



DESTINY RESOURCE SERVICES CORP.

2006 Annual Report

For the Year Ended December 31, 2006

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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 also provides navigation, positioning and asset management technology to improve the productivity and safety of seismic operations through its Kodiak Nav Solutions division and locating services to a variety of industries through its Advanced Locating Service division.

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

The Annual General and Special Meeting of Shareholders of Destiny Resource Services Corp. will be held on Friday, May 11, 2007 at 11:00 a.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 operations for the years ended December 31, 2006 and 2005:

| <i>(000's, except per share amounts)</i> | Year ended December 31 | | Change |
|--|---------------------------|------------|---------|
| | 2006 | 2005 | |
| | \$ | \$ | % |
| Revenue | 89,031 | 64,457 | +38 |
| Gross margin | 19,176 | 12,946 | +48 |
| EBITDA⁽¹⁾ | 14,346 | 9,652 | +49 |
| Per share – basic | 2.57 | 1.74 | +48 |
| Per share – diluted | 2.56 | 1.74 | +47 |
| Net income | 7,668 | 7,237 | +6 |
| Per share – basic | 1.38 | 1.31 | +5 |
| Per share – diluted | 1.37 | 1.31 | +5 |
| Funds from operations ⁽¹⁾ | 14,115 | 9,547 | +48 |
| Per share – basic | 2.53 | 1.73 | +46 |
| Per share – diluted | 2.52 | 1.73 | +46 |
| Capital expenditures : | | | |
| For cash | 3,277 | 7,710 | (57) |
| For shares | --- | 967 | N/A |
| Total | 3,277 | 8,677 | (62) |
| Weighted average shares outstanding: | | | |
| Basic | 5,575 | 5,533 | +1 |
| Diluted | 5,595 | 5,542 | +1 |
| Total assets | 31,180 | 21,744 | +43 |
| Working capital | 5,620 | 601 | +835 |
| Shareholders' equity | 14,123 | 11,787 | +20 |

(1) "EBITDA" and "funds from operations" are provided to assist investors in determining the ability of Destiny to generate cash from operations. EBITDA is calculated from the consolidated statements of operations and retained earnings as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "net change in non-cash working capital". These measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies; however, Destiny is consistent in its calculation of EBITDA and funds from operations for each reporting period.

(2) There are 5,577,081 outstanding shares and 51,000 outstanding options as at March 5, 2007

LETTER TO SHAREHOLDERS

Fellow Shareholders,

2006 was an exceptional year for Destiny Resource Services Corp. We thought we'd shot the lights out with our activity and profit in 2005, that things couldn't get much better. And then we left 2005 in the dust with our activity and profit in 2006 – and with an increase in our dividend to \$0.96 per share. The MD&A section of this annual report analyzes and breaks down the year, section by section of our income statement and balance sheet. While some statistics will pop up in this letter, mostly you will read about our key asset, our people.

Destiny has grown to about 240 employees in our quiet moments (of which there were few in 2006) and about 500 when we are all out. To achieve what we did in 2006, we pushed every one of those people – and got remarkable contribution in return. As shareholders, we must be appreciative of the efforts of so many.

Upgrade of our Executive Management Team:

During 2006 (and early 2007) we took several steps, which individually and collectively upgraded the executive leadership at Destiny:

- Jim Holt is Chief Operating Officer. Jim's many years experience, including almost 20 with Destiny, together with his insights ideally position him to lead our operations.
- Warren Plue is V-P Survey US; Navigation and Positioning. Warren built Wolf Survey & Mapping from scratch; started and developed our US Survey business and now has assumed responsibility for our Kodiak Nav Solutions business.
- Joe Pilieci is V-P Survey Canada; Technical Operations. Joe's strengths include organizational and operational efficiency. We are tapping into this by having Joe responsible for all aspects of our technical businesses (survey & mapping, navigation & positioning and locating). In addition, Joe is Destiny's Chief Safety Officer.
- Pete Scott is V-P Drilling. Pete joined Destiny in September and already we are benefiting from his experience and insights.
- Patrick Egli is CFO. 2006 was Patrick's first full year at Destiny and we continue to benefit from his organizational skills and constant focus on continuous improvement.
- Murray Leier is V-P Line Clearing. Destiny formally acknowledged Murray's contribution with his V-P title in February of this year.

Growth in activity and market share:

2006 saw an incredible level of activity for each of our businesses.

- Wolf Survey & Mapping, in Canada, surveyed 27,007.27 kilometres of seismic line with field operations 361 days, shutting down only for the Christmas break.
- Destiny Resources cut 13,153.63 kilometres of seismic line over 63 jobs. Of this, 42.5% was hand cut and 54.5% was cut with mulchers.
- Double R Drilling had heli-portable operations all 12 months of the year and drilled an aggregate of 96,511 shot-holes (40% of which were heli-portable) over 50 projects.
- Wolf Survey & Mapping US revenues and profit margins increased more than 100% in 2006, the second year for the division. Wolf Survey & Mapping US continues to hire and train US citizens to fill senior field positions and future management positions within Destiny.
- Our Kodiak Accu-Drop revenue (geophysical acquisition equipment navigation and inventory management) grew by 25% as we achieved further market inroads in the USA and Canada.

In addition, we acquired Advanced Locating Services on November 1. We are delighted to have Mike Derouin and the others from Advanced as a part of the Destiny team and, as anticipated, we have already experienced a growth in this business.

With this growth and breadth, we have taken steps to ensure the maintenance of our quality, especially in the more technology oriented businesses of survey & mapping, positioning & navigating and locating. To that end, Joe Pilioci, as noted above, has accepted overall responsibility for the delivery of the services of these businesses and Mark Strickland, as noted below, has accepted the General Manager role for these businesses. We believe that having a North American integrated operations group will enhance our capacity to deliver our services with uniform quality and with our endless commitment to safety.

Strong Safety Record:

Destiny continues to value our commitment to safety: the health and safety of our people (and of those who work around them) and our caring for the environment are fundamental to the way we do business and to the way we want to do business. Destiny has a moral obligation to our people, to have them return to their families in as healthy a state as when they left home; to achieve this equates to a great deal of time, energy and money expended on safety. At the same time, we believe this gives us a competitive advantage in attracting and retaining people and in making us eligible to work for all oil and gas companies and all seismic companies.

That Destiny prizes safety was recognized by 2 of our divisions earning the Alberta Work Safe Award: congratulations and thanks must go to every employee of Wolf Survey & Mapping and Destiny Resources – and to our Safety Department.

And notwithstanding our excellent record for safety, to enhance our commitment we took several steps to upgrade our Safety Department. As noted below, Ed Kapala joined Destiny as Manager, Safety. Ed has since added 3 first quality individuals as Safety Advisors and is working hard to ever improve our policies and procedures.

During 2006, Destiny had a loss time incident record very favourable compared to our industry, yet, with 3 incidents, still too high for a Company that believes one loss time incident is too many. Our efforts for safety continue in 2007.

Financial Stability

We ended the year with a strong balance sheet. We had working capital of \$5.6 million (compared to \$0.6 million at December 31, 2005) and no long-term debt (also none at year-end 2005). 2006 capital expenditures of \$3.3 million and dividends of \$5.4 million were funded through \$14.1 million of funds generated through operations.

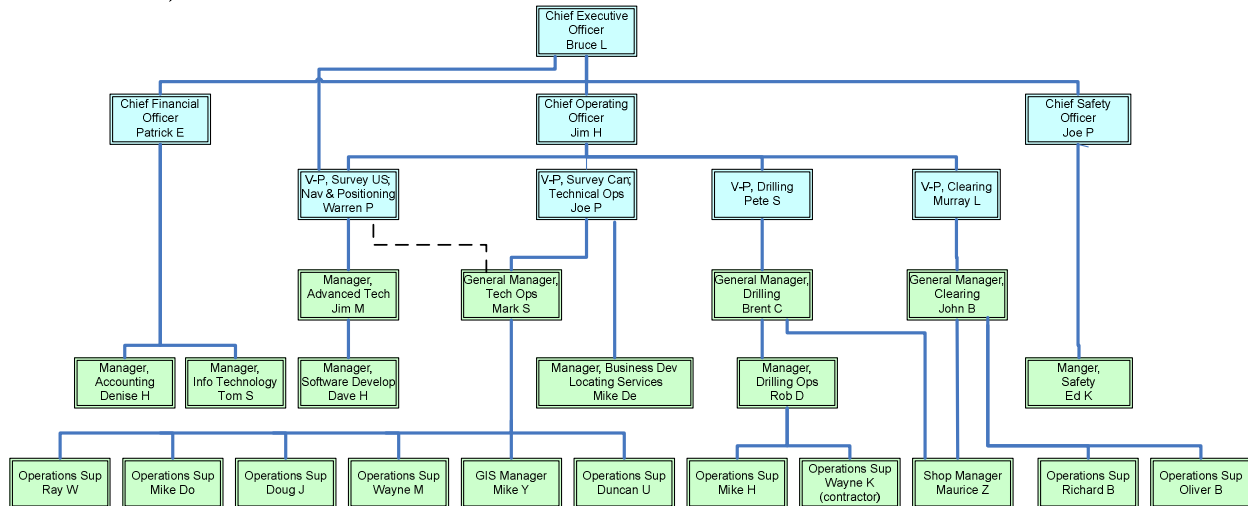
While proud of not having debt outside of our day-to-day operating bank line, we view this not as a goal in itself but as a sign of strength and flexibility. Our balance sheet will permit us to respond to changing industry conditions, be they grow or the opposite, and will let us consider expansion and acquisitions with the knowledge we can afford them.

Growth in the Quality of our Operations Team:

Reporting to our Executive Management Team is the Operations Team, to whom we look for planning, execution, leadership and succession. In 2006 we added to the Operations Team and clarified roles and responsibilities. Our Operations Team, as of February 1, 2007, numbers 20. Significant additions to or changes in responsibility are:

- John Bjorklund was appointed General Manager, Clearing.
- Brent Chalmers was appointed General Manager, Drilling.
- Mark Strickland was appointed General Manager, Technical Operations
- Tom Stewart joined Destiny as Manager, Information Technology
- Mike Derouin joined Destiny, on the acquisition of Advanced Locating Services, as Manager, Locating Services
- Rob Doroshenko was promoted to Operations Manager, Drilling
- Ed Kapala joined Destiny as Manager, Safety
- Doug Jardine, Wayne Maryniuk, Duncan Underwood and Mike Hildebrand became Operations Supervisors
- Mike Young was appointed Manager, GIS Services

Destiny Resource Services Corp.
 Organization Chart
 Feb 1, 2007



Community Involvement

In 2006 Destiny continued to support the communities in which we live and work and the industry in which we operate. Examples are:

- the Calgary office earned Platinum recognition from the United Way for participation in the 2006 campaign
- we support a school meals program, for which the spouse of one of our people is a key volunteer, in Grande Prairie
- Jim Holt, our COO, serves on the boards of the Canadian Association of Geophysical Contractors and Enform, the industry's training and safety services vehicle

Human Resources and Compensation

Destiny is, for all aspects of what we do, in the service business. Among other implications, this means we are always dependent upon our people to do the right thing and to do it well, safely and efficiently. In turn, we try to compensate our people fairly for their contributions and efforts and to do so recognizing the environment within which we operate.

Our basic compensation philosophy is to pay a fair wage (whether salary or hourly) and to reward for value added. For our field people, the value added is generally based on productivity, coupled with their record for safety and care of their equipment. For our office based people, the value added is determined by attitude, commitment and contribution to profit. Our goal, never easy to achieve, is to have our senior people (Executive Management Team and Operations Team) have base compensation in the 50th to 70th percentile of comparable positions in the oilfield service industry and to have the opportunity for earning to the top of the charts through variable, incentive compensation.

In 2005, Destiny introduced a Profit-Sharing Plan for our senior people. Destiny had a good year, and so did the participants in the Profit-Sharing Plan. Likewise in 2006. With a year of experience with the Profit-Sharing Plan under our belt, the administration and deliberations for 2006 awards were more sophisticated and mature. Each person's contribution to profit was weighed against their opportunity to so contribute. I am delighted to report the range of awards, relative to eligibility for the Operations Team was 90% to 100%. For the Executive Management Team, excepting out a contractual factor for one member and the newness of another, awards were 95% of eligible amounts. This is a recognition of contribution and effort – while at the same time acknowledging all could have done better at some part of their responsibilities.

In 2006, between field bonuses, office bonuses and profit-sharing the Company paid (or allocated – see last year's annual report for the mechanics of the Profit-Sharing Plan) an aggregate of \$4,605,912. This compares to \$3,123,796 for 2005.

Challenges and Responses; Outlook

With all the good we achieved and all the progress we made in 2006, we continue to face a number of challenges for 2007 outside of the macro-economic factors influencing overall demand for our services. We generally believe we are capable of responding to the challenges.

- the line clearing industry faces continual demands for lesser impact on the environment and through training and investment in specialized equipment we have adapted to industry and government needs. Further significant investment will depend upon finding ways to profitably deploy our resources on a more year round basis.
- the development by our Kodiak business of a technological tool for surveying seismic source points from helicopters continues. We believe we are close to the solution, but we are not there at the time of writing.
- if industry activity levels diminish, we anticipate more pricing pressure from our customers and our competitors. We have invested considerable time, effort and dollars in training and technology and hope to maintain some margin dollars as a return on this investment.
- the cycles of the oil and gas industry, including exploration, are not lock-step as between Canada and the United States. To that end we are taking steps to enhance our presence in the US, including plans to relocate our US office to the Houston area. In addition to the work of Wolf Survey & Mapping US and the presence of Kodiak Nav Solutions in the US, we are working to have opportunities for our other services. We have achieved some early success with this, as we presently have some drills in Alaska and are about to mobilize line clearing equipment and drills for work in upstate New York. As well, Advanced has explored some possibilities south of the border.
- while small by the standards of Destiny's legacy businesses, Advanced gives us the opportunity to enhance margins on Wolf Survey & Mapping programs, to earn dollars from third party work (both seismic industry and other) and to explore further service offerings.
- growth brings with it expenses. Our overhead has grown as we have put in place the people and services necessary to accommodate our activity levels. 2007 will see further growth in our overhead as we are leasing a second building –adjacent to our Calgary office and shop – to house our staff.
- governments want taxes and accountants want booking of them. 2006 saw us record income tax expense of \$3.6 million, or 32.5% of income before taxes. This was up from \$1.2 million, or 15.6% of income before taxes in 2005. In neither year did we pay any significant cash taxes. 2007 will see a like circumstance, with a tax rate of just over 32% on pre-tax income and with no actual cash outlay.
- during 2006 we invested in new technologies and prepared for others for Wolf Survey & Mapping, all of which should enhance productivity in 2007
- capital expenditures in 2006 were \$4 million. Our budget for 2007 calls for capital expenditures of \$6.1 million, of which \$3.1 is for expansion. Naturally, actual expenditures will respond to market dynamics.
- 2006 saw some unique aspects which, even should 2007 have like activity levels, make it hard to repeat: we got an early start in Q2 to heli-drilling programs and we had 23% of our year's work (almost 9,000 heli-holes) in Q4, ordinarily a quiet time for this type of operation.
- our businesses undertook extensive training programs; we increased our efforts with regard to purchasing and cost control; we enhanced our maintenance programs, virtually eliminating downtime; we promoted consistency of output, quality of service. We reaped some of the benefit of this in 2006 and should see further returns in 2007.

As commodity prices retreated during 2006 from all time highs, we saw the start of cutting back on capital expenditures by the oil and gas industry. Exploration and production companies encountered both reduced revenues for their efforts and higher costs for services and have responded by eliminating more marginal programs and deferring some activity.

While industry statistics on expected capital expenditures (and the year-over-year reduction thereof) are available, the lack of data correlating seismic expenditures to capital expenditures makes us have to rely more on market intelligence and anecdotal information as we plan our year. What we hear and see suggests 2007, for Destiny, will likely look somewhat between 2005 and 2006 on the revenue and gross margin lines. Our first quarter operations to the date of writing certainly support this.

As an investor in Destiny, I view the Company as uniquely positioned. It has a strong reputation in a niche market, it is fundamentally a low tech business (with some higher tech components), it requires a relatively low rate of reinvestment to maintain the currency of its capital, it has an executive and operations leadership with experience and capacity to respond to industry conditions and to lead its industry and it returns a good portion of its earnings to the shareholders. All this makes me pleased to be a shareholder.

Thank you.

As a shareholder, I appreciate the value of my investment rests with the key assets of our Company, its people. To each of them, for all they did in 2006 and for all they will do in 2007, I say, on behalf of the Executive Management Team, the Board of Directors and all shareholders, "thank you".

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'BRL', with a long horizontal flourish extending to the right.

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

2006 ANNUAL REPORT

FOR THE YEAR-ENDED DECEMBER 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2006 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

The following discussion and analysis of financial results for the year ended December 31, 2006 is based on information available until March 5, 2007 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") and "funds from operations" which should not be considered an alternative to, or more meaningful than "net income" or "cash flow from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Company's financial performance. These terms do not have any standardized meaning as prescribed by GAAP and therefore, the Company's determination of EBITDA or funds from operations may not be comparable to that reported by other companies. EBITDA is calculated from the consolidated statements of operations and retained earnings (deficit) as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "net change in non-cash working capital". The Company evaluates its performance based on EBITDA and funds from operations. The Company considers funds from operations and EBITDA to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment.

OVERALL PERFORMANCE

The Company's seismic drilling and survey & mapping divisions recognized significant growth in revenues and gross margin due to enhanced activities and utilization improvement. Increases were also achieved in field margins as this was the second year of an extensive education and training program. The US component of survey & mapping also completed its second year of operations and doubled the previous year's revenue generating a positive contribution to the bottom line.

The acquisition of Advanced Locating Services will allow for vertical integration within the existing survey business and will also permit further expansion and growth opportunities.

Overall revenues increased by over a third from prior year (\$89 million compared to \$64.5 million) and gross margin increased by 48% (\$19.2 million compared to \$12.9 million). Annual dividends for 2006 at \$5.4 million (\$0.96 per share) have increased by almost \$1 million from 2005 at \$4.4 million (\$0.80 per share). Earnings per share for 2006 were \$1.38 compared to \$1.31 last year. Funds from operations for 2006 was \$14.1 million (\$9.5 for 2005).

The calculated working capital ratio at 1.42 shows a marked improvement over the 1.06 at the end of 2005. It should be noted that during 2005 significant capital expenditures were incurred through the operating line which had a negative impact on this ratio. During 2006 the combination of profitable operations and a significantly lower level of capital expenditures over last year contributed to a better ratio at the end of this year.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's operations for the three months and years ended December 31, 2006 and 2005:

| <i>(000's, except per share)</i> | Three months ended December 31 | | Year ended December 31 | |
|--------------------------------------|-----------------------------------|------------|---------------------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Revenue | 22,261 | 11,844 | 89,031 | 64,457 |
| Gross margin | 4,691 | 2,321 | 19,176 | 12,946 |
| EBITDA ⁽¹⁾ | 3,448 | 2,118 | 14,346 | 9,652 |
| Per share – basic | 0.62 | 0.38 | 2.57 | 1.74 |
| Per share – diluted | 0.62 | 0.38 | 2.56 | 1.74 |
| Net income for the period | 1,982 | 1,842 | 7,668 | 7,237 |
| Per share – basic | 0.36 | 0.33 | 1.38 | 1.31 |
| Per share – diluted | 0.35 | 0.33 | 1.37 | 1.31 |
| Funds from operations ⁽¹⁾ | 3,701 | 2,087 | 14,115 | 9,547 |
| Per share – basic | 0.66 | 0.38 | 2.53 | 1.73 |
| Per share – diluted | 0.66 | 0.38 | 2.52 | 1.73 |
| Capital expenditures | 1,232 | 2,854 | 3,277 | 8,677 |
| Weighted average shares outstanding | | | | |
| Basic | 5,576 | 5,568 | 5,575 | 5,533 |
| Diluted | 5,595 | 5,568 | 5,595 | 5,542 |
| Total assets | | | 31,180 | 21,744 |
| Working capital | | | 5,620 | 601 |
| Shareholders' equity | | | 14,123 | 11,787 |

(1) "EBITDA" and "funds from operations" are provided to assist investors in determining the ability of Destiny to generate cash from operations. EBITDA is calculated from the consolidated statements of operations and retained earnings as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "net change in non-cash working capital". These measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies; however, Destiny is consistent in its calculation of EBITDA and funds from operations for each reporting period.

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2006 ("2006") and December 31, 2005 ("2005") as well as the three months ended December 31, 2006 ("Q4'06") and December 31, 2005 ("Q4'05").

REVENUE

Revenue for 2006 was at \$89 million compared to \$64.5 million in 2005. This represented a 38% increase, which can be attributed to:

- Extension of the season from the traditional 4 months to 8 months for the 2006 heli-portable projects, due to client demand.
- The survey business in the US has doubled its revenue over last year.
- Reputation in the industry allows us to expand business with existing clients and attract new clients.

Revenue for Q4'06 was \$22.3 million compared to \$11.8 million for Q4'05. Increased demand for services in Q3'05 resulted in more work being compressed into that quarter with less available for Q4'05. Also revenues for all four quarters in 2006 were higher than in 2005.

GROSS MARGIN

Gross margin at \$19.2 million for 2006 represented 21.6% of revenues compared to gross margin of \$12.9 million or 20.2% of revenues for 2005. The overall increase for 2006 over 2005 is due to:

- Larger revenues in 2006 compared to 2005.
- Further efficiencies have translated into better field margins, as we are in the second year of an extensive education and training program.
- The investment of new capital equipment in 2005 resulted in lower repair and maintenance costs for 2006.

For Q4'06, gross margin was \$4.7 million or 21.1% of Q4'06 revenues compared to \$2.3 million or 19.6% of Q4'05 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. Improvements in the quarter were reflective of the entire year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses, which represent primarily 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 \$4.8 million for 2006 compared to \$3.3 million in the same period last year. The 2006 expense of \$2.9 million (1.6 million in 2005) for the Company's profit sharing plans represented the majority of this increase. The balance of the increase can be attributed to increased infrastructure costs in response to increased business activities.

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 Q4'06 was \$1.2 million compared to \$0.2 million for Q4'05. The fourth quarter accrual for profit sharing in 2006 was \$0.9 million higher than over the same period last year.

AMORTIZATION OF PROPERTY & EQUIPMENT

Amortization expense for 2006 was \$3.2 million compared to \$2.1 million in 2005. Amortization is dependant on the timing of additions to property and equipment and intangibles. In 2005 a total of \$8.7 million was invested in purchases of property and equipment. These purchases were amortized at the full rate in 2006. Disposals of property and equipment in 2006 resulted from normal course business activities with no specific noteworthy items.

GAIN ON DISPOSAL OF CAPITAL ASSETS

The Company reported a gain on the sale of capital assets of \$0.1 million in both 2006 and 2005. These gains represent the normal course disposal of capital assets.

INTEREST EXPENSE

Total interest expense at \$0.2 million at the end of 2006 has remained very close to the less than \$0.2 million at the end of 2005.

INCOME TAXES

The Company was not in a taxable position in 2006 or 2005, with the exception of a small current tax obligation from the acquired Advanced Locating Services business at the end of 2006. The Company has unutilized Canadian non-capital tax loss carry forwards available as at December 31, 2006, 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 2006 | Q3 2006 | Q2 2006 | Q1 2006 | Q4 2005 | Q3 2005 | Q2 2005 | Q1 2005 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Revenue | 22,261 | 23,636 | 16,934 | 26,199 | 11,844 | 21,216 | 14,793 | 16,604 |
| Net income for the period | 1,982 | 1,869 | 504 | 3,313 | 1,842 | 1,325 | 1,979 | 2,091 |
| Basic earnings per share | 0.36 | 0.34 | 0.09 | 0.59 | 0.33 | 0.24 | 0.36 | 0.38 |
| Diluted earnings per share | 0.35 | 0.34 | 0.09 | 0.59 | 0.33 | 0.24 | 0.36 | 0.38 |
| Number of shares outstanding weighted average | | | | | | | | |
| Basic | 5,576 | 5,575 | 5,575 | 5,575 | 5,568 | 5,554 | 5,548 | 5,495 |
| Diluted | 5,595 | 5,594 | 5,596 | 5,596 | 5,591 | 5,567 | 5,571 | 5,500 |

The above noted Summary of Quarterly Results highlights the following:

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

| Revenue by quarter (000's) | | Description of Quarterly Seasonality |
|-----------------------------------|--------------|--|
| Q4'06 | Q4'05 | |
| \$22,261 | \$11,844 | 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. In 2005, as a result of the increased activity during Q3'05, Q4'05 became the slowest quarter due primarily to lower capacity experienced from holiday season. |
| Q3'06 | Q3'05 | |
| \$23,636 | \$21,216 | 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. |
| Q2'06 | Q2'05 | |
| \$16,934 | \$14,793 | 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. |
| Q1'06 | Q1'05 | |
| \$26,199 | \$16,604 | 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. |

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 funds 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 2007 and beyond.

WORKING CAPITAL

At December 31, 2006, the Company had a net working capital position of \$5.6 million compared to \$0.6 million at December 31, 2005. Significant components within this \$5 million increase are:

- Funds from operations generated a positive increase of \$14.1 million.
- Capital expenditures funded by funds from operations were \$3.3 million.
- 2006 YTD dividends paid to shareholders was \$5.4 million.

The calculated working capital ratio at 1.42 shows a marked improvement over the 1.06 at the end of 2005. It should be noted that during 2005 significant capital expenditures were incurred through the operating line which had a negative impact on this ratio. During 2006 the combination of profitable operations and a significantly lower level of capital expenditures over last year contributed to a better ratio at the end of this year.

PROPERTY AND EQUIPMENT

The net book value of property and equipment was \$11.9 million at December 31, 2006, an increase of \$0.4 million from \$11.5 million as at December 31, 2005. Amortization for 2006 amounted to \$3.2 million (\$2.1 million in 2005). Total 2006 capital expenditures were \$3.3 million (\$8.7 million in 2005). The remaining \$0.3 million was acquired with the purchase of Advanced Locating Services business.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2006

As at December 31, 2006 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 | \$9,330,529 | \$1,504,656 | \$2,320,432 | \$1,809,771 | \$3,695,670 |

Operating lease commitments have increased by approximately \$7.1 million over last year end. This increase arises primarily from two components.

1. Vehicles, that were on short-term rental and have been converted to longer-term operating leases, are expected to save approximately 15% in total costs over the life of these leases. This has required an additional commitment of approximately \$1.3 million.
2. Premise expansion requirements for the growing businesses have resulted in a further commitment of \$5.8 million on these leases.

SHAREHOLDERS' EQUITY

Shareholders' equity increased by \$2.3 million from \$11.8 million at the end of 2005 to \$14.1 million. The major components of this increase were generated net income of \$7.7 million net of disbursed cash dividends of \$5.4 million.

As at March 5, 2007, the number of issued and outstanding common shares is 5,577,081 with 51,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan.

CRITICAL ACCOUNTING POLICIES AND 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, 2005) 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 2006 and 2005. 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.

Income taxes

The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities. Income tax rates used and statutes followed are those currently enacted or substantively enacted) that are expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

Financial Instruments

On January 1, 2007 we prospectively adopted the new Canadian accounting standards for financial instruments, hedges, and comprehensive income. The new rules will require the classification of investment securities as either trading, held to maturity or available for sale. Trading securities will be measured at fair value with gains or losses recorded in income. Available for sale securities will be measured at fair value with gains and losses recorded in a new section of shareholders equity under comprehensive income. There will be no change in accounting for held to maturity securities. At this time we do not expect these standards to have a significant impact in our financial statements upon adoption.

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 \$2 million as at December 31, 2006 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.

EVALUATIONS OF DC&P AND ICFR

The President & Chief Executive Officer ("CEO") and Vice-President, Finance & Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

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

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

There was no change to the Company's internal control over financial reporting that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

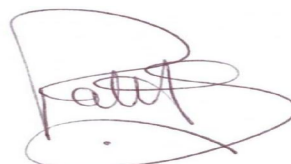
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. This Committee, consisting of non-management directors, meets periodically 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 5, 2007*



Patrick Egli, CGA
*Vice-President Finance & Administration
and Chief Financial Officer and Corporate Secretary*

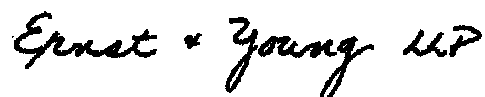
*Calgary, Alberta
March 5, 2007*

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, 2006 and 2005, and the consolidated statements of operations and retained earnings 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, 2006 and 2005, 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 5, 2007

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

| <i>As at December 31</i> | 2006 | 2005 |
|---|-------------|------------|
| | \$ | \$ |
| ASSETS [note 5] | | |
| CURRENT | | |
| Accounts receivable [note 11] | 17,361,520 | 9,124,205 |
| Inventory | 1,195,769 | 734,760 |
| Prepaid expenses | 452,071 | 434,820 |
| | 19,009,360 | 10,293,785 |
| Property and equipment [notes 2 and 4] | 11,867,270 | 11,450,537 |
| Intangibles [note 3] | 303,146 | --- |
| | 31,179,776 | 21,744,322 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT | | |
| Bank indebtedness [note 5] | 1,966,658 | 1,946,126 |
| Accounts payable and accrued liabilities | 11,376,336 | 7,726,828 |
| Income taxes payable | 46,710 | 20,000 |
| | 13,389,704 | 9,692,954 |
| Future income taxes [note 8] | 3,667,330 | 264,544 |
| Commitments and contingencies [notes 5 & 12] | | |
| Shareholders' equity | | |
| Share capital [note 6] | 8,369,935 | 8,349,935 |
| Retained earnings | 5,752,807 | 3,436,889 |
| | 14,122,742 | 11,786,824 |
| | 31,179,776 | 21,744,322 |

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Director



Director

**CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS**

| <i>Year ended December 31</i> | 2006 | 2005 |
|--|--------------------|-------------|
| | \$ | \$ |
| Revenue | 89,031,355 | 64,457,011 |
| Direct expenses | 69,854,936 | 51,511,106 |
| Gross margin | 19,176,419 | 12,945,905 |
| Other expenses (income): | | |
| General and administrative | 4,830,645 | 3,293,740 |
| Amortization of property and equipment and intangibles | 3,185,398 | 2,122,502 |
| Interest <i>[note 7]</i> | 223,966 | 154,155 |
| Gain on disposal of property and equipment | (100,525) | (101,648) |
| | 8,139,484 | 5,468,749 |
| Income from operations before income taxes | 11,036,935 | 7,477,156 |
| Income taxes <i>[note 8]</i> | | |
| Current tax expense / (recovery) | 6,740 | (24,265) |
| Future tax expense | 3,361,720 | 264,544 |
| Net income for the year | 7,668,475 | 7,236,877 |
| Retained earnings, beginning of year | 3,436,889 | 646,980 |
| Dividends | (5,352,557) | (4,446,968) |
| Retained earnings, end of year | 5,752,807 | 3,436,889 |
| Per share amounts <i>[note 6]</i> | | |
| Basic | 1.38 | 1.31 |
| Diluted | 1.37 | 1.31 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Year ended December 31 | 2006 | 2005 |
|---|-------------|-------------|
| | \$ | \$ |
| CASH FLOWS PROVIDED BY (USED IN) | | |
| Operating activities: | | |
| Net income from operations | 7,668,475 | 7,236,877 |
| Items not involving cash: | | |
| Amortization of property and equipment and intangibles | 3,185,398 | 2,122,502 |
| Amortization of deferred charges <i>[note 7]</i> | --- | 25,000 |
| Future income taxes | 3,361,720 | 264,544 |
| Gain on disposal of property and equipment | (100,525) | (101,648) |
| Funds from operations | 14,115,068 | 9,547,275 |
| Net change in non-cash working capital <i>[note 10]</i> | (4,091,820) | (1,650,975) |
| | 10,023,248 | 7,896,300 |
| Financing activities: | | |
| Increase in bank indebtedness | 95,260 | 1,946,126 |
| Issuance of shares <i>[note 6]</i> | 20,000 | 184,800 |
| Dividends paid | (5,352,557) | (4,446,968) |
| | (5,237,297) | (2,316,042) |
| Investing activities: | | |
| Purchase of property and equipment | (3,277,154) | (7,709,853) |
| Proceeds on sale of property and equipment | 159,452 | 250,303 |
| Business acquisition <i>[note 4]</i> | (1,300,000) | --- |
| Net change in non-cash working capital <i>[note 10]</i> | (368,249) | 681,288 |
| | (4,785,951) | (6,778,262) |
| Increase (decrease) in cash and cash equivalents | --- | (1,198,004) |
| Cash and cash equivalents, beginning of year | --- | 1,198,004 |
| Cash and cash equivalents, end of year | --- | --- |

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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.

Inventory

Inventories of supplies 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% |
| Development costs | 0% during development phase, after completion viable projects over remaining useful life |

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.

Development costs include materials, services, salaries and overheads of personnel involved with development projects. Current projects pertain to navigation technology. Upon completion viable projects are amortized over their useful life whereas unviable projects are written off.

Intangibles

Intangible assets relates to acquired customer relationships and non-competition agreements. These amounts are amortized on a straight-line basis over 5 years.

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 6), 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, 2006. General & administrative expense relating to RSU's were nil for 2006 (2005 - \$75,000). 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. PROPERTY AND EQUIPMENT

| | Cost | 2006 Accumulated Amortization | Net Book Value |
|--|-------------------|-------------------------------------|-------------------|
| Automotive and tracked vehicles | 6,188,018 | 4,457,878 | 1,730,140 |
| Equipment and tools | 5,568,692 | 2,555,471 | 3,013,221 |
| Tractors and heavy equipment | 4,484,484 | 2,747,237 | 1,737,247 |
| Office and computer equipment and software | 4,522,590 | 2,749,931 | 1,772,659 |
| Seismic drills and accessories | 3,804,436 | 3,405,181 | 399,255 |
| Buildings and leasehold improvements | 1,983,494 | 494,945 | 1,488,549 |
| Assets under construction | 51,294 | --- | 51,294 |
| Development costs | 1,496,905 | --- | 1,496,905 |
| Land | 178,000 | --- | 178,000 |
| | <u>28,277,913</u> | <u>16,410,643</u> | <u>11,867,270</u> |

| | 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> |

Assets under construction consist of new equipment currently in production by the Kodiak Navigation Solutions division as well as the development of the internal Enterprise Reporting Program (ERP) system. These assets will be moved to their applicable depreciating asset classes at either the point of completion or at the time they begin to generate revenue.

3. INTANGIBLES

Intangibles of \$313,599 were acquired as part of the business acquisition (note 4) and are being amortized over a 5 year period. Value was attributed to the customer relationships and non-competition agreements that existed.

4. BUSINESS ACQUISITIONS

Advanced Locating Services

On a closing date of October 31, 2006 the Company purchased 100% of the shares of MP Brett Holdings Ltd. which included the business of Advanced Locating Services and its related pipeline, first call and other locating businesses for \$1,300,000. The effective date of this transaction was August 1, 2006. This acquisition was accounted for using the purchase price method of accounting.

Total consideration given was:

| | |
|--|--------------------|
| Cash | |
| At closing | \$935,000 |
| In escrow for six months to secure certain vendor representations and warranties | 325,000 |
| Payable in two years to secure certain vendor representations and warranties | 40,000 |
| Total consideration | <u>\$1,300,000</u> |

On the cash payable portion of \$40,000 interest will accrue at 7% per annum. Any breaches in vendor representations and warranties of either the escrowed portion or the payable portion will be deducted from the total amount owing.

| | |
|-----------------------------|---------------------------|
| Purchase price allocation: | |
| Net cash | \$74,728 |
| Accounts receivable | 733,411 |
| Prepays | 48,524 |
| Accounts payable | (170,029) |
| Income taxes payable | (32,618) |
| Net working capital | <u>\$654,016</u> |
| Property and equipment | 373,452 |
| Intangibles | 313,599 |
| Future income taxes payable | (41,067) |
| Total | <u><u>\$1,300,000</u></u> |

The results of operations of the Advanced Locating Services business have been included from November 1, 2006. For the period from August 1, 2006 to October 31, 2006 changes in these amounts have been reflected in the purchase price allocation specifically within net working capital and property and equipment.

Kodiak Nav Solutions Ltd.

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. This was an asset purchase (property and equipment) and was accounted for using the purchase price method of accounting as follows:

| | |
|--|---------------------------|
| Cash | \$1,026,674 |
| 276,450 common shares of the Company, issued at \$3.50 per share | <u>967,575</u> |
| Total consideration | <u>\$1,994,249</u> |
| Purchase price allocation | |
| Computer equipment and software | <u><u>\$1,994,249</u></u> |

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

5. BANK INDEBTEDNESS

The Company has available a \$10,000,000 revolving demand bank operating loan facility, renewable annually, with balances outstanding repayable on demand and bearing interest at bank prime plus 0.75% (recently reduced from 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, 2006, letters of guarantee totaling \$80,000 are outstanding under the operating loan facility (\$80,000 – 2005).

6. SHARE CAPITAL

The Company's Board of Directors declared quarterly cash dividends in 2006 as follows:

| <u>Date declared</u> | <u>Date paid</u> | <u>Amount per share</u> | <u>Aggregate amount</u> |
|----------------------|--------------------|-------------------------|-------------------------|
| March 8 2006 | March 31, 2006 | \$0.24 | \$1,338,017 |
| May 9, 2006 | June 15, 2006 | 0.24 | 1,338,017 |
| August 10, 2006 | September 15, 2006 | 0.24 | 1,338,017 |
| November 8, 2006 | December 15, 2006 | 0.24 | 1,338,506 |
| | | <u>\$0.96</u> | <u>5,352,557</u> |

| | # | \$ |
|---|-----------|-----------|
| Authorized | | |
| Unlimited number of common, first preferred and second preferred shares | | |
| Issued - Common shares | | |
| December 31, 2004 | 5,271,131 | 7,198,140 |
| 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 | 5,575,081 | 8,349,935 |
| Stock options exercised | 2,000 | 20,000 |
| Total December 31, 2006 | 5,577,081 | 8,369,935 |

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. All information relating to the number of shares and per share amounts are presented post reverse split.

(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:

| | 2006 | | 2005 | |
|------------------------------------|-----------------|--|-----------------|--|
| | # of Options | Weighted Average Exercise Price | # of Options | Weighted Average Exercise Price\$ |
| Outstanding at beginning of year | 53,000 | \$6.13 | 91,000 | \$ 6.43 |
| Exercised | (2,000) | 10.00 | (27,500) | 6.72 |
| Cancelled | --- | --- | (10,500) | 7.19 |
| Outstanding at end of year | 51,000 | \$5.97 | 53,000 | 6.13 |
| Options exercisable at end of year | 51,000 | \$5.97 | 53,000 | \$ 6.13 |

| Range of Prices \$ | Number of Outstanding Options | Weighted Average Exercise Price\$ | Weighted Average Years to Expiry | Number of Options Exercisable | Weighted Average Price Of Exercisable Options\$ |
|--------------------------|-------------------------------------|--|---|-------------------------------------|---|
| 4.00 – 7.00 | 50,000 | \$ 5.87 | 1.4 | 50,000 | \$ 5.87 |
| 10.00 – 13.00 | 1,000 | 11.13 | 0.2 | 1,000 | 11.13 |
| 2006 total | 51,000 | \$ 5.97 | | 51,000 | \$ 5.97 |
| 4.00 – 7.00 | 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 |

(b) Earnings per share amounts

| | 2006 | 2005 |
|--|---------------|--------|
| Basic and diluted per common share amounts: | | |
| Net income per common share | | |
| Basic | \$1.38 | \$1.31 |
| Diluted | \$1.37 | \$1.31 |

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

| | 2006 | 2005 |
|--|-------------|--------------|
| Numerators: | | |
| Net income for the year | \$7,668,475 | \$ 7,236,877 |
| Denominators: | | |
| Number of shares outstanding at beginning of year | 5,575,081 | 5,271,131 |
| Weighted average number of shares issued during the year | 167 | 262,173 |
| Weighted average number of shares outstanding for the year – basic | 5,575,248 | 5,533,304 |
| Effect of potentially dilutive “in-the-money” options | 19,355 | 8,540 |
| Weighted average number of shares outstanding for the year – diluted | 5,594,603 | 5,541,844 |

In 2006 “in the money” options are 50,000 from which the proceeds received would have redeemed 30,645 shares resulting in a net dilution effect of 19,355 shares. Excluded from the 2006 diluted earnings per share amount are 1,000 (2005 – 3,000) “out-of-the money” options, the effect of which was anti-dilutive.

7. INTEREST EXPENSE

| | 2006 | 2005 |
|--|------------------|------------------|
| Short-term bank indebtedness and other | \$223,966 | \$129,155 |
| Amortization of deferred charges | --- | 25,000 |
| | \$223,966 | \$154,155 |

Amortization of deferred charges in 2005 relates to amounts existing at the end of 2004 which were fully amortized in 2005.

8. INCOME TAXES

Income tax expenses or recoveries varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate for the following differences:

| | 2006 | 2005 |
|---|----------------------|---------------------|
| Corporate tax rate | 32.49% | 33.62% |
| Provision for income taxes at combined rate | \$3,585,900 | \$2,523,000 |
| Increase (decrease) in income taxes from: | | |
| Other non-deductible portion of other expense | 218,122 | 19,000 |
| Benefit of previously unrecognized non-capital losses carried forward | (7,165,742) | (2,806,544) |
| Future income tax expense | (3,361,720) | (264,544) |
| Large corporations tax and other (expense) / recovery | (6,740) | 24,265 |
| Income tax expense | \$(3,368,460) | \$ (240,279) |

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 liabilities are as follows:

| | 2006 | 2005 |
|---|----------------------|--------------------|
| Differences between tax base and reported amounts of depreciable assets | \$244,947 | \$(26,000) |
| Non-capital loss carry-forwards | 1,246,873 | 2,719,000 |
| Deferred financing costs and other | 160,883 | 128,000 |
| Deferred partnership income | (5,320,033) | (3,085,544) |
| Future tax liability | \$(3,667,330) | \$(264,544) |

As at December 31, 2006 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:

| | |
|------|---------------------|
| 2010 | \$2,029,000 |
| 2011 | 1,324,000 |
| | <u>\$ 3,353,000</u> |

9. TRANSACTIONS WITH RELATED PARTIES

During 2006 less than \$ 0.1 million was incurred by the Company for field 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 2006 were less than \$0.1 million.

10. NET CHANGE IN NON-CASH WORKING CAPITAL

| | 2006 | 2005 |
|---|----------------------|--------------------|
| Accounts receivable | \$(7,503,904) | \$(4,888,485) |
| Inventory | (461,009) | (172,872) |
| Prepaid expenses | 31,273 | (109,361) |
| Accounts payable and accrued liabilities | 3,479,479 | 4,243,004 |
| Income taxes payable | (5,908) | (41,973) |
| Net change in non-cash working capital | \$(4,460,069) | \$(969,687) |
| | | |
| In operating activities | \$(4,091,820) | \$(1,650,975) |
| In investing activities | (368,249) | 681,288 |
| | \$(4,460,069) | \$(969,687) |
| | | |
| Supplemental information: | | |
| Cash interest paid during the year | \$212,172 | \$159,274 |
| Cash taxes paid during the year | \$6,226 | --- |
| Property and equipment acquired by share issuance | --- | \$967,575 |

11. 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 operations.

Approximately 76% of trade accounts receivable at December 31, 2006 (69% at December 31, 2005) are represented by one customer (3 in 2005). Approximately 71% of revenues for YTD 2006 (65% - YTD 2005) 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 92% of trade accounts receivable at December 31, 2006 was less than 60 days old (44% 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

12. 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:

| | |
|-------------|--------------------|
| 2007 | \$1,504,656 |
| 2008 | 1,250,606 |
| 2009 | 1,069,826 |
| 2010 | 1,073,619 |
| 2011 | 736,152 |
| 2012 - 2017 | 3,695,670 |
| | <u>\$9,330,529</u> |

Operating lease commitments have increased by approximately \$7.1 million over last year end. This increase arises primarily from two components.

1. Vehicles, that were on short-term rental and have been converted to longer-term operating leases, are expected to save approximately 15% in total costs over the life of these leases. This has required an additional commitment of approximately \$1.3 million.
2. Premise expansion requirements for the growing businesses have resulted in a further commitment of \$5.8 million on these leases.

(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 former operations and two other companies named in the claim) led to damage at a 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.

13. GEOGRAPHIC SEGMENTS

| | Revenue | | Property and Equipment | |
|---------------|---------------------|--------------|------------------------|--------------|
| | 31-Dec-06 | 31-Dec-05 | 31-Dec-06 | 31-Dec-05 |
| Canada | \$83,182,884 | \$61,490,467 | \$11,401,658 | \$11,273,897 |
| United States | 5,848,471 | 2,966,544 | 465,612 | 176,640 |
| Total | \$89,031,355 | \$64,457,011 | \$11,867,270 | \$11,450,537 |

14. SUBSEQUENT EVENTS

On March 5, 2007, the Board of Directors declared cash dividends of \$0.24 per consolidated common share for aggregate dividends of approximately \$1,338,500 to be paid on March 15, 2007.

In January 2007 the Company completed a corporate reorganization which transferred the Company's interest in its operating partnership to a wholly owned subsidiary. This structure is similar to many other public companies, such that any public company liability issues could potentially be structurally subordinated to the operating businesses, and each business unit may also in certain circumstances be "insulated" from the business risks of the others. On a consolidated operating and financial reporting basis, the overall business of the Company will remain unchanged.

15. COMPARATIVE FIGURES

Certain of the previous period figures have been reclassified to conform to the current year's format of presentation.

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

Jim Holt
Chief Operating Officer

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

Joe Pilioci, P Eng
Vice-President, Survey Canada; Technology Operations;
Safety, Health & Environment and Chief Safety Officer

Warren Plue
Vice-President, Survey USA; Navigation and Positioning

Pete Scott
Vice-President, Drilling

Murray Leier
Vice-President, Line Clearing

Corporate Headquarters

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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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