

LEADER ENERGY SERVICES LTD.

LEA:TSX-V

Closing Price (Aug. 18): \$0.62
52-Week Range: \$1.45-\$0.13
Shares Outstanding: 19.46 million
Market Cap: \$12.07 million
Average Volume: 50-Day: 48,300
200-Day: 111,000
Recommendation: Speculative Buy (No Change)
12-Month Target Price: \$1.40 (Reduced)

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



SECOND-QUARTER 2011 RESULTS

Leader Energy has published Q2/2011 and H1/2011 results (ended June 30, 2011) as shown in the tables on page 2.

The Company reported that activity in the second quarter was greatly constrained by a prolonged spring break-up and extreme wet-weather conditions, which resulted in many customers delaying their drilling and completions to the second half of the year. Thus, Leader Energy expects a robust H2/2011, with greatly improved utilization rates. Pent-up Canadian demand should increase equipment utilization and strong EBITDA margins should result.



Table 1: Leader Energy Second-Quarter Results			
<i>Continuing Operations</i>			
<i>(000s)</i>	<u>Q2/2011</u>	<u>Q2/2010</u>	<u>Change</u>
Revenue	2,920	3,232	-10%
Operating Expenses	<u>-3,856</u>	<u>-2,814</u>	37%
Gross Profit	(936)	418	nmf
Gross Margin	-32.1%	12.9%	nmf
General and Administrative	(1,183)	(937)	nmf
Amortization	(635)	(547)	nmf
Finance Cost (Interest)	(859)	(794)	nmf
Other Gains (Losses)	<u>(22)</u>	<u>346</u>	nmf
Net Profit (Loss)	(3,635)	(1,514)	nmf
Earnings (Loss) per Share	(\$0.19)	(\$0.11)	nmf

Table 2: Leader Energy Six-Months Results			
<i>Continuing Operations</i>			
<i>(000s)</i>			
Revenue	13,058	11,451	14%
Operating Expenses	<u>(8,987)</u>	<u>(7,027)</u>	<u>28%</u>
Gross Profit	4,071	4,424	-8%
Gross Margin	31.2%	38.6%	-19%
General and Administrative	(2,241)	(1,783)	26%
Amortization	(1,224)	(1,077)	14%
Finance Cost (Interest)	(1,634)	(1,596)	2%
Other Gains (Losses)	<u>(1,316)</u>	<u>384</u>	nmf
Net Profit (Loss)	(2,344)	352	nmf
Earnings (Loss) per Share	(\$0.12)	(\$0.03)	nmf

Source: Leader Energy Services Ltd. and eResearch

Results Commentary

Revenues

At \$2.9 million, Leader Energy's Q2/2011 revenues were down \$0.3 million from the corresponding period of 2010. On a year-to-date basis, revenues have improved to \$13.1 million from \$11.5 million. The 14% year-to-date revenue increase reflects an increase in horizontal drilling activity that requires deeper and larger-diameter coil applications, and which translates into higher day rates.

Leader Energy has been focusing its service activities to meet the demands of the growing horizontal market, as well as increasing its operational focus to cover a larger area within the Western Canada Sedimentary Basin (WCSB).



Loss from Continuing Operations

For Q2/2011, Leader Energy reported a loss from continuing operations of \$3.65 million, compared with a loss of \$1.7 million in Q2/2010. There was a reduction in field activity as a result of spring break-up and weather-related delays. Higher operating costs were also experienced. The loss from continuing operations of \$2.4 million for the first six months includes a one-time loss on the settlement of the convertible debenture in the amount of \$1.4 million.

COMMENT: *Poor weather conditions during the second quarter probably cost Leader Energy more than \$1 million of revenue, an amount that should be more than made up during the second half of the year. However, total revenues for 2011 are now likely to come in at \$32 million, at the lower end of management's guidance for the year. Continuing high operating costs will also make it difficult to achieve last year's EBITDA margin of 32%. A number just shy of 30% now seems likely, which produces EBITDA for the year of just over \$9 million, a reduction of \$800k from our earlier forecast. As a result, we are lowering our 12-month Target Price to \$1.40 from our earlier estimate of \$1.90. Despite this, we continue to recommend Leader Energy as a Speculative Buy, particularly in light of the promising mid-term fundamentals for fracking-leveraged operators in the WCSB.*

For further details on the Q2/2011 results, see Leader Energy's August 16, 2011 news release, available on SEDAR at www.sedar.com.

THE COMPANY

Leader Energy Services Ltd. is based in Alberta and provides well-stimulation services across the Western Canadian Sedimentary Basin. 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 subsequent *Perspectives*, 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 despite lowering our 12-month Target Price to \$1.40 from \$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
Aug. 19, 2011	Perspective	No Change	\$0.62	\$1.40↓

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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.

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