



LEADER ENERGY SERVICES ANNOUNCES SECOND QUARTER RESULTS

August 4, 2006, Calgary, Alberta (TSX Venture: LEE) – Leader Energy Services Ltd. ("Leader" or the "Company") today released second quarter 2006 results for the period ended June 30, 2006.

Overall Performance and Quarterly Review

(in '000s of dollars except per share amounts)

<u>Financial Review</u>	3 Months Ended		6 Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenue	\$4,895	\$1,846	\$16,141	\$8,083
EBITDAS ⁽¹⁾	(1,371)	(1,025)	3,232	1,587
Income (loss) before income taxes	(2,277)	(1,430)	1,551	624
Net Income (loss)	(1,600)	(1,181)	844	624
Earnings (loss) per share (diluted)	\$(0.05)	\$(0.05)	\$0.02	\$0.03
Cash flow from operations ⁽²⁾	(1,326)	(1,030)	3,311	1,544
Cash flow from operations per share (diluted)	\$(0.04)	\$(0.05)	\$0.09	\$0.07

⁽¹⁾ "EBITDAS" means earnings from continuing operations before interest, taxes, depreciation, amortization and stock-based compensation and excludes other items. Readers are cautioned that EBITDAS does not have a standardized meaning under GAAP. However, EBITDAS is generally regarded as an indirect measure of operating cash flow and, as such, the Company believes it is a significant indicator of success for any business and is particularly relevant to readers within the investment community.

⁽²⁾ Cash flow is defined as "cash provided by operating activities before changes in non-cash working capital." Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed by Canadian GAAP, and accordingly may not be comparable to similar measures used by other companies.

Second Quarter Highlights:

Although the 3 month period includes the traditional spring break-up period, during the second quarter ended June 30, 2006 ("the period") the Company once again set new records as its strategic growth plans unfold, with period over period revenues increasing by 165%, from \$1.8 million to \$4.9. Revenue for the six months ended June 30, 2006 was up close to 100% as revenues rose from \$8.1 million to \$16.1 million year over year, while income from operations increased by 169%. These improvements in the overall operating results of the Company reflect the impact of the strategic growth plan initiated late 2004 to aggressively expand its presence in the well stimulation services sector, a dynamic infrastructure that meets the needs of the Company's aggressive growth strategy, continued emphasis on deeper and higher margin activities, rate increases in late 2005, and the acquisition of Cementrite, Inc. in June 2006.

While the Company experienced higher revenues due to more equipment, labour costs per operating day quarter over quarter have increased by 9% or \$100,000 which is a reflection of the tight labour market the Company operates in today. Labour costs for some positions between the first and second quarter of this year alone increased by 5% as the Company tries to remain competitive within the industry. As well, the Company saw accommodation expenses increase by \$150,000 relative to the same period last year due mostly to employee relocations and recruitment. The Company recorded a loss before income taxes of \$2.3 million for the three months ended June 30, 2006 which is \$0.9 million or 59% higher than the \$1.4 million reported during the same period last year. Increases in reported losses aside, period losses before tax as a percentage of revenue actually decreased by 31% to 47% relative to last year. The improvement in operating activities is also reinforced in year to date results as net income before tax increased by 149% to \$1.6 million compared to \$0.6 million last year. The net loss increased to \$1.6 million from \$1.2 million between periods as year to date income increased 35% from \$0.6 million to \$0.8

million. It should be noted that net income after taxes hasn't increased to the same extent that net income before taxes has, due to recognition of previously unrecognized tax pools in the first half of 2006.

Period over period comparatives saw the Company's loss per share (basic and diluted) decreased from \$0.054 per share to \$0.047 or 13% per share. Earnings per share (diluted) for the six month period to date decreased from \$0.029 to \$0.023 per share or 21% when compared to the same period last year.

Operating cash outflows for the period before changes in non-cash working capital items totaled \$1.3 million, or \$0.039 per share (diluted) compared to \$1.0 million or \$0.047 per share (diluted) during the same period last year. Year over year, the Company has improved cash flow from operations from \$1.5 million, or \$0.071 per share (diluted), to \$3.3 million, or \$0.090 per share (diluted). Year over year, EBITDAS has increased by 104%, illustrating the operating leverage that has been achieved as a result of the continued decrease in the Company's fixed costs as a percentage of revenue.

It is important to note that the per share amounts for the first half of 2006 reflect the dilutive impact of the \$25.0 million in equity raised in the third quarter of the prior year. The full operating cash flow impacts of this financing will not be fully realized until the end of 2007.

During the last half of the quarter the Company completed the acquisition of Cementrite Inc. (a private company), which provided a platform to move Leader into the acidizing, coiled tubing, nitrogen and cementing business in the northeastern United States (US). The acquisition provides the Company with an established US client base as well as strong margins. The acquisition closed on June 14, 2006 concurrently with the completion of the \$22.0 million (CAD) in equity raised through a syndicate lead by Westwind Partners Inc., whereby the Company purchased all of the shares of Cementrite with \$14.0 million (USD) cash and \$1.0 million USD in share capital, converted at a rate of \$1.10366 CAD as at the purchase date.

The fair value of the net assets acquired is as follows:

Net assets acquired:	
Cash acquired	\$ 286
Current assets	1,336
Current liabilities	(1,668)
Working capital deficiency	(46)
Property and equipment	13,303
Future tax liability	(3,485)
Obligations under capital lease	(678)
Intangible property	1,324
Goodwill	6,137
Carrying value, net assets acquired	<u>\$ 16,555</u>
Financed by:	
Cash	\$ 15,451
Shares issued	1,104
Total consideration	<u>\$ 16,555</u>

As the northeastern US was not the original target market of the Company when it first announced its plans to expand into the US earlier this year, the Company still plans to expand its coiled tubing and nitrogen pumping services to customers located in additional regions in the US.

Comparative Income Statements and Selected Balance Sheet Information

(figures in '000s, except per share amounts)

	3 Months Ended				6 Months Ended			
	June 30, 2006	June 30, 2005	Variance	%	June 30, 2006	June 30, 2005	Variance	%
	(unaudited)				(unaudited)			
Revenue	\$4,895	\$1,846	\$3,049	165	\$16,141	\$8,083	\$8,058	100
EBITDAS	(1,371)	(1,025)	(346)	(34)	3,232	1,587	1,645	104
Income (loss) before income taxes	(2,277)	(1,430)	(847)	(59)	1,551	624	927	149
Net Income (loss)	(1,600)	(1,181)	(419)	(35)	844	624	220	35
Earning (loss) per share (basic)	(\$0.05)	(\$0.05)	\$0.00	-	\$0.03	\$0.03	(\$0.00)	-
Earnings (loss) per share (diluted)	(\$0.05)	(\$0.05)	\$0.00	-	\$0.02	\$0.03	(\$0.01)	(33)
Cash flow from operations	(1,326)	(1,030)	(296)	(29)	3,311	1,544	1,767	114
Cash flow from operations per share (basic)	(\$0.04)	(\$0.05)	\$0.01	20	\$0.10	\$0.08	\$0.02	25
Cash flow from operations per share (diluted)	(\$0.04)	(\$0.05)	\$0.01	20	\$0.09	\$0.07	\$0.02	29
Weighted average shares outstanding (basic)	34,356	21,688	12,668	58	33,563	20,004	13,559	68
Weighted average shares outstanding (diluted)	34,356	21,688	12,668	58	36,735	21,822	14,913	68

	June 30, 2006 (unaudited)	December 31, 2005 (audited)
Total assets	\$95,222	\$54,270
Long-term debt ⁽¹⁾	12,019	2,838
Shareholders' equity	72,092	46,535
Working capital	14,429	21,891
Shares issued and outstanding	39,386	32,370

(1) Includes the current portion of long-term debt.

Summary of Quarterly Results (000's - unaudited):

	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Revenue	\$ 4,895	\$ 11,246	\$ 6,618	\$ 3,819
Income (loss) before income taxes	(2,277)	3,828	1,044	244
- per share basic	(\$0.07)	0.12	0.03	0.01
- per share diluted	(\$0.07)	0.11	0.03	0.01
Net Income (loss)	(1,600)	2,444	732	187
- per share basic	(\$0.05)	0.08	0.02	0.01
- per share diluted	(\$0.05)	0.07	0.02	0.01

	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Revenue	\$ 1,846	\$ 6,238	\$ 3,725	\$ 1,824
Income (loss) before income taxes	(1,430)	2,055	621	(80)
- per share basic	(0.07)	0.11	0.06	(0.01)
- per share diluted	(0.07)	0.11	0.06	(0.01)
Net Income (loss)	(1,181)	1,806	825	(80)
- per share basic	(0.05)	0.10	0.07	(0.01)
- per share diluted	(0.05)	0.10	0.07	(0.01)

Divisional Highlights and Outlook

Well Stimulation Division:

Operating Statistics <i>(\$ thousands except per operating day amounts)</i>	3 Months Ended			6 Months Ended		
	June 06	June 05	% Change	June 06	June 05	% Change
Revenue	4,476	1,846	142%	15,722	8,084	95%
Operating Expenses	4,459	2,111	111%	9,723	4,820	102%
Operating Income	16	(265)	106%	5,998	3,264	84%
Number of Operating Days	416	217	92%	1,380	854	62%
Revenue per Operating Day	\$10,759	\$8,505	28%	\$11,393	\$9,466	20%

The Company continues to set new records within the well stimulation division, as deployment of new equipment continues. One additional nitrogen pumper was brought online during the quarter, bringing the Company's well stimulation fleet to a total of 10 nitrogen pumping units and 7 coiled tubing units at the end of the period. With the four additional pumping units, two medium coiled tubing, and one deep coiled tubing unit added during the prior three quarters, second quarter activity climbed 92%, consistent with fleet expansion.

The Company continues to see the benefit of the rate increase implemented in late 2005 and increases in nitrogen pumping volumes due to deeper working conditions, partially offset by weather conditions slowing operations in Red Deer area. The Company realized a 28% increase in revenue per operating day during the second quarter, from \$8,505 to \$10,759, and a 20% increase year to date. Additional equipment capacity was the primary catalyst to increase the number of operating days to 416 from 217, a 92% increase from the prior year's second quarter, and as a result, the division experienced record second quarter revenue, generating \$4.48 million, a 142% increase from the prior year.

Operating costs totaled \$4.6 million for the second quarter of 2006, or 100% of revenue, compared to \$2.1 million and 114% respectively for the same period last year. The decrease in operating costs as a percentage of revenue is an indication of operational efficiencies that have arisen due to the Company's increasing revenue activity, and the decreasing percentage of fixed costs associated with an increasing revenue base. The Company continues to strive for operational efficiency, and upon expansion of current facilities, the Company should continue to see improvements.

Further expansion plans for the year include the fabrication of six nitrogen pumping units and five coiled tubing units. All of these units will be deployed during the fourth quarter. By year-end 2006, the Company expects to be operating 16 coiled tubing units and 17 nitrogen pumping units, a 220% increase in fleet size since the first quarter of 2005.

Cementing Services Division:

Field testing began on the new cementing units with a plan to have the twelve initial units, comprised of five twin and seven single pumping units, deployed and fully operational throughout the third quarter. However, during the field testing phase, Company personnel were not satisfied with the performance of certain pumping components installed in the new equipment. These components represent a small but critical portion of the overall operating performance of the equipment and were supplied by a reputable OEM (original equipment manufacturer). The initial unit completed a number of jobs successfully, however, extensive field testing of additional pumping units revealed intermittent pumping system failures. The Company then undertook third party non-destructive testing which determined that certain components of the pumping system were inferior, resulting in the equipment not meeting the Company's standards for field service. To alleviate this, the Company installed and tested an alternate pumping system supplied by a different OEM, which did meet the Company's standard for field service during subsequent field tests. The Company has immediately secured access to a number of these systems and expects the balance of the systems to be delivered in line with the new deployment schedule.

To ensure premium service for its customers, the company decided to reschedule the third quarter rollout of the cementing equipment. To that end, Leader will have four twin cementing units and six singles in operation by the end of September. The balance of four twins and four singles will be delivered over the course of the fourth quarter. All 18 units are expected to be fully operational by December 2006.

Importantly, the financial impact of the revised rollout of cementing equipment is isolated to the 2006 fiscal year.

Flameless Services:

The Company has substantially completed the construction of 10 waste water evaporation systems. While marketing efforts continue and Leader believes it is close to securing sales orders in the US, some prospective customers have indicated that a combination of factors have led them to delay their decision to purchase. These factors include weak natural gas prices, a shortage of their own personnel to implement and monitor the systems, and their overriding effort to increase productive capability rather than seek out cost saving measures.

Non-operational Discussion and Analysis

General and Administrative Expenses:

(in '000s of dollars except per unit amounts)

(\$ thousands)	3 Months Ended		6 Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
General and administrative expenses	\$ 1,703	\$ 765	\$ 3,082	\$ 1,682
% of revenue	34.8%	41.4%	19.1%	20.8%

General and administrative (G&A) expenses totaled \$1.7 million for the quarter, or 34.8% of revenues versus \$0.8 million and 41.4%, respectively, relative to the same period last year. The first half of 2006 resulted in G&A expenses of \$3.1 million, or 19.1% of revenues, versus \$1.7 million and 20.8% of revenues for 2005. The increase in G&A this year over last is attributed to an 80% increase in staff levels required in order to keep up with the demands of growing operations, increased overhead costs required to facilitate expansion to a new office location, increased selling expenses required for the Company's expanding customer base, and increased professional and listing fees due to the Company's public reporting requirements. Overall expenditure levels as a percentage of revenues are decreasing for both the three month and six month periods ended June 30, 2006 as revenues increase and overhead burdens become a smaller component of the Company's operations. The Company expects administrative costs to decrease as a percentage of revenue during fiscal 2006, as the cementing division commences operations, and overhead to run additional well stimulation units decreases.

Stock Compensation Expense

The Company's stock compensation awards in the quarter have resulted in stock compensation of \$270,000 for the three month period ended June 30, 2006 (June 30, 2005 – \$132,000) and \$507,000 for the six month period ended June 30, 2006 (June 30, 2005 - \$388,000) This has increased primarily due to an increase in stock options granted as a result of the growth in operations and the attraction of qualified personnel, as well as increases in our Black-Scholes option pricing assumptions. This expense has been calculated by management using various assumptions using the Black-Scholes option pricing model, and is an estimate of the compensation expense dependant upon certain conditions existing at the time of granting of the related stock options.

Amortization Expense

Amortization expense increased significantly to \$681,000 during the period, from \$273,000 during the second quarter of 2005. For the six month period ended June 30, 2006 amortization increased to \$1,245,000 from \$507,000 for the same period last year. This is due to the significant increase in the depreciable asset base of the Company. The increase is not proportionate to the increase in capital assets due to land purchased during the prior year, and certain assets under construction that were not amortized in the first six months of 2006.

Finance

Total assets increased from \$54.3 million at December 31, 2005 to \$95.3 million at June 30, 2006. This is due primarily to the addition of \$36.5 million in capital assets during the first six months of the year, as well as increases in goodwill, intangibles and pre-operating costs expended as part of the expansion efforts.

The remaining \$16.6 million in cash and cash equivalents (discussed in the next section) generated from the \$25.0 million in equity financings completed in the third quarter of 2005 and \$22.0 million raised in 2006 has been earmarked for capital expansion, primarily in the cementing division and US operations, as well as for expansion of the Company's facilities in Red Deer and Brooks.

Liquidity, Capital Resources and Use of Funds

At June 30, 2006 the Company held cash and cash equivalents of \$16.6 million and had a positive working capital position of \$14.6 million. Cash and cash equivalents held at the end of the period were held primarily in marketable securities (\$14.5 million) remaining from proceeds from the \$22.0 million in equity financings completed during the current quarter, which were used primarily for the acquisition of Cementrite, the \$9.0 million of bank credit facility obtained during the quarter, and proceeds remaining from last August's bought deal private placement of \$25.0 million, which will be utilized to fund the 2006 capital expansion programs for the Company's well stimulation and cementing services. Marketable securities designated for future capital expansion bear interest rates of 4.22% to 4.29%. The period began to reflect the benefits of the proceeds from the prior year's equity issuances, for which the use of proceeds is reflected in the following table:

Use of Proceeds - Bought Deal Private Placement and \$9 million credit facility

<i>(in '000s)</i>	Equity Allocation	Delivery / Execution	Actual Delivery / Execution
Land/building expansion	\$ 10,000	July-September 2006	August-September 2006
Cementing equipment	22,500	April-August 2006	July-October 2006
Total	<u>\$ 32,500</u>		

Use of Proceeds - Bought Deal Offering and issued for acquisition

<i>(in '000s)</i>	Equity Allocation	Delivery / Execution	Actual Delivery / Execution
Cementrite Acquisition	\$ 16,480	June 2006	June 2006
New Equipment / Facilities in US	5,414	September – December 2006	September – December 2006
Subtotal net of brokerage fees	<u>\$ 21,894</u>		

Capital lease obligations at June 30, 2006 were held by five financial institutions. The total of \$2.9 million in capital lease obligations carries interest rates per annum of between 4.95% and 8.68% over a five-year term with the final lease maturing April 21, 2011. Monthly payments on these obligations total \$105,000 including principal and interest. All finance obligations under these capital leases are subject to security on the specific assets and a subordinated general assignment on all other assets within the Company.

The 5-year continuity schedule below highlights the lease obligations of the Company over the next five years as of June 30, 2006, less imputed interest.

	<i>(000's)</i>
2006	\$ 675
2007	1,081
2008	1,059
2009	261
2010	<u>119</u>
	3,195
Less imputed interest	<u>(312)</u>
	<u>\$ 2,883</u>

The Company meets short term financing requirements with a bank operating line of \$2.5 million of which \$2.5 million was still available to the Company at June 30, 2006. The bank loan is a demand operating facility, bearing interest at 1% above the prime lending rate. The effective rate at June 30, 2006 was 7.0% (December 31, 2005 - 6%).

The Company also holds a demand non-revolving capital loan facility of \$9.0 million, which was fully drawn at June 30, 2006. The facility bears an interest rate of 1% above the bank's prime lending rate, with an effective rate at June 30, 2006 of 7.0% (December 31, 2005 - 6%). The following continuity schedule highlights the minimum payments on the demand loan for the next five years.

	(000's)
2006	\$ 416
2007	832
2008	832
2009	832
2010	<u>416</u>
	4,160
Less imputed interest	<u>(2,954)</u>
	<u>\$ 1,206</u>

A letter of credit facility of \$0.3 million USD was negotiated in the prior year, although no amounts have been drawn. This facility bears interest of 1.5% above the bank's prime lending rate, with an effective rate at June 30, 2006 of 7.5% (December 31, 2005 - 6.5%).

The oil and gas services industry is subject to seasonal fluctuations in activity levels, especially during the first and second quarter of any calendar year. These seasonal changes, often referred to as winter drilling and spring breakup, either augment or draw down on the cash resources of the Company. The Company's cash position at any point in time is also dependent on weather conditions. It is management's opinion that with the activity levels the industry is currently experiencing, the recent equity issuances, and increased operating cash flows from an increased fleet of capital assets, that all cash flow requirements will be met.

Transactions with Related Parties

During the six month period ended June 30, 2006 the Company engaged in the following transactions with related parties:

During the period, the Company recorded legal fees in the amount of \$59,000 for services provided by a firm of which a director of the Company is a partner, \$49,000 of which has been recorded as general and administrative costs, and \$10,000 has been recorded as costs for land acquisitions. Of this total amount, \$7,000 remains in accounts payable at the end of the period.

During the period, the Company recorded \$36,000 in consulting services to a company of which a director is the principal.

All related party transactions that are in the normal course of operations have been measured at the agreed to exchange amounts, and represent consideration established and agreed to by the related parties and which are similar to those negotiated with third parties.

Outlook

Outside of normal seasonal factors, Leader has not experienced a slow-down in demand for its services, nor any pricing pressures on its services. Although management expects that current natural gas prices will influence the number of shallow gas wells drilled over the next few months, Leader has little exposure to this cyclical type of drilling activity, as the majority of our work occurs on wells that are 2,000 to 3,500 meters deep. This supports management's philosophy to expand services in areas where deeper, larger gas reservoirs are being sought, specifically northern Alberta and British Columbia. Our customers continue to drill through the current weaker natural gas price environment with an eye to stronger pricing in the near and longer term. Management believes that natural gas prices will increase by the fourth quarter, due to underlying tight natural gas demand and supply forces, driving further demand for the Company's services. Longer-term, when observing anticipated commodity prices over the next five years, the futures market is indicating that natural gas is expected to fluctuate between \$7 and \$11, and that oil

is expected to decline gradually from today's spot price to \$70 by 2011. This indicates that healthy commodity prices are expected to remain for some time and the company expects that demand for all energy services will consequently remain high. Leader is positioned to capitalize in this environment.

Leader is fully staffed with experienced personnel to design, construct, test and operate all of its equipment. Even considering normal seasonal factors, Leader continues to experience growing demand for its services. Our commitment to quality and reliability has resulted in a loyal customer base. Our top 20 clients have not indicated any pullback in their projected activities. Furthermore, demand for our services exceeds the broader service industry's capacity to supply - leaving us well positioned for continued growth. Leader has secure supplies for its services including nitrogen, coiled tubing and cement. The Company commenced operations out of its new Grande Prairie shop July 31, 2006, and expects to be operating at the Brooks shop August 31, 2006 and the Red Deer shop September 30, 2006.

Business risks

The Company's primary activities revolve around providing well stimulation services to the oil and gas industry in Western Canada. The demand, price and terms of well stimulation services are dependent on the level of activity in the industry, which in turn depends on several factors. These are elaborated on below when considered necessary:

- *Commodity pricing* – Fluctuation in the price of petroleum products is a business risk that impacts the Company directly. Oil and gas prices determine the economic feasibility of exploration and drilling activity in the oil and gas industry, to which the Company provides its services. High prices increase demand for the Company's services, while adverse prices impact the Company's ability to generate revenues.
- *Production declines and new discoveries* – New discoveries of oil and gas reserves lead to an increase in the demand for the Company's services. On the other hand, declines in production result in decreased demands for the Company's services. Either situation directly impacts the operating results of the Company.
- *Access to capital* – The Company is dependent on access to equity or debt financing to fund capital expansion programs when operating cash flows are not sufficient. To date, sufficient capital has been obtained to meet the Company's capital expansion requirements. Any further capital expansion that can not be funded by operating cash flows will require outside financing, the availability of which is dependent on economic factors such as interest rates, investor confidence, and industry profitability.
- *Weather* – The Company operates heavy equipment, the moving of which requires reasonable weather and road conditions. In the spring, this is especially true, with spring breakup making many secondary roads impassable. Since equipment can not be moved under these conditions, the Company's operating results are subject to significant decreases during this time period. To mitigate this risk, the Company is increasing its geographic footprint, enabling the Company to perform more services in the spring.
- *Available workforce* – The ability to perform services is contingent upon sufficient staff being available. Obtaining personnel is crucial to the Company's ability to meet demand for its services.
- *Competition* – The Company's ability to provide cost-effective, quality service to its customers is essential for the Company to help mitigate the business risk of competition.
- *Technology* – The Company engages in the development of new technology, the commercialization of which is dependent on industry acceptance and competing technologies. As new technologies are introduced existing technologies may become obsolete.
- *Foreign Exchange* – The Company operates a US subsidiary whose functional currency is the US dollar, therefore exposing the Company to translation and transaction risks.

A change in any one of these factors could have a material impact on the financial performance of the Company.

Other

Additional information for the Company can be found on SEDAR at www.sedar.com or the Company web site at www.leaderenergy.com. The number of common shares issued and outstanding at the date hereof was 39,386,046 which does not include 5,701,488 unexercised stock options and warrants.

**Leader Energy Services Ltd.
Consolidated Balance Sheets**

	June 30, 2006	December 31, 2005
(Stated in thousands of dollars)	(unaudited)	(audited)
Assets		
Current		
Cash and cash equivalents	\$ 16,631	\$ 23,037
Accounts receivable	7,006	4,229
Prepaid expenses and deposit	431	424
	24,068	27,690
Deferred charges	20	20
Pre-operating costs (Note 5)	1,857	447
Property and equipment (Note 6)	61,568	25,013
Intangible assets	1,572	223
Future taxes (Note 9)	-	877
Goodwill	6,137	-
	\$ 95,222	\$ 54,270

Liabilities and Shareholders' Equity

Current		
Bank indebtedness (Note 7)	\$ -	\$ 832
Accounts payable and accrued liabilities	8,203	4,065
Current taxes payable	120	-
Current portion of obligations under capital lease (Note 8)	1,107	902
Current portion of demand non-revolving loan (Note 7)	209	-
	9,639	5,799
Obligations under capital lease (Note 8)	1,912	1,936
Demand non-revolving loan (Note 7)	8,791	-
Future Taxes (Note 9)	2,788	-
	23,130	7,735
Cumulative foreign currency adjustment	90	-
Equity Instruments (Note 10(b))	73,057	49,170
Contributed surplus (Note 10(g))	1,607	871
Deficit	(2,662)	(3,506)
	72,092	46,535
	\$ 95,222	\$ 54,270

On behalf of the Board:

"Signed" _____ Director
Rodney Hauser

"Signed" _____ Director
Richard Skeith

Leader Energy Services Ltd.
Consolidated Statement of Operations and Deficit
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
(Stated in thousands of dollars, except for per share amounts)				
Revenue	\$ 4,895	\$ 1,846	\$ 16,141	\$ 8,083
Expenses				
Operating	4,563	2,111	9,827	4,820
General and administrative	1,703	765	3,082	1,682
Interest on long-term debt	-	-	-	49
Interest on capital lease obligations	40	56	82	118
Amortization	681	273	1,245	507
Stock compensation	270	132	507	388
	7,257	3,337	14,743	7,563
Income (loss) from operations	(2,362)	(1,491)	1,398	520
Other (income) expense				
Interest income	(85)	(56)	(161)	(99)
Loss (gain) on disposal of assets	-	(5)	8	(5)
	(85)	(61)	(153)	(104)
Income (loss) before income taxes	(2,277)	(1,430)	1,551	624
Future income tax expense (recovery)	(677)	(249)	707	-
Net income (loss) for the period	(1,600)	(1,181)	844	624
Deficit, beginning of period	(1,062)	(3,244)	(3,506)	(5,049)
Deficit, end of period	\$ (2,662)	\$ (4,425)	\$ (2,662)	\$ (4,425)
Earnings (loss) per common share – basic	\$ (0.05)	\$ (0.05)	\$ 0.03	\$ 0.03
Earnings (loss) per share - diluted	\$ (0.05)	\$ (0.05)	\$ 0.02	\$ 0.03
Weighted average number of shares outstanding - basic	34,356	21,688	33,563	20,004
Weighted average number of shares outstanding - diluted	34,356	21,688	36,735	21,821

Leader Energy Services Ltd.
Consolidated Statement of Cash Flows
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
(Stated in thousands of dollars)				
Cash flows from operating activities				
Net income (loss) for the period	\$ (1,600)	\$ (1,181)	\$ 844	\$ 624
Adjustments for:				
Amortization	681	273	1,245	507
Amortization of deferred charges	-	-	-	30
Stock compensation expense	270	132	507	388
Loss (gain) on disposal of property and equipment	-	(5)	8	(5)
Future taxes	(677)	(249)	707	-
	<u>(1,326)</u>	<u>(1,030)</u>	<u>3,311</u>	<u>1,544</u>
Change in non-cash working capital balances				
Accounts receivable	4,561	2,562	(1,555)	375
Prepaid expenses and deposit	222	(53)	116	(107)
Inventory	-	-	-	-
Accounts payable and accrued liabilities	(4,521)	(561)	687	(806)
Current taxes	(138)	-	(137)	-
Deferred revenue	-	-	-	(65)
	<u>(1,202)</u>	<u>918</u>	<u>2,422</u>	<u>941</u>
Cash flows from investing activities				
Cash acquired on acquisition	286	-	286	-
Additions to property and equipment and intangibles	(16,051)	(3,480)	(24,390)	(4,798)
Additions to pre-operating costs	(769)	-	(1,208)	-
Proceeds on disposal of property and equipment	-	5	5	5
Acquisition (Note 4)	(15,451)	-	(15,451)	-
Changes in non-cash working capital balances due to investing activities	4,737	691	1,939	988
	<u>(27,248)</u>	<u>(2,784)</u>	<u>(38,819)</u>	<u>(3,805)</u>
Cash flows from financing activities				
Bank indebtedness	(1,479)	(198)	(832)	(363)
Proceeds from non-demand revolving loan	9,000	-	9,000	-
Repayment of obligations under capital lease	(276)	(223)	(500)	(357)
Repayment of subordinated debentures	-	-	-	(1,027)
Repayment of shareholders loan	-	-	-	(416)
Issue of share capital, net of share issue costs	20,891	1,163	22,323	8,425
	<u>28,136</u>	<u>742</u>	<u>29,991</u>	<u>6,262</u>
Increase (decrease) in cash and cash equivalents	(314)	(1,124)	(6,406)	3,398
Cash and cash equivalents, beginning of period	16,945	8,393	23,037	3,871
Cash and cash equivalents, end of period	\$ 16,631	\$ 7,269	\$ 16,631	\$ 7,269
Supplemental Information				
Interest paid	\$ 80	\$ 58	\$ 158	\$ 620
Income tax paid	137	-	137	-