



**DESTINY RESOURCE SERVICES CORP.**  
**2005 First Quarter Interim Report**  
**For the Three Months Ended March 31, 2005**

Destiny provides Seismic Front-End Services comprised of seismic survey and mapping (Wolf Survey & Mapping), seismic line clearing (Destiny Resources) and shot-hole drilling (Double R Drilling) to energy explorers and producers and to seismic acquisition companies. Destiny provides navigation, positioning and asset management technology to improve the productivity and safety of seismic operations through its Kodiak Nav Solutions division.

Common shares of Destiny Resource Services Corp. trade on The Toronto Stock Exchange under the ticker symbol DSC.

**FINANCIAL HIGHLIGHTS**

	2005	2004	Change
	\$	\$	%
<i>(\$000s, except per share amounts) (unaudited)</i>			
Revenue	<b>16,604</b>	12,796	+30
Net income for the period	<b>2,090</b>	1,744	+20
Per share – basic	<b>0.38</b>	0.66	-42
Per share - diluted	<b>0.38</b>	0.66	-42
Funds from operations for the period <sup>(1)</sup>	<b>3,059</b>	2,148	+42
Per share – basic <sup>(2)</sup>	<b>0.56</b>	0.82	-32
Per share – diluted <sup>(2)</sup>	<b>0.56</b>	0.82	-32
EBITDA <sup>(1)</sup>	<b>3,030</b>	2,381	+27
Per share – basic <sup>(2)</sup>	<b>0.55</b>	0.90	-39
Per share – diluted <sup>(2)</sup>	<b>0.55</b>	0.90	-39
Weighted average shares outstanding for the period (000s)			
Basic <sup>(2)</sup>	<b>5,495</b>	2,636	+109
Diluted <sup>(2)</sup>	<b>5,500</b>	2,636	+109
As at	<b>March 31, 2005</b>	Dec 31, 2004	
Working capital	<b>2,617</b>	2,801	-7
Total assets	<b>19,934</b>	11,391	+75
Shareholders' equity	<b>9,793</b>	7,845	+25
Net book value per share outstanding <sup>(2)</sup>	<b>1.77</b>	1.49	+19

(1) "Funds from operations" and "EBITDA" are non GAAP measures which are provided to assist investors in determining the ability of Destiny to generate cash flows. EBITDA is calculated from the consolidated statement of income as gross margin less general and administrative expenses. This measure does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

(2) Based on the number of issued and outstanding shares as adjusted for the April 1, 2005 20:1 share consolidation as described in note 4 to the unaudited interim consolidated financial statements.

## LETTER TO SHAREHOLDERS

Fellow Shareholders,

The first quarter of 2005 was a strong one for Destiny. We experienced strong growth in revenue and profit in each of our 3 main businesses and started the integration and exploitation of Kodiak Nav Solutions, which was acquired at the end of January. This strength gives us confidence in the balance of 2005 and in the declaration of our second consecutive quarterly dividend. This dividend of \$0.20 per share, which is to be paid in Q2'05 with respect to 2005 results to date, is consistent, on a pre-consolidation basis, with the \$0.01 per share dividend that was paid in the first quarter with respect to 2004 results

### **Q1'05 Review**

Q1'05 saw increased demand for the services provided by Destiny in Canada. This demand, together with the mix of business in the quarter and the generally good weather throughout the quarter, is reflected in the revenue and profit growth we are reporting.

A highlight of the quarter was the acquisition, on January 27, 2005, of the business, assets and operations of Kodiak Nav Solutions. Kodiak provides navigation, positioning and asset management technology to clients in both Canada and the United States to improve the productivity and safety of seismic operations. The purchase price was \$1,967,575 before adjustments, paid \$1,000,000 in cash and the balance by the issuance of 276,450 shares (5,529,000 shares pre-consolidation) of Destiny (5.0% of the shares outstanding after the transaction) valued at \$3.50 (\$0.175 pre-consolidation) per share. The cash component came from Destiny's working capital.

We are very pleased with this expansion of our business. Steve Matthews and Jim McLellan have done an excellent job of commercializing the unique, proprietary products and services of Kodiak and of positioning Kodiak for the next level of its growth. At the same time, we expect significant synergies and growth within our present businesses from having Kodiak under the Destiny umbrella. We are also pleased to welcome Steve, who is Vice-President, Kodiak, Jim, who is Advanced Technology Manager, and all members of their team to our company. We believe Destiny is further strengthening our operations, our suite of services and the quality group of men and women who provide services to our customers. We expect Kodiak will contribute to Destiny's ability to generate cash and earnings and to distribute cash to our shareholders commencing with Q2'05.

### **Outlook for 2005**

Our book of business for the upcoming months is stronger than we have seen in several years. It appears the strong levels of capital expenditures and activity in the Western Canadian Sedimentary Basin are now including the exploration end of the business, which is the segment in which Destiny most operates. We are very encouraged by what we are seeing at the moment.

Destiny is able to attract and deliver, with quality and safety, the level of activity we are experiencing because of the abilities and efforts of the men and women who work for Destiny in the field and in our offices. On behalf of the shareholders and the Board of Directors, we say thank you to each of them.



Bruce R. Libin, Q.C.  
Executive Chairman and Chief Executive Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis of financial results for the three month period ended March 31, 2005 ("Q1'05" and 2004 ("Q1'04") is based on information available until May 10, 2005 (unless otherwise noted) and upon the Company's consolidated financial statements, 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 year ended December 31, 2004.

### Forward-looking Information

Statements in this MD&A relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known (see Business Risks section) 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.

### REVENUE

Revenue for Q1'05 was \$16.6 million, a \$3.8 million or 30% increase from the \$12.8 million recorded in Q1'04. Revenues by quarter and year over year can be very cyclical, and the current period reflects a significantly higher level of contract work performed.

### GROSS MARGIN

Gross margin for Q1'05 was \$4.0 million, a \$1.3 million or 50% increase from the \$2.7 million recorded in Q1'04. Gross margins also improved to 24.2% of revenues, compared to 20.9% in Q1'04. The increase in gross margin dollars is attributed to such factors as:

- the 30% increase in revenue from Q1'04 to Q1'05.
- improved field efficiency achieved through decreased use of higher cost subcontractors and rented equipment.
- the Company's past efforts to alter its cost structure so that a greater portion of direct expenses are variable as opposed to fixed which results in a reduction in overall costs.

### GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

G&A expenses, which represent primarily the costs associated with the corporate head office and the lease of the survey & mapping division's shop and office, totaled \$987,473 for Q1'05 and \$292,529 for Q1'04. The new Kodiak division represented \$102,884 of the total G&A expense for Q1'05 and accrual for the Company's new profit sharing plans accounted for the balance of the increase.

### AMORTIZATION OF PROPERTY AND EQUIPMENT

Amortization of property and equipment increased by \$69,896 or 22% to \$391,277 for Q1'05 compared to \$321,381 for Q1'04. Amortization is a function of the timing of additions to property and equipment, with the net increase in Q1'05 primarily related to the acquisition of the Kodiak division in January.

Disposals of property and equipment resulted in a minor gain of \$2,486 for Q1'05 compared to a loss of \$77,500 in Q1'04. These totals represent the normal course disposal of capital assets with no noteworthy specific items.

### INTEREST EXPENSE

Interest expense declined by \$216,310 or 93% to \$16,767 for Q1'05 compared to \$233,077 for Q1'04. As at the end of 2004, the Company had repaid all of its long-term debt, with 2005 interest reflecting interest on the short-term bank operating facility. In addition, the facility that was in place in 2004 had higher ongoing fees. In comparison, as at the end of Q1'04, total long-term debt was \$8.3 million.

## INCOME TAXES

The Company did not have current taxes payable for the Q1'05 and Q1'04 periods, with minor "capital" taxes and expense related to an inactive subsidiary company recorded in 2004. The profitable operations of Q1'05 resulted in a draw-down of previously unrecorded future tax assets, and a resultant future income tax expense of \$580,000 was recorded for the Q1'05 period.

## SUMMARY OF QUARTERLY RESULTS

A summary of operating results by quarter for the last 2 years is as follows:

<i>(in \$000's, except per share and # of share amounts)</i>	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Revenue:								
Continuing operations	16,604	7,430	12,200	1,204	12,796	5,819	10,154	1,333
Discontinued operations	-	-	-	-	-	1,706	7,686	5,256
Total	16,604	7,430	12,200	1,204	12,796	7,525	17,840	6,589
Income (loss) from:								
Continuing operations	2,090	(421)	1,057	(1,437)	1,744	(1,030)	183	(1,089)
Discontinued operations	-	72	-	332	-	52	594	(1,078)
Total	2,090	(349)	1,057	(1,105)	1,744	(977)	777	(2,167)
Net income (loss) per share (basic & diluted):								
Continuing operations	0.38	(0.16)	0.40	(0.55)	0.66	(0.39)	0.07	(0.41)
Discontinued operations	-	0.03	-	0.13	-	0.02	0.23	(0.41)
Total	0.38	(0.13)	0.40	(0.42)	0.66	(0.37)	0.30	(0.82)
Weighted average # of shares outstanding (000s):								
Basic	5,495	2,636	2,636	2,636	2,636	2,636	2,636	2,636
Diluted	5,500	2,636	2,636	2,636	2,636	2,636	2,636	2,636

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 and Q2 and Q4 being traditionally being the weakest quarters. The underlying causes of the seasonality are weather conditions and the Company being restricted from entering and conducting work in certain wildlife areas.
2. The effect of the Company's now discontinued operations can be seen in the 2003 revenue and income (loss) amounts.

## 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 and capital to finance strategic acquisitions. Sources of funds to satisfy these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and access to equity markets.

The Company believes that it has the capital resources and availability to meet both its working capital and capital expenditure requirements for 2005 and beyond.

## WORKING CAPITAL

At March 31, 2005 the Company had net working capital of \$2.6 million, a slight decrease from the \$2.8 million at December 31, 2004.

Approximately 16% of accounts receivable at March 31, 2005 (2004 – 25%) and 26% (2004 – 22%) of revenues for the three month period ended March 31 were represented by sales to one customer.

## **PROPERTY AND EQUIPMENT**

Capital assets totaled \$7.8 million at the end of Q1'05, a \$2.7 million increase from the \$5.0 million as at December 31, 2004. The increase is due to the \$2.0 million acquisition of Kodiak in January 2005, other capex purchases totaling \$1.0 million, less amortization for the quarter of \$0.4 million.

## **CONTRACTUAL OBLIGATIONS**

Upon closing of the Right Offering in December 2004, Destiny repaid all remaining long-term debt, and its' only future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no hedging or other "off balance sheet" contractual obligations.

	<b>Payments Due by Future Year</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>After 5 years</b>
Operating Leases	\$ 2,195,213	\$ 547,330	\$ 722,637	\$ 570,810	\$ 354,436

## **SHAREHOLDERS' EQUITY**

As at the end of Q1'05, shareholders' equity increased by \$2.0 million to \$9.8 million compared to \$7.8 million at December 31, 2004. The increase is a result of net income of \$2.1 million, share consideration issued on the acquisition of Kodiak of \$1.0 million, less dividends paid in the quarter of \$1.1 million.

As at May 10, 2004, the number of issued and outstanding common shares is 5,547,581, as reflected in note 4 to the attached unaudited consolidated financial statements. The number of additional shares reserved for potential future issuance pursuant to the Company's stock option plan is 90,375 common shares.

## **CRITICAL ACCOUNTING ESTIMATES**

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. The estimates require significant judgment on the part of management and are considered critical in that they are important to the Company's financial condition and results. Management believes the critical accounting estimates for the Company are as follows:

### *Property and equipment*

Property and equipment assets are recorded at cost and are amortized over their estimated useful lives. The Company evaluates the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognizes an impairment charge when it is probable that estimated future cash flows of the underlying assets will be less than the carrying value of the assets.

Judgment is required in determining the useful life of property and equipment and the appropriate method of amortization. Factors considered in estimating the useful lives of property and equipment include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time and effectiveness of the Company's maintenance program.

The Company's investment in property and equipment results in amortization expense being a significant operating cost to the Company and any misjudgment in estimating the useful life of the equipment could result in a misstatement of financial results.

### *Allowance for Doubtful Accounts*

Accounts receivable is net of an allowance of \$0.1 million which has been recorded (\$0.1 million – December 31, 2004) in the consolidated financial statements, reflecting the amount of the balance for which collection is considered doubtful. In assessing the ability to collect accounts receivable, management reviews individual customer receivable balances to determine accounts on which collection is not certain. For these accounts, an allowance for doubtful accounts is established. The amount of the allowance is based upon a review of the customer's credit information, past payment practices and overall financial strength of the customer.

### *Accrued liabilities*

Accrued liabilities normally include management's estimates of expected future costs to be incurred arising out of current year operating activity, including costs for repairs and maintenance and project completion.

### **New Canadian Accounting Pronouncements**

The Canadian Institute of Chartered Accountants (CICA) has issued a number of accounting pronouncements, some of which may impact the Company's reported results and financial position in future periods.

### *Comprehensive Income/Financial Instruments/Hedges*

The CICA issued new standards in early 2005 for Comprehensive Income (CICA 1530), Financial Instruments (CICA 3855) and Hedges (CICA 3865), which will be effective for the reporting year-end 2007. The new standards will bring Canadian rules in line with current rules in the US. The standards will introduce the concept of "Comprehensive Income" to Canadian GAAP and will require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to comprehensive income and be brought into net income at the time the underlying hedged item is settled. It is expected that this standard will be effective for Destiny's 2007 reporting. Any instruments that do not qualify for hedge accounting will be marked-to-market with the adjustment (tax effected) flowing through the income statement.

Destiny does not have any hedges in place so there will be no impact based on current positions.

### **BUSINESS RISKS**

Destiny is subject to the risks and variables inherent in the oilfield services industry. Demand for the Company's products and services depends on the exploration, and to a lesser extent, development 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 and safety 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.

Given the Company's businesses are concentrated in the seismic services industry, the major business risk the Company faces is that revenues are subject to very wide seasonal and annual variations, all of which are beyond the ability of the Company to control while a meaningful proportion of the Company's costs are, at least in the short-term, fixed in nature. As a consequence, profits (losses) can vary widely from quarter to quarter and year to year.

The risks inherent in the oilfield services industry impact the Company's ability to meet its financial covenants on its revolving, bank operating loan facility (of which \$3 million was utilized at March 31, 2005). Accordingly, the Company may become in violation of its covenants on the bank facility, which might result in repayment being demanded.

### **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 to have a cost structure that has sufficient variability as to be able 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.

Destiny has expansion opportunities it is reviewing. 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.

**DESTINY RESOURCE SERVICES CORP.**  
**CONSOLIDATED BALANCE SHEETS**

	March 31, 2005 \$	December 31, 2004 \$
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<b>ASSETS</b> <i>(note 3)</i>	<i>(unaudited)</i>	
<b>Current</b>		
Cash	---	1,198,004
Accounts receivable <i>(note 3)</i>	11,401,100	4,261,300
Inventory <i>(note 3)</i>	544,739	561,888
Prepaid expenses	232,731	325,459
	<hr/>	<hr/>
	12,178,570	6,346,651
Property and equipment <i>(note 2)</i>	7,755,678	5,044,266
	<hr/>	<hr/>
	19,934,248	11,390,917
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<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness <i>(note 3)</i>	3,003,332	---
Accounts payable and accrued liabilities	6,513,602	3,483,824
Income taxes payable	44,265	61,973
Contingent liabilities <i>(note 9)</i>		
	<hr/>	<hr/>
	9,561,199	3,545,797
<b>Future income taxes</b>	580,000	---
	<hr/>	<hr/>
<b>Shareholders' equity</b>		
Share capital <i>(note 4)</i>	8,165,135	7,198,140
Retained earnings	1,627,914	646,980
	<hr/>	<hr/>
	9,793,049	7,845,120
	<hr/>	<hr/>
	19,934,248	11,390,917
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*See accompanying notes to the consolidated financial statements.*

**DESTINY RESOURCE SERVICES CORP.**  
**CONSOLIDATED STATEMENTS OF**  
**OPERATIONS AND RETAINED EARNINGS**

	Three months ended March 31	
	2005	2004
<i>(unaudited)</i>	\$	\$
<b>Revenue</b>	16,604,274	12,796,307
<b>Direct expenses</b>	12,586,873	10,122,450
<b>Gross margin</b>	4,017,401	2,673,857
<b>Other expense (income)</b>		
General and administrative	987,473	292,529
Amortization of property and equipment	391,277	321,381
(Gain) loss on disposal of property and equipment	(2,486)	77,500
Interest expense	16,767	233,077
Other income	(46,079)	(288)
	1,346,952	924,199
<b>Income before income taxes</b>	2,670,449	1,749,658
Income taxes		
Current	---	6,000
Future	580,000	---
	580,000	6,000
<b>Net income for the period</b>	2,090,449	1,743,658
Retained earnings (deficit), beginning of period	646,980	(9,070,685)
Dividends <i>(note 4)</i>	(1,109,515)	---
<b>Retained earnings (deficit), end of period</b>	1,627,914	(7,327,027)
<b>Basic and diluted per share amounts <i>(note 6)</i></b>		
Net income for the period per common share:		
Basic	0.38	0.66
Diluted	0.38	0.66

See accompanying notes to the consolidated financial statements.

**DESTINY RESOURCE SERVICES CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended March 31	
	2005	2004
	\$	\$
<i>(unaudited)</i>		
<b>CASH FLOWS PROVIDED BY (USED IN):</b>		
<b>Operating activities:</b>		
Net income	2,090,449	1,743,658
Items not involving cash:		
Amortization of property and equipment	391,277	321,381
(Gain) loss on disposal of property and equipment	(2,486)	77,500
Future income taxes	580,000	---
Amortization of deferred charges	---	5,833
Funds from operations	3,059,240	2,148,372
Net change in non-cash working capital	<u>(4,017,853)</u>	<u>(2,666,482)</u>
	<u>(958,613)</u>	<u>(518,110)</u>
<b>Financing activities:</b>		
Net increase (decrease) in bank indebtedness	3,003,332	(1,797,782)
Dividends paid <i>(note 4)</i>	(1,109,515)	---
Costs related to 2004 Rights Offering	(580)	---
Repayment of long-term debt	---	(462,876)
Increase in long-term debt	---	1,530,000
	<u>1,893,237</u>	<u>(730,658)</u>
<b>Investing activities:</b>		
Purchase of property and equipment	(2,152,128)	(88,461)
Proceeds on sale of property and equipment	19,500	44,819
Cash flow from discontinued operations <i>(note 7)</i>	---	1,292,410
	<u>(2,132,628)</u>	<u>1,248,768</u>
<b>Decrease in cash for the period</b>	<b>(1,198,004)</b>	<b>---</b>
<b>Cash, beginning of period</b>	<b>1,198,004</b>	<b>---</b>
<b>Cash, end of period</b>	<b>---</b>	<b>---</b>

See accompanying notes to the consolidated financial statements.

**DESTINY RESOURCE SERVICES CORP.**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
For the three-month period ended March 31, 2005

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**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Destiny Resource Services Corp. (the "Company") provides Seismic Front-End Services comprised of seismic survey and mapping, seismic line clearing and shot-hole drilling to energy explorers and producers and to seismic acquisition companies. The Company's business is seasonal with Q1 and Q3 traditionally being the two most active quarters. The underlying causes of the seasonality are the weather and the Company being restricted from entering certain wildlife areas.

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. Except as noted below, the interim financial statements follow the same significant accounting policies as described and used in the most recent annual report of the Company for the year ended December 31, 2004 and should be read in conjunction with that report.

**2. ACQUISITION OF KODIAK NAV SOLUTIONS**

On January 27, 2005, the Company agreed to acquire, effective January 1, 2005, the business, assets and operations of Kodiak Nav Solutions Ltd. ("Kodiak") for total consideration of \$1,994,249, comprised of:

Cash	\$ 1,026,674
<u>276,450 common shares of the Company, at \$3.50 per share (see note 4)</u>	<u>967,575</u>
<u>Total consideration</u>	<u>\$ 1,994,249</u>

Purchase price allocation:	
<u>Computer equipment and software</u>	<u>\$ 1,994,249</u>

Kodiak is a privately owned business that provides navigation, positioning and asset management technology to clients in the North American seismic services industry. This acquisition has been accounted for using the purchase price method of accounting from the date of closing.

**3. BANK INDEBTEDNESS**

The Company has available a \$5,000,000 revolving demand bank operating loan facility, renewable annually, with balances outstanding repayable on demand and bearing interest at prime plus 1.50%. The facility is secured by a first charge on accounts receivable and inventory and a charge on all other assets of the Company. The Company's ability to draw on the facility is primarily dependent upon its accounts receivable that are less than 90 days outstanding. Letters of guarantee totaling \$80,000 are outstanding under the operating loan facility. As at and for the three-months ended March 31, 2005, the Company was in compliance with all covenants with respect to this facility.

**4. SHARE CAPITAL**

On March 17, 2005, the Company's Board of Directors approved:

- A reverse stock split of the Company's 105,422,618 outstanding common shares, on the basis of 20 (old) for each 1 (new) common share, resulting in a revised outstanding total of 5,271,131 common shares of the Company. The number of shares outstanding for 2005 and 2004, the shares issued on the acquisition of Kodiak (see note 2), and stock options outstanding (note 5) have been retroactively restated to give effect to the reverse stock split which was effective April 1, 2005.
- A cash dividend of \$0.20 per common share, for total dividends of \$1,109,505 which were paid on March 31, 2005.

	#	\$
<b>Authorized</b>		
Unlimited number of common, first preferred and second preferred shares		
<b>Issued - Common shares</b>		
December 31, 2004	5,271,131	7,198,140
Costs related to 2004 Rights Offering	---	(580)
Issued on acquisition of Kodiak (note 2)	276,450	967,575
<b>Total, March 31, 2005</b>	<b>5,547,581</b>	<b>8,165,135</b>

## 5. STOCK OPTIONS AND STOCK BASED COMPENSATION EXPENSE

The Company has in place a stock option plan whereby options to purchase common shares of the Company may be granted to directors, officers, employees and consultants at current market prices. Compensation costs are recognized for all options granted or modified on or after January 1, 2003 under the fair value method, whereby the cost of the option is charged to earnings over the vesting period of the option, with an offsetting amount recorded to contributed surplus. The fair value is determined based on the quoted market price of the Company's stock and other assumptions in effect at the date of granting using a Black-Scholes Option Pricing Model.

The Company may also grant to selected executives and other key employees stock appreciation rights ("SARs") and restricted stock units ("RSUs") which are settled in cash. The costs associated with any such grants are measured (i) in the case of SARs, as the amount by which the quoted market value of the enterprise's stock covered by the grant exceeds the market price of the underlying stock, and (ii) in the case of RSUs, in relation to the average quoted market price of the underlying stock over the thirty day period prior to the grant date. Changes, either increases or decreases, in the quoted market value of those stocks between the date of grant and the measurement date result in a change in the measure of compensation for the rights.

For SARs there was no impact on the consolidated financial statements, and for outstanding RSUs, general & administrative expense includes \$75,000 RSU expense recognized in 2005 (2004 - \$nil).

The number of common shares reserved for potential issuance under the stock option plan is as follows:

	# of options outstanding	weighted average exercise price \$
total at December 31, 2004	91,000	6.39
cancelled in the period	(625)	6.00
<b>total at March 31, 2005</b>	<b>90,375</b>	<b>6.39</b>

## 6. PER SHARE AMOUNTS

The numerators and denominators (as adjusted for the reverse stock split as described in note 4) used in the calculation of each of the basic and diluted per common share amounts are determined as follows:

	Three Months Ended March 31	
	2005	2004
Numerator:		
Net income for the period	\$ 2,090,449	\$ 1,743,658
Denominator - weighted average number of shares outstanding for the period:		
Basic	5,495,363	2,635,565
Effect of potentially dilutive "in-the-money" options	4,804	---
<b>Diluted</b>	<b>5,500,167</b>	<b>2,635,565</b>

Excluded from the diluted earnings per share amount are 85,572 (2004 - 94,000) "out-of-the-money" options the impact of which was anti-dilutive.

## **7. DISCONTINUED OPERATIONS**

In 2003 the Company restructured its operations and disposed of the operating assets of Battle River Oilfield Construction, McConnell Welding and Construction, Team Pipeline and Big Foot Metal Systems, which in total comprised two of its three business segments.

Cash flow from Discontinued Operations represents proceeds received in 2004 related to the 2003 disposals.

## **8. CREDIT RISK**

The Company's sales are to customers in the oil and gas industry, which results in a concentration of credit risk. The Company generally extends unsecured credit to these customers, and therefore the collection of receivables may be affected by changes in economic or other conditions and may accordingly affect the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which the Company extends credit. The Company has not previously experienced any material credit losses on the collection of accounts receivable related to its continuing operations. Income from discontinued operations in 2003 was net of bad debt expense of approximately \$983,000 related to a single large account receivable which became uncollectible during 2003. In 2004, a recovery of \$275,675 of this total was recorded.

Approximately 16% of accounts receivable at March 31, 2005 (2004 – 25%) and 26% (2004 – 22%) of revenues for the 3-month period ended March 31 were represented by sales to one customer.

## **9. CONTINGENT LIABILITIES**

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 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.

## CORPORATE INFORMATION

### Directors

Bruce R. Libin, Q.C.  
*Executive Chairman & Chief Executive Officer*  
*Destiny Resource Services Corp.*  
*Calgary, Alberta*

Glen D. Roane  
*Corporate Director*  
*Canmore, Alberta*

Nathan S. Feldman, C.A.  
*Independent Businessman and Financial Consultant*  
*Calgary, Alberta*

David McGoey, C.A.  
*Independent Businessman*  
*Calgary, Alberta*

Jim Rathwell  
*General Manager, Well Servicing*  
*Trinidad Drilling Income Trust*  
*Calgary, Alberta*

### Officers

Bruce Libin  
*Executive Chairman & Chief Executive Officer*

Jim Holt  
*Vice-President, Drilling*

Warren Plue  
*Vice-President, Survey & Line Clearing*

Steve Matthews  
*Vice-President, Kodiak Nav Solutions*

### Corporate Headquarters

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Website: [www.destiny-resources.com](http://www.destiny-resources.com)

### Auditors

Ernst & Young LLP  
*Calgary, Alberta*

### Banker

HSBC Bank Canada  
*Calgary, Alberta*

### Legal Counsel

Stikeman Elliott LLP  
*Calgary, Alberta*

### Registrar and Transfer Agent

*Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:*

### Valiant Trust Company

Suite 310  
606 – 4th Street SW  
Calgary, Alberta T2P 1T1  
Attention: Stock Transfer Department  
Telephone (403) 233-2801

### Stock Exchange Listing

Toronto Stock Exchange  
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