



## LEADER ANNOUNCES THIRD QUARTER RESULTS

November 21, 2006, Calgary, Alberta (TSX Venture: LEE) – Leader Energy Services Ltd. ("Leader" or the "Company") today released third quarter 2006 results for the period ended September 30, 2006.

### **Overall Performance and Quarterly Review**

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

<b><u>Financial Review</u></b>	<b>3 Months Ended</b>		<b>9 Months Ended</b>	
	<b>Sept. 30, 2006</b>	<b>Sept. 30, 2005</b>	<b>Sept. 30, 2006</b>	<b>Sept. 30, 2005</b>
Revenue	\$11,837	\$3,819	\$27,977	\$11,902
EBITDAS <sup>(1)</sup>	1,428	594	4,652	2,202
Income before income taxes	(492)	244	1,059	869
Net Income	(487)	187	357	812
Earnings per share (diluted)	\$(0.01)	\$0.01	\$0.01	\$0.03
Cash flow from operations <sup>(2)</sup>	722	659	3,963	2,203
Cash flow from operations per share (diluted)	\$0.02	\$0.02	\$0.10	\$0.09

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

### **Third Quarter Highlights:**

For the third quarter ended September 30, 2006 ("the period") the Company achieved record revenue as its strategic growth plan unfolded, with period over period revenues increasing by 210%, from \$3.8 million to \$11.8 million while the Company reported losses from operations of \$574,000 versus income of \$164,000 a year earlier. Revenue was negatively impacted primarily by equipment delivery delays in the third quarter, and to a lesser extent, lower demand for nitrogen services due to a sharp decline in natural gas prices, and adverse weather conditions in September. The Corporation also saw the cost of its equipment build out escalate and was forced to carry additional overhead and labour costs while it was waiting for equipment delivery. Weak natural gas pricing on production-related services resulted in Leader observing a decrease in nitrogen service activity levels. Average volumes per nitrogen unit deteriorated by 38% quarter over quarter as gas producers were hesitant to enhance productivity to sell more gas into a weakening market. In addition Canadian operating activities stalled during the latter part of September due to inclement weather. The decrease was offset to some extent by our US based operations which we did not have at the end of the same period last year. As well, increased depreciation costs exceeded the overall percentage increase in revenues by 104% due to lower activity within the Canadian operations, deployment of cementing equipment, and the use of new facilities and recognition of \$215,000 in amortized pre-operating costs due mainly to the start-up of the cementing division. Interest payments for the Company increased by \$228,000 due to the expansion of our debt facilities that funded a portion of the 2006 capital expansion program. Stock compensation as a percentage of revenue also

increased slightly as the Company had issued more stock options in previous periods for the attraction and retention of key personnel.

Revenue for the nine months ended September 30, 2006 was up close to 135% as revenues rose from \$11.9 million to \$28 million year over year, while income from operations increased by 20% from \$685,000 to \$825,000. The improvement in the revenue generated by the Company reflects the execution of an aggressive growth strategy to expand its presence in pumping services, and the acquisition of Cementrite, Inc. earlier this year. Operational income has improved at a lesser rate than revenues for exactly the same reasons, as financing costs, unabsorbed personnel costs due to equipment delays and amortization expenditures increased during the deployment period. These operational inefficiencies are temporary and will be resolved as the equipment deployment is completed by the end of this year.

Period over period comparatives saw the Company's earnings (loss) per diluted share decrease from \$0.01 per share to \$(0.01) as the Company reported a loss of \$487,000 versus income of \$187,000 last year. Earnings per diluted share for the nine month period to date decreased from \$0.03 to \$0.01 when compared to the same period last year. In the prior nine month period, the Company realized tax benefits for unrealized future tax assets from prior periods, the effect of which was approximately \$400,000, which resulted in a lower tax provision than would have been expected in the prior period.

Operating cash inflows for the period before changes in non-cash working capital items totalled \$722,000, or \$0.02 per diluted share compared to \$659,000 or \$0.02 per diluted share during the same period last year. Year over year, the Company has improved this figure from \$2.2 million, or \$0.09 per diluted share, to \$4.0 million, or \$0.10 per diluted share. Year over year, EBITDAS has increased by 111%, which is a direct result of the Company's continued expansion into different divisions.

## **CANADIAN OPERATIONS:**

### **Well Stimulation Services:**

Operating Statistics <i>(\$ thousands except per operating day amounts)</i>	3 Months Ended			9 Months Ended		
	Sept 06	Sept 05	% Change	Sept 06	Sept 05	% Change
Revenue	7,283	3,819	91%	22,988	11,902	93%
Operating Expenses	5,066	2,500	102%	14,789	7,319	102%
Operating Income	2,217	1,319	68%	8,199	4,583	79%
Number of Operating Days	589	407	45%	1,969	1,200	64%
Revenue per Operating Day	12,365	9,383	32%	11,675	9,918	18%

Third quarter activities started more or less on track with activity levels in July meeting internal forecasts. However, continued instability in natural gas pricing saw the demand for nitrogen services begin to wane around mid-August as the Company was only able to generate 102 out of 184 of the expected operating days for nitrogen pumping services. The reduction in nitrogen services continued into September as the Company operated at 44% of forecasted activity levels, primarily the result of producers curtailing spending on production services in a weaker commodity price environment. Weather mid-way through September also impacted activity levels for the last half of the month.

Average nitrogen costs during the quarter reached the highest level the Company has experienced to date at \$0.32 per cubic meter; the average for the quarter was \$0.28, as a result of pricing surcharges due to higher production costs thereby diminishing margins on nitrogen services by approximately \$100,000. Subsequent to the end of the quarter the average cost of nitrogen had returned to pricing levels more in line with our original forecasts as costs of production subsided due to weakening commodity pricing. Weaker activity also had a negative impact on the absorption rate of fixed field wages by approximately \$65,000.

However, in spite of the impact of lower activity levels during the quarter the Company's average revenue per operating day continued to exceed Company expectations. During the quarter the Company average \$12,365 per operating day versus a forecast of \$10,105 or 22%. The increase in the forecasted average revenue per operating day is attributed to an increase in the average number of cubic metres of nitrogen being pumped per operating day and a 10% increase in billing rates from October 2005. Leader expects to exit 2006 operating 11 coiled tubing units and 15 nitrogen pumping units rather than 12 and 16 units respectively as originally planned.

### **Cementing Services:**

Operating Statistics <i>(\$ thousands except per operating day amounts)</i>	3 Months Ended			9 Months Ended		
	Sept 06	Sept 05	% Change	Sept 06	Sept 05	% Change
Revenue	1,430	-	100%	1,430	-	100%
Operating Expenses	1,306	-	100%	1,306	-	100%
Operating Income	124	-	100%	124	-	100%
Number of Jobs	197	-	100%	197	-	100%
Revenue per Operating Day	7,258	-	100%	7,258	-	100%

As mentioned in our press release of August 30, 2006 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.

After delays in equipment deliveries related to the roll out of cementing equipment, the division successfully completed 197 jobs during the quarter. The Company's inaugural cement job was completed on July 8, 2006 with a twin cementing unit from our Brooks blending facility. The job was completed successfully, and since then the Company has garnered more support from customers in the area and as at the end of the quarter had provided cementing pumping services to a number of companies in the area. Revenues remain consistent with internal forecasts as actual revenue per job was \$7,258 versus a forecast of \$7,353.

The Company averaged 1.83 available units during the quarter and carried an average of 43 employees per month on payroll post June 30, 2006. Relative to our 2007 internal forecast, labour costs as a percentage of revenue are currently double the expectations of the cementing division when it is fully operational. Leader expects to exit 2006 operating 16 cementing units rather than 18 units as originally planned. Although operating income surpassed internal forecasts for the quarter and after considering the impact of equipment delays, operating income will continue to improve on an ongoing basis as the average number of units available begins to offset higher staff levels due to pre-deployment hiring.

### **Flameless Services:**

While marketing efforts continue and Leader believes it is close to securing sales orders in the United States, some prospective customers have indicated that a combination of factors 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 strategy to increase productive capability rather than seek out cost saving measures.

## US OPERATIONS:

Operating Statistics (\$ thousands except per operating day amounts)	3 Months Ended			9 Months Ended		
	Sept 06	Sept 05	% Change	Sept 06	Sept 05	% Change
Revenue	3,116	-	100%	3,535	-	100%
Operating Expenses	1,307	-	100%	1,410	-	100%
Operating Income	1,809	-	100%	2,125	-	100%
Number of Jobs	180	-	100%	205	-	100%
Revenue per Operating Day	17,311	-	100%	17,244	-	100%

The quarter ending September 30, 2006 is the first full quarter that the Company has been able to report earnings from its United States operations since acquiring Cementrite, Inc. on June 14, 2006. Management is extremely pleased with the operating results of the Michigan-based operation as revenues paralleled forecasted amounts and average revenue per job met expectations. Operating margins in the US operations equalled internal expectations at 55% for the quarter with year to date margins approaching 56%.

The strong margin base in the northeastern US is tied to favourable cost structures around the labour force. Unlike Canada where monthly guarantees, field wages and in some cases a company vehicle are industry standards in order to retain key field personnel, the practice around remunerating employees in the northeastern US is isolated to field wages only. Consequently, with the absence of fixed field expenses, labour cost is more closely tied to field activity than it is in Canada. Additionally, field working conditions are more favourable thereby reducing maintenance costs for the equipment.

Since acquiring Cementrite, Inc the Company has been able to expand its business opportunities both inside and outside the state of Michigan.

### Comparative Income Statements and Selected Balance Sheet Information

	3 Months Ended				9 Months Ended			
	Sept 30, 2006	Sept 30, 2005	Variance	%	Sept 30, 2006	Sept 30, 2005	Variance	%
(figures in '000s, except per unit amounts)								
Revenue	\$11,837	\$3,819	\$8,018	209	\$27,977	\$11,902	\$16,075	135
EBITDAS	1,428	594	834	140	4,652	2,202	2,450	111
Income (loss) before income taxes	(492)	244	(736)	(301)	1,059	869	190	22
Net Income	(487)	187	(674)	(360)	357	812	(455)	(56)
Earning per share (basic)	(\$0.01)	\$0.01	(\$0.02)	(200)	\$0.01	\$0.04	(\$0.03)	(75)
Earnings per share (diluted)	(\$0.01)	\$0.01	(\$0.02)	(200)	\$0.01	\$0.03	(\$0.02)	(67)
Cash flow from operations	722	659	63	10	3,963	2,203	1,760	80
Cash flow from operations per share (basic)	\$0.02	\$0.03	(\$0.01)	(33)	\$0.11	\$0.08	\$0.10	25
Cash flow from operations per share (diluted)	(\$0.04)	(\$0.05)	\$0.01	20	\$0.10	\$0.07	\$0.09	29
Weighted average shares outstanding (basic)	39,386	25,726	13,650	53	35,525	21,936	13,559	62
Weighted average shares outstanding (diluted)	39,386	29,119	10,257	35	38,108	24,047	14,061	58

	Sept 30, 2006	December 31, 2005
Total assets	\$110,196	\$54,270
Long-term debt <sup>(1)</sup>	24,689	2,838
Shareholders' equity	71,815	46,535
Working capital (deficit) surplus	(2,963)	21,891
Shares issued and outstanding	39,386	32,370

(1) Includes current portion of long term debt.

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

	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Revenue	\$11,837	\$4,895	\$11,246	\$6,618
Income (loss) before income taxes	(492)	(2,277)	3,828	1,044
- per share basic	(\$0.01)	(\$0.07)	\$0.12	\$0.03
- per share diluted	(\$0.01)	(\$0.07)	\$0.11	\$0.03
Net Income (loss)	(487)	(1,600)	2,444	732
- per share basic	(\$0.01)	(\$0.05)	\$0.08	\$0.02
- per share diluted	(\$0.01)	(\$0.05)	\$0.07	\$0.02

	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Revenue	\$3,819	\$1,846	\$6,238	\$3,725
Income (loss) before income taxes	244	(1,430)	2,055	621
- per share basic	\$0.01	(\$0.07)	\$0.11	\$0.06
- per share diluted	\$0.01	(\$0.07)	\$0.11	\$0.06
Net Income (loss)	187	(1,181)	1,806	825
- per share basic	\$0.01	(\$0.05)	\$0.10	\$0.07
- per share diluted	\$0.01	(\$0.05)	\$0.10	\$0.07

**Non-operational Discussion and Analysis****General and Administrative Expenses:***(in '000s of dollars except per unit amounts)*

(\$ thousands)	3 Months Ended		9 Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
General and administrative expenses	2,191	708	5,272	2,369
% of revenue	18.5%	18.5%	18.8%	19.9%

General and administrative (G&A) expenses totalled \$2.2 million for the quarter, or 18.5% of revenues versus \$0.7 million and 18.5% respectively, relative to the same period last year. The first nine months of 2006 resulted in G&A expenses of \$5.3 million, or 18.8% of revenues, versus \$2.4 million and 19.9% 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 decreased for the nine month period ended September 30, 2006 as revenues increased and overhead burdens become a smaller component of the Company's operations. The expenditure level hasn't decreased on a quarterly extent to that experienced in prior quarters due to approximately \$475,000 in administrative costs incurred for U.S. operations during the quarter. The Company expects administrative costs to decrease as a percentage of revenue during fiscal 2006, as the cementing division commences operations, and the overhead required to operate additional well stimulation units and U.S. operations decreases. Management expects that G&A expenses will total 11% of revenue in 2007.

**Stock Compensation Expense**

The Company's stock compensation awards have resulted in stock compensation expense of \$421,000 for the three month period (September 30, 2005 – \$86,000) and \$928,000 for the nine month period ending September 30, 2006 (September 30, 2005 - \$474,000) This has increased primarily due to an increase in options issued as a result of the growth in operations and the need to attract qualified personnel, as well as increases in our Black-Scholes option pricing assumptions. This expense has been calculated by management using various assumptions with the Black-Scholes option pricing model, and is an estimate of the compensation expense that is dependant upon certain conditions existing at the time of issuance of the related options.

### **Amortization Expense**

Amortization expense increased significantly to \$1,294,000 during the period, from \$312,000 during the third quarter of 2005. For the nine month period ending September 30, 2006 amortization increased to \$2,539,000 from \$819,000 for the same period a year ago. 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 September 30, 2006.

### **Finance**

Total assets increased from \$54.3 million at December 31, 2005 to \$110.1 million at September 30, 2006. This is due primarily to the addition of \$63.8 million in capital assets during the first nine months of the year, as well as increases in goodwill, intangibles and pre-operating costs expended as part of the expansion efforts.

### **Liquidity, Capital Resources and Use of Funds**

At September 30, 2006 the Company held cash and cash equivalents of \$1.0 million and had a negative working capital position of \$2.9 million. Cash and cash equivalents held at the end of the period is cash held by the Company's US operations. The period began to reflect the benefits of the proceeds from the prior year's equity issuances, for which the use of proceeds is found in the following table:

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

*(in '000s of dollars)*

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

#### **Use of Proceeds - Bought Deal Offering and Issued for acquisition**

*(in '000s of dollars)*

	<b>Equity Allocation</b>	<b>Delivery / Execution</b>	<b>Actual Delivery / Execution</b>
Cementrite Acquisition	\$ 16,480	June 2006	June 2006
Facilities in US	5,414	To be determined	To be determined
Subtotal net of brokerage fees	<u>\$ 21,894</u>		

Capital lease obligations at the end of the period were held by two financial institutions. The total \$2.7 million in capital lease obligations carries per annum interest rates 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 \$98,000 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 September 30, 2006, less imputed interest.

2006	\$	344
2007		1,016

2008	1,035
2009	431
2010	<u>126</u>
	2,952
Less imputed interest	<u>(264)</u>
	<u>\$ 2,688</u>

The Company meets short term financing requirements with a bank operating line of \$25 million of which \$6.0 million was still available to the Company at September 30, 2006. The bank loan is a demand operating facility, bearing interest at 0.75% above the prime lending rate. The effective rate at September 30, 2006 is 6.75%.

A letter of credit facility of \$0.3 million USD was negotiated in the prior year; however no amounts have been drawn. The facility bear interest of 1.5% above the bank's prime lending rate, with an effective rate at September 30, 2006 of 7.5% (December 31, 2005 at 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.

### **Outlook**

After taking into consideration a 15% decline in forecasted drilling activity levels in 2007, the Corporation has decided to conclude its 2006 expansion program with Leader operating 16 cementing units rather than 18 units as originally planned. Leader has not experienced significant pricing pressures on its Canadian operations, and the focus in 2007 will be upon maximizing equipment utilization and field operating margins. With Leader coming to the end of the largest expansion program in its history, management and the board of directors will determine the 2007 capital expenditure budget at the conclusion of the first quarter, when its customers have better clarity of their activity levels. The Company's operations in the United States remain very strong and a busy winter season is anticipated in Canada.

Leader Energy Services provides well stimulation and cementing services in western Canada and the northeastern United States. Further information on Leader can be found under the Company's listing at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.leaderenergy.com](http://www.leaderenergy.com).

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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.**