



DESTINY RESOURCE SERVICES CORP.
2007 First Quarter Interim Report
As at and for the three-month period ended March 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
FOR Q1'07

The following discussion and analysis of financial results for the three months ended March 31, 2007 ("Q1'07") and March 31, 2006 ("Q1'06") is based on information available until May 11, 2007 (unless otherwise noted) and upon the Company's consolidated interim financial statements for the periods presented, which were prepared in accordance with Canadian generally accepted accounting principles, and should be read in conjunction with the Company's consolidated financial statements and Annual Report for the prior fiscal year ended December 31, 2006.

Certain statements included in this Management's Discussion and Analysis relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known (see "Business Risks") and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Company to be materially different from any future results implied by such forward-looking statements.

Non-GAAP Measurements: The MD&A contains the terms Earnings Before Interest, Taxes and Depreciation and Amortization ("EBITDA") and "funds from operations" 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 EBITDA or funds from operations may not be comparable to that reported by other companies. EBITDA is calculated from the consolidated statements of operations and retained earnings (deficit) as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "net change in non-cash working capital". The Company evaluates its performance based on EBITDA and funds from operations. The Company considers funds from operations and EBITDA to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment.

REVENUE

Revenue for Q1'07 at \$17.2 million, was down by approximately 34% from \$26.2 million in Q1'06. This is reflective of the overall general decline for these services within the industry. Our belief appears to be consistent with the industry in that this overall decline is temporary. Our market share remains at a consistent level as in the past. General industry trends indicate that by the fourth quarter of 2007 and beyond that overall activity will increase and approach similar levels as experienced in 2006.

Two clients exceeded 10% of gross revenues each for Q1'07 and represented in aggregate approximately 54% of current quarter revenues. Over the same period last year there were three clients with more than 10% of revenue, representing approximately 59% of the quarter's revenue.

GROSS MARGIN

Gross margin for Q1'07 was approximately \$3.5 million, representing 20.1% of revenues, and was down from \$7.3 million representing 27.8% of revenues over the same period last year. Lower overall revenues in the current year over last, in conjunction with an increase in the number of service providers in the market place, have increased competition. Current quarter client bidding and work are reflective of this downward pressure on pricing.

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. These costs were approximately \$1.7 million for Q1'07 which were close to the amount over the same period last year. Included in these expenses were profit sharing plan accruals at \$0.3 million in Q1'07 compared to \$1.3 million in Q1'06 which arose from lower overall profitability levels. Expenses relating to the Q1'07 corporate reorganization are also included and were approximately \$0.9 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.

AMORTIZATION OF PROPERTY AND EQUIPMENT

Amortization expense at \$0.8 million for Q1'07 was close to the same level compared to Q1'06. Total net book value of property and equipment of \$11.8 million at the end of Q1'07 remains close to the level at the end of Q1'06 of \$11.2 million.

INTEREST EXPENSE

Interest expense for Q1'07 was at the same level as Q1'06 at \$0.1 million. All interest expense for both periods relates to this short-term bank operating facility.

INCOME TAXES

Pursuant to the reorganization conducted during Q1'07 the Company does not expect to have any current taxes payable for 2007. Scientific research and development expenditures for 2005 have now been finalized and submitted for allowable tax deduction. These deductions have increased total non-capital tax loss carry forwards available for the future which has resulted in no future income tax obligation at the end of Q1'07. Additionally, the Company is pursuing allowable scientific research and development deductions for 2006 and will recognize these upon completion of the claim.

SUMMARY OF QUARTERLY RESULTS

<i>(000's, except per share amounts)</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Total Revenue	17,196	22,261	23,636	16,934	26,199	11,844	21,216	14,793
Net income for the period	1,657	1,982	1,869	504	3,313	1,842	1,325	1,979
Basic earnings per share	0.30	0.36	0.34	0.09	0.59	0.33	0.24	0.36
Diluted earnings per share	0.30	0.35	0.34	0.09	0.59	0.33	0.24	0.36
Number of shares outstanding weighted average								
Basic	5,577	5,576	5,575	5,575	5,575	5,568	5,554	5,548
Diluted	5,595	5,595	5,594	5,596	5,596	5,591	5,567	5,571

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

Destiny's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment, payment of dividends 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 \$10 million at prime plus 0.75%), equipment financing, term loans and access to equity markets.

The Company believes that it has the capital resources and availability to meet its working capital and capital expenditure requirements and to pay dividends in accordance with its dividend policy for 2007 and beyond.

WORKING CAPITAL

Net working capital of \$5.2 million at March 31, 2007 has been maintained at a level close to the \$5.6 million at last year end. The Company has available a \$10 million revolving demand bank operating loan facility, which was drawn by \$5 million at the end of Q1'07.

For clients representing more than 10% of trade accounts receivable, approximately 49% of trade accounts receivable at March 31, 2007 (70% at March 31, 2006) are with two clients (four in 2006). With respect to its largest client, Destiny 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 Destiny as their sub-contractor of choice when contracting with Destiny's client. Approximately 88% of trade accounts receivable at March 31, 2007 were less than 60 days old (28% were less than 30 days old).

PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2007 was at 11.8 million which was slightly less than the \$11.9 million at December 31, 2006. Amortization for Q1'07 was \$0.8 million. Purchases net of disposals of \$0.7 million were made over this period and were sustaining expenditures for the operating business.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company's future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no hedging, capital leases or other "off balance sheet" contractual obligations.

	Payments Due by Future Year				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Operating Leases	\$9,164,967	\$1,569,682	\$2,345,657	\$1,719,177	\$3,530,451

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 \$10,000,000. 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 \$750,000.

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 in these financial statements.

SHAREHOLDERS' EQUITY

Shareholder's equity increased from \$14.1 million at the end of 2006 to \$14.4 million at the end of Q1'07. Net income for the Q1'07 was approximately \$1.7 million and cash dividends paid were \$1.3 million.

As at May 11, 2007, the number of issued and outstanding common shares is 5,577,081 with 50,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan.

BUSINESS RISKS

Destiny is subject to the risks and variables inherent in the oilfield services industry. Demand for the Company's 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 Destiny is committed to maintaining its high standards. Destiny also mitigates business risks by establishing strategic alliances with reputable partners, developing new technologies and methodologies as well as investigating new business opportunities.

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. Bank lines were drawn by \$5 million as at March 31, 2007 and were well below the maximum allowable limit at that time.

OUTLOOK

Destiny 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. The Company provides services principally in connection with the exploration for a commodity, natural gas, which is escalating in value and is plentiful in the areas in which the Company operates.

The Company's profitability continues to contribute to the strength in its balance sheet. With that in mind, it will maintain the tradition of quarterly dividends established over the last two years and will be declaring a dividend in Q2'07. The determination of the quarterly dividend is done by the board of directors at each quarter based on the prevailing market conditions and expectations for the market for the future.

As US operations has grown over the past two years the business is at a point where further investment in personnel and infrastructure will be undertaken at this time to take it to the next level. The Company has hired on a US business development manager and has committed to leased premises in order to actively and effectively pursue continued growth in the US market place. In the past the Company has only offered US services within the survey division. These services are being expanded to also include drilling and line clearing presently and for the future.

The Kodiak division's product line is expected to approach commercialization by the end of 2007. There is currently a focus on the transition from product development to product deployment and the result of these efforts are expected to create a contributing business line in 2008 as well as a determination of what level of product development activities will be continued for the future.

While current activity levels in the market place are lower than in 2006 the Company's belief appears to be consistent with the industry in that general business levels will increase starting in Q3'07. The Company continues to focus on maintaining its market share and the providing of its quality services to its clients.

Destiny periodically encounters expansion opportunities to consider. These involve, in each case, the requirement for capital expenditures beyond the normal course for the Company. Destiny may pursue any or all of these opportunities, and others that may present themselves. In doing so the Company may incur term debt, issue equity, and 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.

In accordance with the requirements of Multilateral Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, evaluations of the design and operating effectiveness of disclosure controls and procedures and the design effectiveness of internal control over financial reporting were carried out under their supervision as of the end of the period covered by this report.

Based on these evaluations, the CEO and CFO have concluded that the Company’s disclosure controls and procedures are designed and operating effectively to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, are made known to them by others within those entities. They have also concluded that the Company’s internal control over financial reporting are designed effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (“GAAP”).

There was no change to the Company’s internal control over financial reporting that occurred during the most recent interim 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 Chief Executive Officer and Chief Financial Officer 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 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

As required on January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA Handbook”) with respect to Accounting Changes (Section 1506), Comprehensive Income (Section 1530), Financial Instruments - Recognition and Measurement (Section 3855), Financial Instruments – Disclosure and Presentation (Section 3861), and Hedges (Section 3865). The adoption of these recommendations did not require any retroactive adjustments to the consolidated financial statements. These new sections outline prescribed guidelines for recognition, measurement, presentation and disclosure of these items. A review of Q1’07 did not result in the identification of any items that would affect comprehensive income. The Company has adopted these measures and procedures to review, record and disclose these items where required and as defined in these new sections of the CICA Handbook including disclosure and effect of accounting standards that have been pronounced but not yet implemented.