

## LEADER ENERGY SERVICES LTD.

LEA:TSX-V

**Price (June 29):** \$0.88  
**52-Week Range:** \$1.45-\$0.135  
**Shares Outstanding:** 19.46 million  
**Market Cap:** \$17.1 million  
**Average Volume:** 50-Day: 66,800  
200-Day: 106,500  
**Recommendation:** Speculative Buy (No Change)  
**12-Month Target Price:** \$1.90 (No Change)

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



### FIRST-QUARTER 2011 RESULTS

As of January 1, 2011, Leader Energy Services Ltd. began preparing interim consolidated financial statements and comparative information based on International Financial Reporting Standards (IFRS), whereas previously the financial statements had been prepared according to Canadian Generally Accepted Accounting Principles (GAAP).

Leader Energy has published Q1/2011 results (ended March 31, 2011) as shown in the table below. The Company adopted the new IFRS standard for reporting beginning January 1, 2011. These financials are unaudited, but give some insight as to how the Company's annual results for 2011 may be impacted by the new international accounting rules and regulations.



**COMMENT:** Without going into the reasons for the different reported numbers (which is way beyond the scope of our mandate), we observe that the IFRS figures raised the Company's Operating Expenses, which lowered, as a consequence, the Gross Profit, with the effect trickling down the Income Statement. Our comments on Q1/2011 versus Q1/2010 are provided immediately after the following table.

**Leader Energy Services Ltd. Selected Quarterly Financial Information**

	<b>Q1/11 to Q1/10</b>	<b>IFRS March 31:</b>	<b>IFRS March 31:</b>	<b>Non-IFRS March 31:</b>
<b><u>(\$000s except per share)</u></b>	<b><u>Change</u></b>	<b><u>Q1/2011</u></b>	<b><u>Q1/2010</u></b>	<b><u>Q1/2010</u></b>
<b>Revenue</b>	23.3%	10,138	8,219	8,219
<b>Operating Expenses</b>	<u>21.8%</u>	<u>5,131</u>	<u>4,213</u>	<u>3,859</u>
<b>Gross Profit</b>	25.0%	5,007	4,006	4,360
<b>Gross Margin</b>	---	49.4%	48.7%	53.0%
<b>EBITDA</b>	25.0%	3,949	3,160	3,504
<b>EBITDA Margin</b>	---	39.0%	38.4%	42.6%
<b>Net Profit</b>	-29.8%	1,275	1,815	2,158
<b>Net Margin</b>	---	12.6%	22.1%	26.3%
<b>Net Profit Per Share</b>	-48.8%	\$0.07	\$0.14	\$0.16
<b>Cash Flow</b>	40.8%	4,469	3,173	3,227
<b>Cash Flow Per Share</b>	2.8%	\$0.24	\$0.24	\$0.24
	<b><u>Change</u></b>	<b><u>At Mar 31:</u></b>	<b><u>At Dec 31:</u></b>	
<b>Total Assets</b>	3.7%	33,950	32,736	
<b>Long-Term Debt</b>	-4.8%	23,853	25,044	
<b>Equity</b>	89.0%	6,624	3,504	
<b>Weighted Average Shares O/S</b>	37.1%	18,399	13,423	
<b>Shares O/S (end of period)</b>	13.0%	19,455	17,215	
<b>Equity (Book Value) Per Share</b>	67.3%	\$0.34	\$0.20	
<b>Cash</b>	24.1%	3,016	2,430	
<b>Cash Per Share</b>	9.8%	\$0.16	\$0.14	
<b>Working Capital</b>	28.5%	7,440	5,788	
<b>Working Capital Ratio (to 1)</b>	---	3.06	2.34	

Source: Leader Energy Services Ltd. and eResearch



## Q1/2011 Results Commentary

### ***Revenues***

Leader Energy's Q1/2011 revenues came in 23% higher than those of the corresponding period in 2010. The first quarter of the year is usually the most active quarter for the Company. This year, Q1 was also helped by the following:

- Leader focused its service activities on larger-diameter coil work on deeper wells; and
- The Company capitalized on the economic turnaround in the Western Canadian Sedimentary Basin (WCSB).

### ***Net Profit***

Net profit of \$1.3 million, or \$0.07 per share, in the quarter compared with \$1.8 million, or \$0.14 per share, a year earlier, with Q1/2011 including a one-time loss on the settlement of the Company's convertible debenture (an amount of \$1.4 million). Excluding this loss, Leader reported a Q1/2011 profit of \$2.7 million, representing an improvement of 47% over Q1/2010's profit from continuing operations, with the improvement reflecting an increase in activity in the field that resulted in higher revenues (partially offset by an increase in general and administrative expenses).

**COMMENT:** *Leader's strong first-quarter results reflect above-average drilling activity levels in the WCSB that resulted from higher oil prices and an extended winter drilling season. Revenues and EBITDA were in line with our expectations, and raise our confidence that the Company will generate EBITDA this year in the \$10 million range. The disclosure that a major capital expenditure program, focusing on deep coil tubing units, is planned for 2012 raises the prospect that a new equity issue may be forthcoming later this year or early in 2012.*

### ***Secured Debt Facility***

In the quarter, Leader closed a secured debt facility with a second lender, with the \$15 million facility bearing interest at an annual rate of 12% compounded and payable quarterly (repayable at any time without penalty, subject to the approval of the senior lender). (For more details on the secured debt facility, see eResearch's *Initiating Report* on Leader, Financial Review section, Page 11.)

For further details on the Q1/2011 results, see Leader Energy's June 23, 2011 news release, available on SEDAR at [www.sedar.com](http://www.sedar.com).



## 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*, May 13, 2011 *Video*, and May 27, 2011 *Perspective*, available on the eResearch website at the following link:  
<http://www.eresearch.ca/profile.asp?companyID=607>.

## 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 27, 2011	Perspective	No Change	\$0.92	No Change
June 29, 2011	Perspective	No Change	\$0.88	No Change



-4-

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**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.

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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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