DESTINY RESOURCE SERVICES CORP.

2008 MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2008

2008 ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2008 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

The following discussion and analysis of financial results for the year ended December 31, 2008 is based on information available until March 9, 2009 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,		
	2008	2007	**2008**	2007	2006
	$	$	**$**	$	$
Revenue	**14,384,247**	17,129,014	**65,254,895**	65,201,521	89,031,355
Direct expenses	**11,226,309**	15,181,670	**55,601,213**	56,248,559	69,854,936
Gross margin	**3,157,938**	1,947,344	**9,653,682**	8,952,962	19,176,419
Less general and administrative	**1,029,588**	775,995	**2,496,939**	3,469,707	4,865,261
Foreign exchange	**(714,196)**	21,566	**(820,429)**	210,630	(34,616)
EBITDA	**2,842,546**	1,149,783	**7,977,172**	5,272,625	14,345,774

OVERALL PERFORMANCE

Total revenues for 2008 at $65.3 million were almost the same as the $65.2 million over the same period last year. Total revenues in Canada were $49.6 million in 2008 compared to $53.3 million in 2007. The recent events of the economic crisis and the coincident decrease in oil and gas prices caused a decrease in overall exploration activities which had the direct effect of reducing the Company's overall Canadian revenues by approximately 7%. Total revenue for 2008 in the US increased by $3.8 million or 32% over last year. Although there has been an overall decline in demand for exploration services in North America, the Company has been able to increase its market share in the US. Part of this increase is due to the acquisition of US business assets that occurred during Q2'08.

With its continued focus on cost efficiencies during the year, the Company was able to realize non-recurring benefits of approximately $1.1 million. $0.6 million was realized at the gross margin level due to more efficient operations which allowed for a reduction in total costs for repair and maintenance provisions. $0.5 million was realized in general and administrative expenses which had resulted from a historical review of fuel and commodity taxes. 2007 expenses included a $2.8 million write-down of navigation technologies assets.

Foreign exchange gain/expense changed by approximately $1 million from a $0.2 million expense in 2007 to a $0.8 million gain in 2008. This foreign exchange amount arose from the translation of US net working capital and the US denominated long-term debt. At year end, the net US working capital and long-term debt was in a cash surplus position. During 2008 the exchange was at par and by the end of the year was at 1.22:1 (CAD:USD). The Company does not expect this rate to change drastically for 2009 and therefore at this time is not hedging its foreign currency exposure.

Net income for the year was $1.8 million compared to a net loss of $0.2 million last year, generating earnings per share of $0.33 in 2008 compared to a loss per share of $0.04 for 2007. Cash flows from operations improved by $1.5 million from $5.2 million in 2007 to $6.7 million in 2008. Working capital has reduced from $5.1 million in 2007 to $3.5 million in 2008.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's operations for the three months and years ended December 31, 2008 and 2007:

(000's, except per share)	Three months ended December 31		Year ended December 31		
	2008 $	2007 $	**2008 $**	2007 $	2006
Revenue	**14,384**	17,129	**65,255**	65,202	89,031
Gross margin	**3,158**	1,947	**9,654**	8,953	19,176
EBITDA[1]	**2,842**	1,150	**7,977**	5,273	14,346
Per share – basic and diluted	**0.51**	0.21	**1.43**	0.95	2.57
Net income for the period	**212**	129	**1,832**	(235)	7,668
Per share – basic and diluted	**0.04**	0.02	**0.33**	(0.04)	1.38
Cash flows from operating activities	**1,917**	1,591	**6,746**	5,172	14,115
Per share – basic	**0.34**	0.29	**1.21**	0.93	2.53
Capital expenditures	**1,954**	1,118	**4,333**	3,628	3.277
Weighted average number of shares outstanding					
Basic	**5,581**	5,577	**5,580**	5,577	5,575
Diluted	**5,581**	5,577	**5,580**	5,579	5,595
Total assets			**29,527**	26,636	31,180
Working capital			**3,486**	5,082	5,620
Shareholders' equity			**13,065**	11,211	14,123

(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 March 9, 2009

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2008 ("2008") and December 31, 2007 ("2007") as well as the three months ended December 31, 2008 ("Q4'08") and December 31, 2007 ("Q4'07").

REVENUE

Revenue for 2008 at $65.3 million was almost the same as the $65.2 million in 2007. Revenue for Q4'08 was $14.4 million compared to $17.1 million for Q4'07.

Canadian revenues fell from $53.3 million in 2007 to $49.6 million in 2008. The financial economic crisis that occurred and the coincident drop in oil and gas prices near the end of 2008 caused many large oil companies to greatly reduce their exploration programs. The late winter freeze caused delays in the commencement of some regional programs, consequently pushing some revenue into 2009.

US revenues rose from $11.9 million in 2007 to $15.7 million in 2008. The purchase of US assets that occurred in Q2'08 provided the Company with the capacity to service its gain in market share.

Approximately 61% of revenues for 2008 were represented by sales to two clients (63% - 2007 to one client).

GROSS MARGIN

Gross margin at $9.7 million for 2008 represented 14.8% of revenues compared to gross margin of $9 million or 13.7% of revenues for 2007. This improvement is attributed to approximately $0.6 million in reductions in operating expenses. As the Company focused on improving and optimizing the delivery of its services during the year, efficiencies produced better use of both resources and equipment which resulted in less repairs and maintenance.

For Q4'08, gross margin was $3.2 million or 22% of Q4'08 revenues compared to $1.9 million or 11.4% of Q4'07 revenues. Gross margins are dependent on competitive factors and the service mix over any given period of time.

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 $2.5 million for 2008 compared to $3.5 million in the same period last year. Included in 2007 expenses was $0.9 million relating to the 2007 corporate reorganization. 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 2008 was $0.5 million compared to none in 2007.

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

AMORTIZATION OF PROPERTY AND EQUIPMENT

Amortization expense for 2008 was $3.4 million and was more than the $3.1 million in 2007. The timing of capital expenditures and the business acquisition in April 2008 were the primary causes of the change. Disposals of property and equipment in 2007 resulted from normal course business activities with no specific noteworthy items.

GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT

The gain on the sale of property and equipment of less than $0.1 million in 2008 was similar to 2007. These gains result from the normal course disposal of property and equipment.

NET INTEREST EXPENSE

Total net interest expense of $0.4 million for 2008 is slightly higher than the $0.3 million for 2007. 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 intends to apply 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 2008**	**Q3 2008**	**Q2 2008**	**Q1 2008**	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Total Revenue	**14,384**	**18,137**	**12,459**	**20,275**	17,129	19,244	11,633	17,196
Net income (loss) for the period	**212**	**(393)**	**83**	**1,930**	129	(2,198)	177	1,657
Basic/diluted earnings per share	**0.04**	**(0.07)**	**0.01**	**0.35**	0.02	(0.39)	0.03	0.30
Weighted average number of shares outstanding								
Basic	**5,580**	**5,583**	**5,583**	**5,577**	5,577	5,577	5,577	5,577
Diluted	**5,580**	**5,583**	**5,583**	**5,577**	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.

Revenue by quarter	*(000's)*	**Description of Quarterly Seasonality**
Q4'08	Q4'07	
$14,384	$17,129	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 2008, the late winter freeze in Canada caused delays in the commencement of these regional programs.
Q3'08	Q3'07	
$18,137	$19,244	Ground conditions are normally dry and, as in the first quarter, the Company is permitted access to all of the areas in which the Company operates. The relative strength of this quarter is largely dependent on utilization rates for the Company's six heli-portable drill crews and the number of days lost due to weather conditions. For 2008 there was not the increased client demand for services that had created the opportunity for an extension in the traditional season as in 2007.
Q2'08	Q2'07	
$12,459	$11,633	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.

Q1'08	Q1'07	
$20,275	$17,196	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 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.

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 December 31, 2008 shows net working capital of $3.5 million (including cash of $2.9 million) compared to $5.1 million (including a bank loan of $4.8 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 strong 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 next 4 years are $1 million USD per year. During 2008 a total of $0.8 million USD was repaid on this loan. The Company's US operations act as a hedge against currency fluctuations. The net US dollar amount for working capital and term debt on the balance sheet as at December 31, 2008 was a $2.2 million surplus.

WORKING CAPITAL

Net working capital at the end of 2008 was $3.5 million compared to $5.1 million at the end of 2007. Of this amount $2.9 million is represented in cash and $4 million is other current liabilities, which is anticipated to remain current until its expiry in 2012 and not require settlement in cash (see Income Taxes section). The 2008 calculated ratio is 1.28:1 (1.42:1 at the end of 2007) which is higher than the minimum bank covenant ratio.

IMPAIRMENT ON PROPERTY AND EQUIPMENT

In Q3'07 a total of $2.8 million was considered as impairment in value of the development costs incurred to date and was consequently written off. These costs were related to the development of navigation technologies and comprised primarily of capitalized salaries and expenses.

PROPERTY AND EQUIPMENT

Property and equipment at $12.3 million at the end of 2008 increased by $3 million from $9.3 million at last year end. 2008 net capital expenditures for operations were $4.1 million ($3.3 million in 2007). Capital assets acquired from the business acquisition were $2.2 million. Amortization related to tangible capital assets was $3.3 million in 2008 compared to $3.1 million in 2007. Included in the 2007 year-ended balances was the $2.8 million impairment write-down.

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 2008 with the conclusion that no impairment existed at that time. Intangibles at the end of 2008 were $0.9 million compared to $0.2 million at the end of 2007. Goodwill at the end of 2008 was $0.4 million.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2008

As at December 31, 2007 the Company's future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no other "off balance sheet" contractual obligations.

(in $000s)	Payments Due by Future Year				
	Total	**0-1 Years**	**2 – 3 Years**	**4 - 5 Years**	**After 5 Years**
Operating Leases	7,686	1,566	2,275	1,508	2,337

SHAREHOLDERS' EQUITY

Shareholders' equity at the end of 2008 was $13.1 million which increased by $1.9 million from the $11.2 million at the end of 2007 which all came from generated net income for the year.

As at March 9, 2009, 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.

RELATED PARTIES

During 2007 and 2008 less than $0.1 million was incurred by the Company for field equipment rentals from certain employees. These transactions were in the normal course of operations and were recorded at the exchange amount. Amounts owing at December 31, 2008 were less than $0.1 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. The estimates require significant judgment on the part of management and are considered critical in that they are important to the Company's recording of financial condition and results. Management believes the critical accounting estimates for the Company are as follows:

Property and equipment

Property and equipment is recorded at cost and are amortized over their estimated useful lives. The Company evaluates the carrying value of these assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognizes an impairment charge when it is probable that estimated future cash flows of the underlying assets will be less than the carrying value of the assets.

Judgment is required in determining the useful lives of capital assets and the appropriate method of amortization. Factors considered in estimating the useful lives of capital assets include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time and effectiveness of the Company's maintenance program.

The Company's investment in capital assets results in amortization expense being a significant operating cost to the Company and any misjudgment in estimating the useful life of the equipment could result in a misstatement of financial results.

Allowance for Doubtful Accounts

Accounts receivable is net of an allowance of $0.1 million which has been recorded (less than $0.1 million – 2007) 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 2008 and 2007. 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, 2008 the Company had a net cash balance of $2.9 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.
>
> 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

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. 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.

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. This deficiency resulted in an audit adjustment. The Company has taken several steps to remediate the deficiency including ensuring that all tax filings are up to date and the engagement of a consultant to assist with the determination of accounting tax values at the end of 2008 and on a go forward basis. However until this remediation has been adequately tested this material weakness could result in a misstatement in the tax-related accounts described above that could result in a material misstatement to the Company's annual consolidated financial statements and disclosures that would not be prevented or detected.

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

Effective January 1, 2008 the Company has adopted the new CICA Handbook accounting requirements for Capital Disclosures (Section 1535), Inventories (Section 3031), Financial Instruments - Disclosure (Section 3862) and Financial Instruments – Presentation (Section 3863).

Capital Disclosures

CICA Handbook Section 1535 requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital.

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 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 shareholder's equity less intangible assets and goodwill. As at December 31, 2008 the calculated debt to equity ratio is 0.95:1 compared to 1.31:1 at the end of 2007 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.

Financial Instruments

CICA Handbook Section 3862 (Financial Instruments – Disclosure) and Section 3863 (Financial Instruments – presentation) replace Section 3861 (Financial Instruments – Disclosure and Presentation) effective January 1, 2008 for the Company. Section 3862 requires the disclosure of information to allow the users to evaluate the significance of the financial instruments on the entity's financial position and performance and the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

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, 2008**		December 31, 2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Trade accounts receivable	**9,403**	**9,403**	14,202	14,202
Income tax receivable	**---**	**---**	360	360
Total	**9,403**	**9,403**	14,562	14,562
Financial Liabilities				
Other financial liabilities:				
Demand bank loan	**---**	**---**	4,782	4,782
Trade accounts payable	**2,245**	**2,245**	2,545	2,545
Current portion of long-term debt	**1,218**	**1,218**	---	---
Long-term debt	**2,741**	**2,741**	---	---
Total	**6,204**	**6,204**	7,327	7,327

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, 2008.

	Increase or Decrease	**Increase or Decrease in Net Income** *(in $000s)*
Interest rate	+25 BPS / -25 BPS	-14 / +14
Foreign exchange	+$0.05 / -$0.05	-218 / +218

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 72% of trade accounts receivable at December 31, 2008 (74% at December 31, 2007) is with three clients (one in 2007). 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 December 31, 2008 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. Over the course of 2008 the exchange rate changed significantly (over 20%) which represented an overall gain of $0.8 million compared to a loss of $0.2 million in 2007 in other expenses. At this time the Company does not plan to hedge transactions but will remain vigilant with monitoring exchange rates for the future. If radical fluctuations become apparent, the Company may consider hedging US transactions at that time.

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 14). 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 $4 million of long-term debt it has a cash balance of $2.9 million as at December 31, 2008. The Company has the ability to draw on the demand bank loan up to a maximum of $6.7 million as calculated based on eligible receivables at that point in time.

At December 31, 2008, the Company's contractual maturities relate to long-term debt and expected principal payments are $1 million USD each for 2009, 2010, 2011 with a remainder of $0.2 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 Corporation expects the transition to IFRS to impact the measurement, recognition, and presentation of financial statement balances, internal control, and information technology systems and processes as well as certain contractual arrangements. The extent of these impacts is not reasonably determinable or estimable at this stage in the project.

The Corporation commenced its IFRS conversion project in 2008 and has established a formal project governance structure. Dedicated project staff have been committed to execute this conversion project and an external expert advisor has been engaged.

The project consists of four phases: diagnostic; research and evaluation; conversion implementation; and sustainment. The Company engaged external consultants from Ernst & Young LLP to conduct an initial assessment of the impact of adopting IFRS within the Company. This engagement was conducted in December 2008 to understand, identify and assess the overall effort required to adopt IFRS within the timelines outlined by the AcSB.

The Company plans to adopt IFRS according to the schedule recommended by the AcSB and is still evaluating the options and potential exemptions available upon initial adoption of IFRS. In addition to an increase in the amount of general disclosure involved, based on the work done to date, the Company expects the greatest potential impact of IFRS adoption to be within the following areas:

- Impairment of Long-Lived Assets, Intangibles and Goodwill – IFRS involves a more detailed one-step impairment test than current GAAP, and this test must be applied to individual assets or groups of assets assessed to be Cash Generating Units where there is an indicator of impairment or at least annually. IFRS requires the reversal of impairment write-downs, on assets other than goodwill, where previous adverse circumstances have changed and an impairment test of goodwill must be completed upon transition to IFRS.
- Income Taxes – The recognition and measurement criteria for deferred tax assets and liabilities differs between IFRS and current GAAP. In addition, the recognition and measurement of temporary differences also differs.
- Property, plant and equipment – Under IFRS, each class of property, plant and equipment may be carried on the cost basis or at revalued amounts less depreciation. In addition, the treatment of overhaul and replacement costs and stricter requirements for componentisation is also different under IFRS.

Also expected to require changes, but with potentially lesser impact on existing reporting, are:

- Employee benefits – Under IFRS actuarial valuations must be conducted at the year end date. In addition, there are differences in both the treatment and presentation.
- Foreign Currency – IFRS is more specific regarding the primary factors used to determine the functional currency of each investment within a corporate group and does not distinguish between different types of foreign operations as Canadian GAAP does.
- Financial instruments – Under IFRS, the definition of ‘closely related’ in terms of embedded derivatives differs to that under GAAP. In addition, CGAAP allowed grandfathering of contracts whereas IFRS doesn’t so any contracts will need to be revisited.

The Company will use the results of the initial assessment to further evaluate each of the above areas as well as any new findings (the above list is not necessarily exhaustive) as it proceeds with the next phase of IFRS adoption efforts, while continuing to monitor ongoing changes in both IFRS and GAAP in the period leading up to adoption.

In addition to the above, consideration will be given to IT, project management and internal training.

Finally, the IASB currently has projects underway that are expected to result in new pronouncements before 2011 and, as a result, IFRS as at the transition date is expected to differ from its current form. The Corporation is closely monitoring these developments.

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