

LEADER ENERGY SERVICES LTD.

Recent Price (November 17, 2010)	\$0.50
52-Week High-Low	\$0.59-\$0.10
Shares O/S	13.26 million
Market Cap	\$6.6 million
50-day Average Volume	31,700
200-day Average Volume	31,800
Year-End	December 31
Symbol	TSX-V: LEA
Website	www.leaderenergy.com

Financial Data

(C\$000s)	Year to	12 Mos. to
Selected Income/Cash Flow	<u>Dec. 31/09</u>	<u>Sep. 30/10</u>
Revenues	\$13,282	\$21,698
EBITDA	\$1,087	\$6,406
EBIT	(\$1,184)	\$4,146
Interest Expense	(\$3,209)	(\$3,193)
Net Income	(\$2,924)	\$1,366
Cash Flow From Operations	(\$494)	\$5,493
Capital Expenditures	(\$1,750)	(\$3,110)
Selected Balance Sheet		
Cash	\$1,023	\$1,485
Debt and Equivalent	\$25,782	\$26,428
Equity	\$439	\$2,406
Total Assets	\$28,916	\$31,298
Key Ratios		
EBITDA-Interest Coverage (x)	0.34	2.01
EBIT-Interest Coverage (x)	(0.37)	1.30
Debt/Capital (%)	98.3%	91.7%
Price/Revenue (x)	0.13	0.10
Price/EBITDA (x)	1.65	0.33
Cash Per Share	\$0.08	\$0.11
Revenue Per Share	\$1.00	\$1.64
Book Equity Per Share	\$0.03	\$0.18

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Note: Report was prepared with public information only.

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Source: www.bigcharts.com

PROFILE

Leader Energy Services Ltd. (“Leader” or the “Company”) is based in Alberta and provides well-stimulation services across the Western Canadian Sedimentary Basin (WCSB). The Company has two core services lines: (1) Coiled Tubing, which focuses mainly on the completion and production phases of oil and natural gas wells; and (2) Nitrogen Spreads, which offers all standard services including pumping down acid, cleaning out wells, and purging wells.

INVESTMENT CONSIDERATIONS

1. Strengths

- Corporate restructuring has been completed, and focus is now on opportunities to grow its services in the WCSB.
- The Company has a modern and highly mobile equipment fleet, with an average age of only two years.
- Strategically based in the Deep Basin (Alberta) gas region, and near the rapidly-growing oil sands industry.
- Strong ability to provide competitive pricing for services.
- Management has full knowledge of the Canadian oil and gas sector, and has a team of well-trained personnel.

2. Challenges

- Operationally small compared with competitors.
- Financially weak (although improving), with high debt levels and low interest coverage.
- Demand for Company’s services is tied to natural gas and oil prices, which are beyond its control.
- Future expansion requires substantial capital expenditures to build equipment.
- Small market cap, and thin share trading liquidity.

HIGHLIGHTS

- After The Company's July 2008 corporate restructuring (in which Leader sold all of its U.S. assets), operations are now entirely in the WCSB, and have been improving significantly.
- Revenue growth was sharply higher in Q3/2010 compared with the same quarter of 2009, increasing by 250% to \$6.2 million due to higher levels of oil and gas activities and a rising oil price. Revenue for the nine months ended September 2010 increased to \$17.7 million, or 91%, compared with the same period last year.
- EBITDA continues to improve, having risen 973% to \$5.6 million for the nine months ended September 30, 2010, compared to \$284,000 for the same period in 2009 (EBITDA for the full year 2009 was \$1.08 million).
- Cash flow from operations for the period became positive for the first time since the credit crisis, and was more than sufficient to cover capital expenditures.
- Although debt levels, including capital leases, of over \$26 million remained extremely high, at 91.7% of capitalization, leverage actually improved from a record high of 98.3% at the end of 2009. These high debt levels are not sustainable.
- On November 3, 2010, the Company secured a \$3 million revolving credit facility from a Canadian chartered bank. This facility replaces the secured demand credit facility that was paid out in 2008.
- In early November 2010, the Company appointed a new CFO, Graham Reid. Mr. Reid has extensive experience in oilfield service and equipment businesses. He was formerly Vice President, Finance and CFO of Norex Exploration Services Inc.
- In July 2010, the Company entered into a Partnership Agreement with RS Capital Partners to build and operate a high pressure fluid pumper unit ("Pumper"). RS Capital holds 75% and the Company holds 25%. The Company provided the Partnership with the rights to certain surplus equipment to build the Pumper. No additional capital was required from the Company.

EQUIPMENT FLEETS

- The Company owns and operates two major equipment fleets: (1) the state of the art *Coiled Tubing* units; and (2) the *Nitrogen Spreads* units. Leader designs and manufactures its equipment internally.
- Leader applies modern technology to reduce truck weights, allowing a truck to carry a full 5,600 metres of coil. This is significant due to the nature of the business, which moves equipment from one place to another.
- All manufacturing, and repairs and maintenance are done at a 25,000-sq.-ft. building located in Grande Prairie, Alberta, which is in the heart of the Deep Basin gas region.
- The Coil Tubing fleet consists of 1¼", 1½", 1¾", and 2" class III coil tubing units. A 2 3/8" unit will be available starting November 30, 2010.
- Depth capacity on a single pool could get down from 1,800 metres to 5,600 metres.
- The Nitrogen Spreads have an average age of less than five years.

FINANCIAL DATA**(1) Income and Cash Flow**

Income and Cash Flow (C\$ 000)	<u>Year</u> Dec-08	<u>Year</u> Dec-09	<u>12 months</u> Sep-10
Revenues	17,400	13,282	21,698
EBITDA	(11)	1,087	6,406
EBIT	(3,904)	(1,184)	4,146
Net Income	(13,622)	(2,924)	1,366
Cash Flow From Operations	(7,411)	(494)	5,493
Capital Expenditures	(1,758)	(1,750)	(3,110)
Change in Working Capital	(5,657)	(503)	(3,870)
Cash Flow From Investment	25,105	(487)	(178)
Cash Flow From Disc. Operations	15,368	1,281	(241)
Cash Flow From Debt Financing	(24,630)	(398)	(181)

- Excluding the impact of discontinued operations, revenue growth was negative in 2009 due to the credit crisis and low commodity prices. However, as the global economy and commodity prices are recovering, revenue growth has been impressive in 2010. Based on results for the nine months ended September 30, 2010, revenues for the full year are expected to grow by over 90% compared with 2009.
- The outlook for revenue growth depends on a number of factors, such as changes in government regulation, the impact of weather conditions on the ability of the Company to mobilize its equipment, and job completion etc. However, the immediate impact on the Company's ability to grow is related to: (1) demand for its services (which depends on oil and gas prices); and (2) its ability to finance the growth.
- After the U.S. assets disposition, EBITDA improved significantly, increasing to \$1 million in 2009 and over \$6 million for the 12 months ended September 2010. The improvement in EBITDA reflects significant growth in revenues, as demand for the Company's services increased in 2010 due to greater oil and gas exploration activities in Alberta.
- Cash flow from operations has improved substantially. For the 12 months ended September 30, 2010, cash flow increased to over \$5.4 million from negative \$494,000 in 2009 and negative \$7.4 million in 2008. This is significant because: (1) it demonstrates the Company's ability to finance its capital expenditures with internally-generated cash flow; and (2) it helps to lessen the concern of the Company's creditors as to the Company's future ability to service its debt.

(2) Balance Sheet

Selected Balance Sheet (C\$ 000)	<u>As at</u> Dec-08	<u>As at</u> Dec-09	<u>As at</u> Sep-10
Cash and Equivalent	3,374	1,023	1,485
Total Current Assets	9,027	4,698	6,027
Current Portion of LT Debt	173	182	123
Total Current Liabilities	5,915	2,877	2,587
Long-term Debt	12,917	14,740	15,525
Long-term Capital Leases	11,034	10,860	10,780
Shareholders' Equity	3,312	439	2,406
Total Assets	33,178	28,916	31,298

- The balance sheet remained manageable, as the Company's cash position improved slightly at the end of September 2010, compared to its position at the end of 2009.
- Total financial obligations were unchanged between 2008 and September 2010. Net losses in 2008 and 2009 resulted in a sharp decline in equity and impacted the Company's capitalization structure. However, with over \$1.9 million in net income for the nine months to September 30, 2010, the equity base improved significantly, increasing to \$2.4 million from just \$439,000 at the end of 2009.

Long-Term Debt

- In 2007, the Company issued senior unsecured convertible debentures (Debentures), maturing March 31, 2012, through a private placement for gross total proceeds of \$15 million. The Debentures were convertible into common shares, anytime, at \$4.80 per common share (see next bullet).
- In September 2009, the Company entered into a Supplemental Indenture with debt-holders, which provided that the conversion rate of the Debentures was adjusted to \$0.40 per common share from \$4.80 per common share.
- The Supplemental Indenture also allowed the Company to defer interest payments that were due September 30, 2009 and March 31, 2010. Interest deferrals will be in effect until maturity.
- As of September 30, 2010, the amount of deferred interest payment was \$1.5 million (included in Long-Term Debt on the balance sheet).

Capital Leases

- The Company finances part of its equipment with capital leases.
- Capital leases bear interest at 9.91%, payable in monthly installments of \$101,000, and mature December 2026.

Credit Facilities

- On November 3, 2010, the Company obtained a \$3 million revolving credit facility from a Canadian chartered bank. The interest rate is prime plus 2.75%. The facility expiry date is January 31, 2012.
- The Company used the proceeds from the sale of its U.S. assets to pay out its secured demand credit facility in its entirety. The 2008 cash flow statement states that the Company paid approximately \$24 million on its credit facility.

(3) Key Financial Ratios

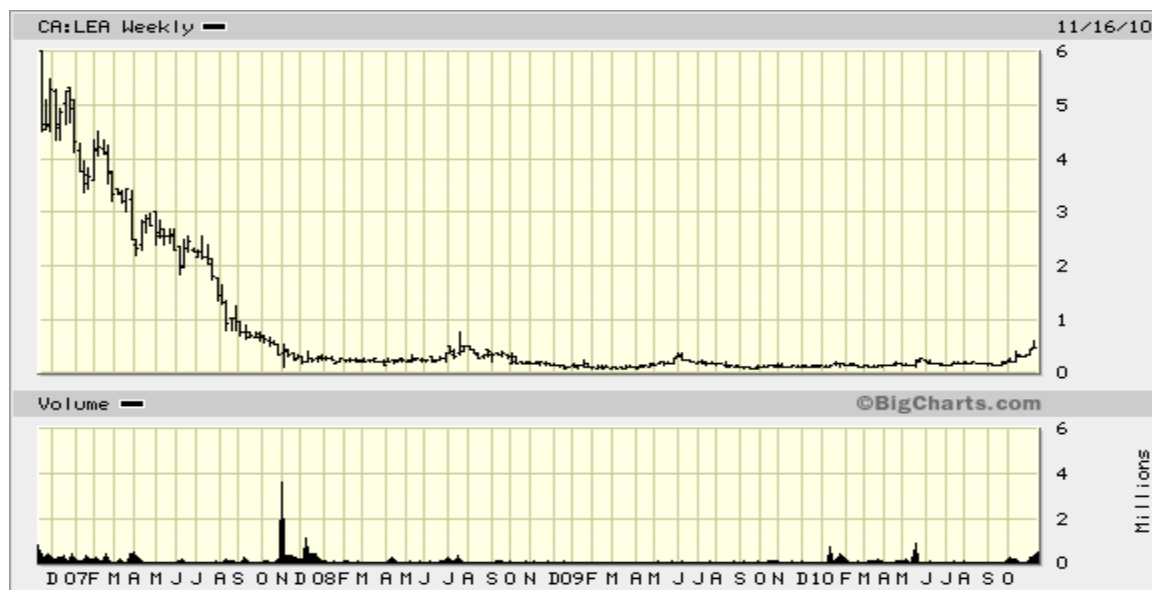
Financial Ratios	Year	Year	12 months
	Dec-08	Dec-09	Sep-10
Debt/Capital	87.9%	98.3%	91.7%
Cash Flow/Total Debt	Neg	Neg	20.8%
EBITDA-Interest Coverage	Neg	0.34	2.01
EBIT-Interest Coverage	Neg	Neg	1.30
Revenue Per Share	\$1.31	\$1.00	\$1.64
Cash Flow Per Share	(0.56)	(0.04)	0.41
Book Equity Per Share	0.25	0.03	0.18

- Capital leases are included in the debt portion of the debt-to-capital ratios.
- Although still very high, leverage improved with the debt-to-capitalization ratio declining to 91.7% as of September 2010 as the equity base increased.
- Debt levels are still relatively high but the ability of the Company to service the debt improved significantly with: (1) EBITDA-Interest Coverage going from negative in 2008 to 0.34x in 2009 to 2.01x for the 12 months ended September 2010; (2) Cash flow-to-debt ratio moving from negative to an impressive 20.8%. This indicates that cash flow from operations (before capital expenditures and working capital) could pay off the debt in five years.

MANAGEMENT AND DIRECTORS

Rodney J. Hauser President, CEO and Chairman of the Board of Directors
Graham Reid Vice President and CFO
Jason R.D. Krueger Director, Investor Relations
D. Richard Skeith Director
M. Rida El-Alem Director
Steven A.W. Austin Director
Gordon D. Harris Director

FOUR-YEAR STOCK CHART



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