

LEADER ENERGY SERVICES LTD.

LEA:TSX-V

Price (May 26): \$0.92
52-Week Range: \$1.45-\$0.135
Shares O/S: 19.46 million
Market Cap: \$17.9 million

Average Volume:
50-Day: 109,000
200-Day: 103,900

Recommendation: Speculative Buy (No Change)
12-Month Target Price: \$1.90 (No Change)

PROFILE: Provides well-stimulation services across the Western Canada Sedimentary Basin.



Source: www.bigcharts.com

K2 PRINCIPAL FUND LP

In accordance with TSX Venture Exchange policies, Leader Energy Services Ltd. shareholders will be asked to approve The K2 Principal Fund L.P. (“K2”) as being a “Control Shareholder”. K2 would effect a “change in control” of the Company were it to exercise, in full, its 4 million share purchase warrants. In so doing, K2 would become the single largest shareholder of Leader Energy, assuming no other shares or options were issued or exercised in the interim.



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Leader Energy has filed on SEDAR (www.sedar.com) an Information Circular and related documents for the annual general meeting of shareholders, which is scheduled for June 28, 2011.

The K2 Principal Fund L.P.

The K2 Principal Fund LP, a private investment fund, announced in late February 2011 that it had acquired 4,000,000 common share purchase warrants to purchase up to 4,000,000 common shares of Leader Energy. The warrants, exercisable at \$0.65 until February 18, 2014, were acquired by K2 as lender under a debt-facility agreement with Leader Energy.

COMMENT: *Leader Energy currently has 19.46 million shares outstanding. If The K2 Principal Fund exercised its 4 million warrants, Leader Energy's total shares outstanding would increase to 23.46 million. Of that amount, the 4 million shares held by K2 would constitute a 17.05% holding, making K2 Leader Energy's largest shareholder.*

As Leader Energy's principal lender, it is only natural that K2 would stake a major position in the Company in order to protect its interests as creditor. It is a practice that K2 has used in similar arrangements it has with other junior companies. This, however, could also have a bearing on how quickly Leader Energy moves to refinance this debt which, at a rate of 12%, is an expensive form of funding. Any repayment is subject to the approval of the senior lender, which is K2.

COMMENT: *Since K2's warrants are deep "in-the-money", it would be in Leader Energy's interest to have K2 exercise, all or part, of its warrants, as this would provide the Company with up to \$2.6 million of funds. K2 would also make a nice gain.*

THE COMPANY

Leader Energy Services Ltd. is based in Alberta and provides well-stimulation services across the Western Canadian Sedimentary Basin (WCSB). The Company has three core services lines:

1. **Coiled Tubing:** a highly versatile product used for a broad range of critical functions during the completion stage of drilling an oil or gas well;
2. **Nitrogen Services:** used in numerous well stimulation and workover operations; and
3. **Fluid Pumping Services:** focused on delivering drilling fluids downhole in conjunction with coiled tubing applications.

Smaller than most of its competitors, Leader Energy has focused on securing a niche position within the industry by pursuing a strategy that combines quick response time with proprietary innovation in order to meet the specialty needs of clients engaged in technically complex drilling activities. Delivering these services rests on a combination of competencies, including operational positioning close to development areas, capabilities for in-house development, and access to a seasoned and technically proficient labour force.

For more on Leader Energy, see eResearch's May 11, 2011 *Initiating Report* and May 13, 2011 *Video*, available on the eResearch website at the following link:

<http://www.eresearch.ca/profile.asp?companyID=607>.

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RECOMMENDATION

We continue to recommend Leader Energy Services Ltd. as a Speculative Buy for risk-tolerant investors. Our 12-month Target Price remains \$1.90 per share.

RATINGS HISTORY

<u>Date</u>	<u>Report Type</u>	<u>Recommendation</u>	<u>Stock Price</u>	<u>Target Price</u>
May 11, 2011	Initiating	Speculative Buy	\$0.90	\$1.90
May 26, 2011	Perspective	No Change	\$0.92	No Change

eResearch Analysts:

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NOTE: *eResearch reports on Leader Energy Services Ltd. and other companies are available FREE on our website at www.eresearch.ca.*

Analyst Affirmation: I, Eugene Bukoveczky, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, any shares of Leader Energy Services Ltd.

eResearch Corporation

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Leader Energy Services Ltd., to have eResearch conduct research on the Company on an Annual Continual Basis, paid eResearch a fee of \$15,000 + HST in cash.

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