



**DESTINY RESOURCE SERVICES CORP.**  
**2008 First Quarter Interim Report**  
**As at and for the three-month period ended March 31, 2008**

**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**FOR Q1'08**

*The following discussion and analysis of financial results for the three months ended March 31, 2008 ("Q1'08") and March 31, 2007 ("Q1'07") is based on information available until May 6, 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 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 Q1'08 at \$20.3 million, has increased by 18% from \$17.2 million in Q1'07, is reflecting a somewhat better market than the prior year. Our market share remains at a level consistent with the past.

One client exceeded 10% of gross revenues for both Q1'08 and Q1'07 and represented in aggregate approximately 52% of current quarter revenues (54% in 2007).

**GROSS MARGIN**

Gross margin for Q1'08 was approximately \$4.2 million, representing 20.9% of revenues, and was higher than the \$3.5 million representing 20.1% of revenues over the same period last year. The increase can partially be attributed to internal cost cutting measures that have been implemented and are expected to provide additional benefits for the future. 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 Q1'08 these expenses were \$0.7 million. For Q1'07 these expenses were \$1.7 million and included approximately \$0.9 million for the corporate reorganization. Profit sharing accruals were close for both Q1'08 and Q1'07 at less than \$0.2 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 \$0.7 million for Q1'08 was less than the \$0.8 million for Q1'07 due primarily to the \$2.8 million impairment of the Kodiak assets that was recognized in Q4'07. Total net book value of property and equipment was \$8.9 million at the end of Q1'08 compared to \$9.3 million at last year end.

### INTEREST EXPENSE

Increased Q1'08 profitability levels over 2007 required additional working capital resulting in higher demand on the operating line. All interest expense for both periods related to the short term bank operating facility.

### INCOME TAXES

The Company intends to apply available tax losses against the current and future income taxes liability with the expectation that there will be no cash expense associated with extinguishing these liabilities. The balance of Canadian accounting and tax timing differences are represented as \$2.3 million as a future income tax liability. The future income tax asset of \$0.5 million represents the US accounting and tax timing differences. The income tax receivable of \$0.3 million primarily relates to the 2005 investment tax credit claim that has been filed.

### SUMMARY OF QUARTERLY RESULTS

<i>(000's, except per share amounts)</i>	<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>	<b>Q2 2006</b>	<b>Q1 2006</b>
Total Revenue	<b>20,275</b>	17,129	19,244	11,633	17,196	22,262	23,636	16,934	26,199
Net income (loss) for the period	<b>1,930</b>	629	(2,198)	177	1,657	1,982	1,869	504	3,313
Basic/diluted earnings per share	<b>0.35</b>	0.11	(0.39)	0.03	0.30	0.36 / 0.35	0.34	0.09	0.59
Weighted average number of shares outstanding									
Basic	<b>5,577</b>	5,577	5,577	5,577	5,577	5,576	5,575	5,575	5,575
Diluted	<b>5,577</b>	5,577	5,580	5,594	5,595	5,595	5,594	5,596	5,596

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.

The Company believes that it has the capital resources available to meet its working capital and capital expenditure requirements.

### 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 12 Subsequent Events 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 \$1 million USD per year.

### WORKING CAPITAL

Net working capital of \$10.3 million at March 31, 2008 has increased from \$5.1 million at last year end (\$5.2 million at March 31, 2007). Better Q1'08 profitability compared to the same period last year along with the new long-term debt facility represent the primary factors for the increase. The Company has available a \$15 million (recently increased from \$10 million) revolving demand bank operating loan facility, which was drawn by \$3.1 million at the end of Q1'08.

For clients representing more than 10% of trade accounts receivable, approximately 63% of trade accounts receivable at March 31, 2008 (49% at March 31, 2007) are with two clients (two 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 83% of trade accounts receivable at March 31, 2008 were less than 60 days old (25% were less than 30 days old).

#### PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2008 was at \$8.8 million which was less than the \$9.3 million at December 31, 2007. Amortization for Q1'08 was \$0.7 million. Purchases net of disposals of \$0.2 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 any other "off balance sheet" contractual obligations.

<i>(in \$millions)</i>	<b>Payments Due by Future Year</b>				
	<b>Total</b>	<b>0-1 Years</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>After 5 years</b>
Operating Leases	7.9	1.4	2.3	1.4	2.8

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 \$13.6 million at the end of Q1'08 and can be entirely contributed to Q1'08 net income of \$1.9 million.

As at May 6, 2008, the number of issued and outstanding common shares is 5,577,081 with 30,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan none of which were "in-the-money" as at March 31, 2008.

#### 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.

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 \$3.1 million as at March 31, 2008 and were well below the maximum allowable limit at that time.

#### **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. 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.

Q1'08 demonstrated stronger revenue and profitability levels over 2007 which together with the indication for the balance of the year, lead to the conclusion that overall activity for 2008 is expected to be better than in 2007. Despite the expected increase in revenues the Company will continue to evaluate overall infrastructure levels in light of existing and planned business and will adjust levels accordingly and where appropriate.

The Company paid quarterly dividends of \$1.3 million in Q1'07 and Q2'07 for a total of \$2.7 million (\$0.48 per share); however due to reduced overall profitability levels the Board elected not to pay any further dividends for 2007. If expected increased business activity is realized over the course of 2008, an evaluation will be undertaken by the Board to determine appropriate dividends going forward.

Overall revenues for the US for Q1'08 were \$0.9 million compared to \$2 million for Q1'07. Although this represents a slow start for the current year, it is expected that the business asset acquisition that occurred on April 1, 2008 will contribute to a more rapid growth curve in revenues for the balance of the year. The Company is very encouraged by the prospects of seismic industry activity in the US and with the establishment of the Houston office in 2007 and with this business acquisition is committed to the delivery of its services to US based clients and with growth in this market.

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, and retain cash that might otherwise be paid a 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, which has been provided under note 12.

### **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 additional information to comply with these standards is disclosed in note 13.

### **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. 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.

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.

## **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 commence 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 will remain in effect until the earlier of November 15, 2008 or until the Company has purchased the maximum number of common shares permitted. As of May 6, 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 – 58th Avenue S.E., Calgary, AB T2H 0P4.