

Global Energy Services Ltd. (TSXV: GLK) – Q1 2007 Sales Weaker Than Expected due to Temporary Factors

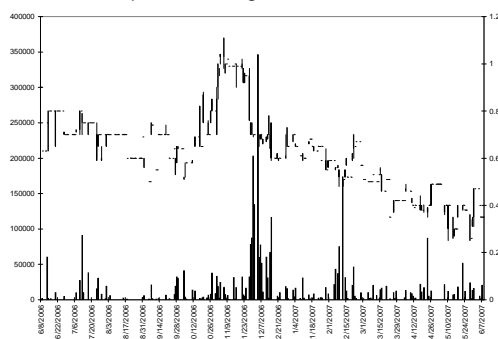
Sector/Industry: Oilfield Services

www.global-energy.ca

Market Data (as of June 11, 2007)

Current Price	\$0.40
Fair Value	\$0.70 ↓
Rating*	BUY
Risk*	4 – Speculative
52 Week Range	\$0.25 - \$1.11
Shares O/S	18.8MM
Market Cap	\$7.5MM
Current Yield	N/A
P/E (forward)	N/A
P/B	0.97x
YoY Return	-55.6%
YoY TSX-V	14.8%

*See back of report for rating and risk definitions



YEQ1 2007 Highlights

- Q1 2007 revenues were \$3.5 million, compared to \$4.1 million in the same period last year, a decrease of 12.7%.
- Although we had expected a weak Q1 based on overall industry activity levels, sales growth of the company's submersible pump (HSP) was below expectations, and the decline in the communications segment was higher than expected. Management attributes the lower than expected results to temporary weather related delays that are expected to shift sales to later quarters.
- We continue to believe the first two quarters of 2007 will be negatively affected by the weak oil patch activity in Alberta offset by penetration growth of the HSP.
- Gross margins were significantly below expectations though SG&A costs were lower than expected.
- We believe the company needs to obtain additional bank financing or risk cash flow problems.
- We are lowering our valuation on reduced growth rate estimates from \$0.80 to \$0.70. We are maintaining our risk level at speculative, and our rating at BUY.

Key Financial Data and Statistics (C\$MM's)

	2003	2004	2005	2006A	2007E	2008E
Revenues	\$ 6.80	\$ 7.97	\$ 10.49	\$ 11.43	\$ 12.82	\$ 16.25
Net Income	\$ 0.37	\$ 0.68	\$ 0.11	\$ 0.00	\$ (0.20)	\$ 1.16
Gross Margins	60.88%	63.49%	61.49%	60.62%	55.00%	61.70%
Debt to Capital	22.15%	14.77%	8.28%	13.76%	17.43%	19.65%
Return on Capital	18.8%	19.6%	14.1%	2.0%	4.1%	16.7%

Global Energy Services Ltd. provides communication systems, wireless gas detection and artificial lift solutions to the oil and gas industry. Based in Calgary, Alberta – with offices throughout Western Canada – Global Energy has been creating cost-effective products and providing superior customer service since 1994.

Revenues Decline 12.7%,

Global Energy Services (GLK) reported Q1 2007 revenues of \$3.5 million, compared to \$4.1 million in the same period last year, a decrease of 12.7%. We now take a closer look at revenue performance by segment.

Production Services – This segment includes the sale and rental of the company's hydraulic submersible pump. As expected, this segment continued to provide revenue growth for the company in the first quarter, though growth was below our expectations. Sales in this segment were \$792,854 versus \$430,362 in the same period last year, or growth of 84.2%. We were expecting to see growth of about 200%. Management has attributed the lower than expected results to weather delays, but has maintained its positive outlook for the year. We believe that this will shift installations of the HSP to later quarters. Therefore, at this time, we make no changes to our growth rate assumptions for this segment.

Communication Segment - Revenues for this segment declined 24.2% from \$3.6 million in Q1 2006, to \$2.7 million in Q1 2007. We had been expecting a decline of about 16% for the year. The decline is the result of continued weakness in drilling activity in the WCSB.

As the table below shows, there has been some increase in drilling activity in June from an average of 64 rigs drilling in May, to 112 in the first week of June. However, this is still far below levels of the same period last year.

Alberta Rigs

Source: Canadian Association of OilWell Drilling Contractors

	Jan	Feb	Mar	Apr	May	Jun	Avg.	Avg. Util.
2007 Available	639	652	699	721	727	719	693	
2007 Drilling	433	447	293	79	64	112	238	34%
2006 Available	572	565	604	651	641	636	622	
2006 Drilling	495	531	540	201	184	314	372	60%

We continue to expect the industry to show signs of recovery in Q4 2007, and Q1 2008.

Because Q1 results were weaker than expected, we have lowered our 2007 growth rate assumptions for this segment from an overall decline of 16% to 30%.

Weaker than expected Gross Margins

Gross margins for the quarter were 44.8% versus 64.1% for the same period last year, and below our expectations of 61.7%. We noticed margin declines in both segments. Margin declines are mainly being caused by:

1. Bundling of third party services such as coil tubing and wellhead equipment that carry lower margins.
2. Higher utilization of third party rentals versus company owned rentals.

Management informed us that they have taken steps to improve utilization of company owned rentals, and expect margins to improve in later quarters. Also, economies of scale in the production division are expected when multiple orders from one field are received. As

a result of the weaker than expected gross margins in Q1, we are lowering our gross margin assumption for 2007 to 55% from 61.7%.

One bright spot was operating costs relative to sales which came in at 35%. We had been expecting 39%.

Another factor that had an effect on the bottom line this quarter was a one-time charge of \$621,745 related to the earlier announced acquisitions of Galloway and Woodland.

Net Income

For Q1 2007, GLK reported a net loss of \$605,627 or (\$0.032) EPS versus net income of \$631,184 or \$0.034 EPS in the same period last year.

As a result of the above revisions to our models, we have revised our 2007 net income and EPS estimates to a loss of \$201,219 and (\$0.011) respectively. These are down from our previous estimates of net income of \$823,334 and EPS of \$0.044. Our 2008 estimates have also decreased to \$1.16 million in net income (from \$1.25 million) and \$0.062 EPS (from \$0.067).

Liquidity and capital structure

We believe that one large risk for GLK is its liquidity position. An oilfield services firm needs to have a strong balance sheet in order to weather the seasonal and cyclical swings in the oil and gas industry. Although the company's debt to capital is relatively low, it is currently relying on its credit line to fund its operations. Even though bank debt has decreased a little since year-end, we believe the company will have to seek an increase in its credit line as we anticipate the company will need to drawdown more than the \$1.2 million available on its credit line in 2007, and 2008. According to management, the company is inside on all debt covenants.

Valuation

The table below presents our revised DCF valuation on GLK.

Global Energy - Discount Cash Flow Model (C\$ MM)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal
Funds From Operations	1.45	3.27	3.53	3.62	3.69	3.74	3.84	3.96	4.09	4.24
Investment in Working Capital	1.22	(0.82)	(0.14)	(0.14)	(0.15)	(0.16)	(0.17)	(0.17)	(0.18)	(0.19)
Cash From Operations	2.67	2.45	3.39	3.48	3.53	3.58	3.67	3.78	3.91	4.05
Capex	(2.50)	(3.00)	(2.50)	(2.25)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)
Free Cash Flow	0.17	(0.55)	0.89	1.23	1.53	1.58	1.67	1.78	1.91	2.05
PV	0.16	(0.46)	0.67	0.83	0.92	0.85	0.80	0.76	0.73	8.70
Discount Rate	12%									
Terminal Growth	3%									
Sum PV (MM)	13.95									
Debt (MM)	1.20									
Equity Value (MM)	12.75									
Share O/S (MM)	18.82									
DCF Value/Share	\$ 0.68									

As a result of the revisions above, the DCF value has declined to \$0.68 from \$0.75 in our last update.

As we are now forecasting a loss for 2007, we have not reviewed our P/E valuation for GLK versus the industry and Pason (a specific, though much larger comparable). Instead we look at Price to forward EBITDA versus Pason.

GLK Valuation Based on Comparable

	GLK	Pason
P/EBITDA (Forward)	3.7	9.4
Implied Value	\$ 1.02	

Source: Reuters, FRC

If GLK was valued inline with Pason Systems Inc (TSX: PSI), it should trade at \$1.02. However, because PSI is a much larger firm, we believe a 20%-50% discount should be applied to GLK's implied value using PSI's forward P/EBITDA. Applying this discount brings the fair value of GLK inline with our DCF model.

Rating

Based on a review of the valuations obtained using multiples and our DCF model, we are reiterating our BUY rating, but lowering our fair value to \$0.70 from \$0.80.

We believe the stock is undervalued at these levels though carries significantly more risk from our initial report due to its liquidity position. Upside catalysts should come from stronger gas prices in Q4, and realized growth in the production segment.

Risks

In FY2005, 4 customers each accounted for more than 10% of revenues, and together, totaled, 56% of revenues. If GLK lost any one of these major customers, it would have a significant impact on revenues and our projections.

The company has disclosed in its 2005 annual report that strong demand for its artificial lifts could pose manufacturing constraint problems. Also, a significant and sustained decline in natural gas prices would make certain CBM projects uneconomical and hence, reduce demand for the company's artificial lifts. The company's communications business is also sensitive to natural gas prices.

Also, we believe that company needs to obtain additional bank financing to continue operating.

We increase our risk to 4 – Speculative.

APPENDIX

Income Statement

GLOBAL ENERGY SERVICES LTD

Income Statement - Annual - Standardised in Millions of CAD

Fiscal Period:	2005	2006A	2007E	2008E
Total Revenue	10.490	11.431	12.819	16.249
Cost of Revenue	4.050	4.501	5.769	6.223
Gross Profit	6.450	6.929	7.051	10.026
Selling/General/Admin. Expenses, Total	3.430	4.629	5.000	6.012
Research & Development	0.390	0.382	0.000	0.000
EBITDA	2.630	1.918	2.051	4.014
Depreciation/Amortization	1.390	1.725	1.652	2.118
EBIT	1.240	0.193	0.399	1.895
Interest Expense(Income) - Net Operating	0.050	0.035	0.093	0.11803169
Unusual Expense (Income)	0.840	(0.015)	0.616	
Other Operating Expenses, Total	0.100			
Net Income Before Taxes	0.240	0.174	(0.310)	1.777
Provision for Income Taxes	0.140	0.170	(0.108)	0.622
Net Income	0.110	0.003	(0.201219)	1.155
Basic Weighted Average Shares	16.860	18.611	18.819	18.611
Basic EPS Including Extraordinary Items	0.010	0.000	(0.011)	0.062
Diluted Weighted Average Shares	16.860	18.819	18.819	18.819
Diluted EPS Excluding ExtraOrd Items	0.010	0.000	(0.011)	0.061

Balance Sheet**GLOBAL ENERGY SERVICES LTD****Balance Sheet (Differentiates) - Annual - Standardised in Millions of CAD**

Fiscal Period:	2005	2006A	2007E	2008E
Cash and Short Term Investments	0.000	0.000	0.000	0.000
Accounts Receivable - Trade, Net	3.900	3.198	3.205	4.062
Total Inventory	0.660	0.817	0.923	0.996
Prepaid Expenses & Other	0.160	0.889	0.128	0.162
Total Current Assets	4.720	4.903	4.256	5.221
Property/Plant/Equipment, Total - Net	2.380	2.798	3.647	4.528
Goodwill, Net	2.320	2.316	2.320	2.320
Intangibles, Net	0.340	0.237	0.237	0.237
LT Investments - Other	0.000	0.000	0.000	0.000
Long Term Investments	0.000	0.000	0.000	0.000
Deferred Charges	--	0	--	--
Other Long Term Assets, Total	0.590	0.609	1.001	1.001
Total Assets	10.350	10.864	11.461	13.307
Payable/Accrued	1.250	1.220	1.788	1.929
Notes Payable/Short Term Debt	0.530	1.312	1.686	2.236
Current Port. of LT Debt/Capital Leases	0.190	0.015	0	0
Income Taxes Payable	0.270			
Other Payables	--		0	0
Total Current Liabilities	2.240	2.547	3.474	4.165
Long Term Debt	0.010	0.000	0.000	0.000
Capital Lease Obligations	0.000	0	0	0
Other Long Term Liabilities	--	0	0	0
Other Liabilities, Total	--	0	0	0
Total Liabilities	2.260	2.547	3.474	4.165
Convertible Preferred Stock - Non Rdmb1	0.000		0	0
Common Stock	7.700	7.790	7.790	7.790
Additional Paid-In Capital	0.120	0.250	0.120	0.120
Retained Earnings (Accumulated Deficit)	0.280	0.278	0.077	1.232
Total Equity	8.090	8.317	7.986	9.141
Total Liabilities & Shareholders' Equity	10.350	10.864	11.461	13.307

Cash Flow Statement**GLOBAL ENERGY SERVICES LTD****Cash Flow (Indirect) - Annual - Standardised in Millions of CAD**

Fiscal Period:	2005	2006A	2007E	2008E
Net Income/Starting Line	0.110	0.003	(0.201)	1.155
Depreciation	1.260	1.541	1.652	2.118
Amortization of Intangibles	0.120	0.184		
Amortization	0.120			
Deferred Taxes	(0.400)	(0.017)		
Unusual Items	0.910	(0.015)		
Other Non-Cash Items	0.130	0.158		
Non-Cash Items	1.030			
Funds From Operations	3.280	1.855	1.451	3.273
Accounts Receivable	--		(0.007)	(0.857)
Inventories	--		(0.106)	(0.073)
Prepaid Expenses	--		0.761	(0.034)
Accounts Payable	--		0.569	0.141
Other Assets & Liabilities, Net	(2.200)			
Changes in Working Capital	(2.200)	(0.490)	1.216	(0.824)
Cash from Operating Activities	(0.070)	1.365	2.666	2.450
Purchase of Fixed Assets	(1.190)	(2.128)	(2.500)	(3.000)
Purchase/Acquisition of Intangibles	--	(0.084)	-	-
Capital Expenditures	(1.190)	(2.212)	(2.500)	(3.000)
Acquisition of Business	--			
Sale of Fixed Assets	0.050	0.161		
Purchase of Investments	--	0.022		
Sale of Intangible Assets	--			
Other Investing Cash Flow	0.010			
Other Investing Cash Flow Items, Total	0.070			
Cash from Investing Activities	(1.120)	(2.028)	(2.500)	(3.000)
Other Financing Cash Flow	--	(0.118)		
Financing Cash Flow Items	--			
Cash Dividends Paid - Preferred	--			
Total Cash Dividends Paid	--			
Sale/Issuance of Common	0.790	0.067		
Common Stock, Net	0.790			
Sale/Issuance of Preferred	--			
Repurchase/Retirement of Preferred	--			
Preferred Stock, Net	--			
Issuance (Retirement) of Stock, Net	0.790			
Short Term Debt Issued	--	0.780	0.374	0.550
Short Term Debt Reduction	--			
Short Term Debt, Net	--			
Long Term Debt Issued	--			
Long Term Debt Reduction	--	(0.066)	(0.010)	
Long Term Debt, Net	(0.470)			
Issuance (Retirement) of Debt, Net	(0.470)			
Cash from Financing Activities	0.320	0.663	0.364	0.550
Foreign Exchange Effects	--	-	-	-
Net Change in Cash	(0.870)	(0.000)	0.530	(0.000)
Net Cash - Beginning Balance	0.340	(0.530)	(0.530)	0.000
Net Cash - Ending Balance	(0.530)	(0.530)	0.000	0.000

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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