



**DESTINY RESOURCE SERVICES CORP.**  
**2008 Third Quarter Interim Report**  
**As at and for the three and nine-month periods ended September 30, 2008**

**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**FOR Q3'08**

The following discussion and analysis of financial results for the three and nine months ended September 30, 2008 ("Q3'08") and September 30, 2007 ("Q3'07") is based on information available until November 5, 2008 (unless otherwise noted) and upon the Company's unaudited consolidated interim financial statements for the periods presented, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and should be read in conjunction with the Company's audited consolidated financial statements and Annual Report for the prior fiscal year ended December 31, 2007.

Certain statements included in this Management's Discussion and Analysis may constitute forward-looking statements involving known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe" and "plan". These statements reflect managements current expectations regarding future events and operating performance and are valid only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties, including the impact of general economic conditions, industry conditions, changes in laws and regulations, increased competition, fluctuations in commodity prices and foreign exchange, and interest rates and stock market volatility. The Company does not reconcile past forward-looking information but presents its most current view based on the known facts on hand at the time of dissemination. Specifically the outlook section may contain forward-looking information which will be identified as such.

*Non-GAAP Measurements: The MD&A contains the terms Earnings Before Interest, Taxes and Depreciation and Amortization ("EBITDA") and Gross Margin which should not be considered an alternative to, or more meaningful than "net income" or "cash flow from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Company's financial performance. These terms do not have any standardized meaning as prescribed by GAAP and therefore, the Company's determination of gross margin and EBITDA may not be comparable to that reported by other companies. Gross margin is calculated from the consolidated statements of operations and is defined as revenue less direct expenses. EBITDA is calculated from the consolidated statements of operations as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). The Company evaluates its performance based on EBITDA. The Company considers EBITDA to be a key measure as it demonstrates the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment. The calculation for gross margin and EBITDA are presented below:*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	18,136,397	19,242,983	50,870,648	48,072,507
Direct Expenses	16,857,950	17,018,644	44,374,904	41,066,889
<b>Gross margin</b>	<b>1,278,447</b>	<b>2,224,339</b>	<b>6,495,744</b>	<b>7,005,618</b>
Less general and administrative	170,102	649,433	1,361,118	2,882,776
<b>EBITDA</b>	<b>1,108,345</b>	<b>1,574,906</b>	<b>5,134,626</b>	<b>4,122,842</b>

### **REVENUE**

Revenues for Q3'08 at \$18.1 million decreased by 6% from the \$19.2 million for Q3'07. Year to date revenues for 2008 at \$50.9 million represented a 6% increase over the \$48.1 million over the same period last year. Relatively low commodity prices in the latter part of 2007, when many of the Company's clients set their 2008 exploration budgets, led to a general reduction in exploration activities, particularly in Canada in 2008 compared to 2007. The Company's marketing efforts and more aggressive bidding activities resulted in some gain in market share and in Q3'08 and year to date revenues being slightly lower than over the same period last year.

One client exceeded 10% of gross revenues for Q3'08 and represented in aggregate approximately 56% of current quarter revenues. Over the same period last year there was one client with more than 10% of revenue, representing approximately 62% of the quarter's revenue.

### **GROSS MARGIN**

Gross margin for Q3'08 was \$1.3 million, representing 7% of revenues, and was lower than the \$2.2 million representing 11.6% of revenues over the same period last year. Year to date gross margin for 2008 at \$6.5 million represented 12.8% of revenues which was compared to \$7 million representing 14.6% of revenues over the same period last year. The pressure on pricing and margins as a result of increased competition for less business in the market place over the second and third quarters of 2008 was reflected in reduced margins for Q3'08 and for the year when compared to last year. Gross margins are dependent on competitive factors and the service mix over time.

### **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses include the costs associated with the corporate head office, the lease of the Survey & Mapping division's shop and office, profit sharing and the corporate reorganization. For the nine months ended September 30, 2008 expenses were at \$1.4 million compared to \$2.9 million over the same period last year. Expenses for last year included approximately \$0.9 million for the corporate reorganization. The change in foreign exchange rates over the last year has created foreign working capital translation losses in 2007 and gains in 2008. The magnitude of this change is approximately \$0.5 million.

The profit sharing plans were instituted to better align the Company's incentive compensation for key employees with the interests of shareholders. The plans, which replace bonuses and the grant of stock options, are intended to have the participating employees more focused on the Company's bottom line performance and to enable the Company to retain and attract operating and executive management in a competitive environment. Awards from the plans are made one-half in cash and one-half in shares, which are purchased in the market. There was \$0.1 million in profit sharing accruals at the end of Q3'08 compared to none over the same period last year.

### **AMORTIZATION OF PROPERTY AND EQUIPMENT**

Total amortization expense for the nine months ended September 30, 2008 at \$2.5 million was at the same level over the same period last year. For Q3'08 amortization expense was \$0.9 million which was close to the \$0.8 million for Q3'07.

### **INTEREST EXPENSE**

Net interest expense to the end of Q3'08 was \$0.3 million which was close to the \$0.2 million in interest expense over the same period of last year. Interest on long-term debt for the year was \$0.1 million and net interest expense relating to the short-term bank operating facility was \$0.2 million. All interest expense for last year related to the short-term bank operating facility.

### **INCOME TAXES**

Management intends to apply the benefits achieved through the corporate reorganization completed in Q1'07 against the other liabilities on the balance sheet. Part of this reorganization involved the acquisition of a company which had potential tax losses available for use, creating a potential asset for the Company. The ability of the Company to utilize these losses was not sufficiently certain to permit the booking of this asset. The income taxes that would otherwise be payable are therefore being shown as other liabilities. It is anticipated that this liability will remain current until its expiry in 2013 and that it will not require settlement in cash. Management uses estimates when calculating future income tax timing differences and when actual returns are filed this can cause "true-ups" in prior estimates to occur. At the point in time that these realizations occur, adjustments are made to these provisions to reflect this new information on hand.

### SUMMARY OF QUARTERLY RESULTS

<i>(000's, except per share amounts)</i>	<b>Q3 2008</b>	<b>Q2 2008</b>	<b>Q1 2008</b>	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>Q4 2006</b>	<b>Q3 2006</b>
Total Revenue	<b>18,137</b>	<b>12,459</b>	<b>20,275</b>	17,129	19,244	11,633	17,196	22,262	23,636
Net income (loss) for the period	<b>(393)</b>	<b>83</b>	<b>1,930</b>	629	(2,198)	177	1,657	1,982	1,869
Basic/diluted earnings per share	<b>(0.07)</b>	<b>0.01</b>	<b>0.35</b>	0.11	(0.39)	0.03	0.30	0.36 / 0.35	0.34
Weighted average number of shares outstanding									
Basic	<b>5,583</b>	<b>5,583</b>	<b>5,577</b>	5,577	5,577	5,577	5,577	5,576	5,575
Diluted	<b>5,583</b>	<b>5,583</b>	<b>5,577</b>	5,577	5,580	5,594	5,595	5,595	5,594

The above noted Summary of Quarterly Results highlights the following:

1. The Company's business is seasonal with Q1 and Q3 traditionally being the two strongest quarters. The underlying causes of the seasonality are weather conditions, the Company being restricted from entering and conducting work in designated wildlife areas at certain times of the year and the timing of client capital spending programs.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment, the possibility of dividend payments and capital to finance strategic acquisitions. Sources of funds available to meet these capital requirements include cash flow from operations, external lines of credit (bank facility with the ability to draw up to \$15 million at prime plus 0.50%), equipment financing, term loans and access to equity markets.

Liquidity and capital resources are dependant upon the results of operations, commodity prices, capital expenditures, debt service charges and cash dividends. The Company's balance sheet as at September 30, 2008 shows net working capital of \$3.9 million compared to \$5.1 million at last year end. The Company will be looking at ways to reduce net working capital requirements in the future through its management of trade accounts receivable and trade accounts payable which is expected to provide cash. Despite the risks associated with cash flow relating from changes in commodity prices, reduced revenue volumes and increased operating costs, the Company's strong balance sheet provides a potential buffer to mitigate some or all of these effects should they occur.

Current economic conditions are creating greater uncertainty in capital markets and with respect to the solvency and liquidity of many companies. The Company has not experienced changes in its operating or credit relationships with clients or suppliers to date and at present does not anticipate changes in current trade or other credit arrangements. (See also the Outlook section.)

### LONG-TERM DEBT

On March 26, 2008 the Company obtained a \$4 million USD capital loan which is secured by certain fixed assets for the purpose of better balancing capital financing with working capital financing and for the business asset acquisition that occurred on April 1, 2008 (refer to Note 2 Business Acquisition for further information). The term of this facility is for four years and the interest rate is based upon a choice between LIBOR plus 2.50% per annum or the bank's US base rate plus 1% per annum. Expected principal payments over the next 4 years are approximately \$1 million USD per year. In Q2'08 and Q3'08 a total of \$0.5 million USD was repaid on this loan and \$0.1 million of foreign exchange expense increased the Canadian equivalent of this obligation due to the change in exchange rates over this period of time. The Company's US operations act as a hedge against currency fluctuations. The net US dollar amount for working capital and term debt on the balance sheet as at September 30, 2008 was at \$2.6 million surplus.

### WORKING CAPITAL

Net working capital of \$3.9 million (1.35:1) as at September 30, 2008 was less than the \$5.1 million (1.42:1) at last year end but was close to the \$4 million (1.29:1) as at September 30, 2007. Ebbs and flows with respect to business activities will result in changes in the level of working capital required at a particular point in time. The Company has available a \$15 million revolving demand bank operating loan facility. As at September 30, 2008 \$0.5 million was drawn on the bank line.

For clients representing more than 10% of trade accounts receivable, approximately 78% of trade accounts receivable at September 30, 2008 (74% at September 30, 2007) are with three clients (one in 2007). With respect to its largest client, the Company provides services both directly for the client's own account (for the development of seismic data for the client to sell) and indirectly for work for third party exploration and production companies, most of which are substantial oil companies and several of which specify the Company as their sub-contractor of choice when contracting with the Company's client. Approximately 84% of trade accounts receivable at September 30, 2008 were less than 60 days old (66% were less than 30 days old).

### IMPAIRMENT ON PROPERTY AND EQUIPMENT

In Q3'07 a total of \$2.9 million was considered as impairment in value of the development costs incurred to date and was consequently written off. These costs were related to the development of the navigation, positioning and asset management technology and comprised primarily of capitalized salaries and expenses.

### PROPERTY AND EQUIPMENT

Property and equipment has increased by \$2.2 million from the \$9.3 million at last year end to \$11.5 million as at September 30, 2008. Amortization to the end of Q3'08 was \$2.5 million. Assets obtained from the US business acquisition were approximately \$2.3 million. The remaining \$2.4 million represented sustaining purchases less disposals for the operating business. In Q3'07 a total of 2.9 million was considered as impairment in value of the development costs incurred to date and was consequently written off. These costs were related to the development of navigation, positioning and asset management technology and were comprised primarily of capitalized salaries and expenses.

### COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company's future contractual payment obligations are in the form of operating leases on premises and equipment. The Company also has a purchase commitment for 2 drills with a supplier in the amount of \$0.7 million which is expected to be paid by the end of 2008. The balance remaining on this commitment is \$0.5 million as at September 30, 2008. These new drills will add capacity to service work that is part of backlog. The Company has no hedging, capital leases or any "off balance sheet" contractual obligations.

(in \$millions)

	<u>Payments Due by Future Year</u>				
	<u>Total</u>	<u>0-1 Years</u>	<u>2 - 3 Years</u>	<u>4 - 5 Years</u>	<u>After 5 Years</u>
Operating Leases	7.4	1.4	2.1	1.4	2.5

The Company, through the performance of its service obligations, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury or operations not considered to be complete. The Company maintains a level of insurance coverage considered appropriate by management for matters for which insurance coverage can be maintained.

In September 2003 a statement of claim was filed against the Company and two other companies seeking payment for damages and loss of income totaling \$10 million. The claim alleges that faulty workmanship (by one of the Company's discontinued operations and two other companies named in the claim) led to significant damage at a major gas plant expansion project.

In September 2004 a subsequent related claim alleging faulty workmanship was filed against the Company and two other companies seeking payment of damages and loss of income totaling approximately \$0.8.

The Company believes that both of the above noted claims are completely without merit, and they have been referred to counsel for the Company's insurance provider and will be vigorously defended. As neither the outcome nor the final amount of the claims can be determined, no provision for loss has been made.

## **SHAREHOLDERS' EQUITY**

Shareholder's equity increased from \$11.7 million at the end of 2007 to \$13.4 million at the end of Q3'08 and can be entirely contributed to the year to date net income of \$1.6 million. As at November 5, 2008, the number of issued and outstanding common shares is 5,582,581.

## **BUSINESS RISKS**

The Company is subject to the risks and variables inherent in the oilfield services industry. Demand for products and services depend on the exploration, development and production activities of energy companies. These activities are directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be accurately predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels. The risks associated with external competition are minimized by concentrating Company activities in areas where it has demonstrated technical and operational advantages and by employing highly competent professional staff. Environmental standards and regulations are continually becoming more stringent in this industry and the Company is committed to maintaining its high standards. The direction to expand into the US market will create a shift in the geographic makeup of business which will require risks such as foreign exchange to be monitored and mitigated. Business risks are also mitigated by establishing strategic alliances with reputable partners, developing new technologies and methodologies as well as investigating new business opportunities.

Current economic conditions are creating greater uncertainty in capital markets and with respect to the solvency and liquidity of many companies. The Company may experience solvency and liquidity issues with its clients and suppliers.

The risks inherent in the oilfield services industry could impact the Company's ability to meet its financial covenants on its revolving, bank operating loan facility. As at September 30, 2008 \$0.5 million was drawn on the bank line.

## **OUTLOOK**

Results for the first three quarters of 2008 reflect the facts of the markets in which the Company operates and the Company's position therein. The overall demand for seismic services in Canada has been less than for 2007 (and considerably less than for 2006) and Destiny's ability to hold revenue constant from 2007 is attributed to growth in market share. In the United States, overall demand for seismic services has been relatively strong. Destiny's growth in revenue is attributable to our acquisition of a Houston, Texas based drilling business in April, 2008 and the enhanced marketing and leadership capacity in our Houston office. Our performance from these steps has had mixed results: the new business is somewhat behind where we thought it would be, owing mostly to the delay and cancellation of some work. We believe we are gaining traction and have confidence in this step we have taken. The expanded presence in the US has paid off in work awarded to our other businesses and in the growing momentum and relationship with clients. Our US survey business suffered from some management transition issues, which we believe are now behind us.

Forward-looking information: The fourth quarter of 2008 and the first quarter of 2009 are expected to unfold favourably for Destiny, given the present backlog and expectations of our clients. The Company remains cautious however as present economic uncertainty and financial market turmoil may cause programs to be deferred or cancelled.

Destiny's view of 2009 as a whole, until the development of economic uncertainty for Canada and the United States, was quite positive. The Company is now watching as its clients, energy explorers and producers and seismic acquisition companies, develop their budgets and plans for 2009. These budgets are being developed in times of large changes in commodity prices and currency exchange rates and it is difficult at present to foretell the impact on the demand for the services provided by Destiny.

Destiny's approach to providing its services has been to focus on quality and safety, to meet and exceed industry and client expectations in these matters. The Company intends to maintain this approach, even though reduced overall demand for seismic services may lead to heightened price competition.

The recent economic crisis and down turn of stock prices has created concern for investors about levels of activity and the ability of companies to access capital and to borrow to finance operations. Destiny borrows on a demand loan basis for working capital financing to accommodate the seasonality and cyclicity of its business and has a term loan put in place in April 2008 to finance the acquisition of a Houston area seismic drilling business. All debt is with a Canadian chartered bank and is secured by the pledge of accounts receivable, inventory and fixed assets. The amount the Company can borrow on its operating line is primarily determined at any time by its level of eligible accounts receivable. The lender has permitted further interim borrowings for the operating line based on capital assets in the past. Destiny believes it has capacity for further term debt based on its capital asset; however, absent need, it has not approached the bank in this regard. At September 30, 2008, Destiny had aggregate borrowings from the bank of \$4.1 million represented by the demand bank loan (\$0.5 million) and term debt (\$3.6 million). At September 30, 2008, Destiny was eligible to borrow up to \$8.8 million based on eligible receivables at that time. Aggregate borrowings represent only 47% of what was available and this does not consider additional potential financing on capital assets. The term debt of \$3.6 million is based in US currency. The Company's US operations act as a hedge against currency fluctuations. At the end of Q3'08 the net US dollar amount for working capital and term debt on the balance sheet was at \$2.6 million surplus. The bank, in discussions with Company with respect to continued support for Destiny's operations and borrowing requirements, has been supportive. Year to date cash flow from operating activities is \$4.8 million with \$1 million contributed from Q3'08. Issuance of equity is not being considered at this time as Management has no compelling need for additional capital and believes the current market price of equity is well below the asset value and future income generating potential of the Company.

The principal risks to achieving expectations are commodity price and fiscal regime changes affecting the profitability of exploration to the Company's clients (about which the Company has little or no capacity to manage) and the internal challenges of maintaining quality and safety. Destiny devotes considerable time and energy to addressing our internal challenges and opportunities and believes its systems and procedures, together with the dedication and commitment of its people, are sufficient to maintain its reputation and positive outlook.

The Company believes that it has adequate working capital, cash flow from operations and access to capital to fund ongoing business requirements. Management believes the Company has a cost structure that has sufficient variability to adapt to the volatility of its industry. The Company has experienced management, at all levels of sales, operations and administration, who are motivated to achieve success in both the short and long-term term. The Company provides services principally in connection with the exploration for crude oil and natural gas, which are escalating in value and plentiful in the areas in which the Company operates.

The Company periodically encounters expansion opportunities to consider. These involve, in each case, the requirement for capital expenditures beyond the normal course and the Company may pursue any or all of these opportunities, and others that may present themselves. In doing so the Company may incur additional term debt, issue equity, retain cash that might otherwise be paid as dividends or any combination of the foregoing.

#### **EVALUATIONS OF DC&P AND ICFR**

The President & Chief Executive Officer ("CEO") and Vice-President, Finance & Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company. Both the CEO and CFO confirm that there was no change to the Company's internal control over financial reporting that occurred during the most recent reporting period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As a consequence of the Company's small size and limited resources there exist specific control deficiencies resulting from inadequate segregation of duties as desired under an ideal control framework, although the Company does have compensating controls in place in all instances. None of these segregation of duty deficiencies has resulted in a misstatement to the financial statements. Although the possibility of a material misstatement may exist, management believes that the probability of this event is remote. Presently both the CEO and CFO oversee all material transactions and related accounting records. Also, the Audit Committee reviews the financial statements and key risks of the Company on a quarterly basis and queries management about significant transactions.

On occasion the Company records complex and non-routine transactions which can be extremely technical in nature and require an in-depth understanding of GAAP and income tax legislation. There is a risk that the reporting of these transactions may not be correctly recorded which could lead to a potential misstatement of the consolidated financial statements. The Company addresses this by consulting with third party expert advisors, where required, with the recording of these types of transactions.

## ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2008 the Company has adopted the new CICA Handbook accounting requirements for Capital Disclosures (Section 1535), Inventories (Section 3031), Financial Instruments - Disclosure (Section 3862) and Financial Instruments – Presentation (Section 3863).

### Capital Disclosures

CICA Handbook Section 1535 requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital.

The Company's objective with the management of its capital is to allow it to maximize the profitability of its investment in assets and to create long-term term value and enhance returns for its shareholders. The use of debt financing is based upon the Company's overall capital structure which is determined by considering industry norms and risks associated with its business activities. The Company wishes to maintain a debt to equity ratio of less than 2.5:1 as is the defined maximum under its current banking covenant requirement in order to allow it to maintain access to this type of financing at a reasonable cost. There are no plans to convert or hedge the US debt at this time as cash flows generated from US operations are positive.

Debt is comprised of demand bank loan, accounts payable, and all components of long-term debt. Equity is defined as total shareholder's equity less intangible assets. As at September 30, 2008 the calculated debt to equity ratio is 0.95:1 compared to 1.05:1 at last year end and was within the covenant requirement.

### Financial Instruments

CICA Handbook Section 3862 (Financial Instruments – Disclosure) and Section 3863 (Financial Instruments – presentation) replace Section 3861 (Financial Instruments – Disclosure and Presentation) effective January 1, 2008 for the Company. Section 3862 requires the disclosure of information to allow the users to evaluate the significance of the financial instruments on the entity's financial position and performance and the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The Company's use of financial instruments at present is limited to working capital components and term debt financing for some capital expenditures.

### Fair Value of Financial Instruments

The fair value of the Company's financial assets and liabilities:

(in \$000s)

	September 30, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
<i>Loans and receivables:</i>				
Accounts receivable trade	11,947	11,947	15,043	15,043
Income tax receivable	---	---	360	360
<b>Total</b>	<b>11,947</b>	<b>11,947</b>	<b>15,403</b>	<b>15,403</b>
<b>Financial Liabilities</b>				
<i>Other financial liabilities:</i>				
Demand bank loan	508	508	4,782	4,782
Accounts payable trade	2,361	2,361	2,545	2,545
Current portion of long-term debt	1,038	1,038	---	---
Long-term debt	2,596	2,596	---	---
<b>Total</b>	<b>6,503</b>	<b>6,503</b>	<b>7,327</b>	<b>7,327</b>

### Market Risk on Financial Instruments

The Company is exposed to market risk and potential loss from changes in the values of financial instruments. The Company currently does not hedge against fluctuations in commodity prices, interest rates or foreign exchange rates. However, with the recent establishment of the long-term debt facility and with the expectation of increased business in the US, the Company will continue to monitor the appropriate potential benefit of hedging activities in the future.

### Sensitivity Analysis

The following table illustrates potential effects of changes in relevant risk variables on the Company's net income for the nine months ended September 30, 2008.

<i>(in \$000s)</i>	<b>Increase or Decrease</b>	<b>Increase or Decrease in Net Income</b>
Interest rate	+25 BPS / -25 BPS	-17 / +17
Foreign exchange	+\$0.05 / -\$0.05	-177 / +177

### Credit Risk on Financial Instruments

Approximately 78% of trade accounts receivable at September 30, 2008 (74% at September 30, 2007) are with three clients (one in 2007). With respect to its largest client, the Company provides services both directly for the client's own account (for the development of seismic data for the client to sell) and indirectly for work for third party exploration and production companies, most of which are substantial oil companies and several of which specify the Company as their sub-contractor of choice when contracting with the Company's client. Approximately 84% of trade accounts receivable at September 30, 2008 were less than 60 days old (66% were less than 30 days old).

### Liquidity Risk on Financial Instruments

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages this risk through its extensive budgeting and monitoring process to ensure it has sufficient cash and credit facilities to meet its obligations. The Company's objective is to maintain its current capital structure to ensure it has access to debt and equity funding as required (see Note 13). The primary risks that could affect the Company's cash flow are: (i) a significant drop in the price of crude oil or natural gas, (ii) a significant reduction in the volume of business from its most significant client and (iii) a significant increase in operating costs, (iv) changes in bank lending practices. Although the Company has approximately \$3.6 million of long-term debt it has a small demand bank loan of \$0.5 million as at September 30, 2008. The Company has the ability to draw on the demand bank loan up to a maximum of \$8.8 million as calculated based on eligible receivables at that point in time.

At September 30, 2008 the Company's contractual maturities relate to long-term debt and expected principal payments over the next 4 years are approximately \$1 million USD per year.

### Inventory

Inventories are consumables that are used in the process of the Company providing its services to its clients. They are valued at the lower of cost and net realizable value. Costs are assigned based upon the initial invoiced amount from vendors which are then reviewed on a quarterly basis for obsolescence. Obsolescence is based upon the aging of a particular item in terms of date of last movement from which an applicable discount rate is applied. Discount rates are derived from historical experience. Changes in the obsolescence provision are expensed or recovered in the period in which they occur within general and administrative expenses.

### Future Requirements

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 (Goodwill and Intangible Assets) will replace Section 3062 (Goodwill and Other Intangible Assets) and Section 3450 (Research and Development Costs). This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including internally generated intangible assets. Management is currently assessing the impact of these emerging requirements. This new section will be effective for the Company beginning January 1, 2009.

In 2006 the Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year transition period with the adoption required effective January 1, 2011. While the Company has begun to assess the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

### **NORMAL COURSE ISSUER BID**

On November 13, 2007, the Toronto Stock Exchange (the "TSX") accepted a Notice of Intention to Make a Normal Course Issuer Bid filed by the Company. Under the terms of the normal course issuer bid, the Company will have the right to purchase for cancellation, up to a maximum of 278,854 of its common shares, representing approximately 5% of its outstanding common shares. The Company currently has 5,577,081 common shares outstanding and its average daily trading volume for the past six months from November 13, 2007 was 2,832 common shares. The purchases, which may have commenced on November 16, 2007, would be made in the open market through the facilities of the TSX, up to a daily maximum of 1,000 common shares. The normal course issuer bid remains in effect until the earlier of November 15, 2008 or until the Company has purchased the maximum number of common shares permitted. As of November 5, 2008 no purchases have yet been made. Shareholders may obtain a copy of the Notice of Intention to Make a Normal Course Issuer Bid, without charge, by writing to the Corporate Secretary at 300, 444 – 58<sup>th</sup> Avenue S.E., Calgary, AB T2H 0P4. Upon expiry, management intends to renew the Normal Course Issuer Bid.