



LEADER ENERGY SERVICES ANNOUNCES FIRST QUARTER RESULTS

May 1, 2006, Calgary, Alberta (TSX Venture: LEE) – Leader Energy Services Ltd. ("Leader" or the "Company") today released first quarter 2006 results for the period ended March 31, 2006.

Overall Performance and Quarterly Review

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

<u>Financial Review</u>	March 31, 2006	March 31, 2005	\$ Variance	%
Revenue	\$ 11,246	\$ 6,238	\$ 5,008	80
EBITDAS ⁽¹⁾	4,594	2,622	1,964	75
Income before income taxes	3,828	2,055	1,773	86
Net Income	2,444	1,806	638	35
Earnings per share (diluted)	\$ 0.07	\$ 0.10	\$ (0.03)	(30)
Cash flow from operations ⁽²⁾	4,637	2,574	2,063	80
Cash flow from operations per share (diluted)	\$ 0.13	\$ 0.14	\$ (0.01)	(7)

⁽¹⁾ EBITDAS means earnings from continuing operations before interest, taxes, amortization, and stock based compensation. Readers are cautioned that 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 of public companies, 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.

First Quarter Highlights:

The first quarter ending March 31, 2006 ("the period") was a record quarter for the Company, as revenue and EBITDAS increased by 80% and 75% respectively over the same period last year. Revenue growth for the period exceeded management expectations. In spite of delays in equipment deliveries, the Company was still able to meet internal revenue and profitability forecasts for the period due to higher nitrogen pumping volumes and favorable operating conditions in March. In terms of comparison to last year, revenue totaled \$11.2 million for the quarter, versus \$6.2 million relative to the same period last year, an 80% increase.

Leader generated income before income taxes of \$3.83 million for the first quarter of 2006, an increase of 86% from \$2.06 million in the first quarter of 2005. Net income for the period rose to \$2.44 million from \$1.81 million, a 35% increase over the period. In the prior year, the Company's tax provision in the first quarter was \$0.25 million, an effective rate of 12% for the quarter due to the recognition of a future tax asset due to increasing profitability for the Company, which reduced the Company's tax provision for the first quarter of 2005. Leader had a tax provision of \$1.38 million, for an effective tax rate of 36% for the first quarter of 2006, which reflects the quarter's increased profitability compared to the relatively low rate in the prior year.

Earnings per share (basic) for the period decreased 20% from \$0.10 per share to \$0.08 per share. Diluted earnings per share decreased 30% from \$0.10 to \$0.07 per share. This decrease can be attributed to several factors. The future tax asset that was recognized due to increasing profitability, discussed in the preceding paragraph, contributed to lower future tax for the first quarter of 2005. As well, the Company's weighted number of shares increased significantly during the period, by 14.4 million

shares on an average basis, and 17.6 million on a diluted basis. This significant increase was due to an increase of 19.2 million shares issued between January 1, 2005 to the end of the first quarter of 2006. The full impact on revenue and earnings per share will not be fully realized until 2007, when current build-outs of cementing and well stimulation equipment have been completed and are being utilized.

For the three months ended March 31, 2006, operating cash flow before changes in non-cash working capital items totaled \$4.6 million, or \$0.13 per share (diluted) compared to \$2.6 million or \$0.14 per share (diluted) during the same period last year. As discussed in the highlights section, the cash flow per share amounts from the first quarter of 2006 reflect the dilutive impact of the \$37 million in equity raised in the prior year, and the full operating cash flow impacts of these financings will not be fully realized until the end of 2007.

Comparative Income Statements and Selected Balance Sheet Information

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

	March 31, 2006	March 31, 2005	\$ Variance	%
Revenue	\$ 11,246	\$ 6,238	\$ 5,008	80
EBITDAS	4,594	2,622	1,964	75
Income before income taxes	3,828	2,055	1,773	86
Net Income	2,444	1,806	638	35
Earning per share (basic)	\$ 0.08	\$ 0.10	\$ (0.02)	(20)
Earnings per share (diluted)	\$ 0.07	\$ 0.10	\$ (0.03)	(30)
Cash flow from operations	4,637	2,574	2,063	80
Cash flow from operations per share (basic)	\$ 0.14	\$ 0.14	\$ (0.00)	0
Cash flow from operations per share (diluted)	\$ 0.13	\$ 0.14	\$ (0.01)	(7)
Weighted average shares outstanding (basic)	32,687	18,302	14,385	79
Weighted average shares outstanding (diluted)	36,445	18,867	17,578	93

Total assets
Long-term debt ⁽¹⁾
Shareholders' equity
Working capital
Shares issued and outstanding

	March 31, 2006	December 31, 2005
Total assets	\$ 61,841	\$ 54,270
Long-term debt ⁽¹⁾	2,612	2,838
Shareholders' equity	50,753	46,535
Working capital	18,955	21,891
Shares issued and outstanding	33,276	32,370

(1) Includes current portion of long term debt.

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

	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Revenue	11,246	6,618	3,819	1,845
Income (loss) before income taxes	3,828	1,044	244	(1,430)
- per share basic	0.12	0.03	0.01	(0.07)
- per share diluted	0.11	0.03	0.01	(0.07)
Net Income (loss)	2,444	732	187	(1,181)
- per share basic	0.08	0.02	0.01	(0.06)
- per share diluted	0.07	0.02	0.01	(0.06)

	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Revenue	6,238	3,725	1,824	720
Income (loss) before income taxes	2,055	621	(80)	(760)
- per share basic	0.11	0.06	(0.01)	(0.11)
- per share diluted	0.11	0.06	(0.01)	(0.11)
Net Income (loss)	1,806	825	(80)	(760)
- per share basic	0.10	0.07	(0.01)	(0.11)
- per share diluted	0.10	0.07	(0.01)	(0.11)

Divisional Highlights and Outlook

Well Stimulation Division:

Operating Statistics <i>(\$ thousands except per operating day amounts)</i>	March 31, 2006	March 31, 2005	% Change
Revenue	\$11,246	\$ 6,238	80%
Operating Expenses	5,264	2,709	94%
Operating Income	5,982	3,529	70%
Number of Operating Days	964	637	51%
Revenue per Operating Day	11,666	9,793	19%

The period saw record activity for Leader's well stimulation division, as the Company continued to expand and diversify its customer base. The Company continues to perform more work on deeper wells, which provide greater margins than shallower work. During the first quarter of 2006 Leader averaged 8 nitrogen pumping units and 7 coiled tubing units in service, compared to 5 and 4 units respectively for the same period last year. Two additional nitrogen pumpers were brought online during the quarter, as well as one medium and one deep coiled tubing unit, bringing the Company's well stimulation fleet to a total of 9 nitrogen pumping units and 7 coiled tubing units at the end of the period, which significantly contributed to the Company's increasing activity.

The Company saw the benefit of rate increases that occurred in late 2005, increases in nitrogen pumping volumes and an increasing amount of work on deeper wells as the Company realized a 19% increase in revenue per operating day, from \$9,793 to \$11,666. Additional equipment capacity was the primary catalyst to increase the number of operating days to 964 from 637, a 51% increase from the prior year's first quarter, and as a result, the Company experienced record first quarter revenue, generating \$11.2 million, an 80% increase from the prior year. The Company reached internal expectations despite delays in the expected build-out of two nitrogen pumping units, and its deep coiled tubing unit.

Operating costs totaled \$5.3 million for the quarter, or 46.8% of revenue, versus \$2.7 million and 43.4% respectively for the same period last year. Excessive non-recoverable labour costs have led to increased operational payroll costs for the quarter. Management has addressed this issue by reorganizing its operational hierarchy at its primary location in Grande Prairie. Also, the well stimulation and completion services experienced higher than normal costs in dealing with logistical issues around supplying services to clients throughout the WCSB. These issues are expected to alleviate as the Company broadens its operational reach through the construction of additional equipment.

Further expansion plans for the year include the fabrication of six additional nitrogen pumping units and five additional coiled tubing units. All of these units will be deployed during the fourth quarter. By year-end 2006, the Company will operate 12 coiled tubing units and 16 nitrogen pumping units, a 189% increase in fleet size since the first quarter of 2005.

Cementing Services:

The Company is looking forward to the commencement of cementing operations. The cement laboratory is fully operational as of April 30, and the cement blending plants for the Brooks, Grande Prairie and Red Deer locations are expected to commence operations May 31, June 30 and July 31 respectively. Manufacturing of the cementing units is proceeding according to plan, and the Company expects to take delivery of two single and two twin cementing pumpers during June, with the remaining 67% becoming available at varying intervals between July and September, for a total of 5 twin cementers, 7 single cementers, 15 bulkers and 4 lay-down trailers. The new operation centers, which are separate structures from the blending plants, in Grande Prairie, Brooks and Red Deer will be completed in July, August and September respectively.

The Company continues to incur pre-operational expenditures of a non-capital nature. In accordance with EIC-27, interest revenue and expenses incurred until time of commercial deployment are being deferred at which time the deferred items will be amortized over a reasonable amount of time not to exceed five years.

Flameless Services:

Flameless services continue to be a dynamic business aspect as the Company, in conjunction with some of its customers, continues to design and develop new applications for this technology such as a waste water evaporation system.

Aggressive marketing efforts continue with the waste water evaporation system. Since the broader marketing effort began in January 2006, the Company has commissioned the construction of 10 more units, the first of which should be released from manufacturing in May. The Company has established preliminary marketing contact with over 70 companies in Canada. While all conversations with these prospective customers have been quite encouraging, the Company believes that recent weakness in the spot price of natural gas has changed the economic benefit of the service, and consequently curtailed the enthusiasm to implement these systems immediately. Management believes that as gas prices strengthen over the balance of 2006, customers will quickly adopt Leader's solution for dealing with the waste waters that are a byproduct of natural gas production.

Due to time constraints with the build out of new equipment and design elements of the flameless boiler, the Company was unable to place a significant amount of resources into a prototype boiler in the first quarter of 2006 as anticipated. During the second quarter of 2006 the Company will commence field trials of the newly modified unit which will be used to determine if the unit can meet industry standards for heat generation.

Non-operational Discussion and Analysis

General and Administrative Expenses:

<i>(\$ thousands)</i>	March 31, 2006	March 31, 2005
General and administrative expenses	\$ 1,388	\$ 907
% of revenue	12.3%	14.5%

General and administrative (G&A) expenses totaled \$1.4 million for the quarter, or 12.3% of revenues versus \$0.9 million and 14.5% respectively, relative to the same period last year. The increase in G&A this year over last is attributed to a 45% 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, offset by a \$139,000 charge incurred in March 31, 2005 for refinancing of capital leases. Overall expenditure levels as a percentage of revenues are decreasing as revenues increase and overhead burdens become a smaller component of the Company's operations. The Company expects administrative costs to continue 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 \$342,000 for the period of which \$237,000 was expensed (March 31, 2005 - \$255,000) and the balance of \$105,000 was included in pre-operating costs. This has decreased from the comparable period due to deferral of certain stock compensation costs, and the Company extending vesting terms on all option grants subsequent to December 1st by one year. 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 issuance of the related options.

Amortization Expense

Amortization expense increased significantly to \$564,000 during the period, from \$234,000 during the first quarter of 2005. 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 depreciated/amortized as of March 31, 2006.

Finance

Total assets increased from \$54.3 million at December 31, 2005 to \$61.8 million at March 31, 2006. This is due primarily to a \$6.1 million increase in accounts receivable owing to record revenues during the period, which should translate into significant working capital inflows during the second quarter.

The remaining \$17 million in cash and cash equivalents (discussed in the next section) from the \$37 million in equity financings completed in 2005 has been earmarked for capital expansion, primarily in the cementing division, for expansion of the Company's facilities in Grande Prairie and Red Deer, and for building cementing facilities in Brooks. The \$9 million credit facility secured in the prior year to assist in

this expansion has not been drawn on as of the end of the period. Capital asset expansion during the period can be broken down as follows, with the use of funds indicated:

<i>(\$ thousands)</i>	
Capital funds available at December 31, 2005	\$ 23,037
Warrant and option proceeds received during period	1,358
Asset purchases funded through working capital	989
Well Stimulation Equipment	(3,636)
Cementing Equipment	(4,189)
Land & Buildings Expansion	(503)
Flameless Technology Purchases	<u>(111)</u>
Capital funds available at March 31, 2006	<u>\$ 16,945</u>

Liquidity, Capital Resources and Use of Funds

At March 31, 2006 the Company held cash and cash equivalents of \$17 million and had a positive working capital position of \$19 million. The entire amount of cash and cash equivalents held at the end of the period were held in marketable securities remaining from proceeds from the \$37 million in equity financings completed during the prior year which continue to be used 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 3.74% to 3.75%. 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 (Original Private Placements and SFOD – December 2004-February 2005)

	Equity Allocation	Estimated Delivery / Execution	Actual Delivery / Execution
Well stimulation equipment	\$5,988,000	Aug – Sept 2005	Oct 2005 – January 2006
Flameless equipment	998,000	Nov 2005	Delayed
Support equipment	2,085,000	Various	Various
Debenture and shareholder loan retirement	<u>1,883,000</u>	Mar 2005	Mar 2005
Subtotal	\$10,954,000		
Proceeds of issues (\$12 million net of brokerage fees)	<u>11,040,000</u>		
Working Capital	<u>\$ 86,000</u>		

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

	Equity Allocation	Delivery / Execution	Actual Delivery / Execution
Land/building expansion	\$ 10,000,000	July-September 2006	July-September 2006
Cementing equipment	22,500,000	April-August 2006	June-September 2006
Subtotal	<u>\$ 32,500,000</u>		

Capital lease obligations at the end of the period were held by two financial institutions. \$2.52 million carries per annum interest rates of 5.9% to 6.4% over a four-year term maturing January and August of 2009. Monthly payments on these obligations total \$79,000 including principle and interest. \$90,000 carries per annum interest rates ranging from 7% to 7.75% over a four-year term and maturing at various times between July 2006 and 2007. Monthly payments on this obligation total \$10,000, including principle and interest. All finance obligations are subject to security on the specific assets and 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 March 31, 2006, less imputed interest. It should be noted that only four years are on the schedule due to the Company's capital leases all having terms that will end in the year 2009.

2006	\$	783
2007		971
2008		950
2009		<u>152</u>
		2,856
Less imputed interest		<u>(244)</u>
	\$	<u>2,612</u>

The Company meets short term financing requirements with a bank operating line of \$2.5 million of which \$1.0 million was still available to the Company at March 31, 2006. The bank loan is a demand operating facility, bearing interest at 1% (December 31, 2005 – 1%) above the prime lending rate. The effective rate at March 31, 2006 is 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 easily met.

Outlook

The Canadian Association of Drilling Contractors is forecasting a record 26,000 wells to be drilled in western Canada in 2006, the fourth year in a row that drilling activity has increased. Demand for the Company's services remains strong and barring inclement weather conditions, calls for equipment suggest that summer activity levels may commence earlier than usual. Given the current commodity environment this demand is expected to continue into the immediate future. This should prove timely for the Company as a surge in demand for services and a lack of equipment capacity in the industry coincides with the introduction of cementing services and further expansion of coiled tubing and nitrogen pumping equipment.

As stated in previous press releases, management is formulating a strategy to provide coiled tubing, nitrogen pumping and cementing operations in the United States. To broaden its scope of services, this strategy may include business acquisitions. Leader anticipates making further disclosure in this regard during the second quarter.

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The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this news release.

**Leader Energy Services Ltd.
Balance Sheets**

(Stated in thousands of dollars)	March 31, 2006 (unaudited)	December 31, 2005 (audited)
Assets		
Current		
Cash and cash equivalents	\$ 16,945	\$ 23,037
Accounts receivable	10,345	4,229
Prepaid expenses and deposits	530	424
	27,820	27,690
Deferred charges	20	20
Pre-operating costs (Note 4)	991	447
Property and equipment (Note 5)	32,780	25,013
Intangible assets	230	223
Future taxes	-	877
	\$ 61,841	\$ 54,270

Liabilities and Shareholders' Equity

Current		
Bank indebtedness (Note 6)	\$ 1,479	\$ 832
Accounts payable and accrued liabilities	6,490	4,065
Current portion of obligations under capital lease (Note 7)	896	902
	8,865	5,799
Obligations under capital lease (Note 7)	1,716	1,936
Future taxes (Note 8)	507	-
	11,088	7,735
Equity instruments (Note 9)	50,606	49,170
Contributed surplus (Note 9)	1,209	871
Deficit	(1,062)	(3,506)
	50,753	46,535
	\$ 61,841	\$ 54,270

On behalf of the Board:

"signed" Director
Rodney Hauser

"signed" Director
Richard Skeith

Leader Energy Services Ltd.
Statements of Operations and Deficit

For the three months ended	March 31, 2006	March 31, 2005
(Stated in thousands of dollars, except for per share amounts)	(unaudited)	(unaudited)
Revenue	\$ 11,246	\$ 6,238
Expenses		
Operating	5,264	2,709
General and administrative	1,388	907
Amortization	564	234
Stock compensation	237	255
Interest on capital lease obligations	42	73
Interest on long-term debt	-	49
	<u>7,495</u>	<u>4,227</u>
Income from operations	<u>3,751</u>	<u>2,011</u>
Other income (expense)		
Interest from investments	85	44
Loss on disposal of property and equipment	(8) ⁷	-
	<u>77</u> ⁷	<u>44</u>
Income before income taxes	<u>3,828</u>	<u>2,055</u>
Future income tax expense	<u>1,384</u>	<u>249</u>
Net income for the period	<u>2,444</u>	<u>1,806</u>
Deficit, beginning of period	<u>(3,506)</u>	<u>(5,050)</u>
Deficit, end of period	<u>\$ (1,062)</u>	<u>\$ (3,244)</u>
Earnings per common share – basic	<u>\$ 0.08</u>	<u>\$ 0.10</u>
Earnings per share - diluted	<u>\$ 0.07</u>	<u>\$ 0.10</u>
Weighted average number of shares outstanding –basic ('000s)	<u>32,687</u>	<u>18,302</u>
Weighted average number of shares outstanding – diluted ('000s)	<u>36,367</u>	<u>18,867</u>

Leader Energy Services Ltd.
Statements of Cash Flows

For the three months ended	March 31, 2006	March 31, 2005
(Stated in thousands of dollars)	(unaudited)	(unaudited)
Cash flows from operating activities		
Net income for the period	\$ 2,444	\$ 1,806
Adjustments for:		
Amortization	564	234
Amortization of deferred charges	-	30
Stock compensation	237	255
Future tax expense	1,384	249
Loss on disposal of property and equipment	8	-
	<u>4,637</u>	<u>2,574</u>
 Change in non-cash working capital balances		
Accounts receivable	(6,116)	(2,187)
Prepaid expenses and deposits	(106)	(54)
Accounts payable and accrued liabilities	(377)	(233)
Deferred revenue	-	(65)
	<u>(1,962)</u>	<u>35</u>
Cash flows from investing activities		
Additions to property and equipment and intangibles	(8,439)	(1,318)
Changes in non-cash working capital due to investing activities	2,798	285
Additions to pre-operating costs	(439)	-
Proceeds on disposal of property and equipment	95	-
	<u>(5,985)</u>	<u>(1,033)</u>
Cash flows from financing activities		
Bank indebtedness	648	(166)
Issue of share capital, net of share issue costs	1,432	7,262
Repayment of obligations under capital lease	(225)	(133)
Repayment of shareholders loan	-	(416)
Repayment of subordinated debentures	-	(1,027)
	<u>1,855</u>	<u>5,520</u>
 Increase (decrease) in cash and cash equivalents	 (6,092)	 4,522
Cash (bank indebtedness), beginning of period	<u>23,037</u>	<u>3,871</u>
Cash (bank indebtedness), end of period	\$ 16,945	\$ 8,393

Supplemental Information

Interest paid	\$ 76	\$ 513
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1. Basis of Presentation

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of Leader Energy Services Ltd.'s ("the Company's") audited financial statements for the year ended December 31, 2005. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The interim financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality. These interim financial statements do not include all the note disclosure required for annual financial statements, and as a result, these interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2005 contained in the Company's 2005 annual report.

2. Seasonality of Operations

The Corporation's operations are carried out in Canada. The ability to move equipment in the Canadian oil and natural gas fields is dependent on the following weather conditions.

As warm weather returns in the spring, ground frost thaws, rendering many secondary roads incapable of supporting the weight of heavy equipment until completely dried. The duration of "spring breakup" directly impacts the Corporation's activity levels. Several exploration and development areas in Northern and Central Alberta and Northeastern British Columbia, the Company's area of operations, are only accessible during winter months when the ground is frozen hard enough to support its equipment. The timing of freeze-up and spring breakup affect the Company's ability to move equipment in and out of these locations. Consequently, late March through May is the Company's slowest time.

3. Significant Accounting Policies

In addition to the accounting policies discussed in the annual financial statements dated December 31, 2005, the Company adopted the following accounting policy during the period.

(a) Foreign currency translation

For foreign divisions whose functional currency is the Canadian dollar, the Company translates monetary assets and liabilities at end of period exchange rates, and non-monetary items are translated at historical rates. Income and expense accounts are translated at the average rates in effect during the year. Gains or losses from changes in exchange rates are recognized in income in the year of occurrence.

Transactions of Canadian divisions in foreign currencies are translated at rates in effect at the time of the transaction. Foreign currency monetary assets and liabilities are translated at current rates. Gains or losses from changes in exchange rates are recognized in income in the year of occurrence.

4. Pre-operating Costs

Pre-operating costs represent certain incremental costs incurred during the start-up of the Company's cementing division, U.S. division and for certain administrative costs incurred with regard to development of the Company's evaporation system. Amortization of these costs will occur based on the expected period and pattern of benefit of the deferred expenditures when the pre-operation period has ended, and are segregated in the following table:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Cementing division	772	367
United States division	128	-
Flameless division	91	80
Balance, end of period	<u>991</u>	<u>447</u>

5. Property and Equipment

	<u>March 31, 2006</u>			<u>December 31, 2005</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land and buildings	\$ 5,432	\$ -	\$ 5,432	\$ 4,930	\$ -	\$ 4,930
Equipment	29,904	2,975	26,929	22,277	2,548	19,729
Furniture/fixtures	583	164	419	481	127	354
	<u>\$ 35,919</u>	<u>\$ 3,139</u>	<u>\$ 32,780</u>	<u>\$ 27,688</u>	<u>\$ 2,675</u>	<u>\$ 25,013</u>

Included in property and equipment are assets financed by capital leases with a cost of \$9,175,000 (December 31, 2005 - \$9,026,000) and a net book value of \$7,156,000 (December 31, 2005 - \$7,126,000) as at March 31, 2006.

As at March 31, 2006, \$10,474,000 (December 31, 2005 - \$6,450,000) in depreciable property and equipment was not being amortized, as they were not yet in use at the end of the period.

6. Bank Indebtedness

The bank loan is a demand operating facility bearing interest at 1% (December 31, 2005 – 1%) above the bank's prime lending rate. The effective rate at March 31, 2006 was 6.5% (December 31, 2005 – 6%). The limit on this facility is \$2,500,000 (December 31, 2005 - \$2,500,000).

During the prior year, the Company negotiated a new credit facility for a demand non-revolving capital loan. The facility bears interest at 1% above the bank's prime lending rate. The effective rate at March 31, 2006 was 6.5% (December 31, 2005 – 6%). The limit on this facility is \$9,000,000, none of which has been drawn by the Company at the end of the period.

These facilities are secured by:

- Demand operating facility
- Master lease agreements
- A general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property
- Assignment of risk insurance on Company's property
- Demand mortgages on buildings

During the prior year, the Company also negotiated a new credit facility for an additional \$300,000 USD letter of credit, of which no balance has been drawn. The facility bears interest at 1.5% above the bank's prime lending rate. The effective rate at March 31, 2006 was 7.0% (December 31, 2005 – 6.5%). The facility is to be secured by specified property and equipment.

7. Obligations Under Capital Lease

	March 31, 2006	December 31, 2005
Capital lease bearing interest at 5.93% per annum, payable in monthly installments of \$49, maturing January 25, 2009	\$ 1,485	\$ 1,609
Capital lease bearing interest at 6.38% per annum, payable in monthly installments of \$30, maturing August 24, 2009	1,039	1,112
Capital leases bearing interest at 7.00% to 7.75% per annum, payable in monthly installments of \$10, maturing July 15, 2006 to July 1, 2007	88	117
	2,612	2,838
Less: current portion due within one year	(896)	(902)
	\$ 1,716	\$ 1,936

The minimum lease payments for the next five years are as follows:

2006	\$ 783
2007	971
2008	950
2009	<u>152</u>
	2,856
Less imputed interest	<u>(244)</u>
	<u>\$ 2,612</u>

All loans above are blended monthly payments and all leases are collateralized by specific property and equipment as disclosed in Note 4.

8. Future Taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

Nature of temporary differences	March 31, 2006	December 31, 2005
Property and equipment	\$ (5,147)	\$ (3,646)
Property and equipment under construction	3,521	2,193
Non-capital losses	502	1,549
Share issue costs	828	864
Pre-operating costs	(211)	(83)
Future income tax asset (liability)	\$ (507)	\$ 877

9. Equity Instruments

(a) Authorized

Unlimited number of Common shares
 Unlimited number of Preferred shares, issuable in series

(b) Common shares issued and outstanding

	March 31, 2006		December 31, 2005	
	Number of ('000s)	Amounts	Number of ('000s)	Amounts
Balance, beginning of period	32,370	\$ 48,336	14,098	\$ 12,319
Exercise of broker warrants	354	444	1,136	1,402
Exercise of private placement warrants	530	901	1,428	2,431
Exercise of options	9	13	198	260
Shares issued to employee (1)	13	74	-	-
Fair value of warrants exercised	-	277	-	302
Fair value of options exercised	-	4	-	30
Convertible debenture	-	-	960	1,528
Private placement	-	-	1,353	1,394
Short form offering	-	-	1,600	1,900
Private placement	-	-	3,400	3,509
Bought deal private placement	-	-	8,197	25,000
Share issue costs, net of tax effect (December 31, 2005-\$1,042) (2)	-	(55)	-	(1,739)
Balance, end of period	33,276	\$ 49,994	32,370	\$ 48,336
Warrants issued and outstanding				
Balance, beginning of period	3,566	\$ 834	2,456	\$ -
Private placement	-	-	879	251
Short form offering	-	-	240	100
Private placement	-	-	2,210	741
Exercise of broker warrants	(354)	(167)	(1,136)	(134)
Exercise of private placement warrants	(530)	(110)	(1,428)	(170)
Additional broker warrants issued (2)	105	55	345	46
Balance, end of period	2,787	612	3,566	834
Total equity instruments	36,063	\$ 50,606	35,936	\$ 49,170

- (1) On January 19, 2006, the Company issued 13,000 shares to an employee pursuant to an employment agreement at \$5.75 per share, for gross proceeds of \$74,000.

9. Equity Instruments (continued)

(b) Common shares issued and outstanding (continued)

- (2) On February 18, 2005 the Company completed its third and final closing of the private placement with the issuance of 3,400,000 Units for gross proceeds of \$4,250,000. As previously described, each Unit consists of one common share and one half of a warrant, each whole warrant entitling the holder to subscribe for one common share for \$1.70 for a two year period from closing. All Units were subject to a hold period until June 19, 2005. The agent for this offering received a commission of \$340,000 and was granted broker warrants to acquire up to 510,000 Units at \$1.25 per Unit for a two year period from date of closing. Upon exercise of these warrants, the agent is entitled to one half warrant for each common share warrant exercised, at an exercise price of \$1.70 per share, for a maximum of 255,000 shares. 210,000 of these half warrants were issued during the period, resulting in 105,000 full warrants issued, resulting in a fair value of allocation of \$55,000 during the period.

(c) Earnings per share

Earnings per share has been calculated based on the weighted average number of common shares outstanding during the period of 32,687,000 (March 31, 2005 – 18,302,000). A reconciliation of the denominator for the diluted per share calculations is outlined below (table stated in thousands of shares):

	<u>March 31, 2006</u>	March 31, 2005
Basic weighted-average shares	32,687	18,302
Effect of dilutive stock options	1,139	157
Effect of dilutive warrants	2,541	408
Dilutive weighted-average shares	<u>36,367</u>	<u>18,867</u>

(d) Stock options

The Company has established a stock option plan (the "Plan") whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. On March 31, 2006, up to 3.33 million common shares were issued or available for issuance under the plan. When granted, the options have a five year term. The vesting dates for the remaining options are as follows:

<u>Grant date</u>	<u>Unvested options</u>	<u>Vesting dates</u>
January 21, 2005	496	January 21, 2005-2007
March 17, 2005	35	March 17, 2005-2007
July 5, 2005	33	October 5, 2006-2008
November 1, 2005	221	February 1, 2006-2008
November 21, 2005	33	February 21, 2006-2008
December 15, 2005	679	December 1, 2007-2009
December 28, 2005	75	December 1, 2007-2009
January 17, 2006	70	January 17, 2007-2009
February 14, 2006	25	February 14, 2007-2009
	<u>1,667</u>	

9. Equity Instruments (continued)

(d) Stock options (continued)

The following table details the stock options issued and outstanding:

	Number of Shares ('000s)	Option Price per Share Range	Weighted Average Exercise Price
Options outstanding, December 31, 2004	169	\$1.20	\$1.20
Issued January 21, 2005	1,529	\$1.50	\$1.50
Issued March 17, 2005	104	\$1.60	\$1.60
Issued July 5, 2005	50	\$2.55	\$2.55
Issued November 1, 2005	332	\$3.65	\$3.65
Issued November 21, 2005	50	\$3.45	\$3.45
Issued December 15, 2005	679	\$4.20	\$4.20
Issued December 28, 2005	75	\$4.20	\$4.20
Exercised	(198)	\$1.20 - \$1.50	\$1.31
Forfeited	(30)	\$1.50	\$1.50
Options outstanding, December 31, 2005	2,760	\$1.20 - \$4.20	\$2.55
Exercised	(9)	\$1.50	\$1.50
Forfeited	(12)	\$1.50-\$4.20	\$3.90
Issued January 17, 2006	70	\$5.50	\$5.50
Issued February 14, 2006	25	\$4.85	\$4.85
Options outstanding, March 31, 2006	2,834	\$1.20 - \$5.50	\$2.64
Options exercisable at March 31, 2006	1,167	\$1.20 - \$3.65	\$1.74

The following table summarizes information about the stock options outstanding at March 31, 2006:

Options Outstanding ('000s)	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable ('000s)	Weighted Average Exercise Price of Options Currently Exercisable
47	\$1.20	\$1.20	2.36 years	47	\$1.20
1,402	\$1.50	\$1.50	3.81 years	906	\$1.50
104	\$1.60	\$1.60	3.96 years	69	\$1.60
50	\$2.55	\$2.55	4.27 years	17	\$2.55
332	\$3.65	\$3.65	4.59 years	111	\$3.65
50	\$3.45	\$3.45	4.65 years	17	\$3.45
679	\$4.20	\$4.20	4.67 years	-	-
75	\$4.20	\$4.20	4.67 years	-	-
70	\$5.25	\$5.25	4.80 years	-	-
25	\$4.85	\$4.85	4.88 years	-	-
2,834	\$1.20 - \$5.50	\$2.65	4.17 years	1,167	\$1.74

9. Equity Instruments (continued)

(d) Stock options (continued)

The fair values of the share options issued by the Company were estimated using the Black Scholes option-pricing model. For all issuances, the following assumptions have been made: dividend yield nil; and weighted average life of five years. Other assumptions that have changed with ensuing issuances have been outlined in the following table:

Grant date	Number of options granted ('000s)	Option price	Volatility	Fair value of stock options ('000s)	Risk-free Interest Rate
January 21, 2005	1,529	\$ 1.50	30%	\$ 608	2.56%
March 17, 2005	104	\$ 1.60	41%	\$ 58	2.56%
July 5, 2005	50	\$ 2.55	49%	\$ 43	3.30%
November 1, 2005	332	\$ 3.65	59%	\$ 550	3.84%
November 21, 2005	50	\$ 3.45	59%	\$ 81	3.87%
December 15, 2005	679	\$ 4.20	60%	\$ 1,187	3.92%
December 28, 2005	75	\$ 4.20	60%	\$ 131	3.92%
January 17, 2006	70	\$ 5.25	61%	\$ 131	3.92%
February 14, 2006	25	\$ 4.85	64%	\$ 54	4.06%

The fair value of options granted during the period total \$185,000 (March 31, 2005 - \$66,000).

(e) Warrants

The Company has granted warrants to various investors and agents of the Company as follows:

	Number of Warrants ('000s)	Warrants Price per Share Range	Weighted Average Exercise Price
Warrants outstanding, December 31, 2004	2,456	\$1.20 - \$1.70	\$1.54
Issued January 31 - private placement	879	\$1.25 - \$1.70	\$1.60
Issued February 10 - short form offering	240	\$1.25	\$1.25
Issued February 18 - private placement	2,210	\$1.25 - \$1.70	\$1.60
Additional broker warrants issued	345	\$1.70	\$1.70
Exercised	(2,564)	\$1.20 - \$1.70	\$1.49
Warrants outstanding, December 31, 2005	3,566	\$1.25 - \$1.70	\$1.62
Additional broker warrants issued	105	\$1.70	\$1.70
Exercised	(884)	\$1.25 - \$1.70	\$1.52
Warrants exercisable at March 31, 2006	2,787	\$1.25 - \$1.70	\$1.62

9. Equity Instruments (continued)

(e) Warrants (continued)

The following table summarizes information about the warrants outstanding at March 31, 2006:

Warrants Outstanding ('000s)	Warrant price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Warrants Currently Exercisable ('000s)	Weighted Average Exercise Price of Warrants Currently Exercisable
984	\$1.70	\$1.70	0.73 years	984	\$1.70
220	\$1.70	\$1.70	0.84 years	220	\$1.70
1,583	\$1.25 - \$1.70	\$1.61	0.89 years	1,582	\$1.61
2,787	\$1.25 - \$1.70	\$1.65	0.83 years	2,787	\$1.62

(f) Shares held in escrow

The following table summarizes information about the shares in escrow at March 31, 2006:

Issue date	Shares held in Escrow ('000s)	Release rate	Future release dates
August 3, 2003 ⁽¹⁾	133	20%	May 27, 2006, and November 27, 2006
October 4, 2004	1,288	25%	May 4, 2006
Shares in Escrow at March 31, 2006	1,421	25%	

(1) Shares placed in escrow pursuant to the initial public offering for Pd&e in November 2003.

(g) Contributed surplus

The effect on contributed surplus from the recognized portion of the fair value of the stock compensation is outlined in the following table:

	Amount
Contributed surplus, December 31, 2004	\$ 8
Stock compensation expense	636
Deferred stock compensation	257
Stock options exercised	(30)
Contributed surplus, December 31, 2005	871
Stock compensation expense	237
Deferred stock compensation	105
Stock options exercised	(4)
Contributed surplus, March 31, 2006	1,209

Deferred stock compensation has been recorded as pre-operating costs, and will be amortized when operations commence.

10. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

- (a) During the period, the Company recorded legal fees in the amount of \$28,000 for services provided by a firm of which a director of the Company is a partner, all of which has been recorded as general and administrative costs. Of this amount, \$19,000 remains in accounts payable at the end of the period.
- (b) During the period, the Company recorded \$18,000 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, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

11. Financial Instruments

As disclosed in the significant accounting policies in the 2005 annual financial statements, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, credit and fair value risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Credit risk

A significant portion of the Company's trade accounts receivable is from companies in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry. As at March 31, 2006, three (March 31, 2005 – one) companies accounted for 46% (March 31, 2005 – 43%) of the total accounts receivable. Of the revenue earned, 41% (March 31, 2005 – 52%) was earned from three (March 31, 2005 – two) customers.

12. Subsequent Events

- (a) Private placement warrants totaling 40,250 were exercised between year end and the release of the financial statements. The units, which carried an exercise price of \$1.70 per unit, provided \$68,000 to the Company which was recorded as share capital.
 - (b) Options totaling 50,000 were granted to a director of the Company at \$4.00 per share. The options will vest over three years, with one third vesting on each anniversary date of the date of issuance.
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