North American Energy Partners Inc.
Form 6-K
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934
For the month of June 2017
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 o Form 40-F ý
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): o
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): o

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, 2017.
2. Management's Discussion and Analysis for the three and six months ended June 30, 2017.

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/ Rob Butler
Name: Rob Butler
Title: Vice President, Finance
Date: August 2, 2017

NORTH AMERICAN ENERGY PARTNERS INC.
Interim Consolidated Financial Statements
For the three and six months ended June 30, 2017
(Expressed in thousands of Canadian Dollars)
(Unaudited)

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

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash	$34,585	$ 13,666
Accounts receivable	22,986	40,080
Unbilled revenue	18,082	15,965
Inventories	2,892	3,437
Prepaid expenses and deposits	2,344	1,551
Assets held for sale	310	247
	81,199	74,946
Plant and equipment (net of accumulated depreciation of $208,775, December 31, 2016 – $204,860)	273,411	256,452
Other assets	4,472	4,876
Deferred tax assets	11,703	13,807
Total assets	$370,785	$ 350,081
Liabilities and shareholders’ equity		
Current liabilities		
Accounts payable	$32,601	$ 29,551
Accrued liabilities	7,830	11,175
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	771	1,071
Current portion of capital lease obligation	30,126	24,062
Current portion of long-term debt (note 5(a))	4,198	8,169
	75,526	74,028
Long-term debt (note 5(a))	56,057	31,266
Capital lease obligation	38,813	37,338
Other long-term obligations	9,310	8,274
Deferred tax liabilities	39,441	40,221
	219,147	191,127
Shareholders' equity		
Common shares (authorized – unlimited number of voting common shares; issued and outstanding – June 30, 2017 – 29,551,292 (December 31, 2016 – 30,518,907)) (note 8(a))	243,783	252,633
Treasury shares (June 30, 2017 - 2,695,626 (December 31, 2016 - 2,213,247)) (note 8(a))	(12,596)	(9,294)
Additional paid-in capital	48,453	45,915
Deficit	(128,002)	(130,300)
	151,638	158,954
Total liabilities and shareholders’ equity	$370,785	$ 350,081

Subsequent events (note 5(b))

See accompanying notes to interim consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue	$47,624	$24,244	$140,466	$102,757
Project costs	21,990	8,136	51,197	33,086
Equipment costs	18,720	8,444	44,775	29,309
Depreciation	8,073	5,528	22,631	19,787
Gross (loss) profit	(1,159)	2,136	21,863	20,575
General and administrative expenses	5,335	6,665	13,410	13,986
Loss on disposal of plant and equipment	5	43	219	156
Gain on disposal of assets held for sale	(115)	(40)	(183)	(163)
Amortization of intangible assets	206	734	558	1,149
Operating (loss) income before the undernoted	(6,590)	(5,266)	7,859	5,447
Interest expense, net (note 7)	1,758	1,581	3,124	3,237
Foreign exchange loss (gain)	15	(38)	12	—
(Loss) income before income taxes	(8,363)	(6,809)	4,723	2,210
Income tax (benefit) expense				
Deferred	(2,163)	(1,883)	1,324	722
Net (loss) income and comprehensive (loss) income	(6,200)	(4,926)	3,399	1,488
Per share information				
Net (loss) income - basic (note 8(b))	$(0.23)	$(0.16)	$0.12	$0.05
Net (loss) income - diluted (note 8(b))	$(0.23)	$(0.16)	$0.11	$0.05

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	Total
Balance at December 31, 2015	$275,520	$(5,960)	$29,527	$(127,469)	$171,618
Net income	—	—	—	1,488	1,488
Exercised options	41	—	(16)	—	25
Stock-based compensation	—	62	1,128	—	1,190
Dividends ($0.04 per share)	—	—	—	(1,231)	(1,231)
Share purchase program	(14,121)	—	9,021	—	(5,100)
Purchase of treasury shares for settlement of certain equity classified stock-based compensation	—	(1,993)	—	—	(1,993)
Balance at June 30, 2016	$261,440	$(7,891)	$39,660	$(127,212)	$165,997
Balance at December 31, 2016	$252,633	$(9,294)	$45,915	$(130,300)	$158,954
Net income	—	—	—	3,399	3,399
Exercised options	910	—	(364)	—	546
Stock-based compensation	—	299	613	—	912
Dividends (note 8(d)) ($0.04 per share)	—	—	—	(1,101)	(1,101)
Share Purchase Program (note 8(c))	(9,760)	—	2,289	—	(7,471)
Purchase of treasury shares for settlement of certain equity classified stock-based compensation (note 8(a))	—	(3,601)	—	—	(3,601)
Balance at June 30, 2017	$243,783	$(12,596)	$48,453	$(128,002)	$151,638

See accompanying notes to interim consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net (loss) income	$(6,200)	$(4,926)	$3,399	$1,488
Adjustments to reconcile to net cash from operating activities:				
Depreciation	8,073	5,528	22,631	19,787
Amortization of intangible assets	206	734	558	1,149
Amortization of deferred financing costs (note 7)	131	244	213	356
Loss on disposal of plant and equipment	5	43	219	156
Gain on disposal of assets held for sale	(115)	(40)	(183)	(163)
Stock-based compensation expense	391	1,760	2,449	2,757
Cash settlement of stock-based compensation	—	(1,021)	—	(1,021)
Other adjustments to cash from operating activities	50	24	76	49
Deferred income tax (benefit) expense	(2,163)	(1,883)	1,324	722
Net changes in non-cash working capital (note 9(b))	19,325	7,518	14,104	2,727
	19,703	7,981	44,790	28,007
Investing activities:				
Purchase of plant and equipment	(7,010)	(1,399)	(26,473)	(5,323)
Additions to intangible assets	(25)	(54)	(25)	(162)
Issuance of loan to partnership	(256)	—	(256)	—
Investment in partnership (note 4)	(1,177)	—	(1,177)	—
Proceeds on disposal of plant and equipment	58	4,516	9,523	4,550
Proceeds on disposal of assets held for sale	1,125	93	1,335	486
	(7,285)	3,156	(17,073)	(449)
Financing activities:				
Repayment of Credit Facility	(5,670)	(2,749)	(17,741)	(3,820)
Increase in Credit Facility	—	7,000	—	7,000
Issuance of Convertible Debentures	—	—	40,000	—
Financing costs	8	(33)	(2,213)	(25)
Redemption of Series 1 Debentures	—	(9,927)	—	(9,927)
Proceeds from options exercised	251	25	546	25
Dividend payments	(559)	(634)	(1,128)	(634)
Share purchase program (note 8(c))	(7,471)	(2,929)	(7,471)	(5,100)
Purchase of treasury shares for settlement of certain equity classified stock-based compensation (note 8(a))	(530)	(1,336)	(4,074)	(1,993)
Repayment of capital lease obligations	(7,884)	(5,853)	(14,717)	(12,709)
	(21,855)	(16,436)	(6,798)	(27,183)
(Decrease) increase in cash	(9,437)	(5,299)	20,919	375
Cash, beginning of period	44,022	38,025	13,666	32,351
Cash, end of period	$34,585	$32,726	$34,585	$32,726

Supplemental cash flow information (note 9(a))
See accompanying notes to interim consolidated financial statements.

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Notes to Interim Consolidated Financial Statements
For the three and six months ended June 30, 2017
(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 United States generally accepted accounting principles ("US GAAP") for interim financial statements and do not include all of the disclosures normally contained in the Company’s annual consolidated financial statements and as such these interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016.

The Company's full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters due to seasonality. The Company's mining revenues are typically highest in the first quarter of each year as ground conditions are most favorable for this type of work in the Company's operating regions while the Company's civil construction revenues are typically highest during the third and fourth quarter, as weather conditions are most favorable for this type of work during these seasons. The Company's mining activity declines near the end of the first quarter and through a large portion of the second quarter, as weather conditions make operations in the Company’s operating regions difficult. The duration of this period is referred to as “spring breakup”, as frost leaves the ground and many secondary roads are temporarily rendered incapable of supporting the weight of heavy equipment. In addition to revenue variability, gross profit margins can be negatively affected in less active periods because the Company is likely to incur higher maintenance and repair costs due to its equipment being available for servicing.

For the second quarter of the prior year, beyond the typical revenue decline from spring break-up, on May 3, 2016, the Company was forced to temporarily shutdown its operations in the oil sands due to a large wildfire that was threatening the region and triggered an evacuation of the town of Fort McMurray. The wildfire and related evacuation caused most oil sands producers to curtail operations or initiate a shutdown of their site and processing operations due to the approaching fire, poor air quality in the region and a focus on ensuring the safety of their workers and their displaced families. The Company's return to full summer operating activity was limited by its customers' operational restart progress which extended beyond the second quarter into the third quarter of fiscal 2016.

3) Recent accounting pronouncements

a) Accounting pronouncements recently adopted

i) Inventory

In July 2015, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This accounting standard simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. This standard was adopted January 1, 2017 and the adoption did not have a material effect on the Company's consolidated financial statements.

ii) Accounting Changes and Error Corrections
In January 2017, the FASB issued ASU 2017-03, Accounting Changes and Error corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323) to enhance disclosures of new accounting standards, including a comparison to current accounting policies, and the progress status of implementation. This ASU applies to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2016-02, Leases (Topic 842); and ASU 2016-03, Financial Instruments - Credit Losses (Topic 326). This standard was effective upon issuance and has been adopted by the Company. The adoption did not have a material effect on the Company's consolidated financial statements.

b) Issued accounting pronouncements not yet adopted

i) Revenue from Contracts with Customers
In May 2014, the FASB issued ASC Topic 606, Revenue from Contracts with Customers, and subsequently issued several related ASUs which provide guidance that requires an entity to recognize revenue in accordance with a five-step model. Topic 606 will replace nearly all existing US GAAP revenue guidance, including industry-specific requirements, with a single comprehensive standard and significantly expands the disclosure requirements for revenue arrangements. The model is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the total consideration to which the entity expects to be entitled, during the term of the contract, in exchange for those goods or services. The new standard, as amended, will be effective for the Company for interim and annual reporting periods commencing January 1, 2018.

The standard allows the use of either a full retrospective transition method, in which case the standard would be applied to each prior reporting period presented, or a modified cumulative effect retrospective transition method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application with disclosure of results under the new and old standards for the first year of adoption. The Company is evaluating both methods of adoption as it works through its analysis.

The Company continues to evaluate the impact of adopting the standard on its financial reporting and disclosures through its change management plan which guides the adoption of the standard. The Company has identified existing customer contracts that are within the scope of the new guidance and will begin to analyze individual contracts or groups of contracts to identify any significant differences and the impact on revenues as a result of adopting the new standard. Through this process, the Company will also quantify the impact, if any, on prior period revenues as well as assess the Company’s policies, practices, procedures, controls, and systems for changes necessary to process and compile the information to meet the requirements of the new standard.

ii) Financial Instruments
In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) enhancing the reporting model for financial instruments. Under the new standard, equity investments, excluding those accounted for under the equity method or resulting in consolidation of the investee are to be measured at fair value with the changes in fair value recognized in net income. The ASU requires a qualitative assessment to identify impairments of equity investments without a readily determinable fair value. The new standard also amends disclosure requirements and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. The amendments also clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU will be effective commencing January 1, 2018, with early adoption permitted. The Company is assessing the impact the adoption of this standard will have on its consolidated financial statements.

iii) Leases
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) to supersede the current leases accounting standard (Topic 840). The main difference between the new standard and the current standard is the requirement that lessees recognize a lease liability and a right-of-use asset for leases currently classified as operating leases. Lessor accounting remains largely unchanged. Additionally, the standard requires that for a sale to occur in a sale-leaseback transaction, the transfer of assets must meet the requirements for a sale under Topic 606.

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The standard requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The Company continues to evaluate the impact of adopting the standard on its financial statements and disclosure through its change management plan which guides the adoption of the standard. The Company has compiled an inventory of all leases and will analyze individual contracts or groups of contracts to identify any significant differences and the impact on lease transactions as a result of adopting the new standard. Through this process, the Company will also quantify the impact, on prior period transactions as well as assess the Company’s policies, practices, procedures, controls, and systems for changes necessary to process and compile the information to meet the requirements of the new standard. The new standard will be effective for the Company for interim and annual reporting periods commencing January 1, 2019, with early adoption permitted. The Company is assessing the benefits of early adoption and is considering adopting the new standard on January 1, 2018, concurrent with the adoption of Topic 606. Concurrent adoption would minimize the extent of system and process changes and provide financial statement users with more comparable year-over-year information.

iv) Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230: Classification of Certain Cash Receipts and Cash Payments). This accounting standard eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayments or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. This ASU will be effective commencing January 1, 2018, with early adoption permitted. The Company is assessing the impact the adoption of this standard will have on its consolidated financial statements.

v) Stock-Based Compensation

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718: Scope of Modification Accounting). This accounting standard update clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This ASU will be effective commencing January 1, 2018, with early adoption permitted. The Company is assessing the impact the adoption of this standard will have on its consolidated financial statements.

4) Investment in partnership

On April 1, 2017, the Company entered into a partnership agreement under the name "Dene North Site Services" with Dene Sky Site Services Ltd. ("DSSS"). The partnership was formed for the purpose of establishing a strategic relation with a local operator in Northern Alberta in order to expand the Company's market opportunities in the region. The Company holds a 49% undivided ownership interest in the assets, liabilities and related revenue and expenses managed through the partnership agreement. The partnership agreement specifies that the economic activity and decision-making are jointly controlled and each partner is entitled to its share of the assets, liabilities, revenue and expenses.

The Company records its proportionate share of the related assets, liabilities, revenue and expenses associated with the partnership in the consolidated financial statements using the proportionate consolidation method. The Company is contingently liable for its portion of the partnership’s obligations and liabilities that could arise from construction contracts, potential lawsuits, lease commitments and financing agreements.

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The Company’s 49% proportionate recognition of the assets and liabilities managed through the partnership agreement at inception is as follows:

Assets:	
Cash	$1,131
Inventory	29
Prepaid expenses	4
Plant and equipment	2,581
Total assets	$3,745
Liabilities:	
Capital lease obligation	$800
Long-term debt	637
Total liabilities	$1,437
Total consideration paid	$2,308

The following tables provide summarized financial information for the amounts included in the consolidated financial statements related to assets, liabilities and expenses managed through the partnership agreement:

Balance Sheet

	June 30, 2017
Assets:	
Current assets	$ 691
Non-current assets	2,434
Total assets	$ 3,125
Liabilities:	
Current liabilities	$ 807
Long-term liabilities	541
Total liabilities	$ 1,348
Net assets	$ 1,777

Statement of Operations and Comprehensive (Loss) Income

	Three months ended June 30, 2017	Six months ended June 30, 2017
Revenues	$ 570	$ 570
Gross loss [(i)]	(196)	(196)
Loss before taxes	(532)	(532)
Net loss and comprehensive loss[(ii)]	(532)	(532)

[(i)] Gross loss is defined as revenue less: project costs; equipment costs; and depreciation.

[(ii)] For income tax purposes, all income attributed to the partnership agreement is allocated to the partners' pro-rata in accordance with their respective interest.

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5) Long-term debt

a) Long-term debt amounts are as follows:

Current:

	June 30, 2017	December 31, 2016
Credit Facility (note 5(b))	$ 4,284	$ 8,246
Less: deferred financing costs	(86)	(77)
	$ 4,198	$ 8,169

Long-term:

	June 30, 2017	December 31, 2016
Credit Facility (note 5(b))	$ 18,184	$ 31,326
Convertible Debentures (note 5(c))	40,000	—
Less: deferred financing costs	(2,127)	(60)
	$ 56,057	$ 31,266

b) Credit Facility

	June 30, 2017	December 31, 2016
Term Loan	$ 22,468	$ 28,572
Revolver	—	11,000
Total Credit Facility	22,468	39,572
Less: current portion	(4,284)	(8,246)
	$ 18,184	$ 31,326

On February 6, 2017, the Company entered into the Third Amending Agreement to the Sixth Amended and Restated Credit Agreement (the "Previous Credit Facility"). The Sixth Amended and Restated Credit agreement was dated July 8, 2015 and matures on September 30, 2018. The Previous Credit Facility allowed borrowing of up to $100.0 million, contingent upon the value of the borrowing base. The Previous Credit Facility was composed of a $70.0 million revolving loan (the "Previous Credit Facility Revolver”) and a $30.0 million term loan ("Previous Credit Facility Term Loan"). The Previous Credit Facility provided a borrowing base, which was determined by the value of account receivables, inventory, unbilled revenue and plant and equipment.

Under the terms of the amended agreement, the Senior Leverage Ratio was to be maintained at less than 3.5:1 through June 30, 2017 and thereafter reduced to a ratio of greater than 3.0:1, while the Fixed Charge Cover Ratio was to be maintained at a ratio greater than 0.9:1 in the current period and thereafter increased to a ratio of 1.0:1. The Previous Credit Facility allowed for a capital lease debt limit of $90.0 million.

As at June 30, 2017, the Previous Credit Facility Revolver had $0.8 million in issued letters of credit and an unpaid balance of $nil (December 31, 2016 - $11.0 million) and the Previous Credit Facility Term Loan had an unpaid balance of $22.5 million (December 31, 2016 - $28.6 million). The June 30, 2017 borrowing base allowed for a maximum draw of $83.1 million. At June 30, 2017, the Company’s unused borrowing availability under the Previous Credit Facility Revolver was $59.8 million (December 31, 2016 - $51.7 million). As at June 30, 2017, the Company was in compliance with the covenants of the Previous Credit Facility.

The Previous Credit Facility bore interest at Canadian prime rate, U.S. Dollar Base Rate, Canadian bankers’ acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the Previous Credit Facility), plus applicable margins. In each case, the applicable pricing margin depended on the Company’s Total Debt to trailing 12-month Consolidated EBITDA ratio as defined in the Previous Credit Facility. The Previous Credit Facility was secured by a first priority lien on all of the Company’s existing and after-acquired property.

Subsequent to period end, on August 1, 2017, the Company entered into a new Credit Facility Agreement (the "Credit Facility") with a banking syndicate led by National Bank of Canada, replacing the Previous Credit Facility. The Credit Facility provides borrowings of up to $140.0 million with an ability to increase the maximum borrowings by an additional $25.0 million, subject to certain conditions. This facility matures on August 1, 2020, with an option to extend on an annual basis. The Credit Facility also allows for a capital lease limit of $100.0 million.

Unlike the Previous Credit Facility, the Credit Facility is comprised solely of a Revolver feature and does not have a borrowing base limit to available borrowings.

Under the terms of the new agreement, the Senior Leverage Ratio is to be maintained at less than 3.0:1, except in the case of the following four quarters after an acquisition, where the ratio will increase by 0.5:1, meanwhile the Fixed Charge Coverage Ratio is to be maintained at a ratio greater than 1.15:1. The Senior Leverage Ratio is defined as Senior debt to earnings before interest, taxes, depreciation, and amortization, excluding the effects of unrealized foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, cash and non-cash stock-based compensation expense, gain or loss on disposal of plant and equipment, gain or loss on disposal of assets held for sale and certain other non-cash items included in the calculation of net income ("Adjusted EBITDA") and the Fixed Charge Coverage Ratio is defined as Adjusted EBITDA less cash taxes to Fixed Charges. Fixed Charges is defined as cash interest, scheduled payments on debt, unfunded cash distributions by the Company and unfunded capital expenditures. Financial Covenants are to be tested quarterly on a trailing four quarter basis.

The Credit Facility bears interest at Canadian prime rate, U.S. Dollar Base Rate, Canadian bankers’ acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the Credit Facility), plus applicable margins. The Company is also subject to non-refundable standby fees, 0.35% to 0.65% depending on the Company's Senior Leverage Ratio, based on the undrawn portion of the Credit Facility. The Credit Facility is secured by a first priority lien on all of the Company's existing and after-acquired property.

c) Convertible Debentures

On March 15, 2017, the Company issued $40.0 million in aggregate principal amount of 5.50% convertible unsecured subordinated debentures (the "Convertible Debentures") which mature on March 31, 2024. The Company pays interest at an annual rate of 5.50%, payable semi-annually on March 31 and September 30 of each year, commencing September 30, 2017.

The Convertible Debentures may be converted into common shares of the Company at the option of the holder at a conversion price of $10.85 per common share, which is equivalent to approximately 92.1659 common shares per $1,000 principal amount of notes.

The Convertible Debentures are not redeemable prior to March 31, 2020, except under certain conditions after a change in control has occurred. The Convertible Debentures are redeemable at the option of the Company, in whole or in part, at any time on or after March 31, 2020 at a redemption price equal to the principal amount provided that the market price of the common shares is at least 125% of the conversion price; and on or after March 31, 2022 at a redemption price equal to the principal amount, plus accrued and unpaid interest accrued to the redemption date. In each case, the Company must pay accrued and unpaid interest on the debentures redeemed to the applicable redemption date.

If a change in control occurs, the Company is required to offer to purchase all of the Convertible Debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest to the date of purchase.

During the three and six months ended June 30, 2017, financing fees of $9 and $2,185, respectively were incurred in connection with the issuance of the Convertible Debentures. These fees have been recorded as deferred financing costs and are being amortized using the effective interest method over the term to maturity of the Convertible Debentures.

6) Fair value measurements

In determining the fair value of financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing on each reporting date. Standard market conventions and techniques, such as discounted cash flow analysis and option pricing models, are used to determine the fair value

of the Company's financial instruments. All methods of fair value measurement result in a general approximation of value and such value may never actually be realized.

The fair values of the Company's cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short periods to maturity for the instruments. The fair value of amounts due under the Previous Credit Facility are based on management estimates which are determined by discounting cash flows required under the instruments at the interest rate currently estimated to be available for instruments with similar terms. Based on these estimates, and by using the outstanding balance of $22.5 million at June 30, 2017 and $39.6 million at December 31, 2016, the fair value amounts due under the Credit Facility are not significantly different than the carrying value.

Financial instruments with carrying amounts that differ from their fair values are as follows:

		June 30, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Capital lease obligations (i)	Level 2	$68,939	$64,742	$61,400	$57,714
Convertible Debentures (ii)	Level 1	$40,000	$39,100	$—	$—

(i) The fair values of amounts due under capital leases are based on management estimates which are determined by discounting cash flows required under the instruments at the interest rates currently estimated to be available for instruments with similar terms.

(ii) The fair value of the Convertible Debentures is based upon the period end closing market price.

7) Interest expense, net

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest on Series 1 Debentures	$—	$292	$—	$747
Interest on Convertible Debentures	551	—	653	—
Interest on Previous Credit Facility	322	393	767	757
Interest on capital lease obligations	817	710	1,559	1,479
Amortization of deferred financing costs	131	244	213	356
Interest on long-term debt	$1,821	$1,639	$3,192	$3,339
Other interest income	(63)	(58)	(68)	(102)
	$1,758	$1,581	$3,124	$3,237

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	Common shares outstanding, net of treasury shares
Voting common shares			
Number of common shares outstanding as at December 31, 2016	30,518,907	(2,213,247)	28,305,660
Issued upon exercise of stock options	165,680	—	165,680
Purchase of treasury shares for settlement of certain equity classified stock-based compensation	—	(577,832)	(577,832)
Settlement of certain equity classified stock-based compensation	—	95,453	95,453
	(1,133,295)		(1,133,295)

Retired through the share purchase program (note 8(c))			
Issued and outstanding at June 30, 2017	29,551,292	(2,695,626)	26,855,666

On June 12, 2014, the Company entered into a trust fund agreement whereby the trustee will purchase and hold common shares, which were classified as treasury shares on the consolidated balance sheet, until such time that units issued under certain stock-based compensation plans are to be settled.

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Upon settlement of certain equity-classified stock-based compensation during the three and six months ended June 30, 2017, the Company repurchased 71,877 shares to satisfy the recipient tax withholding requirements. The repurchased shares are net against the purchase of treasury shares for settlement of certain equity-classified stock-based compensation.

b) Net (loss) income per share

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income available to common shareholders	$(6,200)	$ (4,926)	$3,399	$ 1,488
Weighted average number of common shares	27,241,717	30,212,275	27,621,141	30,945,872
Weighted average of dilutive securities				
Dilutive effect of treasury shares	—	—	2,627,419	1,894,841
Dilutive effect of stock options	—	—	311,097	1,468
Weighted average number of diluted common shares	27,241,717	30,212,275	30,559,657	32,842,181
Basic net (loss) income per share	$(0.23)	$ (0.16)	$0.12	$ 0.05
Diluted net (loss) income per share	$(0.23)	$ (0.16)	$0.11	$ 0.05

For the three months ended June 30, 2017, there were 1,010,400 stock options, 2,695,626 treasury shares and 3,686,636 shares issuable on conversion of Convertible Debentures that were anti-dilutive and therefore not considered in computing diluted earnings per share (three months ended June 30, 2016 - 1,278,340 stock options and 1,894,841 treasury shares were anti-dilutive). For the six months ended June 30, 2017, there were 483,740 stock options and 2,211,982 shares issuable on conversion of Convertible Debentures that were anti-dilutive and therefore not included in computing earnings per share (six months ended June 30, 2016 - 679,284 stock options and nil treasury shares were anti-dilutive).

c) Share purchase program

On June 1, 2017, the Company commenced the second phase of the previously announced amendment to the Normal Course Issuer Bid ("NCIB") in Canada through the facilities of the Toronto Stock Exchange ("TSX"). Under the second phase of the purchase program, the TSX approved the purchase and cancellation of 838,119 voting common shares. As at June 30, 2017, a total of 313,900 common voting shares have been purchased and subsequently cancelled in the normal course resulting in a reduction of $2,703 to common shares and an increase to additional paid-in capital of $713.

On April 7, 2017, the Company commenced the first phase of the previously announced amendment to the NCIB in Canada, to purchase up to 819,395 voting common shares through the facilities of the TSX. The amendment was authorized by the TSX on March 28, 2017. On May 3, 2017, the Company completed the amended purchase program, cancelling 819,395 voting common shares, resulting in a reduction of $7,057 to common shares and an increase to additional paid-in capital of $1,576.

On March 21, 2016, the Company commenced an NCIB for the purchase of up to 1,657,514 voting common shares in the United States primarily through the facilities of the New York Stock Exchange ("NYSE"). Such voting common shares represented approximately 5.0% of the issued and outstanding voting common shares as of March 14, 2016. On May 27, 2016, the Company completed the share purchase program cancelling 1,657,514 voting common shares, resulting in a reduction of $14,121 to common shares and an increase to additional paid-in capital of $9,021.

d) Dividends

On May 2, 2017, the Company declared its second quarter 2017 dividend of $0.02 per share payable to shareholders of record as of June 7, 2017. At June 30, 2017, the dividend payable of $543 was included in accrued liabilities and was subsequently paid to shareholders on July 7, 2017.

On February 14, 2017, the Company declared its first quarter 2017 dividend of $0.02 per share totaling $558 which was paid on April 7, 2017 to shareholders of record as of March 6, 2017.

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9) Other information

a) Supplemental cash flow information

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash paid during the period for:				
Interest	$1,075	$2,076	$2,215	$3,227
Cash received during the period for:				
Interest	61	58	68	102
Non-cash transactions:				
Addition of plant and equipment by means of capital leases	6,895	6,193	22,256	