



# DESTINY RESOURCE SERVICES CORP.

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## DESTINY RESOURCE SERVICES CORP. ANNOUNCES Q1'09 RESULTS

**CALGARY, ALBERTA**  
**May 11, 2009**

**STOCK EXCHANGE: TSX**  
**SYMBOL: DSC**

Destiny Resource Services Corp. (DSC:T) announced today its 2009 First Quarter results.

Destiny Resource Services Corp. (the "Company") provides Seismic Front-End Services to energy explorers and producers and to seismic acquisition companies in North America. Services provided are seismic line clearing (Destiny Line Clearing); shot-hole drilling (Destiny Drilling; Destiny Drilling USA) and Geospatial Services including survey and mapping (Destiny Survey & Mapping; Destiny Survey & Mapping USA); navigation, positioning and asset management technology (Destiny Navigation Technologies); and locating services (Advanced Locating Services).

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

### FINANCIAL HIGHLIGHTS

	Three Months Ended		Change
	March 31,		
	2009	2008	
<i>(000's, except per share amounts)</i>	\$	\$	%
Revenue	22,715	20,275	12
EBITDA <sup>(1)</sup>	3,890	3,591	8
Per share – basic and diluted	0.70	0.64	9
Net income	1,535	1,930	(20)
Per share – basic and diluted	0.27	0.35	(20)
Weighted average shares outstanding (000s):			
Basic <sup>(2)</sup> and diluted	5,583	5,577	0
	<b>Mar. 31, 2009</b>	<b>Dec. 31, 2008</b>	Change
As at	\$	\$	%
Total assets	33,734	29,527	14
Working capital	6,397	3,486	84
Shareholders' equity	14,600	13,065	12
Book value per share outstanding	2.62	2.34	12

(1) "EBITDA" is provided to assist investors in determining the ability of the Company 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). This measure does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies; however, the Company is consistent in its calculation of EBITDA for each reporting period.

(2) There are 5,582,581 outstanding shares as at May 11, 2009.

## LETTER TO SHAREHOLDERS

Fellow Shareholders,

The continuing challenge of a quarterly report: we look back with perfect clarity; our view forward is clouded by the unknown.

We report today on a strong quarter, particularly in light of the impact the world economic situation is having on prices of oil and gas and the consequent impact on the demand for oil and gas services. Revenue was up 12% compared to Q1'08 and EBITDA per share was up 9% compared to Q1'08. The arcane art of accounting for income taxes detracts from that progress somewhat, moving our calculated tax rate up by a third and leaving us with net income of \$0.31 per share, down 11% from Q1'08. Destiny projects no cash taxes will be paid in 2009. Note the seasonality of our business: the first quarter has historically ranged from 30 to 55% of the year's EBITDA – and the relevant period of history did not include today's economic environment with the dramatic reduction in capital expenditures by exploration & production and by seismic acquisition companies.

With respect to Q1'09, we are overall quite pleased, both with our results and with the progress made in each of our businesses. While there was some benefit in the quarter from winter coming late and pushing some 2008 work into 2009, we believe an element of our success came from our strategy of emphasizing quality, safety and innovation. Generally speaking, larger companies, more focused on quality and safety, are more inclined to fund investments in exploration and future work. A large portion of our revenues in 2009 came, directly or indirectly, from such companies.

Our balance sheet at March 31, 2009 shows a very significant amount of accounts receivable. Shareholders can take comfort in knowing the vast amount of this has been collected (accounts receivable were down to \$4.1 million at May 1, 2009) and we have full expectation of collecting the balance.

Looking forward: For the last few years, a good part of our business outside of the winter season has been aimed at the exploration for natural gas in Alberta and British Columbia. This work appears to have basically disappeared for 2009, the anticipated response by the industry to present and anticipated prices for natural gas in conjunction with costs and fiscal regimes. Compensating somewhat, there is activity in several of the large shale gas areas, particularly in the United States. Destiny believes we are positioned to participate in this market.

With respect to oil, present and anticipated prices appear to be supportive of some level of industry activity for conventional plays – and again we believe in our capacity to share in these opportunities. The real unknown as we look forward is what will be the level of activity in oilsands projects in the winter of 2009-2010. The bulk of our Q1'09 activity was in this area and we are hopeful present indications of a repeat will come to fruition.

As we look to the rest of 2009 and start to anticipate 2010, we are mindful of the cycles and seasonality of our industry. That said, we continue to invest in the productive capacity of our business, including innovation and our technologies. We want to show our commitment to being in business for the long-run and to show our clients our drive to add value when they engage us.

Finally, a large round of applause to the heroes of our Company, the men and women who produce the reported results by their commitment to quality, safety and innovation – as demonstrated every day in the field, in our shops and in our offices.

On behalf of the Board of Directors,



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

Calgary, Alberta  
May 11, 2009

**DESTINY RESOURCE SERVICES CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited)

	March 31, 2009	December 31, 2008
	\$	\$
<b>ASSETS</b> <i>[note 2]</i>		
<b>CURRENT</b>		
Cash	136,159	2,868,546
Accounts receivable <i>[note 11]</i>	17,973,906	10,403,742
Inventory	1,550,943	1,538,866
Prepaid expenses	467,649	649,923
Future income tax assets <i>[note 4]</i>	819,934	478,264
	20,948,591	15,939,341
<b>Property and equipment</b>	11,575,480	12,322,665
<b>Intangibles</b>	815,360	871,040
<b>Goodwill</b>	394,430	394,430
	33,733,861	29,527,476
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	8,408,851	7,272,181
Current portion of long-term debt <i>[note 3]</i>	1,261,300	1,218,000
Other current liabilities <i>[note 4]</i>	4,881,202	3,963,533
	14,551,353	12,453,714
<b>Long-term debt</b> <i>[note 3]</i>	2,522,600	2,740,500
<b>Future income taxes liabilities</b> <i>[note 4]</i>	2,060,373	1,268,663
<b>Commitments and contingencies</b> <i>[notes 2 and 7]</i>		
<b>Shareholders' equity</b>		
Share capital	8,391,935	8,391,935
Retained earnings	6,207,600	4,672,664
	14,599,535	13,064,599
	33,733,861	29,527,476

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31	
	2009	2008
	\$	\$
<i>(unaudited)</i>		
<b>Revenue</b> <i>[note 11]</i>	<b>22,715,168</b>	20,274,969
<b>Direct expenses</b>	<b>17,997,194</b>	16,033,327
<b>Gross margin</b>	<b>4,717,974</b>	4,241,642
<b>Other expenses:</b>		
General and administrative	858,735	749,002
Amortization of property and equipment and intangibles	917,800	712,711
Net interest expense <i>[note 6]</i>	69,087	134,110
Foreign exchange gain	(30,294)	(97,877)
Gain on disposal of property and equipment	---	(3,703)
	<b>1,815,328</b>	1,494,243
<b>Income from operations before income taxes</b>	<b>2,902,646</b>	2,747,399
<b>Income taxes</b> <i>[note 4]</i>		
Current tax expense	917,670	262,865
Future tax expense	450,040	554,123
Net income tax expense	<b>1,367,710</b>	816,988
<b>Net income and comprehensive income for the period</b>	<b>1,534,936</b>	1,930,411
<b>Retained earnings, beginning of period</b>	<b>4,672,664</b>	3,341,074
<b>Retained earnings, end of period</b>	<b>6,207,600</b>	5,271,485
<b>Per share amounts</b> <i>[note 5]</i>		
Basic and diluted	<b>0.27</b>	0.35

*See accompanying notes to the consolidated financial statements.*

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

	Three Months Ended March 31	
<i>(unaudited)</i>	2009	2008
	\$	\$
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>Operating activities:</b>		
Net income	1,534,936	1,930,411
Items not involving cash:		
Amortization of property and equipment and intangibles	917,800	712,711
Net income tax expense	1,367,710	816,988
Gain on disposal of property and equipment	---	(3,703)
Foreign exchange gain	(30,294)	(97,877)
Cash flows from operating activities	3,790,152	3,358,530
Net change in non-cash working capital <i>[note 8]</i>	(6,240,299)	(5,683,701)
	(2,450,147)	(2,325,171)
<b>Financing activities:</b>		
Net change in demand bank loan	---	(1,654,429)
Draw on long-term debt	---	4,092,600
Unrealized foreign exchange gain on long-term debt principal	138,742	---
Repayments on long-term debt	(313,342)	---
	(174,600)	2,438,171
<b>Investing activities:</b>		
Purchase of property and equipment	(114,936)	(236,883)
Proceeds on sale of property and equipment	---	19,800
Net change in non-cash working capital <i>[note 8]</i>	(22,998)	6,206
	(137,934)	(210,877)
<b>Foreign exchange gain on net assets held in foreign currency</b>	<b>30,294</b>	<b>97,877</b>
<b>Net change in cash and cash equivalents</b>	<b>(2,732,387)</b>	<b>---</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,868,546</b>	<b>---</b>
<b>Cash and cash equivalents, end of period</b>	<b>136,159</b>	<b>---</b>

*See accompanying notes to the consolidated financial statements.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR Q1'09

The following discussion and analysis of financial results for the three months ended March 31, 2009 ("Q1'09") and March 31, 2008 ("Q1'08") is based on information available until May 11, 2009 (unless otherwise noted) and upon the Company's unaudited consolidated interim financial statements for the periods presented, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and should be read in conjunction with the Company's audited consolidated financial statements and Annual Report for the prior fiscal year ended December 31, 2008.

Certain statements included in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking statements involving known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe" and "plan". These statements reflect management's current expectations regarding future events and operating performance and are valid only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties, including the impact of general economic conditions, industry conditions, changes in laws and regulations, increased competition, fluctuations in commodity prices and foreign exchange, and interest rates and stock market volatility. The Company does not reconcile past forward-looking information but presents its most current view based on the known facts on hand at the time of dissemination. Specifically the outlook section may contain forward-looking information which will be identified as such.

*Non-GAAP Measurements:* The MD&A contains the terms Earnings Before Interest, Taxes and Depreciation and Amortization ("EBITDA") and Gross Margin 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 gross margin and EBITDA may not be comparable to that reported by other companies. Gross margin is calculated from the consolidated statements of operations and is defined as revenue less direct expenses. EBITDA is calculated from the consolidated statements of operations as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). The Company calculates EBITDA consistently each quarter and evaluates its performance based on this metric. The Company considers EBITDA to be a key measure as it demonstrates the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment. The calculation for gross margin and EBITDA are presented below:

	Three Months Ended March 31,	
	2009	2008
	\$	\$
Revenue	22,715,168	20,274,969
Direct expenses	17,997,194	16,033,327
<b>Gross margin</b>	<b>4,717,974</b>	4,241,642
Less general and administrative	858,735	749,002
Foreign exchange	(30,294)	(97,877)
<b>EBITDA</b>	<b>3,889,533</b>	3,590,517

### REVENUE

Revenue for Q1'09 at \$22.7 million, increased by 12% from \$20.3 million in Q1'08. The late start of the winter programs in Q4'08 resulted in work being pushed forward into Q1'09. The majority of the work in Q1'09 was conducted on larger programs for major clients. Equipment utilization was at the maximum during this time.

One client exceeded 10% of gross revenues for both Q1'09 and Q1'08 and represented in aggregate approximately 83% of current quarter revenues (52% in 2008).

### GROSS MARGIN

Gross margin for Q1'09 was approximately \$4.7 million, representing 20.8% of revenues, a \$0.5 million gain over the \$4.2 million, representing 20.9% of revenues, over the same period last year. Gross margins are dependent on competitive factors and the service mix over time.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the costs associated with the corporate head office, the lease of the Survey & Mapping division's shop and office, profit sharing and the corporate reorganization. For Q1'09 these expenses were \$0.9 million compared to \$0.7 million in Q1'08. Profit sharing accruals for Q1'09 were \$0.1 million higher than in Q1'08. Changes in the profit sharing plan commencing in 2009 reduced the earnings threshold for members to earn awards. The Company believes that a lower threshold for eligibility combined with a maximum level for each member represents a good balance of long-term incentive for the employee and the maximization of Shareholder returns. (Refer to 2008 Management Information Circular for additional information)

The profit sharing plans align the Company's incentive compensation for key employees with the interests of shareholders. The plans, which replaced bonuses and the grant of stock options, are intended to have the participating employees more focused on the Company's bottom line performance and to enable the Company to retain and attract operating and executive management in a competitive environment. Awards from the plans are made one-half in cash and one-half in shares, which are purchased in the market.

### AMORTIZATION OF PROPERTY AND EQUIPMENT

Amortization expense at \$0.9 million for Q1'09 was more than the \$0.7 million for Q1'08. The acquisition of business assets that occurred in April 2008 were included in Q1'09. Total net book value of property and equipment was \$11.6 million at the end of Q1'09.

### NET INTEREST EXPENSE

Total net interest expense of \$0.1 million for Q1'09 was very close to \$0.1 million for Q1'08. Net interest expense arises from the Canadian demand bank loan, US long-term debt and is netted against interest income on cash balances.

### INCOME TAXES

Management has used the benefits achieved through the corporate reorganization completed in Q1'07 against the other liabilities on the consolidated balance sheets. Part of this reorganization involved the opportunity for the Company to utilize potential tax losses that were not available prior to this reorganization. The ability of the Company to utilize these losses was not sufficiently certain to eliminate the recording of the liability. The income taxes that would otherwise be payable are therefore being shown as other liabilities. It is anticipated that this liability will remain current until its expiry in 2012 and that it will not require settlement in cash. Management uses estimates when calculating future income tax timing differences and when actual returns are filed this can cause "true-ups" in prior estimates to occur. At the point in time that these realizations occur, adjustments are made to these provisions to reflect this new information on hand.

### SUMMARY OF QUARTERLY RESULTS

<i>(000's, except per share amounts)</i>	<b>Q1 2009</b>	<b>Q4 2008</b>	<b>Q3 2008</b>	<b>Q2 2008</b>	<b>Q1 2008</b>	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>
Total Revenue	<b>22,715</b>	<b>14,384</b>	<b>18,137</b>	<b>12,459</b>	<b>20,275</b>	17,129	19,244	11,633	17,196
Net income (loss) for the period	<b>1,535</b>	<b>212</b>	<b>(393)</b>	<b>83</b>	<b>1,930</b>	129	(2,198)	177	1,657
Basic/diluted earnings per share	<b>0.27</b>	<b>0.04</b>	<b>(0.07)</b>	<b>0.01</b>	<b>0.35</b>	0.02	(0.39)	0.03	0.30
Weighted average number of shares outstanding									
Basic	<b>5,582</b>	<b>5,580</b>	<b>5,583</b>	<b>5,583</b>	<b>5,577</b>	5,577	5,577	5,577	5,577
Diluted	<b>5,582</b>	<b>5,580</b>	<b>5,583</b>	<b>5,583</b>	<b>5,577</b>	5,577	5,580	5,594	5,595

The above noted Summary of Quarterly Results highlights the following:

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

## LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment, the possibility of dividend payments and capital to finance strategic acquisitions. Sources of funds available to meet these capital requirements include cash flow from operations, external lines of credit (bank facility with the ability to draw up to \$15 million at prime plus 0.50%), equipment financing, term loans and access to equity markets. Although there is access to equity markets it is currently very limited for "small cap" companies due to current economic conditions.

Liquidity and capital resources are dependant upon the results of operations, commodity prices, capital expenditures, debt service charges and cash dividends. The Company's balance sheet as at March 31, 2009 shows net working capital of \$6.4 million compared to \$3.5 million at last year end. The Company will be looking at ways to reduce net working capital requirements in the future through its management of trade accounts receivable and trade accounts payable which is expected to provide cash. Despite the risks associated with cash flow relating from changes in commodity prices, reduced revenue volumes and increased operating costs, the Company's balance sheet provides a potential buffer to mitigate some or all of these effects should they occur.

Current economic conditions are creating greater uncertainty in capital markets and with respect to the solvency and liquidity of many companies. The Company has not experienced changes in its operating or credit relationships with clients or suppliers to date and at present does not anticipate changes in current trade or other credit arrangements. (See also the Outlook section.)

### LONG-TERM DEBT

On March 26, 2008 the Company obtained a \$4 million USD capital loan which is secured by certain fixed assets for the purpose of better balancing capital financing with working capital financing and for the business asset acquisition that occurred on April 1, 2008. The term of this facility is for four years and the interest rate is based upon a choice between LIBOR plus 2.50% per annum or the bank's US base rate plus 1% per annum. Expected principal payments over the remaining 3 years are \$1 million USD per year. During Q1'09 a total of \$0.3 million USD was repaid on this loan. The Company's US operations act as a hedge against currency fluctuations.

### WORKING CAPITAL

Net working capital at the end of Q1'09 was \$6.4 million compared to \$3.5 million at the end of 2008. For Q1'09 this included the reduction of \$4.9 million in other current liabilities (\$4 million – December 31, 2008) which is anticipated to remain current and grow until its expiry in 2012 and not require settlement in cash (see Income Taxes section). The Q1'09 calculated ratio is 1.44:1 (1.28:1 at the end of 2008) which is higher than the minimum bank covenant ratio.

For clients representing more than 10% of trade accounts receivable, approximately 79% of trade accounts receivable at March 31, 2009 (63% at March 31, 2008) are with one client (two in 2008). With respect to its largest client, the Company provides services both directly for the client's own account (for the development of seismic data for the client to sell) and indirectly for work for third party exploration and production companies, most of which are substantial oil companies and several of which specify the Company as their sub-contractor of choice when contracting with the Company's client. Approximately 79% of trade accounts receivable at March 31, 2009 were less than 60 days old (57% were less than 30 days old).

### PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2009 was at \$11.6 million which was less than the \$12.3 million at December 31, 2008. Amortization for Q1'09 was \$0.9 million. Purchases net of disposals of \$0.1 million were made over this period and were sustaining expenditures for the operating business.

### COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company's future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no hedging, capital leases or any other "off balance sheet" contractual obligations.

<i>(in \$000's)</i>	<b>Payments Due by Future Year</b>				
	<b>Total</b>	<b>0-1 years</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>After 5 years</b>
Operating Leases	7,196	1,394	2,150	1,486	2,166

The Company, through the performance of its service obligations, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury or operations not considered to be complete. The Company maintains a level of insurance coverage considered appropriate by management for matters for which insurance coverage can be maintained.

In September 2003 a statement of claim was filed against the Company and two other companies seeking payment for damages and loss of income totaling \$10 million. The claim alleges that faulty workmanship (by one of the Company's discontinued operations and two other companies named in the claim) led to significant damage at a major gas plant expansion project.

In September 2004 a subsequent related claim alleging faulty workmanship was filed against the Company and two other companies seeking payment of damages and loss of income totaling approximately \$0.8.

The Company believes that both of the above noted claims are completely without merit, and they have been referred to counsel for the Company's insurance provider and will be vigorously defended. As neither the outcome nor the final amount of the claims can be determined, no provision for loss has been made in these interim consolidated financial statements

#### **SHAREHOLDERS' EQUITY**

Shareholder's equity increased from \$13.1 million at the end of 2008 to \$14.6 million at the end of Q1'09 and can be entirely contributed to Q1'09 net income of \$1.5 million.

As at May 11, 2009, the number of issued and outstanding common shares is 5,582,581. There were no outstanding options as at March 31, 2009.

#### **BUSINESS RISKS**

The Company is subject to the risks and variables inherent in the oilfield services industry. Demand for products and services depend on the exploration, development and production activities of energy companies. These activities are directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be accurately predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels. The risks associated with external competition are minimized by concentrating Company activities in areas where it has demonstrated technical and operational advantages and by employing highly competent professional staff. Environmental standards and regulations are continually becoming more stringent in this industry and the Company is committed to maintaining its high standards. The direction to expand into the US market will create a shift in the geographic makeup of business which will require risks such as foreign exchange to be monitored and mitigated. Business risks are also mitigated by establishing strategic alliances with reputable partners, developing new technologies and methodologies as well as investigating new business opportunities.

Current economic conditions are creating greater uncertainty in capital markets and with respect to the solvency and liquidity of many companies. There is the possibility that the Company may experience solvency and liquidity issues with its clients and suppliers. However at the present time this is not known and there is no expectation of this event occurring based on past experience. At this time the Company has not developed any contingency plans in relation to the possibility of this event.

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. As at March 31, 2009 the Company had a net cash balance of \$0.1 million.

## **OUTLOOK**

Forward-looking information:

Faced with global economic uncertainty, Destiny is focused for 2009 on its competitive strengths, on efficiencies and on preparing for the future. Destiny believes its competitive strengths include its safety record, its methods of operation, its capacity to handle programs of large scale and its record of quality and innovation. Each of these areas is being nurtured, maintained, supplemented and/or promoted, as appropriate. The Company is seeking to drive down costs and to enhance efficiency, always without compromise to quality or safety. Destiny is investing in research, innovation and creativity, seeking to enhance the services we offer to our clients.

The Company believes it has adequate working capital and debt and equity capital, together with a cost structure that has sufficient flexibility, to be able to adapt to changing market conditions. Given the present state of financial markets and overall liquidity issues, the Company is less certain than in prior years with its access to capital. The Company has a contractually committed term and operating loan and has no reason to believe that it cannot draw on these available credit lines when required.

Destiny's Management and Board of Directors concluded a strategic planning process in Q4'08 which highlighted the Company's strengths and growth opportunities, both organic and through acquisition. The Company's present view is its strategic goals are achievable, though likely set back in time by virtue of the overall economy. Implicit in these goals is utilizing the depth and experience of Destiny's Executive Management Team and its Operations Team – both, we believe, the best in our industry. Likewise we believe the positioning of our Company at the quality and safety focused end of our industry bodes well for the long-term.

The Company's present view is the overall demand for its services in 2009 will be similar to 2008 however the risk exists that its overall revenues may decline from the levels achieved in 2008. Destiny does envisage a geographic shift, with less work in Canada through the second and third quarters with a corresponding increase in the United States.

## **INTERNAL DISCLOSURE CONTROLS**

As at December 31, 2008, the Company identified a material weakness in its internal control over financial reporting because it did not maintain effective controls over the accounting for income taxes, including the determination and reporting of future income tax assets and liabilities and related income tax provisions. Specifically, the Company did not have adequate personnel to enable it to properly consider and apply generally accepted accounting principles for income taxes, review and monitor the accuracy and completeness of the components of the income tax provision calculations and the related future income taxes and to ensure that the rationale for certain tax positions was appropriate.

During 2008, delinquent tax returns were completed for 2006 and 2007, which resulted in a difference between non-capital loss carry forwards between Canadian tax authority and Company records. The result of this was a \$0.5 million shortfall in the 2007 year end provision accruals and related tax expenses, which required a correction with 2007 comparatives.

The Company has taken several steps to remediate the deficiency, including ensuring that all tax filings are up to date and engaging a tax consultant to assist with accounting for income taxes. However, until this remediation has been adequately tested later this year, this material weakness could result in a material misstatement in the tax-related accounts described above that would not be prevented or detected.

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

## **ACCOUNTING PRONOUNCEMENTS**

### **Current**

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets". The new section is effective on January 1, 2009. This new guidance requires recognizing all goodwill and intangible assets in accordance with CICA Section 1000, "Financial Statement Concepts". Section 3064 eliminates the current practice of recognizing items as assets that do not meet the Section 1000 definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has adopted this proactively without retroactive adjustment.

### **Future**

In December 2008, the CICA issued Section 1582 "Business Combinations", which will replace CICA Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in the earnings, unlike the current requirement to eliminate it by deducting it from the non-current assets in the purchase price allocation. Section 1582 will be effective for the Company on January 1, 2011 with prospective application.

In December 2008, the CICA issued Sections 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will be effective for the Company on January 1, 2011.

Effective January 1, 2011 the Company is required to comply with International Financial Reporting Standards (IFRS). As such the Company will assess the requirements and impact by January 1, 2010 in order to ensure that comparatives for 2010 are in compliance.

### **Capital Disclosures**

The Company's objective with the management of its capital is to allow it to maximize the profitability of its investment in assets and to create long term value and enhance returns for its shareholders. The use of debt financing is based upon the Company's overall capital structure which is determined by considering industry norms and risks associated with its business activities. The Company wishes to maintain a target debt to equity ratio of less than 2:1 which is below the defined maximum under its current banking covenant requirement (2.5:1) in order to allow it to maintain access to this type of financing at a reasonable cost.

Debt is comprised of bank indebtedness, accounts payable, and all components of long-term debt. Equity is defined as total shareholders' equity less intangible assets and goodwill. As at March 31, 2009, this calculated debt to equity ratio is 0.91:1 compared to 0.95:1 at last year end and was well below the maximum covenant requirement.

### **Financial Instruments**

#### **Fair Value of Financial Instruments**

The Company's use of financial instruments at present is limited to working capital components and term debt financing for some capital expenditures.

The Company has financial instruments consisting of accounts receivable, demand bank loan, accounts payable and long-term debt.

The fair value of the Company's financial assets and liabilities:

<i>(in \$000s)</i>	<b>March 31, 2009</b>		December 31, 2008	
	<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
<b>Financial Assets</b>				
<i>Loans and receivables:</i>				
Trade accounts receivable	<b>17,438</b>	<b>17,438</b>	9,403	9,403
<b>Total</b>	<b>17,438</b>	<b>17,438</b>	9,403	9,403
<b>Financial Liabilities</b>				
<i>Other financial liabilities:</i>				
Trade accounts payable	<b>2,317</b>	<b>2,317</b>	2,245	2,245
Current portion of long-term debt	<b>1,261</b>	<b>1,261</b>	1,218	1,218
Long-term debt	<b>2,523</b>	<b>2,523</b>	2,741	2,741
<b>Total</b>	<b>6,101</b>	<b>6,101</b>	6,204	6,204

### Market Risk on Financial Instruments

The Company is exposed to market risk and potential loss from changes in the values of financial instruments. The Company currently does not hedge against fluctuations in commodity prices, interest rates or foreign exchange rates. However, with the recent establishment of the long-term debt facility and with the expectation of increased business in the US, the Company will continue to monitor the appropriate potential benefit of hedging activities in the future.

### Sensitivity Analysis

The following table illustrates potential effects of changes in relevant risk variables on the Company's net income for the three months ended March 31, 2009.

	<b>Increase or Decrease</b>	<b>Increase or Decrease in Net Income</b> <i>(in \$000s)</i>
Interest rate	+25 BPS / -25 BPS	-14 / +14
Foreign exchange	+\$0.05 / -\$0.05	-100 / +100

### 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.

One client exceeded 10% of gross revenues for Q1'09 and represented in aggregate approximately 83% of current quarter revenues. Over the same period last year there was one client with more than 10% of revenue, representing approximately 52% of the quarter's revenue.

Approximately 79% of trade accounts receivable at March 31, 2009 (63% at March 31, 2008) is with one client (two in 2008). With respect to its largest client, the Company provides services both directly for the client's own account (for the development of seismic data for the client to sell) and indirectly for work for third party exploration and production companies, most of which are substantial oil companies and several of which specify the Company as their sub-contractor of choice when contracting with the Company's client. Approximately 79% of trade accounts receivable at March 31, 2009 were less than 60 days old (57% were less than 30 days old).

### Foreign Exchange Risk on Financial Instruments

Foreign exchange gains and losses are realized on net US working capital and long-term debt and on US denominated revenues and expenses. Gains and losses for US denominated revenues and expenses are translated into gross margin. Gains and losses on the net US working capital and long-term debt are reflected in other expenses as foreign exchange gain (loss).

**Liquidity Risk on Financial Instruments**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages this risk through its extensive budgeting and monitoring process to ensure it has sufficient cash and credit facilities to meet its obligations. The Company's objective is to maintain its current capital structure to ensure it has access to debt and equity funding as required (see Note 10). The primary risks that could affect the Company's cash flow are: (i) a significant drop in the price of crude oil or natural gas, (ii) a significant reduction in the volume of business from its most significant client, (iii) a significant increase in operating costs, or (iv) changes in bank lending practices. Although the Company has approximately \$3.8 million of long-term debt it has a cash balance of \$0.1 million as at March 31, 2009. The Company has the ability to draw on the demand bank loan up to a maximum of \$12.1 million as calculated based on eligible receivables at that point in time.

At March 31, 2009, the Company's contractual maturities relate to long-term debt and expected principal payments are \$0.8 million USD for the balance of 2009, \$1 million USD in each of 2010 and 2011 and \$0.3 million USD in 2012.

**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. This expired on November 12, 2008 and there were no purchases made on this bid. On December 12, 2008, 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 279,129 of its common shares, representing approximately 5% of its outstanding common shares. The Company currently has 5,582,581 common shares outstanding and its average daily trading volume for the past six months from November 30, 2008 was 3,005 common shares. The purchases, which may commence on December 12, 2008, would be made in the open market through the facilities of the TSX, up to a daily maximum of 1,502 common shares until March 31, 2009 to which after this daily maximum becomes 1,000. The normal course issuer bid will remain in effect until the earlier of December 11, 2009 or until the Company has purchased the maximum number of common shares permitted. As of March 9, 2009 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.