



DESTINY RESOURCE SERVICES CORP.

2005 Annual Report

For the Year Ended December 31, 2005

TABLE OF CONTENTS

Corporate Profile	2
Financial Highlights	3
Letter to Shareholders	4
Management's Discussion and Analysis	9
Management's Responsibility Statement	17
Independent Auditors' Report	18
2005 Year End Financial Statements	19
Notes to 2005 Year End Financial Statements	22
Corporate Information	31

CORPORATE PROFILE

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 navigation solutions division.

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

The Annual General Meeting of Shareholders of Destiny Resource Services Corp. will be held on Tuesday, May 9, 2006 at 3:00 p.m. (Calgary time) in the 35th Floor Social Room at the International Hotel, 220 – 4th Avenue S.W., Calgary, Alberta . The Management Information Circular, Notice of Meeting and Form of Proxy are being mailed to each shareholder with this Annual Report. Shareholders who are unable to attend the Meeting are requested to complete and return the Form of Proxy to Valiant Trust Company, Suite 310, 606 4th Street SW, Calgary, Alberta T2P 1T1 at their earliest convenience.

FINANCIAL HIGHLIGHTS

The following table highlights certain financial information of the Company's continuing operations for the years ended December 31, 2005 and 2004:

<i>(000's, except per share amounts)</i>	Year ended December 31		
	2005	2004	Change
	\$	\$	%
Revenue	64,457	33,630	+92
Gross margin	12,946	4,085	+217
EBITDA ⁽¹⁾	9,652	2,876	+236
Income from continuing operations	7,237	943	+667
Per share – basic and diluted	1.31	0.36	+264
Income from discontinued operations	N/A	404	N/A
Per share – basic and diluted	N/A	0.15	N/A
Net income	7,237	1,347	+437
Per share – basic and diluted	1.31	0.51	+157
Cash flow from operations	9,547	2,137	+347
Per share – basic and diluted	1.73	0.81	+114
Capital expenditures :			
For cash	7,710	1,707	+352
For shares	967	---	N/A
Total	8,677	1,707	+408
Weighted average shares outstanding:			
Basic	5,533	2,643	+110
Diluted	5,542	2,643	+110
Total assets	21,744	11,391	+91
Shareholders' equity	11,787	7,845	+50
Book value per share outstanding	2.13	2.97	(28)

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

(2) There are 5,575,081 outstanding shares and 53,000 outstanding options as at March 23, 2006.

LETTER TO SHAREHOLDERS

Fellow Shareholders,

2005 was a full and successful year for Destiny, and 2006 looks to be as well.

During the past several months, we have had a number of inquiries from shareholders, potential shareholders and other interested parties. The questions asked sometimes reflect a basic understanding of Destiny and our circumstances, sometimes a more sophisticated view and occasionally are from those just discovering our Company. I thought it might be helpful to repeat several of the questions and the tone and tenor of our responses here, for the benefit of all shareholders. What follows is not in a particular order of priority, and the responses have been edited more here than usually happens over the phone or email.

An expanded version of this letter, containing several more questions and answers, appears on Destiny's website.

Q: What are the prospects for Destiny?

A: Destiny is well positioned to grow with and enjoy the advantages of the markets in which we operate. In western Canada, each of our 3 historic businesses (Wolf Survey & Mapping, Destiny Resources, Double R Drilling) is a leader in its market and experienced growing market share in 2005. We are experiencing a strong first quarter in 2006 and are encouraged by the outlook for the year, and beyond. Our Kodiak Nav Solutions business, acquired in January 2005, is solidifying its position in its market and rolling out new products that will make our existing businesses stronger and more profitable. Wolf Survey & Mapping U.S. attained traction in 2005, its first year of operation and we like what we see for the prospects of growth and profitability there.

Q: What factors contributed to the growth in 2005?

A: 2005 was a year when so much came together for us. It was, in part, a return on the investment of the past few years in training, in equipment, in systems, in keeping current with our markets and the needs of our clients.

Double R Drilling, operating from our owned facility in Grande Prairie, Alberta, provides shot-hole drilling services. Double R Drilling, our largest business by revenue, had an exceptional year. From running a maximum of 2 heli-portable drill crews in 2003 and a maximum of 4 in 2004, Double R actually ran 6 heli-portable drill crews for part of the summer of 2005. In addition, Double R was able to respond to the growing select needs of clients, in western Canada and in the Canadian Arctic. In fact, this division declined a significant amount of work offered to it, choosing to maintain quality and safety.

Wolf Survey & Mapping Canada, operating from our leased facility (corporate office, sales for all divisions, operations for Wolf Survey and Kodiak Nav Solutions) in Calgary, provides survey, mapping, GIS and other services. Wolf Survey & Mapping Canada, our second largest business by revenue, also had a sterling year. Wolf expanded its manpower, its equipment and its capacity to serve clients and laid the groundwork for additional gains for 2006.

Destiny Resources, our line-clearing business, also operates from our facility in Grande Prairie. During 2005, Destiny Resources expanded its fleet of specialized equipment from 4 to 13 and was successful at increasing the utilization rates of its equipment. Revenue and margin dollars grew meaningfully. This division and Wolf Canada continue to benefit from cross-marketing of services and the efficiencies achieved when they work together on projects.

Kodiak Nav Solutions provides navigation and positioning services to Destiny divisions and to third party clients. In 2005, Kodiak Nav Solutions successfully went through the transition of joining Destiny and advanced its products and technology throughout the year, as well as greatly increasing capacity.

Wolf Survey & Mapping US operates from our leased facility in the Denver, Colorado area. In 2005, this division got launched and started well, working on a large program in Wyoming, which project will have additional components in 2006. This division weathered the trials and tribulations of a start-up and established itself as a competitor in the markets we selected.

Safety. We view our commitment to safety and the emphasis on achieving a safe workplace as almost another division. 2005 saw a continuation of the strong focus on safety and the delivery of results with low incident rates. For the second year in a row, Wolf Survey & Mapping Canada was awarded a Best Safety Performer designation by the Alberta Government. We appointed a Chief Safety Officer and committed to a new safety tracking system.

Q: With all the things that went right, what were some of the short-comings of 2005?

A: While the year was “full and successful”, we did not hit every pitch, let alone out of the park.

We were disappointed with the limited amount of summer work (and consequent impact on Q3'05) for Destiny Resources, our line-clearing division. Some work we had been expecting was diverted from us very late in the day, too late to be able to fill the gaps created. This will cause us to be more careful in planning and allocating resources, and to be especially mindful of the difficulties of conducting line-clearing operations in British Columbia.

Destiny acquired Kodiak Nav Solutions in January, 2005 with the expectation of being able to rapidly deploy the Kodiak technology in support of our Wolf Survey & Mapping division. As it turned out, most of Kodiak's successes during the year were generated by the business they had been doing prior to being bought by Destiny as we encountered technological difficulties in attaining the efficiencies sought at the internal level. A great deal of time, intellect and effort has been invested in solving the technology gaps discovered and we believe we now have answers to all of the issues. Our present expectation is to be deploying the upgraded Kodiak technology in the second quarter of this year and to be back on track with our business plans.

Our US start was slower and with less margin dollars for the year than we had budgeted. Some of this is directly a function of over-optimism in our budgeting, some is from learning the nuances of doing business outside of our backyard. I am of the view we will be ahead of our 3 year plan by the end of 2006, notwithstanding the somewhat lesser 2005.

Q: In view of the small public float, will you be issuing more shares?

A: We view our business and its prospects with enthusiasm. As owners of Destiny, each director and officer, shareholders all, is mindful of the value inherent in a share of Destiny. As such, we are in no rush to issue shares. Today we have more than enough cash flow and debt capacity to finance our operations and capital expenditures and make our anticipated dividends. Should an opportunity present itself which requires capital beyond that which we can generate internally, the Board will wrestle with the choices of debt, dividend reduction, share issuance or some combination of these.

Q: Do you view your growth as being only from the existing businesses or do you have acquisitions in mind?

A: While we believe strongly in the organic prospects of our businesses, we are open to acquiring businesses. Our discussions at the board and management tables are always framed by doing what makes sense, whether buying or building, or both. We have no agenda or appetite for growth for growth's sake. Anything we do is with accretion in value and sustaining and growing dividends as our priorities.

We are generating cash and have no debt. Our sustaining capital expenditure requirements, while a few million dollars, are still modest relative to our operations and prospects. We have the ability to issue equity to finance growth, whether organic or through acquisitions. As such, and mindful of the desire to distribute cash to our shareholders, the owners of the business, we look at expansion and growth opportunities as we can find them.

Q: What are the limitations on being able to grow the business?

A: With respect to organic growth, the main limitation we face is people, retaining and attracting people with the right attitude, skills, energy and commitment. We are very proud of the team that is Destiny today. We have an experienced workforce, in the field and in our offices, a workforce that is compensated fairly, indeed well, for the quality work they do and for their commitment to safety.

To grow organically we must retain the workforce we have (and Destiny has a relatively low turnover of people) and attract others. We must then train the newcomers and integrate them into our ways of doing business: quality and safety. The high level of economic activity in Alberta, the mainstay of our business, means greater difficulty in expanding our workforce. Indeed, for one of our businesses we made a conscious decision to not grow capacity this year (following 2 years of rapid growth) and to focus instead on improving margins, with the expectation we can grow capacity again the following year once all hands have more experience.

With respect to acquisitions, the limitation is more the expectations of vendors of businesses. We will want to buy businesses with the expectation of incremental contributions to EBITDA per share and earnings per share. If the expectations of sellers are not in line with our needs, we will have difficulty doing business.

Q: Will you maintain a policy of no term-debt?

A: While we like our balance sheet at the moment, we will make decisions as they make sense for the financing of the business.

For 2005, our capital expenditures totaled \$8.7 million, of which \$7.7 million was paid in cash and the remaining \$1 million was paid by the issuance of equity. In addition, we paid cash dividends of \$4.4 million during 2005. The cash required for all this came from cash in the bank at the beginning of the year of \$1.2 million, net borrowings from the bank during the year of \$1.9 million and from cash generated by operations of \$8.6 million, net of investment in working capital.

Our budget for 2006 anticipates more cash generated by operations, more than enough to finance our planned level of capital expenditures (less than 2005) and the higher anticipated dividend requirements.

Should our Board of Directors determine it wise to convert some portion of our operating line to term-debt or should we make an acquisition or for other reasons, we may indeed have debt beyond today's operating line at the bank. The intent is to finance our needs in ways that make sense, as circumstances dictate.

Q: Will Destiny be increasing its dividends?

A: Consistent with a policy adopted in 2004, Destiny's Board of Directors will consider the competing needs for cash generated by the Company and may declare dividends on the shares of the Company. In 2005, Destiny declared and paid a dividend of \$0.20 per share in each calendar quarter of the year, for a total of \$0.80 per share for the year.

On March 8, 2006, with Q4'05 in hand and with the prospects for 2006 in mind, the Board of Directors declared a dividend of \$0.24 for Q1'06. While future dividends will depend on future events, the Board was certainly mindful of the expectation of the market for dividends to be smooth through the year.

Q: Will Destiny be converting to a trust?

A: The issue of conversion to a trust has been discussed at the board and management tables for some time, and will continue to be examined. The changes to the dividend tax credit announced by the last federal government, if enacted, make it less attractive, on some fronts, to convert to a trust relative to remaining a corporation.

Q: What are the risks facing Destiny?

A: Three main risks we face are industry activity levels, competitive factors and internal competency.

Industry activity: we provide services overwhelmingly for the oil and gas exploration and development industry, principally in the Western Canadian Sedimentary Basin as well as the Canadian Arctic and in the United States. The level of activity of our customers, the capital they expend on the search for oil and gas is heavily dependent upon the prices of those commodities. Commodity prices, in turn, are influenced by North American and global economic and political factors, all of which are outside the control of our Company. We are enjoying an upsurge in demand for our services today, attributable in large part by the significant increases in commodity prices over the last 2 years. There is no assurance the overall view of the oil and gas industry for commodity prices will remain at a level required to create strong demand for the services provided by Destiny.

Competitive factors: we strive to be well compensated by our clients for proving them with quality work in a safe manner. Our clients will make some trade offs of price for the quality we provide and the safety record of Destiny. We are subject to the willingness of competitors, who may have different cost structures or different views of quality and safety, to bid for work at prices which are not attractive to Destiny.

Internal competency: each of Destiny's businesses, particularly our divisions that were part of Destiny prior to 2005 (Wolf Survey & Mapping Canada, Destiny Resources, Double R Drilling), provide quality work with an excellent safety record. They have earned a reputation for doing such and are, in many cases, preferred service providers. These attributes, coupled with our ability to undertake large programs and to provide our services on a bundled and unbundled basis, are a large part of Destiny's competitive edge. We spend a great deal of time and effort on training, procedures, safety, environmental awareness and other intangibles that make us what we are, that earn and maintain our reputation. The focus on quality and safety is relentless.

And yet we are dealing with people, and people working in sometimes difficult environments and with dangerous equipment and machinery and with explosives. This means for all our emphasis, incidents can and do happen. Our risk is the confluence of a number of events that put our safety record out of line. Deer do pop out of the woods on a back country road; whatever. We can be vigilant, we can't guarantee things won't happen.

Q: How are your people compensated?

A: We have employees who are paid piece work (so much per kilometer surveyed or cleared, so much per metre of shot-hole drilled), hourly, daily, weekly and monthly. In all cases we strive to pay fair, competitive wages and salaries, including benefits appropriate to the job and the competition.

Most of the field employees have the ability to earn bonuses, usually on a per job basis. The approach to awarding bonuses takes into account the productivity of the individual, the individual's safety record and treatment of equipment and the productivity of the job.

Field employees not eligible for productivity bonuses and shop and office staff up to a certain level are eligible to be awarded bonuses at the beginning of each year based upon their performance during the year and the Company's overall results.

Beginning with 2005, Destiny instituted a Profit Sharing Plan for its Executive Management Team and its Operations Team. In each case, a percentage of the Company's pre-tax profit, determined after a priority return to shareholders, is made available to a Profit Sharing Pool. Members of the respective teams are eligible for a percentage of the respective pools, based upon salary, seniority, capacity to contribute to and affect results and other matters. Awards were made in January 2006 with respect to 2005. The aggregate awarded was \$1.9 million. Of this amount, one-half was paid in cash at the time of the award and one-sixth was paid by delivering shares of Destiny which had been purchased in the market. The other two-sixths act as a bit of a "golden handcuff" and will be paid, again in shares already purchased in the market, at the end of January in each of the next 2 years. Dividends on the shares held in trust will be paid to the eligible employee as declared and paid.

The aggregate amount Destiny paid in bonuses and awarded in profit sharing in 2005 was \$3.1 million. This was 14% of total compensation and 6% of total expenses.

Q: Isn't that a lot?

A: Yes. And I am proud to be able to do so. First, 2005 was a great year; this was the team that produced it. Second, as a service company, we earn every dollar in the field. Oil and gas prices going up will influence the demand for our services, but there is no "inventory gain" on our books. We earn every dollar. Third, for our key people in our Executive Management Team and Operations Team, 21 in total for 2005, the Profit Sharing Plan is the combination of short-term and long-term incentives. Destiny has not granted stock options since 2002 and has no present plans to do so.

Q: Could it be that much again in 2006?

A: I hope it is more. Again, these awards are made based on productivity and profit. Now, if 2006 results are the same as 2005, I expect the Profit Sharing awards will not be as great. One of the consequences to those in these plans is we raised the bar in 2005; we showed what could be done. Since the awards are meant to acknowledge value added, the challenge will be a little greater having done it once.

Q: Why do you report future taxes on the income statement but not cash taxes?

A: It is beyond the space allotted in several annual reports to try explain the accounting for income taxes in a company with tax losses and differences between the accounting book value and tax value of assets. Let me try to tackle what I think is important.

One positive by-product of the difficult past of Destiny, is tax loss carry forwards, that is, losses from the past we can use against profits being earned. This means, for income tax return purposes, Destiny does not have to pay any tax for 2005, nor should we for 2006.

Nevertheless, the accountants believe we should report the income statement as if we have to pay taxes. So, for reporting purposes, we calculate tax at the full nominal rate of almost 34%. This is what we will do, I believe, for 2006, however, with 2005 being the year we moved to reasonable profits and applied the loss carry forwards and when book and tax values crossed, we report taxes, basically future only, at about 4%.

Not that we can change the tax and accounting rules. But let me point out the challenge they pose to Destiny for 2006. If the rates for tax are 4% and 34%, we have to earn 52% more pre-tax in 2006 to report the same after-tax earnings as 2005. Phrased differently, our after-tax earnings per share for 2005 would have been \$0.89 rather than \$1.31 if the full tax rate had been applied. Now the tax provision, both for 2005 and 2006, is non-cash so our growth in EBITDA and cash flow per share will be what supports our dividend abilities. Nevertheless, a meaningful challenge to our Company.

Going forward, it appears Destiny will first have cash tax to pay of size in February 2008. Mindful of this, our Board and Management are focusing on alternatives, including paying taxes, seeking other avenues for deferring taxes, if possible, and converting to a trust. As always, decisions taken will be with the best interests of shareholders as the main driver.

Q: How do you handle safety issues?

A: We believe safety is the responsibility of every employee, every day. As a Company, we believe we have a moral obligation to the men and women who work for us, and to the men and women from other companies who work with and near our people, to have them go home to their families as whole as when they came to work.

We stress safety every day on every job. We hold safety meetings, tail gate meetings, safety stand downs. We train and we re-emphasize our training. We have policies prohibiting alcohol and drugs on our jobs – and we enforce them. We have policies on travel, journey management – and we enforce them. Every job has a safety officer. Every division has a safety associate. Our Company has a Safety Manager and, since the fall, a Chief Safety Officer.

We care: for our people and for the reputation for safe work that gets us onto subsequent jobs. We strive: to eliminate hazards and unsafe working conditions and to minimize exposure to those we can't eliminate. We worry: for the physical and mental well being of our people and their ability to always remain vigilant.

Q: What is Destiny's greatest strength?

A: I have closed every quarterly and annual report since I took the CEO chair with a thank you, on behalf of the shareholders, to the employees of Destiny, and do so again. I have articulated some of Destiny's strengths. Every one of those attributes occurs because of the efforts and successes of the men and women who work in the field, shops and offices of Destiny. It is to them we, as shareholders, owe our gratitude.

On behalf of the Board of Directors,



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

2005 ANNUAL REPORT
FOR THE YEAR-ENDED DECEMBER 31, 2005

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2005
RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION**

The following discussion and analysis of financial results for the year ended December 31, 2005 is based on information available until March 23, 2006 and should be read in conjunction with the Company's consolidated financial statements and related notes contained in this Annual Report.

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"), "cash flow from operations" and "operating cash flow" 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, cash flow from operations or operating cash flow may not be comparable to that reported by other companies. EBITDA is calculated from the audited consolidated statement of operations as gross margin less general and administrative expenses. The Company evaluates its performance based on EBITDA and cash flow from operations. The Company considers cash flow 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.

OVERALL PERFORMANCE

2005 was an excellent year for Destiny. Growth was achieved organically and through acquisition.

Organically, the seismic drilling and survey & mapping divisions recognized exceptional growth in revenues and gross margin. This was mainly attributed to the high quality work that was done and has set each of these divisions as industry leaders in the eyes of clients. Investment into resource expansion combined with an effective education and training program allowed for these divisions to increase capacity in order to service the increased market demand within these businesses. Investment into new capital equipment provided cost savings and increased margins as well as increased capacity for work. The US component of survey & mapping also completed its first year of operations generating a positive contribution to the bottom line.

The acquisition of Kodiak early in the year provided an important step in enhancing the services that are offered to clients. Considerable development of this technology occurred throughout the year and the expectation is that this new emerging technology will continue to provide cost effective solutions to existing clients and also attract additional complimentary business in the future.

Overall revenues increased two-fold over the prior year (\$64.5 million compared to \$33.6 million) and gross margin increased three-fold (\$12.9 million compared to \$4.1 million). Cash flow from operations for 2005 was \$9.5 million (\$2.1 for 2004). A total of \$4.4 million was paid out in cash dividends to shareholders for 2005, which equates to \$0.80 per share. Earnings per share for 2005 were \$1.31 compared to \$0.51 last year.

Working capital at \$0.6 million is lower than the \$2.8 million at the end of 2004. A total of \$7.7 million was paid from cash flows for capital expenditures. Of this \$5.4 million was for expansion (total expansionary capital was \$6.4 million of which \$1 million was funded through equity) and the remaining \$2 million was for sustaining activities. Destiny has already realized gains in revenues and gross margins in the first year of this investment. 2005 YTD dividends paid to shareholders was \$4.4 million.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's continuing operations for the three months and years ended December 31, 2005 and 2004:

<i>(000's, except per share)</i>	Three months ended December 31		Year ended December 31	
	2005 \$	2004 \$	2005 \$	2004 \$
Revenue	11,844	7,431	64,457	33,630
Gross margin	2,321	419	12,946	4,085
EBITDA	2,118	46	9,652	2,876
Income (loss) from continuing operations	1,842	(421)	7,237	943
Per share – basic and diluted	0.33	(0.19)	1.31	0.36
Income from discontinued operations	N/A	71	N/A	404
Per share – basic and diluted	N/A	0.03	N/A	0.15
Net income (loss) for the period	1,842	(349)	7,237	1,347
Per share – basic and diluted	0.33	(0.15)	1.31	0.51
Capital expenditures	2,854	322	8,677	1,707
Weighted average shares outstanding	5,568	2,664	5,533	2,643
Total assets			21,744	11,391
Shareholders' equity			11,787	7,845
Book value per share outstanding			2.13	2.97

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2005 ("2005") and December 31, 2004 ("2004") as well as the three months ended December 31, 2005 (Q4'05") and December 31, 2004 (Q4'04").

REVENUE

Revenue for 2005 was at \$64.5 million compared to \$33.6 million in 2004. This represented a 92% increase, which can be attributed to:

- The increase of our heli-portable drilling crew count by 50% allowed for increased capacity to attract increased revenues within the seismic drilling division. In addition, cooperation on timing and flexibility of clients permitted an earlier start and a longer season for 2005 than in previous years.
- Successful marketing and consistent high quality customer service attracted more clients and shaped their view of the survey & mapping division as leaders in this industry. This reputation continues to increase in the market and is expected to contribute positively towards future growth.
- The ability to bundle multiple internal services to a client has created increased revenue opportunities. Clients are now benefiting from using multiple services within the Company that previously would have been provided from different external sources.
- Immediate productive utilization of new capital equipment investment has increased capacity and the ability to generate additional revenues.
- The acquisition of Kodiak in early 2005 has contributed almost a full year of revenue
- The US operation has generated a full year of revenue. This division commenced operations at the end of 2004.

Revenue for Q4'05 was \$11.8 million representing an increase of \$4.4 million from the \$7.4 million for Q4'04. The increased capacity with both resources and capital along with more favourable market conditions allowed Destiny to increase volume during this quarter in 2005 as compared to 2004.

GROSS MARGIN

Gross margin at \$12.9 million for 2005 represented 20% of revenues. For 2004, gross margin was \$4.1 million or 12% of revenues. The overall increase in the 2005 over 2004 gross margin is attributed primarily to the following factors:

- Larger revenues in 2005 compared to 2004.
- Extensive and effective training and education program of field personnel has permitted an increase in the overall knowledge base. This knowledge transfer permitted the new crews to become productive within a relatively short period of time. This minimized the effect of the "learning curve" and hence had a positive impact on costs.
- Improved field efficiencies achieved through decreased use of subcontractors and rental equipment
- The result of the Company's past efforts to alter its cost structure so that variable costs currently make up a larger component of total direct costs than fixed costs.
- Investment and immediate utilization of new capital equipment resulted in lower repair and maintenance costs than in the past with older equipment. This also reduced the reliance on equipment rentals and hence reduced costs in this area.

For Q4'05, gross margin was \$2.3 million or 20% of Q4'05 revenues compared to \$0.4 million or 6% of Q4'04 revenues. Gross margins are dependent on the product mix over a certain period of time. The product mix is dependant on a variety of factors, such as prevailing economic conditions and competition, which will change the product mix and hence the gross margin in any given period. Q4'04 results were negatively impacted by the payment of bonuses to administrative, operations and management personnel which had not been accrued during the year. For 2005, the Company introduced profit sharing plans for its operations and management leadership, the expense for which has been accrued on a monthly basis.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses, which primarily represent the costs associated with the corporate head office, the profit sharing plans and the lease of the Survey & Mapping division's shop and office, were approximately \$3.3 million for 2005 compared to \$1.2 million in the same period last year. The 2005 expense of \$1.6 million for the Company's profit sharing plans represented the majority of this increase. The balance of the increase relates to normal course business operations and results from incremental fixed costs due to the higher revenues generated.

The profit sharing plans were instituted to 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 are made one-half in cash and one-half in shares, purchased in the market.

G&A expense for Q4'05 was \$0.2 million compared to \$0.4 million for Q4'04. In Q4'04 the entire year bonus of \$0.3 million (\$0.2 million in direct expenses and \$0.1 million in G&A) was accrued during this quarter. Profit sharing plan accruals were recognized over all four quarters in 2005.

AMORTIZATION OF PROPERTY & EQUIPMENT

Amortization expense for 2005 was \$2.1 million compared to \$1.2 million in 2004. Approximately \$0.6 million of the total \$0.9 million in incremental amortization expense related to the assets of Kodiak, which were acquired in early 2005. The balance of \$0.3 million resulted from additional capital investment being made to allow the Company to pursue growth opportunities within its current lines of business. Amortization for Q4'05 was at \$0.7 million compared to \$0.3 million over the same period last year.

GAIN ON DISPOSAL OF CAPITAL ASSETS

The Company reported a gain on the sale of capital assets of \$0.1 million in both 2005 and 2004. These gains represent the normal course disposal of capital assets.

INTEREST EXPENSE

Total interest expense decreased from \$0.8 million in 2004 to \$0.2 million in 2005. Interest expense on long-term debt and debentures was \$0.7 million for 2004 compared to none in 2005 as all of these debt facilities had been repaid by the end of 2004. Bank charges, operating loan and other interest expense were \$0.2 million for 2005, which was slightly higher than \$0.1 million for 2004. The large current year capital expenditures, which increased the demand on the operating lines, was offset by the increased profitability of the Company. This resulted in only a minor increase in overall interest expense for 2005. Interest expense for Q4'05 was less than \$0.1 million compared to \$0.2 million in Q4'04.

INCOME TAXES

The Company was not in a taxable position in 2005 or 2004, with minor "capital" taxes and minor income tax expense related to an inactive subsidiary company being the only tax expense recognized in 2004.

The Company has unutilized Canadian non-capital tax loss carry forwards available as at December 31, 2005, the benefit of which has been fully recognized in the consolidated financial statements.

Summary of Quarterly Results

<i>(000's, except per share amounts)</i>	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Total Revenue	11,844	21,216	14,793	16,604	7,430	12,200	1,204	12,796
Income (loss) from continuing operations	1,842	1,325	1,979	2,091	(421)	1,057	(1,437)	1,744
Income (loss) from discontinued operations	---	---	---	---	72	---	332	---
Income (loss) for the period	1,842	1,325	1,979	2,091	(349)	1,057	(1,105)	1,744
Basic & diluted earnings (loss) per share:								
From continuing operations	0.33	0.24	0.36	0.38	(0.16)	0.40	(0.55)	0.66
From discontinued operations	---	---	---	---	0.03	---	0.13	---
For the period	0.33	0.24	0.36	0.38	(0.13)	0.40	(0.42)	0.66
Basic & diluted number of shares outstanding (weighted average)	5,568 5,591	5,554 5,567	5,548 5,571	5,495 5,500	2,664	2,636	2,636	2,636

The Summary of Quarterly Results highlights the fact that the Company's business is seasonal with Q1 and Q3 traditionally being the two strongest quarters and Q2 and Q4 traditionally being the weakest quarters. The underlying causes of the seasonality are the weather and the Company being restricted from entering certain wildlife areas at certain times of the year. Revenue activity for the Company's continuing operations, by fiscal quarter, can be characterized as follows:

Revenue by quarter (000's)		Description of Quarterly Seasonality
Q4'05	Q4'04	
\$11,844	\$7,430	The fourth quarter is traditionally the Company's third busiest quarter. The strength of the quarter is normally dependent upon prevailing weather conditions, which affect access to project areas, and the timing of client capital budget spending plans. As a result of the increased activity during Q3-05, Q4'05 became the slowest quarter due primarily lower capacity experienced from holiday season.
Q3'05	Q3'04	
\$21,216	\$12,200	The third quarter is traditionally the Company's second busiest quarter. Ground conditions are normally dry and, as in the first quarter, the Company is permitted access to all of the areas in which the Company operates. The relative strength of this quarter is largely dependent on utilization rates for the Company's six heli-portable drill crews and the number of days lost due to weather conditions. Increased client demand for services, due to increased volumes of work required, has created opportunity for an extension in the traditional season. For 2005 this was the busiest quarter due to the extension of the season as a result of demand from clients.
Q2'05	Q2'04	
\$14,793	\$1,204	The second quarter has traditionally been the Company's slowest quarter due to spring break-up. As the ground thaws regulators and landowners prohibit the Company from accessing most work areas until the ground dries out and becomes passable to heavy equipment and vehicles without causing damage to the roads and land. Traditionally the roads reopen towards the end of May. The Company is further restricted from certain areas that protect various wildlife species during their migration and calving seasons which usually extend to the middle of June. However, in 2005, there were opportunities to conduct business in some areas without these restrictions. The increased volume of work required by clients in 2005 has created the opportunity for an earlier overall start to the season that in previous years. Increased client demand for services resulted in a longer season and very little impact of the traditional spring break-up for 2005.
Q1'05	Q1'04	
\$16,604	\$12,796	The first quarter is traditionally the Company's busiest quarter. The ground and unpaved roads are frozen which permits the Company to access and conduct work in the areas in which the Company operates. It should be noted that an early spring thaw did reduce the amount of revenue that can be generated in the first quarter.

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 equity markets.

The Company believes it has adequate cash generating capability, capital resources and access to capital to meet its working capital, capital expenditure and dividend requirements for 2006 and beyond.

WORKING CAPITAL

At December 31, 2005, the Company had a net working capital position of \$0.6 million compared to \$2.8 million at December 31, 2004. Significant components of this \$2.2 million decrease are:

- Cash flow from operations generated a positive increase of \$9.5 million.
- Capital expenditures funded by cash flows from operations were \$7.7 million. These expenditures included the acquisition of Kodiak which occurred early in 2005. The balance of this amount related primarily to expansionary requirements from the growth in activity and market share of operations during the year.
- 2005 YTD dividends paid to shareholders was \$4.4 million.

Net working capital of \$0.6 million at the end of 2005, although in excess of a 1:1 ratio, is tighter than the Company prefers. Capital expenditures through-out the year, other than the acquisition of Kodiak, were financed by cash flow from operations. Some equipment purchases at the end of Q4'05 reduced working capital to the level reported.

Operations in 2006 to date have restored the balance. The Company has available a \$10 million revolving demand bank operating loan facility, which was drawn by \$1.9 million at the end of 2005.

PROPERTY AND EQUIPMENT

The net book value of property and equipment was \$11.5 million at December 31, 2005, an increase of \$6.5 million from \$5.0 million as at December 31, 2004. Amortization for 2005 amounted to \$2.1 million (\$1.2 million in 2004). Total 2005 capital expenditures were \$8.7 million (\$1.7 million in 2004) of which \$7.7 million was paid from cash and the remaining \$1 million was issued in equity for the acquisition of Kodiak assets.

\$6.4 million or 74% of the 2005 capital expenditures related to expansionary investment. Details of this investment are as follows:

- \$2.0 million related to the acquisition of Kodiak (\$1 million in cash and \$1 million in equity). An additional \$1.8 million was invested into additional technology development within this division.
- \$2.6 million was invested in expansionary capital for the other operating entities to purchase additional equipment in order to accommodate growth as a result of increased customer demand for services and increased gain in market share.

The remaining \$2.0 million pertained to sustaining normal course business operations.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2005

As at December 31, 2005 year end the Company's future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no 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	\$ 2,247,000	\$ 743,000	\$ 934,000	\$ 570,000	\$ ---

SHAREHOLDERS' EQUITY

Shareholders' equity increased from \$7.8 million at the end of 2004 to \$11.8 million at the end of 2005. The major components within this \$4 million increase were: generated net income of \$7.2 million, disbursed cash dividends of \$4.4 million, exercise of options provided \$0.2 million and the share consideration of \$1 million issued on the acquisition of Kodiak assets.

As at March 23, 2006, the number of issued and outstanding common shares is 5,575,081 with 53,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan.

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 recording of financial condition and results. Management believes the critical accounting estimates for the Company are as follows:

Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. The Company evaluates the carrying value of capital assets 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 capital assets and the appropriate method of amortization. Factors considered in estimating the useful lives of capital assets 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 capital assets 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 less than \$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.

Inventory

Inventory is net of an obsolescence provision of \$0.1 million for both for 2005 and 2004. Management's assessment of this obsolescence is based upon aging of inventory items and judgment. Discount factors are applied and are dependent on the date of last activity for a particular inventory item and range from 0% to 50%. Management's judgment based on experience and historical trends are used for discount factors of greater than 50% for any particular inventory item.

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. Accordingly, these inherent risks could cause the Company to become in violation of its covenants on the bank facility, which might result in repayment being demanded. Bank lines were drawn by \$1.9 million as at December 31, 2005 and were well below the maximum allowable limit at that time.

OUTLOOK

The Company believes it has adequate working capital, capitalization and access to capital. Management believes the Company has 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, that is escalating in value and is plentiful in the areas in which the Company operates.

The Company is encouraged by the indications of demand for its services.

Destiny will continue to review expansion opportunities, both organic and by acquisition. 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, retain cash that might otherwise be paid as dividends or any combination of the foregoing.

DISCLOSURE CONTROLS AND PROCEDURES

As defined in Multilateral Instrument 52-109, disclosure controls and procedures require that controls and other procedures be designed to provide reasonable assurance that financial and non-financial information required to be disclosed is duly recorded, processed, summarized, accumulated and communicated to management. It must be disclosed on a timely basis and be in accordance with provincial and territorial securities legislation.

The Company has designed and evaluated the effectiveness of its disclosure controls and procedures, as defined, and has concluded they were effective as of the end of the period covered by this report.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Destiny Resource Services Corp.

The consolidated financial statements and other financial information contained in this Annual Report have been prepared by management. Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with Canadian generally accepted accounting principles and reflect amounts based upon management's informed estimates and judgments, as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains appropriate accounting and systems of internal control designed to provide reasonable assurance that reliable and relevant financial information is produced. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse, and financial records are properly maintained to provide reliable financial information for the preparation of financial statements.

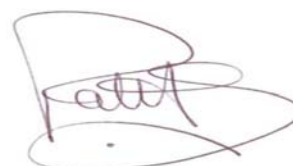
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. This Committee, consisting of non-management directors, meets periodically with management and the Company's external auditors to discuss audit examinations, internal control, accounting policy and financial reporting matters.

The Audit Committee also reviews with management the annual and quarterly consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Company's shareholders. The shareholders have appointed Ernst & Young LLP as the external auditors of the Company to provide an independent professional opinion on the annual consolidated financial statements. The auditors' report to the shareholders is presented in the Annual Report.



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

*Calgary, Alberta
March 23, 2006*



Patrick Egli, CGA
*Vice-President Finance & Administration
and Chief Financial Officer*
*Calgary, Alberta
March 23, 2006*

AUDITORS' REPORT***To the Shareholders of Destiny Resource Services Corp.***

We have audited the consolidated balance sheets of **Destiny Resource Services Corp.** as at December 31, 2005 and 2004, and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Calgary, Canada
March 23, 2006

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

<i>As at December 31</i>	2005	2004
	\$	\$
ASSETS <i>[notes 5 and 6]</i>		
CURRENT		
Cash	---	1,198,004
Accounts receivable	9,124,205	4,261,300
Inventory	734,760	561,888
Prepaid expenses	434,820	325,459
	10,293,785	6,346,651
Property and equipment <i>[notes 3 and 4]</i>	11,450,537	5,044,266
	21,744,322	11,390,917
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness <i>[note 5]</i>	1,946,126	---
Accounts payable and accrued liabilities	7,726,828	3,483,824
Income taxes payable	20,000	61,973
	9,692,954	3,545,797
Future income taxes <i>[note 11]</i>	264,544	---
Commitments and contingencies <i>[note 15]</i>		
Shareholders' equity		
Share capital <i>[note 8]</i>	8,349,935	7,198,140
Retained earnings	3,436,889	646,980
	11,786,824	7,845,120
	21,744,322	11,390,917

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Director



Director

**CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS (DEFICIT)**

<i>Year ended December 31</i>	2005	2004
	\$	\$
Revenue	64,457,011	33,629,852
Direct expenses	51,511,106	29,544,635
Gross margin	12,945,905	4,085,217
Other expenses (income):		
General and administrative	3,293,740	1,208,897
Depreciation of property and equipment	2,122,502	1,249,000
Interest <i>[note 10]</i>	154,155	772,717
Gain on disposal of property and equipment	(101,648)	(100,345)
	5,468,749	3,130,269
Income from continuing operations before income taxes	7,477,156	954,948
Income taxes <i>[note 11]</i>		
Current tax expense / (recovery)	(24,265)	12,000
Future tax provision	264,544	---
Income from continuing operations	7,236,877	942,948
Income from discontinued operations <i>[note 9]</i>	---	403,719
Net income for the year	7,236,877	1,346,667
Retained earnings (deficit), beginning of year	646,980	(9,070,685)
Elimination of deficit against share capital <i>[note 8]</i>	---	8,370,998
Dividends	(4,446,968)	---
Retained earnings, end of year	3,436,889	646,980
Per share amounts <i>[note 8]</i>		
Basic and diluted	1.31	0.51

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31	2005	2004
	\$	\$
CASH FLOWS PROVIDED BY (USED IN)		
Operating activities:		
Net income from continuing operations	7,236,877	942,948
Items not involving cash:		
Amortization of property and equipment	2,122,502	1,249,000
Amortization of deferred charges <i>[note 10]</i>	25,000	45,000
Future income taxes	264,544	---
Gain on disposal of property and equipment	(101,648)	(100,345)
Cash flow from operations	9,547,275	2,136,603
Net change in non-cash working capital <i>[note 13]</i>	(969,107)	1,287,813
	8,578,168	3,424,416
Financing activities:		
Increase (decrease) in bank indebtedness	1,946,126	(3,077,302)
Issuance of shares <i>[note 8]</i>	184,800	---
Dividends paid	(4,446,968)	---
Issuance of long-term debt <i>[note 6]</i>	---	3,550,000
Repayment of long-term debt <i>[note 6]</i>	---	(4,333,942)
Repayment of debentures <i>[note 7]</i>	---	(6,026,000)
Increase in deferred charges <i>[note 10]</i>	---	(45,000)
Rights Offering, net of costs <i>[note 8]</i>	(580)	3,228,688
	(2,316,622)	(6,703,556)
Investing activities:		
Purchase of property and equipment	(7,709,853)	(1,706,544)
Proceeds on sale of property and equipment	250,303	660,743
Cash flow from discontinued operations	---	5,522,945
	(7,459,550)	4,477,144
Increase (decrease) in cash and cash equivalents	(1,198,004)	1,198,004
Cash and cash equivalents, beginning of year	1,198,004	---
Cash and cash equivalents, end of year	---	1,198,004

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

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 also provides navigation, positioning and asset management technology to improve the productivity and safety of seismic operations.

Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventory

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, and estimated net realizable value.

Property and equipment

Property and equipment are recorded at cost. Amortization is generally applied on a declining balance basis, to amortize the cost of the property and equipment over their estimated economic useful lives as follows:

Buildings and leasehold improvements	5% to 20%
Seismic drills and accessories	25%
Tractors and heavy equipment	15% to 30%
Equipment and tools	20% to 25%
Office and computer equipment and software	20% to 30%
Automotive and tracked vehicles	10% to 50%
Assets under construction	0%

Certain equipment and tools as well as office and computer equipment and software are applied on a straight line basis for amortization. Specifically the acquired computer equipment and software from the Kodiak Navigation Solutions division is amortized over four years on a straight line basis.

When property and equipment are sold or scrapped, the cost of the asset and the related accumulated amortization are removed from the accounts and any resulting gain or loss on disposal is reflected in the Consolidated Statement of Operations. Assets under construction consist primarily of new equipment currently in production by the Kodiak Navigation Solutions division. These assets will be moved to the Equipment and tools category at the time they begin to generate revenue.

Revenue recognition

Revenue on contracts is recognized at the time the services are provided.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change substantively occurs.

Foreign currency translation

Monetary assets and liabilities which are denominated in a foreign currency are translated at year-end exchange rates. Non-monetary items are translated at historical rates at the time of acquisition or obligation. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains and losses are reflected in other income or expense.

Per share amounts

The Company utilizes the treasury stock method in the determination of diluted net earnings (loss) per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that the proceeds arising from the exercise of outstanding in the money options are used to purchase common shares of the Company at their average market price for the period.

Measurement uncertainty

As a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Significant estimates are used in determining such items as allowance for doubtful accounts, provision for inventory obsolescence, useful lives and recoverable values of property and equipment and accruals for repair and maintenance. Actual results could differ significantly from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Stock-based compensation expense

The Company has in place a stock option plan (see note 8), 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 restricted stock units ("RSUs"), which are settled in cash. The costs associated with any such grants are measured 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.

No RSUs existed as at December 31, 2005. General & administrative expense for 2005 included \$75,000 of RSU expense (2004 - \$42,000). In February 2005, the RSU program was converted to a deferred profit sharing plan, in which the recipients are to receive shares (purchased on the market) as opposed to cash in early 2006.

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to the impairment of long-lived assets held for use, specifically property and equipment. A

long-lived asset must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. These recommendations were applied prospectively, with no adjustments reported in the financial statements presented.

3. PROPERTY AND EQUIPMENT

	Cost	2005 Accumulated Amortization	Net Book Value
Automotive and tracked vehicles	\$ 5,964,363	\$ 4,068,133	\$ 1,896,230
Equipment and tools	4,640,615	1,636,642	3,003,973
Tractors and heavy equipment	4,446,337	2,053,526	2,392,811
Office and computer equipment and software	4,095,422	2,017,024	2,078,398
Seismic drills and accessories	3,665,371	3,311,950	353,421
Buildings and leasehold improvements	1,271,583	417,364	854,219
Assets under construction	693,485	---	693,485
Land	178,000	---	178,000
	<u>\$ 24,955,176</u>	<u>\$ 13,504,639</u>	<u>\$ 11,450,537</u>

	Cost	2004 Accumulated Amortization	Net Book Value
Automotive and tracked vehicles	\$ 5,567,891	\$ 4,026,886	\$ 1,541,005
Seismic drills and accessories	3,649,802	3,196,738	453,064
Equipment and tools	2,798,780	1,469,130	1,329,650
Tractors and heavy equipment	2,130,912	1,663,639	467,273
Office and computer equipment	1,640,869	1,452,946	187,923
Buildings and leasehold improvements	1,253,467	366,116	887,351
Land	178,000	---	178,000
	<u>\$ 17,219,721</u>	<u>\$ 12,175,455</u>	<u>\$ 5,044,266</u>

4. ACQUISITION OF KODIAK NAV SOLUTIONS

In January 2005 the Company agreed to acquire the business, assets and operations of Kodiak Nav Solutions Ltd. ("Kodiak"), a privately owned business that provides navigation, positioning and asset management technology to clients in the North American seismic services industry. The acquisition was accounted for using the purchase price method of accounting as follows:

Cash	\$ 1,026,674
<u>276,450 common shares of the Company, issued at \$3.50 per share</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>

The results of operations of the Kodiak navigation solutions division have been included from January 2005.

5. BANK INDEBTEDNESS

During 2005, the Company had available a \$10,000,000 revolving demand bank operating loan facility, with the ability to draw to \$18,000,000 during the months of June through September, renewable annually, with balances outstanding repayable on demand and bearing interest at prime plus 1.00%. A first charge on accounts receivable and inventory and a charge on all other assets of the Company has been provided as security for this facility. The Company's ability to draw on the facility is primarily dependent upon the amount of accounts receivable that are less than 90 days outstanding. As at December 31, 2005, letters of guarantee totaling \$80,000 are outstanding under the operating loan facility (\$80,000 – 2004).

6. LONG-TERM DEBT

In February 2004, the Company entered into a \$3,550,000 term loan facility, maturing in 2007, and bearing interest at the lender's base rate plus 3.25%. The Company provided a first charge on specific property and equipment and a floating charge on all other assets as collateral for this term loan. This 2004 term loan facility was repaid in full on December 31, 2004 following closing of the Rights Offering (note 8). Other long-term instruments were also fully repaid by December 31, 2004.

7. DEBENTURES

Amounts on the Consolidated Statements of Cash Flows relate to the principal payments of debentures that existed in 2004, which were totally repaid by December 31, 2004.

8. SHARE CAPITAL

On May 5, 2004, at the Annual General Meeting, the shareholders passed a special resolution approving the reduction of the stated capital of the Company's common shares by \$8,370,998, being the entire amount thereof, and offsetting the amount against the Company's deficit at that date.

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 4), stock options outstanding and dividends paid in 2005 have been retroactively restated to give effect to the reverse stock split. Prior year total outstanding share amounts and per share amount calculations have also been adjusted.

The Company's Board of Directors declared quarterly cash dividends in 2005 as follows:

<u>Date declared</u>	<u>Date paid</u>	<u>Amount per share</u>	<u>Aggregate amount</u>
March 17, 2005	March 31, 2005	\$ 0.20	\$ 1,109,505
May 10, 2005	June 15, 2005	0.20	1,109,515
August 9, 2005	September 15, 2005	0.20	1,112,928
November 8, 2005	December 15, 2005	0.20	1,115,020
		<u>\$ 0.80</u>	<u>\$ 4,446,968</u>

	<u>#</u>	<u>\$</u>
Authorized		
Unlimited number of common, first preferred and second preferred shares		
Issued - Common shares		
December 31, 2003	2,635,566	8,370,998
Elimination of deficit against share capital	---	(8,370,998)
Issued pursuant to Rights Offering	2,635,565	7,379,583
Costs related to 2004 Rights Offering	---	(181,443)
December 31, 2004	<u>5,271,131</u>	<u>7,198,140</u>
Costs related to 2004 Rights Offering	---	(580)
Issued on acquisition of Kodiak (note 4)	276,450	967,575
Stock options exercised	27,500	184,800
Total December 31, 2005	<u>5,575,081</u>	<u>8,349,935</u>

Comparative amounts for 2004 have been restated to reflect the 20 for 1 reverse stock split that occurred on March 17, 2005.

(a) Stock Options

The Company has in place a stock option plan whereby up to 249,900 options to purchase common shares of the Company may be granted to directors, officers, and employees 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. No new options have been granted subsequent to January 1, 2003. The compensation expenses associated with these options is immaterial and proforma net income and earnings per share have not been provided.

A summary of the status of the stock option plan is as follows:

	2005		2004	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price\$
Outstanding at beginning of year	91,000	\$ 6.43	110,875	\$ 8.05
Granted	---	---	---	---
Exercised	(27,500)	6.72	---	---
Cancelled	(10,500)	7.19	(19,875)	15.49
Outstanding at end of year	53,000	6.13	91,000	6.43
Options exercisable at end of year	53,000	\$ 6.13	86,650	\$ 6.44

Range of Prices \$	Number of Outstanding Options	Weighted Average Exercise Price\$	Weighted Average Years to Expiry	Number of Options Exercisable	Weighted Average Exercise Price Of Exercisable Options\$
4.00 – 7.40	50,000	\$ 5.87	2.4	50,000	\$ 5.87
10.00 – 13.00	3,000	10.38	1.2	3,000	10.38
2005 total	53,000	\$ 6.13		53,000	\$ 6.13
4.00 – 7.40	85,500	\$ 6.15	4.2	81,150	\$ 6.15
10.00 – 13.00	5,500	10.20	2.1	5,500	10.20
2004 total	91,000	\$ 6.43		86,650	\$ 6.44

Comparative amounts for 2004 have been restated to reflect the 20 for 1 reverse stock split that occurred on March 17, 2005.

(b) Earnings per share amounts

	2005	2004
Basic and diluted per common share amounts:		
Income from continuing operations per common share (basic and diluted)	\$ 1.31	\$ 0.36
Income from discontinued operations per common share	---	0.15
Net income per common share (basic and diluted)	\$ 1.31	\$ 0.51

The numerators and denominators used in the calculation of each of the above noted basic and diluted per share amounts are as follows:

	2005	2004
Numerators:		
Income from continuing operations	\$ 7,236,877	\$ 942,948
Income from discontinued operations	---	403,719
Net income for the year	<u>\$ 7,236,877</u>	<u>\$ 1,346,667</u>
Denominators:		
Number of shares outstanding at beginning of year	5,271,131	2,635,565
Weighted average number of shares issued during the year	262,173	7,221
Weighted average number of shares outstanding for the year – basic	<u>5,533,304</u>	<u>2,642,786</u>
Effect of potentially dilutive “in-the-money” options	8,540	---
Weighted average number of shares outstanding for the year – diluted	<u>5,541,844</u>	<u>2,642,786</u>

In 2005 “in the money” options are 50,000 from which the proceeds received would have redeemed 41,460 shares resulting in a net dilution effect of 8,540 shares. Excluded from the 2005 diluted earnings per share amount are 3,000 (2004 – 91,000) “out-of-the money” options, the effect of which was anti-dilutive.

(c) Rights offering

On November 16, 2004, shareholder approval was granted for the Company to raise capital by way of an offering of up to 52,711,309 rights (1 right per common share held) to shareholders (the “Rights Offering”) and to use the funds from the subsequent exercise of the rights to repay all long-term debt. Each right entitled the holder to acquire 1 common share at \$0.14 per share. Any common shares not taken up on the exercise of rights were made available (on a pro-rata basis) to those who exercised rights on an additional subscription privilege basis.

On December 30, 2004, the rights offering closed, and all rights were exercised, resulting in gross proceeds to the Company of \$7,379,583 (including cash of \$3,410,131) and the issuance of an additional 2,635,565 common shares.

9. DISCONTINUED OPERATIONS

The Company provides services to the oil and gas exploration industry in the Western Canadian Sedimentary Basin, the Canadian Arctic and in the United States. Prior to 2003, the Company had reported segmented information with its business segments being defined as Front-End Services, Surface Preparation and Post-Drilling Construction. From December 31, 2003 the Company has only one continuing business segment, and accordingly segmented information has not been reported. The businesses that comprised the former Surface Preparation and Post-Drilling Construction business segments have been classified as discontinued operations. In 2003 the Company restructured its operations, and disposed of the operating assets which in total comprised two of its three former business segments.

For 2004, income from discontinued operations of \$403,719 consisted primarily of a recovery of 2003 over-payments of insurance premiums, and a recovery of a portion of accounts receivable which had been written off in 2003.

10. INTEREST EXPENSE

	2005	2004
Long-term debt:		
Debt interest at 8%	\$ ---	\$ 390,996
Debt interest other	---	18,219
Term loans	---	240,758
Equipment purchase contracts	---	5,330
	---	655,303
Short-term bank indebtedness and other	129,155	72,414
Amortization of deferred charges	25,000	45,000
	<u>\$ 154,155</u>	<u>\$ 772,717</u>

Deferred charges represented the unamortized costs associated with the issuance of long-term debt facilities and were amortized on a straight-line basis over the remaining term of the financings.

11. INCOME TAXES

Income tax expense (recovery) varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate for the following differences:

	2005	2004
Corporate tax rate	33.62%	35.12%
Provision for income taxes (recovery) at combined rate	\$ 2,523,000	\$ 482,256
Increase (decrease) in income taxes from:		
Other non-deductible (non-taxable) portion of other expense / (income)	19,000	14,144
Benefit of previously unrecognized non-capital losses carried forward	(2,806,544)	(496,400)
Future income tax asset / (liability)	(264,544)	---
Large corporations tax and other	24,265	(12,000)
Income tax (expense) / recovery	\$ (240,279)	\$ (12,000)

Components of future income taxes

Future income taxes reflect the net tax effect of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The significant components of the Company's future income tax assets (liabilities) are as follows:

	2005	2004
Differences between tax base and reported amounts of depreciable assets	\$ (26,000)	\$ (998,000)
Non-capital loss carry-forwards	2,719,000	2,269,000
Deferred financing costs and other	128,000	225,000
Deferred partnership income	(3,085,544)	(1,175,000)
Valuation allowance on net operating loss carry-forwards	---	(321,000)
Future tax asset (liability)	\$ (264,544)	\$ ---

As at December 31, 2005 the Company has available for Canadian income tax purposes non-capital losses carried forward, the benefit of which has been recognized in these financial statements, and which expire as follows:

2008	\$ 4,600,000
2009	209,000
2010	2,436,000
2011	1,324,000
	<u>\$ 8,569,000</u>

12. TRANSACTIONS WITH RELATED PARTIES

During 2005 less than \$ 0.1 million was incurred by the Company for equipment rentals from certain employees. These transactions were in the normal course of operations and did not exceed what would have been paid to external third parties for these services. Amounts owing at the end of 2005 were less than \$0.1 million.

13. NET CHANGE IN NON-CASH WORKING CAPITAL

	2005	2004
Accounts receivable	\$ (4,887,905)	\$ 1,411,594
Inventory	(172,872)	(102,728)
Prepaid expenses	(109,361)	(8,375)
Accounts payable and accrued liabilities	4,243,004	(5,701)
Income taxes payable	(41,973)	(6,977)
Net change in non-cash working capital	\$ (969,107)	\$ 1,287,813
Supplemental information:		
Cash interest paid during the year	\$ 159,274	\$ 611,149
Cash taxes paid during the year	\$ ---	\$ 14,500
Property and equipment acquired by share issuance	\$ 967,575	\$ ---

14. FINANCIAL INSTRUMENTS**a) 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.

Approximately 69% of trade accounts receivable at December 31, 2005 (67% at December 31, 2004) are represented by 3 customers (1 in 2004). Approximately 65% of revenues for YTD 2005 (46% - YTD 2004) were represented by sales to one customer. Destiny provides services to this customer both directly for the customer's own account (for the development of seismic data for the customer 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 customer. Approximately 98% of trade accounts receivable at December 31, 2005 was less than 60 days old (67% are less than 30 days old).

(b) Interest rate risk

The Company is exposed to interest rate risk related to interest expense on any amounts drawn on its floating rate debt facilities.

(c) Fair value of financial assets and liabilities

The Company has financial instruments consisting of accounts receivable, bank indebtedness, accounts payable, income taxes payable, and long-term debt. The carrying value of these financial instruments approximates fair value unless otherwise stated

15. COMMITMENTS AND CONTINGENCIES**(a) Operating leases**

The Company's minimum future annual payments required under operating lease commitments for premises, vehicles and equipment are approximately as follows:

2006	\$ 743,000
2007	594,000
2008	340,000
2009	286,000
2010	284,000
	<u>\$ 2,247,000</u>

(b) Litigation

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 now 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 consolidated financial statements.

16. GEOGRAPHIC SEGMENTS

	Revenue		Property and equipment	
	2005	2004	2005	2004
Canada	\$ 61,490,467	\$ 33,618,307	\$ 11,273,897	\$ 5,044,266
United States	2,966,544	11,545	176,640	---
Total	\$ 64,457,011	\$ 33,629,852	\$ 11,450,537	\$ 5,044,266

17. SUBSEQUENT EVENT

On March 8, 2006, the Board of Directors declared cash dividends of \$0.24 (an increase from \$ 0.20) per consolidated common share for aggregate dividends of approximately \$1,338,000 to be paid on March 31, 2006.

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 M. McGoey, C.A.
Independent Businessman
Calgary, Alberta

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

Officers

Bruce Libin
Executive Chairman & Chief Executive Officer

Patrick Egli, CGA
Vice-President Finance & Administration
Chief Financial Officer

Jim Holt
Vice-President, Drilling

Steve Matthews
Vice-President, Kodiak Nav Solutions

Joe Pilienci, P Eng
Vice-President, Survey Canada
Vice-President, Safety, Health & Environment
Chief Safety Officer

Warren Plue
Vice-President, Survey USA

Corporate Headquarters

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Auditors

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Calgary, Alberta

Banker

HSBC Canada
Calgary, Alberta

Legal Counsel

Osler, Hoskin & Harcourt 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 Fourth Street S.W.
 Calgary, Alberta T2P 1T1
 Attention: Stock Transfer Department
 Telephone (403) 233-2801

Stock Exchange Listing

Toronto Stock Exchange
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