



**DESTINY RESOURCE SERVICES CORP.**

**2007 Annual Report**

**For the Year Ended December 31, 2007**

## TABLE OF CONTENTS

Corporate Profile .....	2
Financial Highlights .....	3
Letter to Shareholders .....	4
Management's Discussion and Analysis .....	6
Management's Responsibility Statement .....	14
Independent Auditors' Report .....	15
2007 Year End Financial Statements .....	16
Notes to 2007 Year End Financial Statements .....	19
Corporate Information .....	28

## 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 services 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 6, 2008 at 2:00 p.m. (Calgary time) in the 35<sup>th</sup> Floor Riverview Room at the International Hotel, 220 – 4<sup>th</sup> 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 S.W., 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, 2007 and 2006:

<i>(000's, except per share amounts)</i>	Year ended December 31		
	2007	2006	Change
	\$	\$	%
Revenue	<b>65,202</b>	89,031	(27)
Gross margin	<b>8,953</b>	19,176	(53)
 EBITDA <sup>(1)</sup>	 <b>5,273</b>	 14,346	 (63)
Per share – basic	<b>0.95</b>	2.57	(63)
Per share – diluted	<b>0.95</b>	2.56	(63)
 Net income	 <b>265</b>	 7,668	 (97)
Per share – basic	<b>0.05</b>	1.38	(97)
Per share – diluted	<b>0.05</b>	1.37	(97)
 Funds from operations <sup>(1)</sup>	 <b>5,479</b>	 14,115	 (61)
Per share – basic	<b>0.98</b>	2.53	(61)
Per share – diluted	<b>0.98</b>	2.52	(61)
 Capital expenditures :	 <b>3,628</b>	 3,277	 11
 Weighted average number of shares outstanding:			
Basic	<b>5,577</b>	5,575	0
Diluted	<b>5,579</b>	5,595	(0)
 Total assets	 <b>26,636</b>	 31,180	 (15)
Working capital	<b>5,082</b>	5,620	(10)
Shareholders' equity	<b>11,711</b>	14,123	(17)

- (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 "net change in non-cash working capital" line in the operating activities section. 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 30,000 outstanding options as at March 5, 2008

## LETTER TO SHAREHOLDERS

Fellow Shareholders,

A look back at 2007 shows a number of significant events and developments in Destiny:

- it was a year of reduced industry activity with higher operating costs when compared to 2006.
- lower volume and lower margins unfolded beyond our expectations, meaning our attempt to maintain the high level of dividends established in 2006 was not achievable. Thus we paid aggregate dividends in 2007 of \$0.48 per share, all in the first half of the year.
- we undertook a re-organization, with accompanying non-recurring expenses of a million dollars.
- we recognized our cumulative investment in navigation and positioning technology was not, especially in the environment of reduced industry activity, going to be recovered and took a write-down of almost 3 million dollars.
- despite the volume, margin, extraordinary expenses and write-down, we generated funds from operations of \$5.5 million, of which 29% came from the 4th quarter, traditionally a slower period for us.
- the self-funding nature of our Profit-Sharing Plans operated: with no profit, there was no distribution with respect to 2007, compared to an aggregate award with respect to 2006 of \$2.9 million.
- we have an excellent, industry-leading safety program and commitment to safety. Special thanks are due to Ed Kapala (recently promoted to General Manager, Safety), to the entire Safety Group and to everyone in the Company, as safety is an essential component of everyone's job. We have enjoyed the benefits of this by having one of the lowest WCB premium rates in our industry.
- our investment in administrative, computer and communications systems will reward us over time. Special thanks are due to Patrick Egli, our CFO, and the entire administrative and information technology team.

*Lessons from 2007:*

- be ever more nimble, more creative.
- always emphasize safety: we owe it to our people; over the long-run, the best safety record will make us an employer and service provider of choice.
- cut costs, be more efficient; examine every level of fixed costs.
- expand our share of the market in the United States.
- consider opportunities outside of Canada and the United States.
- improved accounting and administrative systems can aid operating decisions.
- technology can improve efficiencies and reduce exposure to safety risks.
- we have excellent counsel from our Board of Directors and incredible depth, wisdom and experience in our Executive Management Team and our Operations Team.
- we have skills, talent and commitment in our work force, in the field, in our offices and in our shops.

*2008: Outlook, challenges, strategies*

- our profits and cash flow from 2005, 2006 and 2007 enabled us to pay healthy dividends to our shareholders. They also enabled us to invest and re-invest in our people, our equipment and our management and administrative systems, positioning us well to capitalize on future opportunities.
- the overall market will be approximately the same as 2007, so growth will have to come from market share in Canada and the United States or from opportunities in other jurisdictions.

- our sense of uncertainty as to the size of the market is somewhat greater today than at any time in recent years.
- work hard at growth in the US, especially in our core Front-End Seismic Services businesses: pursue organic growth; examine and pursue acquisition opportunities.
- competitors will be more aggressive with pricing, so we will have to match or provide superior service.
- cost control must be an ever growing part of everyone's job.
- early signs are for an operating year better than 2007.
- develop and exploit technology: utilize our dispatch system for Advanced Locating Services; utilize Kodiak's Accudrill as a competitive advantage; refine other Kodiak technologies for commercial application; test innovative approaches to drilling and survey.
- we have the systems, the people, the leadership, the equipment in place to do more.
- review our compensation plans to ensure they are responsive to competition and incentivize and reward the right behaviors.
- push our Executive Management Team to new heights; even more fully utilize the expertise in our Operations Team.
- determine best uses for the cash we will generate: our Board and Executive Management Team will assess the relative wisdom and merits of using cash flow for some or all of capital expenditures, acquisitions, funding other expansion, dividends, share buyback, other strategic and tactical initiatives.
- exploration for oil and gas in the basins in which we work will be driven, over the long-run, by economic factors, adjusted for risks. We see the price of natural gas, a key commodity in exploration in the Western Canadian Sedimentary Basin, moving to levels which should stimulate activity and demand for Destiny's services. Other factors, such as operating and service costs and royalties, will play important roles in determining if it is only the most cost effective operators and the most economic plays that will advance.
- normal course issuer bid: in late 2007, Destiny initiated the process to be able to buy, in the market, shares of the Company for cancellation. With many initiatives seemingly continually under examination, we felt it prudent to stay out of the market. While it is not clear any of these initiatives will come to pass, we will not pursue share buy-back until we are comfortable all shareholders who may sell have access to all appropriate knowledge.

Share price: actions we took during the year (including paying a high dividend for 2 quarters and then suspending dividends, taking a write-down on our investment in Kodiak Nav Solutions), combined with challenges in equity markets as a whole and reduced activity and profit for Destiny led to a steep drop in the trading price of our shares. While we make operating and capital decisions for the best long-term view of the Company, we are conscious of the share price. With our Board and all of our Management as shareholders, all participate in the hurt. We are not brave enough to predict equity markets, nor the market's response to our business as we go forward. We are comfortable enough to believe in the future of our Company and the expectation of a decent year in 2008.

Thank you: to our shareholders for their support and patience; to our Board of Directors for their wisdom and guidance; to our Executive Management Team and Operations Team for their leadership and commitment; to the men and women in our shops and offices and in the field for their commitment to safety and quality and for earning the right, every day, for Destiny to be the seismic services provider of choice.

On behalf of the Board of Directors,



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

## 2007 ANNUAL REPORT

### FOR THE YEAR ENDED DECEMBER 31, 2007

---

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2007 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

*The following discussion and analysis of financial results for the year ended December 31, 2007 is based on information available until March 5, 2008 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 ("MD&A") 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 "net change in non-cash working capital" line in the operating activities section. 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

Overall revenues for 2007 at \$65.2 million were considerably lower than the \$89 million from 2006. Gross margin for the Company was at 14% compared to 22% in 2006. Revenues in Canada were impacted by a reduction in oilfield activity which reduced demand for the services provided by the Company. Also, this tighter market in Canada provided downward pressure on pricing resulting in lower overall gross margins on awarded jobs. For the U.S. revenues doubled over last year, however, gross margins declined due to the Canadian infrastructure support costs utilized. It is expected over the longer term that dedicated U.S. personnel will be used to support the growing business in this geographic market which should result in better gross margins.

In 2007 the Company has a loss from operations, before income tax, of \$1.0 million compared to a net income from operations, before income tax, of \$11.0 million for 2006. Included in 2007 are non-recurring costs of \$0.9 million in corporate restructuring costs that were incurred during Q1'07 and a \$2.8 million write down relating to the navigation, positioning and asset management technology incurred during Q3'07. Total cash dividends paid for 2007 were \$0.48 per share compared to \$0.96 per share for 2006.

Working capital at the end of 2007 was at \$5.1 million compared to \$5.6 million at the end of 2006. The calculated ratio at 1.42 at the end of 2007 remains at a strong level and remains unchanged from the end of 2006.

**SELECTED FINANCIAL INFORMATION**

The following table highlights certain financial information of the Company's operations for the three months and years ended December 31, 2007 and 2006:

(000's, except per share)	Three months ended December 31		Year ended December 31	
	2007 \$	2006 \$	2007 \$	2006 \$
Revenue	<b>17,129</b>	22,261	<b>65,202</b>	89,031
Gross margin	<b>1,947</b>	4,691	<b>8,953</b>	19,176
EBITDA <sup>(1)</sup>	<b>1,150</b>	3,448	<b>5,273</b>	14,346
Per share – basic	<b>0.21</b>	0.62	<b>0.95</b>	2.57
Per share – diluted	<b>0.21</b>	0.62	<b>0.95</b>	2.56
Net income for the period	<b>629</b>	1,982	<b>265</b>	7,668
Per share – basic	<b>0.11</b>	0.36	<b>0.05</b>	1.38
Per share – diluted	<b>0.11</b>	0.35	<b>0.05</b>	1.37
Funds from operations <sup>(1)</sup>	<b>1,569</b>	3,701	<b>5,479</b>	14,115
Per share – basic	<b>0.28</b>	0.66	<b>0.98</b>	2.53
Per share – diluted	<b>0.28</b>	0.66	<b>0.98</b>	2.52
Capital expenditures	<b>1,118</b>	1,232	<b>3,628</b>	3,277
Weighted average number of shares outstanding				
Basic	<b>5,577</b>	5,576	<b>5,577</b>	5,575
Diluted	<b>5,577</b>	5,595	<b>5,579</b>	5,595
Total assets			<b>26,636</b>	31,180
Working capital			<b>5,082</b>	5,620
Shareholders' equity			<b>11,711</b>	14,123

(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 "net change in non-cash working capital" line in the operating activities section. 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, 2007 ("2007") and December 31, 2006 ("2006") as well as the three months ended December 31, 2007 ("Q4'07") and December 31, 2006 ("Q4'06").

**REVENUE**

Revenue for 2007 was \$65.2 million compared to \$89 million in 2006 and for Q4'07 were \$17.1 million compared to \$22.3 million for Q4'06.

Revenues from the U.S. grew from \$5.9 million in 2006 to \$11.9 million in 2007. The conclusion of the strategic plan analysis for this geographic market conducted during the year was to focus on expansion. Current activities are concentrated in the northeast with further expansion plans for the central and southern parts of the US.

Revenues from Canada decreased from \$83.2 million in 2006 to \$53.3 million in 2007. Activity during 2006 was extremely high and did not follow the general seasonality patterns experienced in past years, especially with the traditional annual spring break-up. For 2007, a return to the past seasonality trends was evident.

Approximately 63% of revenues for 2007 (71% - 2006) were represented by sales to one customer.

#### **GROSS MARGIN**

Gross margin at \$9 million for 2007 represented 13.7% of revenues compared to gross margin of \$19.2 million or 21.6% of revenues for 2006. The overall decrease for 2007 over 2006 is due to:

- Lower overall revenues.
- Increased downward pressure on client bid pricing due to a tighter market.
- Short-term Canadian infrastructure support for the growing U.S. market.

For Q4'07, gross margin was \$1.9 million or 11.4% of Q4'07 revenues compared to \$4.7 million or 21.1% of Q4'06 revenues. Gross margins are dependent on competitive factors and the service mix over a certain period of time.

#### **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 \$3.7 million for 2007 compared to \$4.8 million in the same period last year. Included in 2006 expenses was \$2.9 million for profit sharing. Reduced activity levels in 2007 resulted in no profit sharing for the year. Included in 2007 expenses was \$0.9 million relating to the Q1'07 corporate reorganization.

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.

General and administrative expenses for Q4'07 was \$0.8 million compared to \$1.2 million for Q4'06. The accrual for profit sharing in 2006 of \$0.6 million represented the most significant difference.

#### **AMORTIZATION OF PROPERTY AND EQUIPMENT**

Amortization expense for 2007 was \$3.1 million and was slightly less than in 2006. Disposals of property and equipment in 2007 resulted from normal course business activities with no specific noteworthy items.

#### **GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT**

The gain on the sale of property and equipment was less than \$0.1 million in 2007 compared to \$0.1 million for 2006. These gains represent the normal course disposal of property and equipment.

#### **INTEREST EXPENSE**

Total interest expense of \$0.3 million for 2007 is slightly higher than the \$0.2 million for 2006.

#### **INCOME TAXES**

The current tax expense and related long-term liability of \$2.9 million as at December 31, 2007 will become current upon filing of the 2006 and 2007 tax returns which is anticipated to occur in the first half of 2008. Management intends to apply the benefits achieved through the corporate reorganization completed in Q1'07 against this liability with the expectation that there will be no cash expense associated with extinguishing this liability. Scientific research and development expenditures for 2005 have now been finalized and submitted for allowable tax deduction. Additionally, the Company is pursuing allowable scientific research and development deductions for 2006 and will recognize these upon completion of the claim. The effect of the \$2.9 million impairment of property and equipment, for future income tax liability calculation purposes, was a reduction of \$0.9 million for this component. The future income tax asset of \$0.5 million is entirely attributed to U.S. operations and assets.

### Summary of Quarterly Results

<i>(000's, except per share amounts)</i>	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q2 2006</b>	<b>Q1 2006</b>
Total Revenue	17,129	19,244	11,633	17,196	22,262	23,636	16,934	26,199
Net income (loss) for the period	629	(2,198)	177	1,657	1,982	1,869	504	3,313
Basic earnings per share	0.11	(0.39)	0.03	0.30	0.36	0.34	0.09	0.59
Diluted earnings per share	0.11	(0.39)	0.03	0.30	0.35	0.34	0.09	0.59
Weighted average number of shares outstanding								
Basic	5,577	5,577	5,577	5,577	5,576	5,575	5,575	5,575
Diluted	5,577	5,580	5,594	5,595	5,595	5,594	5,596	5,596

The above noted Summary of Quarterly Results highlights the following:

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

<b>Revenue by quarter</b>	<i>(000's)</i>	<b>Description of Quarterly Seasonality</b>
<b>Q4'07</b>	<b>Q4'06</b>	
<b>\$17,129</b>	<b>\$22,262</b>	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.
<b>Q3'07</b>	<b>Q3'06</b>	
<b>\$19,244</b>	<b>\$23,636</b>	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. For 2007 increased client demand for services in this year had created the opportunity for an extension in the traditional season resulting in this quarter being the largest for the year.
<b>Q2'07</b>	<b>Q2'06</b>	
<b>\$11,633</b>	<b>\$16,934</b>	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.
<b>Q1'07</b>	<b>Q1'06</b>	
<b>\$17,196</b>	<b>\$26,199</b>	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

The Company's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment 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 2008 and beyond.

**WORKING CAPITAL**

Working capital at the end of 2007 was at \$5.1 million compared to \$5.6 million at the end of 2006. The calculated ratio at 1.42 at the end of 2007 remains at a strong level and remains unchanged from the end of 2006.

**PROPERTY AND EQUIPMENT**

The net book value of property and equipment decreased by \$2.6 million from the \$11.9 million at the end of 2006 to \$9.3 million at the end of 2007. Amortization for 2007 amounted to \$3.1 million which was very close to the amount over the same period last year. Total 2007 capital expenditures were \$3.3 million (\$3.1 million in 2006). A total of \$2.8 million was considered an impairment in the cumulative value of the development costs incurred to the end of Q3'07 and was consequently written off. These costs were related to the development of the navigation, positioning and asset management technology (Kodiak Nav Solutions) and were comprised primarily of capitalized salaries and expenses. There is still perceived value in the hard assets which are expected to provide benefit for the future and the carrying value of these assets is approximately \$0.3 million.

**CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2007**

As at December 31, 2007 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.

	<b>Payments Due by Future Year</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>2 - 3 years</b>	<b>4 - 5 Years</b>	<b>After 5 years</b>
Operating Leases	\$8,195,913	\$1,473,130	\$2,305,706	\$1,395,803	\$3,021,274

**SHAREHOLDERS' EQUITY**

Shareholders' equity at the end of 2007 was \$11.7 million which decreased by \$2.4 million from the \$14.1 million at the end of 2006. Generated net income was \$0.2 million and cumulative disbursed cash dividends were \$2.7 million.

As at March 5, 2008, the number of issued and outstanding common shares is 5,577,081 with 30,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan.

**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:

*Property and equipment*

Property and equipment is recorded at cost and are amortized over their estimated useful lives. The Company evaluates the carrying value of these 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 lives 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 \$0.1 million which has been recorded (less than \$0.1 million – 2006) 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 2007 and 2006. 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 the Company 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 the Company does not expect these standards to have a significant impact in our financial statements upon adoption.

## **BUSINESS RISKS**

The Company 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 the Company's activities in areas where it has demonstrated technical and operational advantages and by employing highly competent professional staff. Environmental standards and regulations are continually becoming more stringent in this industry and the Company is committed to maintaining its high standards. The Company 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 down by \$4.8 million as at December 31, 2007 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 and also a cost structure that has sufficient flexibility to be able to adapt to changing market conditions. Services provided are in connection with the exploration for a commodity, natural gas, that is plentiful in the areas where the Company operates but is subject to pricing volatility. Management is experienced at all levels of sales, operations and administration and is focused to achieve success in both the short- and long-term.

Operationally the Company is focused on growth opportunities in all of its geographic segments. As Canada is a relatively mature market, growth is expected to be achieved organically and at a slower pace than the US. The focus will be on maximizing margins in this segment. In the U.S., there is a much greater potential for growth opportunity in with all of its services (drilling, survey and line clearing) than in Canada due to its significantly larger market size. Growth is expected to be achieved in all services from the combination of organic and acquisition where there is a fit and economic viability. The Company continues to evaluate overall infrastructure levels in light of existing and planned business and will adjust levels accordingly and where appropriate. Focus on this initiative will be intense for 2008.

The Company will continue to review expansion opportunities, both organically and by acquisition. These involve, in each case, the requirement for capital expenditures beyond the normal course for the Company. The Company 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.

The Company expects the overall market for its services will be approximately the same as 2007. However, the sense of uncertainty as to the size of the market is greater than at any other time in recent years.

### **EVALUATIONS OF DC&P AND ICFR**

The President & Chief Executive Officer (“CEO”) and Vice-President, Finance & Chief Financial Officer (“CFO”) are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”) for the Company. Both the CEO and CFO confirm that there was no change to the Company’s internal control over financial reporting that occurred during the most recent reporting period that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

In accordance with the requirements of Multilateral Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings and its amendment under Multilateral Instrument 52-313, evaluations of the design and operating effectiveness of DC&P and the ICFR 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 ICFR is 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”).

As a consequence of the Company’s small size and limited resources there exist specific control deficiencies resulting from inadequate segregation of duties as desired under an ideal control framework, although the Company does have compensating controls in place in all instances. Although the possibility of a material misstatement may exist, management believes that the probability of this event is remote. Presently both the CEO and CFO oversee all material transactions and related accounting records. Also, the Audit Committee reviews the financial statements and key risks of the Company on a quarterly basis and queries management about significant transactions.

On occasion the Company records complex and non-routine transactions which can be extremely technical in nature and require an in-depth understanding of GAAP and income tax legislation. There is a risk that the reporting of these transactions may not be correctly recorded which could lead to a potential misstatement of the consolidated financial statements. The Company addresses this by consulting with third party expert advisors, where required, with the recording of these types of transactions.

### **ACCOUNTING PRONOUNCEMENTS**

As required on January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to Accounting Changes (Section 1506), Comprehensive Income (Section 1530), Financial Instruments - Recognition and Measurement (Section 3855), Financial Instruments – Disclosure and Presentation (Section 3861), and Hedges (Section 3865). The adoption of these recommendations did not require any retroactive adjustments to the consolidated financial statements. These new sections outline prescribed guidelines for recognition, measurement, presentation and disclosure of these items. A review of all of the quarters of 2007 did not result in the identification of any items that would affect comprehensive income. The Company has adopted these measures and procedures to review, record and disclose these items where required and as defined in these new sections of the CICA Handbook, including disclosure and effect of accounting standards that have been pronounced but not yet implemented. The Company is aware of the pronouncements (but not yet implemented) on Going Concern (Section 1400), Inventories (Section 3031), Capital Disclosures (Section 1535) and Financial Instruments (Section 1562), but have not yet assessed their impact on the consolidated financial statements.

### **NORMAL COURSE ISSUER BID**

On November 13, 2007, the Toronto Stock Exchange (the "TSX") accepted a Notice of Intention to Make a Normal Course Issuer Bid filed by the Company. Under the terms of the normal course issuer bid, the Company will have the right to purchase for cancellation, up to a maximum of 278,854 of its common shares, representing approximately 5% of its outstanding common shares. The Company currently has 5,577,081 common shares outstanding and its average daily trading volume for the past six months from November 13, 2007 was 2,832 common shares. The purchases, which may commence on November 16, 2007, would be made in the open market through the facilities of the TSX, up to a daily maximum of 1,000 common shares. The normal course issuer bid will remain in effect until the earlier of November 15, 2008 or until the Company has purchased the maximum number of common shares permitted. As of March 5, 2008 no purchases have yet been made. Shareholders may obtain a copy of the Notice of Intention to Make a Normal Course Issuer Bid, without charge, by writing to the Corporate Secretary at 300, 444 – 58<sup>th</sup> Avenue S.E., Calgary, AB T2H 0P4.

## 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.

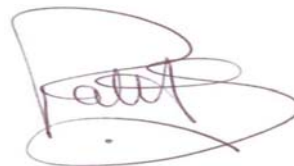
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. This Committee, consisting of non-management directors, meets periodically 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, 2008



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

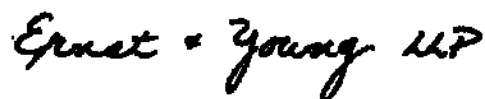
Calgary, Alberta  
March 5, 2008

**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, 2007 and 2006 and the consolidated statements of operations and comprehensive income 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Handwritten signature of Ernst & Young LLP in black ink.

Calgary, Canada

March 5, 2008

## CONSOLIDATED BALANCE SHEETS

<i>As at December 31</i>	<b>2007</b>	2006
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b> <i>[note 6]</i>		
<b>CURRENT</b>		
Accounts receivable <i>[note 11]</i>	14,743,474	17,361,520
Inventory	1,004,717	1,195,769
Prepaid expenses	465,055	452,071
Income taxes receivable	360,430	---
Future income tax asset <i>[note 8]</i>	517,808	---
	17,091,484	19,009,360
<b>Property and equipment</b> <i>[notes 2 and 5]</i>	9,303,901	11,867,270
<b>Intangibles</b> <i>[note 3]</i>	240,426	303,146
	26,635,811	31,179,776
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Bank indebtedness <i>[note 6]</i>	4,782,491	1,966,658
Accounts payable and accrued liabilities	7,226,666	11,376,336
Income taxes payable	---	46,710
	12,009,157	13,389,704
<b>Future income tax liabilities</b> <i>[note 8]</i>	1,781,959	3,667,330
<b>Other long-term liabilities</b> <i>[notes 4 and 8]</i>	1,133,686	---
<b>Commitments and contingencies</b> <i>[notes 6 and 12]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 7]</i>	8,369,935	8,369,935
Retained earnings	3,341,074	5,752,807
	11,711,009	14,122,742
	26,635,811	31,179,776

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Director



Director

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME AND RETAINED EARNINGS**

<i>Years ended December 31</i>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b> <i>[note 11]</i>	<b>65,201,521</b>	89,031,355
<b>Direct expenses</b>	<b>56,248,559</b>	69,854,936
<b>Gross margin</b>	<b>8,952,962</b>	19,176,419
<b>Other expenses:</b>		
General and administrative	<b>3,680,337</b>	4,830,645
Impairment on property and equipment <i>[note 2]</i>	<b>2,843,060</b>	---
Amortization of property and equipment and intangibles	<b>3,148,547</b>	3,185,398
Interest on bank indebtedness	<b>310,650</b>	223,966
Gain on disposal of property and equipment	<b>(26,154)</b>	(100,525)
	<b>9,956,440</b>	8,139,484
<b>Income (loss) from operations before income taxes</b>	<b>(1,003,478)</b>	11,036,935
<b>Income taxes</b> <i>[note 8]</i>		
Current tax expense	<b>1,134,436</b>	6,740
Future tax expense (recovery)	<b>(2,403,179)</b>	3,361,720
Net income tax expense (recovery)	<b>(1,268,743)</b>	3,368,460
<b>Net income and comprehensive income for the year</b>	<b>265,265</b>	7,668,475
<b>Retained earnings, beginning of year</b>	<b>5,752,807</b>	3,436,889
<b>Dividends</b> <i>[note 7]</i>	<b>(2,676,998)</b>	(5,352,557)
<b>Retained earnings, end of year</b>	<b>3,341,074</b>	5,752,807
<b>Per share amounts</b> <i>[note 7b]</i>		
Basic	<b>0.05</b>	1.38
Diluted	<b>0.05</b>	1.37

*See accompanying notes to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	2007	2006
	\$	\$
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>Operating activities:</b>		
Net income from operations	265,265	7,668,475
Items not involving cash:		
Amortization of property and equipment and intangibles	3,148,547	3,185,398
Future income taxes	(751,685)	3,361,720
Gain on disposal of property and equipment	(26,154)	(100,525)
Impairment on property and equipment <i>[note 2]</i>	2,843,060	---
Funds from operations	5,479,033	14,115,068
Net change in non-cash working capital <i>[note 10]</i>	(2,032,678)	(4,091,820)
	<b>3,446,355</b>	<b>10,023,248</b>
<b>Financing activities:</b>		
Increase in bank indebtedness	2,815,833	95,260
Issuance of shares <i>[note 7]</i>	---	20,000
Dividends	(2,676,998)	(5,352,557)
	<b>138,835</b>	<b>(5,237,297)</b>
<b>Investing activities:</b>		
Purchase of property and equipment	(3,628,039)	(3,277,154)
Proceeds on sale of property and equipment	288,675	159,452
Business acquisition <i>[note 5]</i>	---	(1,300,000)
Net change in non-cash working capital <i>[note 10]</i>	(245,826)	(368,249)
	<b>(3,585,190)</b>	<b>(4,785,951)</b>
<b>Change in cash and cash equivalents</b>	<b>---</b>	<b>---</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>---</b>	<b>---</b>
<b>Cash and cash equivalents, end of year</b>	<b>---</b>	<b>---</b>

See accompanying notes to the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

---

### 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

Inventory of supplies is 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; upon completion, viable projects are amortized 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 Statements of Operations.

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

Impairment on property and equipment is reviewed on an annual basis.

**Intangibles**

Intangible assets relate to acquired customer relationships and non-competition agreements. These amounts are amortized on a straight-line basis over five years. The remaining useful life and the amortization method on intangibles is reviewed on an annual basis.

**Revenue recognition**

Revenue on contracts is recognized at the time the services are provided and collectibility is reasonably assured.

**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 the financial reporting and income tax bases 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 general and administrative expense.

**Earnings (loss) per share**

The Company utilizes the treasury stock method in the determination of diluted 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 year.

**Measurement uncertainty**

As a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with Canadian 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 at the date of the consolidated financial statements. 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 materially 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 7), 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 grant using the Black-Scholes Option Pricing Model.

## Financial Instruments

As required on January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to Accounting Changes (Section 1506), Comprehensive Income (Section 1530), Financial Instruments - Recognition and Measurement (Section 3855), Financial Instruments – Disclosure and Presentation (Section 3861), and Hedges (Section 3865). The adoption of these recommendations did not require any retroactive adjustments to the consolidated financial statements. These new sections outline prescribed guidelines for recognition, measurement, presentation and disclosure of these items. A review of all of the quarters of 2007 did not result in the identification of any items that would affect comprehensive income. The Company has adopted these measures and procedures to review, record and disclose these items where required and as defined in these new sections of the CICA Handbook, including disclosure and effect of accounting standards that have been pronounced but not yet implemented. The Company is aware of the pronouncements (but not yet implemented) on Going Concern (Section 1400), Inventories (Section 3031), Capital Disclosures (Section 1535) and Financial Instruments (Section 1562), but have not yet assessed their impact on the consolidated financial statements.

## 2. PROPERTY AND EQUIPMENT

	Cost	2007 Accumulated Amortization	Net Book Value
Automotive and tracked vehicles	\$7,585,290	\$4,737,938	\$2,847,352
Equipment and tools	5,829,667	3,852,531	1,977,136
Tractors and heavy equipment	4,136,484	3,018,318	1,118,166
Office and computer equipment and software	3,028,167	2,222,883	805,284
Seismic drills and accessories	4,044,686	3,521,242	523,444
Buildings and leasehold improvements	2,465,643	611,124	1,854,519
Land	178,000	---	178,000
	<b>\$27,267,937</b>	<b>\$17,964,036</b>	<b>\$9,303,901</b>

	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
	<b>\$28,277,913</b>	<b>\$16,410,643</b>	<b>\$11,867,270</b>

A total of \$2.8 million was considered an impairment in the cumulative value of the development costs incurred to the end of Q3'07 and was consequently written off. These costs were related to the development of the navigation, positioning and asset management technology (Kodiak Nav Solutions) and were comprised primarily of capitalized salaries and expenses. There is still perceived value in the hard assets which are expected to provide benefit for the future and the carrying value of these assets is approximately \$0.3 million.

## 3. INTANGIBLES

Intangibles of \$313,599 were acquired as part of the business acquisition (note 5) and are being amortized over a five year period. The value was attributed to the customer relationships and non-competition agreements that existed. In 2007 \$62,720 was amortized compared to \$10,453 in 2006.

#### 4. CORPORATE REORGANIZATION

In January 2007 the Company undertook 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 remains unchanged.

As part of this reorganization the Company incurred cash expenses of \$0.9 million, all of which has been included as part of general and administrative expenses for 2007. Other current liabilities and other long-term liabilities have arisen from this reorganization and primarily represent possible obligations that may arise in the future relating to the benefits of the reorganization.

#### 5. BUSINESS ACQUISITIONS

##### Advanced Locating Services Inc.

On the 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 Inc. and its related pipeline, 1<sup>st</sup> Call management 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 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
Prepaid expenses	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>\$1,300,000</u>

The results of operations of the Advanced Locating Services Inc. have been included from November 1, 2006.

#### 6. 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 the bank's prime rate plus 0.5%. 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 and as at December 31, 2007 this amount was \$10 million (\$10 million – 2006). As at December 31, 2007, letters of guarantee totaling \$50,000 were outstanding under the operating loan facility (\$80,000 – 2006).

## 7. SHARE CAPITAL

The Company's Board of Directors declared quarterly cash dividends in 2006 and 2007 as follows:

Date declared	Date paid	Amount per share	Aggregate amount
March 5, 2007	March 15, 2007	\$0.24	\$1,338,499
May 11, 2007	June 15, 2007	0.24	1,338,499
		<b>\$0.48</b>	<b>\$2,676,998</b>
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
		<b>\$0.96</b>	<b>\$5,352,557</b>

	#	\$
<b>Authorized</b>		
Unlimited number of common, first preferred and second preferred shares		
<b>Issued - Common shares</b>		
Balance at December 31, 2005	5,575,081	8,349,935
Stock options exercised in 2006	2,000	20,000
Balance at December 31, 2006 and 2007	<b>5,577,081</b>	<b>8,369,935</b>

### (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 income 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 grant using the Black-Scholes Option Pricing Model. No new options have been granted subsequent to January 1, 2003. The compensation expense associated with these options is immaterial and pro forma net income and earnings per share have not been provided.

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

	2007		2006	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price\$
Outstanding at beginning of year	51,000	\$5.97	53,000	\$6.13
Exercised	---	---	(2,000)	10.00
Expired	(21,000)	\$5.29	---	---
Outstanding at end of year	30,000	\$6.45	51,000	\$5.97
Options exercisable at end of year	30,000	\$6.45	51,000	\$5.97

Range of Exercise 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 – 7.00	30,000	\$ 6.45	0.7	30,000	\$ 6.45
<b>2007 total</b>	<b>30,000</b>	<b>\$ 6.45</b>		<b>30,000</b>	<b>\$ 6.45</b>
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	53,000	\$ 5.97		51,000	\$ 5.97

**(b) Earnings per share**

	2007	2006
<b>Basic and diluted per common share amounts:</b>		
Basic	<b>\$0.05</b>	\$1.38
Diluted	<b>\$0.05</b>	\$1.37

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

	2007	2006
Numerators:		
Net income for the year	<b>\$265,265</b>	\$7,668,475
Denominators:		
Number of shares outstanding at beginning of year	<b>\$5,577,081</b>	\$5,575,081
Weighted average number of shares issued during the year	---	167
Weighted average number of shares outstanding for the year – basic	<b>5,577,081</b>	5,575,248
Effect of potentially dilutive “in-the-money” options	<b>2,277</b>	19,355
Weighted average number of shares outstanding for the year – diluted	<b>\$5,579,358</b>	\$5,594,603

In 2007 “in the money” options are 5,500 from which the proceeds received would have redeemed 3,223 shares resulting in a net dilutive effect of 2,277 shares. Excluded from the 2007 diluted earnings per share amounts are 24,500 (2006 – 1,000) “out-of-the money” options, the effect of which was anti-dilutive.

**8. INCOME TAXES**

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

	2007	2006
Corporate tax rate	<b>32.12%</b>	32.49%
Income (loss) from operations before income taxes	<b>\$(1,003,478)</b>	\$11,036,935
Provision for income taxes at combined rate	<b>(322,317)</b>	3,585,900
Increase (decrease) in income taxes from:		
Non-deductible portion of other expense	<b>392,709</b>	70,868
Benefit of previously unrecognized non-capital losses carried forward	<b>(1,323,070)</b>	(288,308)
Other (expense) recovery	<b>(16,065)</b>	---
Net income tax (expense) recovery	<b>\$(1,268,743)</b>	\$3,368,460

### 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:

	<b>2007</b>	2006
Differences between tax base and reported amounts of depreciable assets	<b>\$(674,878)</b>	\$(244,947)
Non-capital loss carry forwards	<b>(419,612)</b>	(1,246,873)
Deferred financing costs and other	<b>139,863</b>	(160,883)
Deferred partnership income	<b>2,218,778</b>	5,320,033
<b>Future tax liability</b>	<b>\$1,264,151</b>	\$3,667,330

As at December 31, 2007 the total future tax liability of \$1.3 million is comprised of \$0.5 million of future income tax assets (US) and \$1.8 million in other long-term liabilities (Canada). The US losses are expected to expire in 2017.

### 9. TRANSACTIONS WITH RELATED PARTIES

During 2007 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 were recorded at the exchange amount. Amounts owing at December 31, 2007 were less than \$0.1 million.

### 10. SUPPLEMENTAL CASH FLOW INFORMATION

	<b>2007</b>	2006
Accounts receivable	<b>\$2,618,046</b>	\$(7,503,904)
Inventory	<b>191,052</b>	(461,009)
Prepaid expenses	<b>(12,984)</b>	31,273
Income taxes receivable	<b>(360,430)</b>	---
Future income tax asset	<b>(517,808)</b>	---
Accounts payable and accrued liabilities	<b>(4,149,670)</b>	3,479,479
Income taxes payable	<b>(46,710)</b>	(5,908)
<b>Net change in non-cash working capital</b>	<b>\$(2,278,504)</b>	\$(4,460,069)
Represented by:		
In operating activities	<b>\$(2,032,678)</b>	\$(4,091,820)
In investing activities	<b>(245,826)</b>	(368,249)
	<b>\$(2,278,504)</b>	\$(4,460,069)
Supplemental information:		
Cash interest paid	<b>\$290,718</b>	\$212,172
Cash taxes paid	<b>\$26,009</b>	\$6,226

## 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 74% of trade accounts receivable at December 31, 2007 (76% at December 31, 2006) are represented by one customer (1 - 2006). Approximately 63% of revenues for 2007 (71% - 2006) were represented by sales to one customer. The Company 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 the Company as their sub-contractor of choice when contracting with the Company's customer. Approximately 84% of trade accounts receivable at December 31, 2007 was less than 60 days old (47% 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 future minimum annual payments required under operating lease commitments for premises, vehicles and equipment are as follows:

2008	\$1,473,130
2009	1,201,067
2010	1,104,638
2011	723,149
2012	672,654
2013 - 2017	3,021,275
	<u>\$8,195,913</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 of 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 recorded in these consolidated financial statements.

### 13. GEOGRAPHIC SEGMENTS

Year ended/ as at	Revenue		Property and Equipment	
	31-Dec-07	31-Dec-06	31-Dec-07	31-Dec-06
Canada	<b>\$53,330,157</b>	\$83,182,884	<b>\$8,952,096</b>	\$11,401,658
United States	<b>11,871,364</b>	5,848,471	<b>351,805</b>	465,612
Total	<b>\$65,201,521</b>	\$89,031,355	<b>\$9,303,901</b>	\$11,867,270

### 14. COMPARATIVE FIGURES

Certain of the comparative year figures have been reclassified to conform to the current year's 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 and Independent Businessman*  
*Canmore, Alberta*

Nathan S. Feldman, C.A.  
*President, N.S. Feldman & Associates*  
*Calgary, Alberta*

David M. McGoey, C.A.  
*Chief Financial Officer, Matco Capital Ltd.*  
*Calgary, Alberta*

James Rathwell  
*Sr. Vice President and COO, Well Service Division,*  
*Trinidad Energy Services 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, Wolf Survey & Advanced Locating*

Warren Plue  
*Vice-President, Kodiak Nav Solutions*

Pete Scott  
*Vice-President, Drilling and Chief Safety Officer*

Murray Leier  
*Vice-President, Line Clearing*

**Corporate Headquarters**

Destiny Resource Services Corp.  
 #300, 444 – 58<sup>th</sup> Avenue S.E.  
 Calgary, Alberta T2H 0P4  
 Telephone: (403) 237-6437  
 Fax: (403) 233-8714  
 E-Mail: [destiny@destiny-resources.com](mailto:destiny@destiny-resources.com)  
 Website: [www.destiny-resources.com](http://www.destiny-resources.com)

**Auditors**

Ernst & Young LLP  
*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 4th Street S.W.  
 Calgary, Alberta T2P 1T1  
 Attention: Stock Transfer Department  
 Telephone (403) 233-2801

**Stock Exchange Listing**

Toronto Stock Exchange  
 Symbol: DSC

**Investor Contact**

Paula Derouin  
 Executive Assistant  
 Telephone: (403) 237-6437  
[pderouin@destiny-resources.com](mailto:pderouin@destiny-resources.com)