditures.

Our equipment fleet value is currently split among owned, including assets under capital leases (81%), assets under operating leases (18%) and rented equipment (1%). Approximately 85% of our operating leased fleet value is specific to the Canadian Natural contract. Our equipment ownership strategy allows us to meet our customers' variable service requirements while balancing the need to maximize equipment utilization with the need to achieve the lowest ownership costs.

#### Credit Facility

Our Credit Facility, signed on October 9, 2013 with a term that expires on September 30, 2016, is secured through a combination of working capital and equipment. The Credit Facility allows borrowing of up to \$85.0 million, contingent upon the value of the borrowing base, broken into two tranches:

• Tranche A, that will support up to \$60.0 million in both borrowing under a revolving facility and letters of credit

• Tranche B, that will allow up to \$25.0 million in letters of credit

As discussed in "Significant Business Events - Approval to Proceed with Amendments to the Fifth Amended and Restated Credit Agreement", on August 6, 2014, we received approval to proceed with changes to our Credit Facility. The information that follows does not reflect any changes from the forthcoming amendment.

Our interest cost on the Credit Facility is based on a pricing margin schedule that is affected by our credit rating with Standard & Poor's. Based on our current credit rating, our interest cost on the Credit Facility includes:

Canadian prime interest rate plus 3.0% interest charge on outstanding revolver facility borrowing

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2.8% interest charge on outstanding letters of credit used as guarantees, drawn against either Tranche A or Tranche B  
4.0% interest charge on any unused portion of the \$85.0 million Credit Facility

The Credit Facility borrowing base is determined by the value of receivables and equipment with financial covenants of:

▲ Senior Leverage Ratio, which is to be maintained at less than 2.00 to 1.00

The Senior Leverage Ratio is a ratio of Senior Debt (not including the 9.125% Series 1 Unsecured Debentures) to a trailing 12-months Consolidated EBITDA

▲ Fixed Charge Cover Ratio, which must be maintained at greater than 1.20 to 1.00

The Fixed Charge Cover Ratio is the ratio of Consolidated EBITDA (less current income taxes actually paid) to Consolidated Fixed Charges.

The Consolidated Fixed Charges is defined as cash interest (not including interest on the \$150.0 million of debentures repurchased and redeemed or any interest on our previously outstanding Term Facilities), scheduled repayment of debt (not including the principal component of our previously outstanding Term Facilities), net capital expenditures (except to the extent financed by available cash, capital leases, loans under our credit facility of up to \$15.0 million per year, or new share issuances) and any dividend payments or stock repurchases (except to the extent financed by available cash or a new share issuance).

Borrowing activity under the Credit Facility

The June 30, 2014 borrowing base allowed for a maximum draw of \$53.8 million between the two tranches of our Credit Facility. At June 30, 2014, our unused borrowing availability on the revolving facility under Tranche A was \$48.3 million (December 31, 2013 - \$60.0 million).

Cash drawn under Tranche A

During the three and six months ended June 30, 2014 we rarely used our revolving facility to finance our working capital requirements. At both June 30, 2014 and December 31, 2013 we had no borrowings outstanding on our revolving facility under Tranche A. With the minimal need for our revolving facility in the current periods, the average amount of our borrowing on the revolving facility was \$nil for both the three and six months ended June 30, 2014 (\$39.2 million and \$41.3 million, respectively for the three and six months ended June 30, 2013, at an average rate of 7.8% and 7.9%, respectively). The weighted average amount of our borrowing on the revolving facility is calculated based on the weighted average of the outstanding balances in the period. The maximum end of month balance for any single month during both the three and six months ended June 30, 2014 was \$nil.

Letters of credit drawn under Tranche A

During the three and six months ended June 30, 2014 we had no letter of credit borrowing activity under Tranche A and at both June 30, 2014 and December 31, 2013, we had no letters of credit issued under Tranche A.

Letters of credit drawn under Tranche B

There were \$5.5 million of issued and undrawn letters of credit under the \$25.0 million Tranche B (December 31, 2013 - \$3.1 million) to support performance guarantees associated with customer contracts. One of our major long-term contracts allows the customer to require that we provide up to \$15.0 million in letters of credit. As at June 30, 2014, we had no letters of credit outstanding in connection with this contract. This customer must provide a 60 day prior written notice to request any change in their letter of credit requirements.

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## Contractual obligations and other commitments

Our principal contractual obligations relate to our long-term debt, capital and operating leases and supplier contracts. The following table summarizes our future contractual obligations, excluding interest payments, unless otherwise noted, as at June 30, 2014.

(dollars in thousands)	Payments due by year ending December 31,					
	Total	2014	2015	2016	2017	2018 and after
Series 1 Debentures	\$65,000	\$—	\$—	\$—	\$65,000	\$ —
Revolving facility	—	—	—	—	—	—
Capital leases (including interest)	69,465	11,625	22,499	18,050	8,563	8,728
Equipment and building operating leases	40,664	12,403	7,328	3,984	3,849	13,100
Supplier contracts	—	—	—	—	—	—
Total contractual obligations	\$ 175,129	\$ 24,028	\$ 29,827	\$ 22,034	\$ 77,412	\$ 21,828

Our total contractual obligations of \$175.1 million, as at June 30, 2014, have decreased from \$184.3 million as at December 31, 2013.

For a full discussion on the revolving facility see "Liquidity - Credit Facilities", above and for a discussion on Series 1 Debentures see "Securities and Agreements", below.

## Off-balance sheet arrangements

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

## Securities and Agreements

## Capital Structure

We are authorized to issue an unlimited number of voting common shares and an unlimited number of non-voting common shares.

On December 19, 2013 we completed the purchase and subsequent cancellation of 1.8 million voting common shares, in the normal course, in the United States primarily through the facilities of the New York Stock Exchange, using monetized claims from our recent business divestments (the "Purchase Program"). The common voting shares purchased under the Purchase Program represented approximately 5% of our issued and outstanding voting common shares, leaving a balance of 34,715,236 shares outstanding as of December 19, 2013.

All purchases of shares in the United States were made in compliance with Rule 10b-18, under the US Securities Exchange Act of 1934, whereby the safe harbor conditions limited the number of shares that could be purchased per day to a maximum of 25% of the average daily trading volume for the four calendar weeks preceding the date of purchase, with certain exceptions permitted for block trading. The price per share, for all but the block trades, was based on the market price of such shares at the time of purchase, in accordance with regulatory requirements.

With the initiation of our equity classified RSU and equity classified DSU awards, we entered into a trust fund agreement whereby the trustee will purchase and hold treasury shares until such time that units issued under the equity classified RSU plan are to be settled. For a more detailed discussion, please see "Significant Business Events - Modification to our Stock Based Compensation Plan" in this MD&A.

As at August 1, 2014, there were 35,394,016 voting Common Shares outstanding and there were 221,422 treasury shares held by the trust fund (35,305,236 common shares and 193,540 treasury shares at June 30, 2014). We had no non-voting common shares outstanding on any of the foregoing dates.

For a more detailed discussion of our share data, see "Description of Securities and Agreements - Capital Structure" in our annual AIF for the year ended December 31, 2013.

## 9.125% Series 1 Debentures

As discussed in "Significant Business Events - Partial Redemption of 9.125% Series 1 Senior Unsecured Debentures Due 2017", we redeemed \$10.0 million of our Series 1 Debentures on April 8, 2014, on a pro rata basis for 103.042% of the principal amount, plus accrued and unpaid interest.

For a full discussion on our Series 1 Debentures please see "Description of Securities and Agreements - 9.125% Series 1 Debentures" in our annual AIF for the year ended December 31, 2013.



## DEBT RATINGS

On May 2, 2014, S&P upgraded the ratings on our long-term corporate credit rating and our senior unsecured debt to "B" from the previous ratings of "B-".

Our credit ratings are as follows:

Category	Standard & Poor's
Corporate Rating	B('stable' outlook)
Series 1 Debentures	B(recovery rating of "4")

An upgrade in our credit ratings, particularly the rating issued by S&P, has reduced the interest rate payable on borrowings under our credit agreement (see "Credit Facility", above). Counterparties to certain agreements may require additional security or other changes in business terms if our credit ratings are downgraded. Furthermore, these ratings are required for us to access the public debt markets, and they affect the pricing of such debt. Any downgrade in our credit ratings from current levels could adversely affect our long-term financing costs, which in turn could adversely affect our ability to pursue business opportunities.

A credit rating is a current opinion of the credit worthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the credit worthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion evaluates the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default. A credit rating is not a statement of fact or recommendation to purchase, sell, or hold a financial obligation or make any investment decisions nor is it a comment regarding an issuer's market price or suitability for a particular investor. A credit rating speaks only as of the date it is issued and can be revised upward or downward or withdrawn at any time by the issuing rating agency if it decides circumstances warrant a revision. Definitions of the categories of each rating and the factors considered during the evaluation of each rating have been obtained from S&P's website.<sup>3</sup>

### Standard and Poor's

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

A recovery rating of "4" for the Series 1 Debentures indicates an expectation for an average of 30% to 50% recovery in the event of a payment default.

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

### Internal Systems and Processes

#### Evaluation of disclosure controls and procedures

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

<sup>3</sup> This debt rating information is current as of this report and we undertake no obligation to provide investors with updated information.

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An evaluation was carried out under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934, as amended, and in National Instrument 52-109 under the Canadian Securities Administrators Rules and Policies. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2014 such disclosure controls and procedures were effective.

**Management's Report on Internal Control over Financial Reporting**

There have been no changes to our internal controls over financial reporting ("ICFR") for the three and six months ended June 30, 2014 that have materially affected, or are reasonably likely to affect, our ICFR.

**Accounting Pronouncements**

**Recently adopted**

**Income taxes**

We adopted this Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Carry Forward Exists effective commencing January 1, 2014. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**Not Yet Adopted**

**Presentation of financial statements and property, plant and equipment**

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disposals of Components of an Entity. This ASU will be effective for disposals recorded on or after January 1, 2015. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

**Revenue from Contracts with Customers**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU will be effective commencing January 1, 2017. The Company is currently assessing the effect the adoption of this standard will have on its consolidated financial statements.

**Compensation - Stock Compensation**

In May 2014, the FASB issued ASU No. 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU will be effective commencing January 1, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

For a complete discussion of accounting pronouncements recently adopted and accounting pronouncements not yet adopted, see the "Accounting pronouncements recently adopted" and "Recent accounting pronouncements not yet adopted" sections of our Consolidated Financial Statements for the three and six months ended June 30, 2014 and notes that follow, which sections are expressly incorporated by reference into this MD&A.

**Critical Accounting Estimates**

The preparation of our consolidated financial statements in conformity with US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. For a full discussion of our critical accounting estimates, see "Critical Accounting Estimates" in our annual MD&A for the year ended December 31, 2013.

**G. FORWARD-LOOKING INFORMATION, ASSUMPTIONS AND RISK FACTORS**

This document contains forward-looking information that is based on expectations and estimates as of the date of this document. Our forward-looking information is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events



expressed or implied by such forward-looking information. Forward-looking information is information that does not relate strictly to historical or current facts and can be identified by the use of the future tense or other forward-looking words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate”, “should”, “may”, “could”, “would”, “target”, “ob”, “projection”, “forecast”, “continue”, “strategy”, “position” or the negative of those terms or other variations of them or comparable terminology.

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

- The expectation that the redemption of \$10.0 million of our Series 1 Debentures will reduce annual interest cost for the Series 1 Debentures by approximately \$0.9 million to \$5.9 million.

• The expectation of amendments to our Fifth Amended Restated Credit Agreement and the flexibility it is expected to provide.

• The expectation that approximately \$240.0 million of total backlog will be performed and realized in the 12 months ending June 30, 2015.

• The expectation that we may receive up to \$92.5 million in additional proceeds over the next three years in connection with the Piling sale, contingent on the Purchaser achieving prescribed profitability thresholds from the assets and liabilities sold; and in the event that the Piling business does not achieve the first year target, the potential to realize a portion of the contingent proceeds next year, up to \$27.5 million.

• The anticipation that the purchaser will continue to grow the piling business, resulting in the payment of some or all of the contingent proceeds.

• The expectation that our overall activity levels may be affected by the market conditions in the oil sands.

• The expectation that mine support services revenue will continue to benefit from the expansion of activity at the Fort Hills and Kearl mine and that comparable activity levels supporting production efforts will occur at the Horizon mine. The expectation that activity levels at the Fort Hills and Kearl mines along with activity from non-oil sands locations will offset lower activity levels at the Base Plant, Millennium and Steepbank mines and the completion of our contract at the Joslyn mine.

Our estimated capital needs and our belief that we will have enough cash from operations to fund our annual expenses and capital additions and our belief that in the event that we require additional funding, we believe that such funding requirements can be satisfied by the funds available from our revolving facility and our equipment leasing capacity. While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect us. See “Assumptions” below, “Assumptions” and “Business Risk Factors” in our annual MD&A for the year ended December 31, 2013 and risk factors highlighted in materials filed with the securities regulatory authorities filed in the United States and Canada from time to time, including, but not limited to, our most recent Annual Information Form.

#### Assumptions

The material factors or assumptions used to develop the above forward-looking statements include, but are not limited to:



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- that interest rates remain relatively stable and our needs for equipment stay relatively the same;
- the growth of the Piling business by the Purchaser after the Piling sale occurring as anticipated;
- our ability to respond to changing market conditions and activity levels, while maintaining profitability levels;
- our ability to benefit from increased construction services and site development revenue and to maintain operations support services revenue tied to the operational activities of the oil sands;
- our success in managing our business, maintaining and growing our relationships with customers, retaining new customers, integrating our acquisitions, competing in the bidding process to secure new projects, executing our growth strategy and identifying and implementing improvements in our maintenance and fleet management practices; and
- our ability to meet our capital needs for equipment purchases through cash flow from operations or our equipment lease capacity.

#### Quantitative and Qualitative Disclosures about Market Risk

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

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

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

#### Foreign exchange risk

Foreign exchange risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in foreign exchange rates. We regularly transact in foreign currencies when purchasing equipment and spare parts as well as certain general and administrative goods and services. These exposures are generally of a short-term nature and the impact of changes in exchange rates has not been significant in the past. We may fix our exposure in either the Canadian dollar or the US dollar for these short-term transactions, if material.

At June 30, 2014, with other variables unchanged, the impact of a \$0.01 increase (decrease) in exchange rates of the Canadian dollar to the US dollar on short-term exposures would not have a significant impact to other comprehensive income.

#### Interest rate risk

We are exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of our financial instruments. Amounts outstanding under our amended credit facilities are subject to a floating rate. Our Series 1 Debentures are subject to a fixed rate. Our interest rate risk arises from long-term borrowings issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk.

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

At June 30, 2014, we had \$nil outstanding floating rate debt pertaining to our credit facilities within our credit agreement (December 31, 2013 – \$nil).



## H. GENERAL MATTERS

### Additional Information

Our corporate office is located at Suite 300, 18817 Stony Plain Road, Edmonton, Alberta T5S 0C2. Our corporate head office telephone and facsimile numbers are 780-960-7171 and 780-969-5599, respectively.

Additional information relating to us, including our AIF dated December 31, 2013, can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval ("SEDAR") database at [www.sedar.com](http://www.sedar.com), the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov) and on our company website at [www.nacg.ca](http://www.nacg.ca).

FORM 52-109F2

CERTIFICATION OF INTERIM FILINGS

I, Martin Ferron, the President and Chief Executive Officer of North American Energy Partners Inc., certify the following:

1. Review: I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of North American Energy Partners Inc. (the "issuer") for the interim period ended June 30, 2014.
2. No misrepresentations: Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. Fair presentation: Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. Responsibility: The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. Design: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings
  - A. designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - I. material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
    - II. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - B. designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.
- 5.1 Control framework: The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework ("COSO").
- 5.2 ICFR – material weakness relating to design: N/A
- 5.3 Limitation on scope and design: N/A
6. Reporting changes in ICFR: The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on April 1, 2014 and ended on June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: August 6, 2014

/s/ Martin Ferron

President and Chief Executive Officer

FORM 52-109F2

CERTIFICATION OF INTERIM FILINGS

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

1. Review: I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of North American Energy Partners Inc. (the "issuer") for the interim period ended June 30, 2014.

2. No misrepresentations: Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. Fair presentation: Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. Responsibility: The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.

5. Design: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings

A. designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

I. material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

II. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

B. designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 Control framework: The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework ("COSO").

5.2 ICFR – material weakness relating to design: N/A

5.3 Limitation on scope and design: N/A

6. Reporting changes in ICFR: The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on April 1, 2014 and ended on June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: August 6, 2014

/s/ David Blackley  
Chief Financial Officer