DESTINY RESOURCE SERVICES CORP.

2009 MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2009

2009 ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2009 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

The following discussion and analysis of financial results for the year ended December 31, 2009 is based on information available until February 25, 2010 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") 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 evaluates its performance based on EBITDA. 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 December 31,		Year Ended December 31,		
	2009	2008	**2009**	2008	2007
	$	$	**$**	$	$
Revenue	**8,431,919**	14,384,247	**60,775,868**	65,254,895	65,201,521
Direct expenses	**6,957,120**	11,226,309	**50,584,804**	55,601,213	56,248,559
Gross margin	**1,474,799**	3,157,938	**10,191,064**	9,653,682	8,952,962
Less general and administrative	**966,975**	1,029,588	**3,357,159**	2,496,939	3,469,707
Foreign exchange	**(46,832)**	(714,196)	**(60,153)**	(820,429)	210,630
EBITDA	**554,656**	2,842,546	**6,894,058**	7,977,172	5,272,625

OVERALL PERFORMANCE

Total revenues for 2009 at $60.8 million decreased from $65.3 million over the same period last year.

- Canada - For 2009 continuing depressed commodity prices have reduced the demand for exploration activities which in turn has reduced the Company's overall level of work in this geographic region. The late winter freeze caused delays in the commencement of some regional programs, consequently pushing some revenue into 2010. In Canada, 2009 revenues were $32.3 million compared to $50 million in 2008

- US – Despite the reduction of revenues in Canada this region continues to experience rapid growth. This is due to the increased focus and development of market share that has been occurring over the past two years which has seen revenues grow from $11.9 million in 2007 to $28.5 million for 2009.

Cost control remained a focus for the Company over the year and specific areas of attention was devoted to field costs. An analysis was conducted in 2008 to explore ways to improve efficiencies and maximize the use of consumables. The conclusions of this process identified areas of continuous improvement opportunities which were utlilized during the course of 2009. This allowed the Company to realize an additional 2% of gross margin for 2009 over 2008 which was a great acheivement in light of existing market conditions that increased competitive factors resulting in continued pressure on pricing. Also for 2009 the mix of jobs were fewer in number and larger in size over the 2008 mix which required less overall start-up and demobilization costs.

General and administrative expenses for 2009 were $0.9 million higher than 2008. In 2009 increased compliance costs accounted for $0.3 million of this change. In 2008 there was approximately $0.5 million of non-recurring recoveries related to the review of fuel and commodity taxes paid in prior periods. During 2009 there were workforce attritions that resulted in an overall reduction of personnel to which the Company restructured existing resources to accommodate the same workload without adding any new additional personnel. It is expected that this will result in savings for 2010 and beyond.

Net income for the year was $1.1 million compared to $1.8 million last year. Continued profitability in the current year with last year along with a modest sustaining capital expenditure program and close monitoring of working capital has resulted in a year-end cash balance of $8.3 million. Although the Company will continue to be frugal with cost management for the future it has the ability to explore and evaluate expansion opportunities both organically and through merger and acquisition approaches. Also, the Company has the ability to continue to thrive in the current depressed economic market environment that exists so that it can continue to have choices for the future and the reserves necessary to continue to weather the storm.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's operations for the three months and years ended December 31, 2009 and 2008:

(000's, except per share)	Three months ended December 31		Year ended December 31		
	2009 $	2008 $	**2009 $**	2008 $	2007
Revenue	**8,432**	14,384	**60,776**	65,255	65,202
Gross margin	**1,475**	3,158	**10,191**	9,654	8,953
EBITDA[1]	**555**	2,842	**6,894**	7,977	5,273
Per share – basic and diluted	**0.10**	0.51	**1.23**	1.43	0.95
Net income for the period	**(426)**	212	**1,112**	1,832	(235)
Per share – basic and diluted	**(0.08)**	0.04	**0.21**	0.33	(0.04)
Cash flows from operating activities	**4,920**	4,114	**8,501**	10,787	3,446
Per share – basic	**0.88**	0.74	**1.52**	1.93	0.62
Capital expenditures	**726**	1,954	**2,287**	4,333	3,628
Weighted average number of shares outstanding					
Basic	**5,583**	5,581	**5,583**	5,580	5,577
Diluted	**5,583**	5,581	**5,583**	5,580	5,579
Total assets			**29,570**	29,527	26,636
Working capital			**3,447**	3,486	5,082
Shareholders' equity			**14,176**	13,065	11,211

(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) and foreign exchange. 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 and is presented in the MD&A.

(2) There are 5,582,581 outstanding shares as at February 25, 2010

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2009 ("2009") and December 31, 2008 ("2008") as well as the three months ended December 31, 2009 ("Q4'09") and December 31, 2008 ("Q4'08").

REVENUE

Year to date revenues for 2009 at $60.8 million decreased from the $65.3 million over the same period last year. Revenue for Q4'09 was $8.4 million compared to $14.4 million for Q4'08.

For 2009 continuing depressed commodity prices have reduced the demand for exploration activities in Canada which in turn has reduced the Company's overall level of work in this geographic region. The late winter freeze caused delays in the commencement of some regional programs, consequently pushing some revenue into 2010. This has been offset by increased activity on projects in the US. In Canada, 2009 revenues were $32.3 million compared to $50 million in 2008. In the US, 2009 revenues were $28.5 million compared to $15.7 million in 2008.

Two clients exceeded 10% of gross revenues for 2009 and 2008 and represented in aggregate approximately 77% of year to date revenues (61% in 2008).

GROSS MARGIN

Gross margin for 2009 was approximately $10.2 million, representing 16.8% of revenues, a $0.5 million increase over the $9.7 million, representing 14.8% of revenues, over the same period last year. The gain in gross margin is primarily attributed to a fewer number and larger jobs being completed in 2009 over 2008 especially in the US region. This mix of jobs required less overall start-up and demobilization costs.

For Q4'09 gross margin was $1.5 million represented 17.5% of revenues compared to the $3.2 million representing 22% of revenues over the same period last year. All of this work for the quarter came from the Canadian region and with present client spending constraints has increased competitive factors resulting in continued pressure on pricing.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses, which primarily represent the costs associated with the corporate head office, the profit sharing plans and the lease of the survey & mapping division's shop and office, were approximately $3.4 million for 2009 compared to $2.5 million in the same period last year. This represents a difference of approximately $0.9 million. In 2009 the Company utilized consultants to assist with financial compliance (IFRS and CSOX) and tax work (relating to the material weakness) resulting in increased costs of approximately $0.4 million compared to $0.1 million in 2008. In 2008, $0.5 million in non-recurring recoveries was achieved by undertaking a review of fuel and commodity taxes paid in prior periods. Profit-sharing expense recognized for 2009 was $0.5 million and was the same in 2008. For Q4'09 these expenses amounted to $0.9 million compared to $1.2 million over the same period last year which is primarily attributed to the difference in the Q4 profit sharing provision.

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. Subject to approval by the Board of Directors, 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 for 2009 was $3.6 million and was more than the $3.4 million in 2008. The acquisition of business assets that occurred in April 2008 was included in the current year. Total net book value of property and equipment was $11 million at the end of 2009 compared to $12.3 million at last year end.

GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT

The gain on the sale of property and equipment of less than $0.1 million in 2009 was similar to 2008. These gains result from the normal course disposal of property and equipment.

NET INTEREST EXPENSE

Total net interest expense of $0.2 million for 2009 is slightly less than the $0.4 million for 2008. 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

(000's, except per share amounts)	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Total Revenue	**8,432**	**18,262**	**11,367**	**22,715**	14,384	18,137	12,459	20,275
Net income (loss) for the period	**(426)**	**606**	**(604)**	**1,535**	212	(393)	83	1,930
Basic/diluted earnings per share	**(0.08)**	**0.11**	**(0.11)**	**0.27**	0.04	(0.07)	0.01	0.35
Weighted average number of shares outstanding								
Basic	**5,583**	**5,582**	**5,582**	**5,582**	5,580	5,583	5,583	5,577
Diluted	**5,583**	**5,582**	**5,582**	**5,582**	5,580	5,583	5,583	5,577

The above noted Summary of Quarterly Results highlights the following:

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

Revenue by quarter	*(000's)*	**Description of Quarterly Seasonality**
Q4'09	Q4'08	
$8,432	$14,384	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. For 2009 and 2008 the late winter freeze in Canada caused delays in the commencement of these regional programs.
Q3'09	Q3'08	
$18,262	$18,137	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.
Q2'09	Q2'08	
$11,367	$12,459	The second quarter has traditionally been the Company's slowest quarter due to spring break-up. As the ground thaws regulators and landowners prohibit the Company from accessing most work areas until the ground dries out and becomes passable to heavy equipment and vehicles without causing damage to the roads and land. Traditionally the roads reopen towards the end of May. The Company is further restricted from certain areas that protect various wildlife species during their migration and calving seasons which usually extend to the middle of June.
Q1'09	Q1'08	
$22,715	$20,275	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, the possibility of dividend payments and capital to finance strategic acquisitions. Sources of funds available to meet these capital requirements include cash on hand, cash flow from future operations, sale of assets, 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.

The Company's balance sheet as at December 31, 2009 shows net working capital of $3.4 million compared to $3.5 million at last year end. 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 which was used 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, made monthly, over the remaining 2 years and 9 months are $1 million USD, $1 million USD and $0.3 million USD. For the twelve months ended December 31, 2009 a total of $1 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 2009 was $3.4 million compared to $3.5 million at the end of 2008. At the end of 2009 this amount included $8.3 million of cash and also $5.8 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 2009 calculated ratio was 1.25:1 (1.28:1 at the end of 2008) which is higher than the minimum bank covenant ratio.

Approximately 73% of trade accounts receivable at December 31, 2009 (72% at December 31, 2008) is with three clients. 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 75% of trade accounts receivable at December 31, 2009 were less than 60 days old (52% were less than 30 days old).

PROPERTY AND EQUIPMENT

Property and equipment at $11.0 million at the end of 2009 decreased by $1.3 million from $12.3 million at last year end. Purchases net of disposals of approximately $2.0 million ($4.1 million in 2008) were made over these periods and were sustaining expenditures for the operating business. Amortization related to tangible capital assets was approximately $3.3 million in 2009 compared to $3.3 million in 2008.

INTANGIBLES AND GOODWILL

Intangibles and goodwill came from the acquisition of MP Brett Holding Ltd. in October 2006 and the business assets of All-Terrain Industries Inc. in April 2008. The intangible assets are amortizing over a 5 year period. An impairment assessment of goodwill was conducted at the end of 2009 with the conclusion that no impairment existed at that time. Intangibles at the end of 2009 were $0.6 million compared to $0.9 million at the end of 2008. Goodwill at the end of 2009 was $0.4 million.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2009

As at December 31, 2009 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.

(in $000s)	Payments Due by Future Year				
	Total	0-1 Years	2 – 3 Years	4 - 5 Years	After 5 Years
Operating Leases	7,514	1,750	2,435	1,641	1,688

SHAREHOLDERS' EQUITY

Shareholders' equity at the end of 2009 was $14.2 million which increased by $1.1 million (generated net income for the year) from the $13.1 million at the end of 2008.

As at February 25, 2010, the number of issued and outstanding common shares is 5,582,581. Options exercised during 2008 were 5,500 and there were no outstanding options at the end of the year.

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 less than $0.1 million which has been recorded ($0.1 million – 2008) 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 2009 and 2008. 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.

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. The Company may experience solvency and liquidity issues with its clients and suppliers.

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 December 31, 2009 the Company had a net cash balance of $8.3 million.

OUTLOOK

Forward-looking information:

Destiny has positioned its Front-End Seismic Services business to be the premier provider of its services in North America. 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.

The Company's present view is the overall demand for its services in 2010 will be similar to 2009 however the risk exists that its overall revenues may decline from the levels achieved in 2009. Destiny expects the trend of 2009 of a geographic shift, with less work in Canada through the second and third quarters with a corresponding increase in the United States, to continue.

INTERNAL DISCLOSURE CONTROLS

The Executive Chairman & Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of Destiny are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Company.

DC&P is designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at the financial year end. Based on this evaluation, the CEO and CFO have concluded that, subject to the inherent limitations noted below, the Company's DC&P and ICFR are effectively designed and operating as intended.

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. None of these segregation of duty deficiencies has resulted in a misstatement to the financial statements. 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. In particular, the accounting for income taxes is a complex area subject to significant judgment and estimates and detailed understanding of jurisdictional income tax legislation. It is not uncommon for adjustments to arise as new information becomes available. 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.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been 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 Canadian Institute of Chartered Accountants ("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.

In January 2009, the CICA issued EIC 173, "Credit risk and the fair value of financial assets and liabilities". This new guidance requires an entity's own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of financial assets and financial liabilities, for presentation and disclosure purposes.
The Company has adopted the aforementioned guidance and no significant impact on the financial statements was noted.

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 income 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 income, 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 Company's capital consists of shareholders' equity. In its capital structure, the Company considers its share repurchase program (Normal Course Issuer Bid) as a means to achieve its objective. This objective is achieved by prudently managing the capital generated through internal growth, optimizing the use of lower cost capital and raising share capital when required to fund growth initiatives as well as a conservative approach to safe-guarding its consolidated balance sheets.

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 debt to equity ratio of less than 2.5:1 as is the defined maximum under its current banking covenant requirement in order to allow it to maintain access to this type of financing at a reasonable cost. There are no plans to convert or hedge the US debt at this time as cash flows generated from US operations are positive.

Debt is comprised of demand bank loan, accounts payable, and all components of long-term debt. Equity is defined as total shareholders' equity less intangible assets and goodwill. As at December 31, 2009 the calculated debt to equity ratio is 0.59:1 compared to 0.95:1 at the end of 2008 and was within the covenant requirements.

The Company intends to maintain a flexible capital structure that is consistent with the objectives stated above and also to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, raise debt or refinance existing debt with different characteristics.

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, income taxes receivable and long-term debt.

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

(in $000s)	**December 31, 2009**		December 31, 2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Trade accounts receivable	**6,165**	**6,165**	9,403	9,403
Total	**6,165**	**6,165**	9,403	9,403
Financial Liabilities				
Other financial liabilities:				
Trade accounts payable	**1,634**	**1,634**	2,245	2,245
Income taxes payable	**1,709**	**1,709**	---	---
Current portion of long-term debt	**1,051**	**1,051**	1,218	1,218
Long-term debt	**1,314**	**1,314**	2,741	2,741
Total	**5,708**	**5,708**	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 (loss) for the year ended December 31, 2009.

	Increase or Decrease	**Increase or Decrease in Net Income** *(in $000s)*
Interest rate	+25 BPS / -25 BPS	-5 / +5
Foreign exchange	+$0.05 / -$0.05	-121 / +121

Credit Risk on Financial Instruments

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 73% of trade accounts receivable at December 31, 2009 (72% at December 31, 2008) is with three clients. 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 75% of trade accounts receivable at December 31, 2009 were less than 60 days old (52% were less than 30 days old). As at December 31, 2008 approximately 79% of trade accounts receivable were less than 60 days old (57% were less than 30 days old).

In January 2009, the CICA issued EIC 173, "Credit risk and the fair value of financial assets and liabilities". This new guidance requires an entity's own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of financial assets and financial liabilities, for presentation and disclosure purposes.
The Company has adopted the aforementioned guidance and no significant impact on the financial statements was noted.

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 or loss. Over the course of 2009 there was an overall gain of $0.1 million compared to a gain of $0.8 million in 2008 in other expenses.

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 12). 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 $2.4 million of long-term debt it has a cash balance of $8.3 million as at December 31, 2009. The Company has the ability to draw on the demand bank loan up to a maximum of $4.1 million as calculated based on eligible receivables at that point in time.

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

Convergence with International Financial Reporting Standards

In January 2006, the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for all publicly accountable profit-oriented enterprises.

Under IFRS there is significantly more disclosure than currently required under Canadian GAAP. While IFRS uses a conceptual framework, similar to Canadian GAAP, there are significant differences in accounting standards which must be addressed. The Company expects the transition to IFRS to impact the measurement, recognition, and presentation of financial statement balances, internal controls, and information technology systems and processes as well as certain contractual arrangements.

Destiny will continue to present its results for fiscal 2010 using Canadian GAAP. The expected IFRS transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010 and of the amounts reported on the opening IFRS balance sheet as at January 1, 2010.

In the period leading up to January 1, 2011, the ACSB will continue to issue accounting standards that are better aligned to IFRS, thus mitigating the impact of conversion to IFRS. Amendments to existing standards are expected to continue until the transition date of January 1, 2011. Further, the International Accounting Standards Board (IASB) will also continue to issue new, or amend, existing accounting standards during the conversion period, and as a result, the Company continues to assess the financial reporting impacts of adopting IFRS in 2011. The final impact on the Company's consolidated financial statements of applying IFRS in full will only be entirely measurable once all applicable IFRS standards at the final transition date are known. Accordingly, any conclusions drawn at this point in time must be considered preliminary.

Destiny commenced its IFRS conversion project in 2008 and has established a formal project structure which includes the audit committee, senior management and external advisors. The Company's plan to convert from current Canadian GAAP to IFRS consists of four phases as summarized in the table below:

IFRS convergence project phase		Progress
Phase 1: Diagnose the impact of the conversion - Identify key differences and changes required in accounting systems, processes, procedures, policies and internal controls most likely to impact the Company.		Complete
Phase 2: Research and evaluation - Design and develop a detailed plan for implementing required changes in systems, processes, procedures, policies and internal controls, including comprehensive analysis of the impact of the differences identified in phase 1.		A review of significant differences has been completed and a comprehensive implementation plan developed.
Phase 3: Conversion implementation - Execution of required changes identified in phase 2 and documentation of final approved accounting policies and procedures.		To be fully implemented during 2010
Phase 4: Sustainment - Monitor the changes as they are implemented to ensure that the required results are achieved efficiently and effectively.		To be assessed in 2010

This discussion has been prepared using the standards and interpretations currently issued and expected to be effective for Destiny's first annual reporting period under IFRS for the year ended December 31, 2011. As these IFRS standards are amended, and as the Company continues to evaluate the impact of adoption on the processes and accounting policies, Destiny will provide updated disclosure where appropriate.

The Company is progressing through its initial assessment of the impacts of adopting IFRS based on the standards as they currently exist, and have identified the following as having the greatest potential impact on the Company's accounting policies, financial reporting and information systems upon conversion to IFRS.

Impairment of long lived assets, intangibles and goodwill
IAS 36, Impairment of Assets ("IAS 36") uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This also differs from Canadian GAAP which prohibits the reversal of previously recognized impairment losses.

Income Taxes
Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

Unlike Canadian GAAP, IFRS requires applicable tax rates to be based on the expected method of realization, which is either through owning and operating an asset or through sale. Further, IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings.

IAS 12, Income Taxes ("IAS 12") prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside of the statement of earnings.

The most significant impact of IAS 12 on the Company will be derived directly from the accounting policy decisions made under IAS 16. Therefore, the impact on the Company of accounting for the tax consequences of transactions and other events under IFRS versus Canadian GAAP cannot be fully determined at this time pending further review.

Property, plant and equipment
IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment; however, differences in application do exist. For example, capitalization of directly attributable costs in accordance with IAS 16, Property, Plant and Equipment ("IAS 16") may require measurement of an item of property, plant and equipment upon initial recognition to include or exclude certain previously recognized amounts under Canadian GAAP. Specifically, there may be changes in accounting for:

- the amount of capitalized overheads;
- the capitalization of major inspections that were previously expensed under Canadian GAAP;
- the capitalization of depreciation for which the future economic benefits of that asset are absorbed in the production of another asset; and
- the capitalization of borrowing costs in accordance with IAS 23, Borrowing Costs.

IAS 16 also requires an allocation of the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and the depreciation of each such part separately. This method of componentizing property, plant and equipment may result in an increase in the number of component parts that are recorded and depreciated and, as a result, may impact the calculation of depreciation expense. Upon transition to IFRS, an entity has the elective option to reset the cost of its property, plant and equipment based on fair value in accordance with the provisions of IFRS 1, and to use either the cost model or the revaluation model to measure its property, plant and equipment subsequent to transition.

The final extent of the impact of applying IAS 16 by the Company and elective options with respect to accounting for its property, plant and equipment, upon transition to IFRS, cannot be determined at this time pending further review.

IFRS 1, First-Time Adoption of International Financial Reporting Standards
IFRS 1 provides the framework for the first time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS, as of the transition date, on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from other GAAP should be directly recognized in opening retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1 to assist with difficulties associated with reformulating historical accounting information. The general relief mechanism is to allow for prospective, rather than retrospective treatment, under certain conditions as prescribed by IFRS 1. Although no transition choices or elections have been made, the Company is ready to make these choices and elections before the Transition date to IFRS.

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 February 25, 2010 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 – 58th Avenue S.E., Calgary, AB T2H 0P4.