



2005 ANNUAL REPORT

FOR THE YEAR-ENDED DECEMBER 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2005 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

The following discussion and analysis of financial results for the year ended December 31, 2005 is based on information available until March 23, 2006 and should be read in conjunction with the Company's consolidated financial statements and related notes contained in this Annual Report.

Certain statements included in this Management's Discussion and Analysis relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known (see "Business Risks") and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Company to be materially different from any future results implied by such forward-looking statements.

Non-GAAP Measurements: The MD&A contains the terms Earnings Before Interest, Taxes and Depreciation and Amortization ("EBITDA"), "cash flow from operations" and "operating cash flow" which should not be considered an alternative to, or more meaningful than "net income" or "cash flow from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Company's financial performance. These terms do not have any standardized meaning as prescribed by GAAP and therefore, the Company's determination of EBITDA, cash flow from operations or operating cash flow may not be comparable to that reported by other companies. EBITDA is calculated from the audited consolidated statement of operations as gross margin less general and administrative expenses. The Company evaluates its performance based on EBITDA and cash flow from operations. The Company considers cash flow from operations and EBITDA to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment.

OVERALL PERFORMANCE

2005 was an excellent year for Destiny. Growth was achieved organically and through acquisition.

Organically, the seismic drilling and survey & mapping divisions recognized exceptional growth in revenues and gross margin. This was mainly attributed to the high quality work that was done and has set each of these divisions as industry leaders in the eyes of clients. Investment into resource expansion combined with an effective education and training program allowed for these divisions to increase capacity in order to service the increased market demand within these businesses. Investment into new capital equipment provided cost savings and increased margins as well as increased capacity for work. The US component of survey & mapping also completed its first year of operations generating a positive contribution to the bottom line.

The acquisition of Kodiak early in the year provided an important step in enhancing the services that are offered to clients. Considerable development of this technology occurred throughout the year and the expectation is that this new emerging technology will continue to provide cost effective solutions to existing clients and also attract additional complimentary business in the future.

Overall revenues increased two-fold over the prior year (\$64.5 million compared to \$33.6 million) and gross margin increased three-fold (\$12.9 million compared to \$4.1 million). Cash flow from operations for 2005 was \$9.5 million (\$2.1 for 2004). A total of \$4.4 million was paid out in cash dividends to shareholders for 2005, which equates to \$0.80 per share. Earnings per share for 2005 were \$1.31 compared to \$0.51 last year.

Working capital at \$0.6 million is lower than the \$2.8 million at the end of 2004. A total of \$7.7 million was paid from cash flows for capital expenditures. Of this \$5.4 million was for expansion (total expansionary capital was \$6.4 million of which \$1 million was funded through equity) and the remaining \$2 million was for sustaining activities. Destiny has already realized gains in revenues and gross margins in the first year of this investment. 2005 YTD dividends paid to shareholders was \$4.4 million.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's continuing operations for the three months and years ended December 31, 2005 and 2004:

<i>(000's, except per share)</i>	Three months ended December 31		Year ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenue	11,844	7,431	64,457	33,630
Gross margin	2,321	419	12,946	4,085
EBITDA	2,118	46	9,652	2,876
Income (loss) from continuing operations	1,842	(421)	7,237	943
Per share – basic and diluted	0.33	(0.19)	1.31	0.36
Income from discontinued operations	N/A	71	N/A	404
Per share – basic and diluted	N/A	0.03	N/A	0.15
Net income (loss) for the period	1,842	(349)	7,237	1,347
Per share – basic and diluted	0.33	(0.15)	1.31	0.51
Capital expenditures	2,854	322	8,677	1,707
Weighted average shares outstanding	5,568	2,664	5,533	2,643
Total assets			21,744	11,391
Shareholders' equity			11,787	7,845
Book value per share outstanding			2.13	2.97

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2005 ("2005") and December 31, 2004 ("2004") as well as the three months ended December 31, 2005 (Q4'05") and December 31, 2004 ("Q4'04").

REVENUE

Revenue for 2005 was at \$64.5 million compared to \$33.6 million in 2004. This represented a 92% increase, which can be attributed to:

- The increase of our heli-portable drilling crew count by 50% allowed for increased capacity to attract increased revenues within the seismic drilling division. In addition, cooperation on timing and flexibility of clients permitted an earlier start and a longer season for 2005 than in previous years.
- Successful marketing and consistent high quality customer service attracted more clients and shaped their view of the survey & mapping division as leaders in this industry. This reputation continues to increase in the market and is expected to contribute positively towards future growth.
- The ability to bundle multiple internal services to a client has created increased revenue opportunities. Clients are now benefiting from using multiple services within the Company that previously would have been provided from different external sources.
- Immediate productive utilization of new capital equipment investment has increased capacity and the ability to generate additional revenues.
- The acquisition of Kodiak in early 2005 has contributed almost a full year of revenue
- The US operation has generated a full year of revenue. This division commenced operations at the end of 2004.

Revenue for Q4'05 was \$11.8 million representing an increase of \$4.4 million from the \$7.4 million for Q4'04. The increased capacity with both resources and capital along with more favourable market conditions allowed Destiny to increase volume during this quarter in 2005 as compared to 2004.

GROSS MARGIN

Gross margin at \$12.9 million for 2005 represented 20% of revenues. For 2004, gross margin was \$4.1 million or 12% of revenues. The overall increase in the 2005 over 2004 gross margin is attributed primarily to the following factors:

- Larger revenues in 2005 compared to 2004.
- Extensive and effective training and education program of field personnel has permitted an increase in the overall knowledge base. This knowledge transfer permitted the new crews to become productive within a relatively short period of time. This minimized the effect of the "learning curve" and hence had a positive impact on costs.
- Improved field efficiencies achieved through decreased use of subcontractors and rental equipment
- The result of the Company's past efforts to alter its cost structure so that variable costs currently make up a larger component of total direct costs than fixed costs.
- Investment and immediate utilization of new capital equipment resulted in lower repair and maintenance costs than in the past with older equipment. This also reduced the reliance on equipment rentals and hence reduced costs in this area.

For Q4'05, gross margin was \$2.3 million or 20% of Q4'05 revenues compared to \$0.4 million or 6% of Q4'04 revenues. Gross margins are dependent on the product mix over a certain period of time. The product mix is dependant on a variety of factors, such as prevailing economic conditions and competition, which will change the product mix and hence the gross margin in any given period. Q4'04 results were negatively impacted by the payment of bonuses to administrative, operations and management personnel which had not been accrued during the year. For 2005, the Company introduced profit sharing plans for its operations and management leadership, the expense for which has been accrued on a monthly basis.

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 \$3.3 million for 2005 compared to \$1.2 million in the same period last year. The 2005 expense of \$1.6 million for the Company's profit sharing plans represented the majority of this increase. The balance of the increase relates to normal course business operations and results from incremental fixed costs due to the higher revenues generated.

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

G&A expense for Q4'05 was \$0.2 million compared to \$0.4 million for Q4'04. In Q4'04 the entire year bonus of \$0.3 million (\$0.2 million in direct expenses and \$0.1 million in G&A) was accrued during this quarter. Profit sharing plan accruals were recognized over all four quarters in 2005.

AMORTIZATION OF PROPERTY & EQUIPMENT

Amortization expense for 2005 was \$2.1 million compared to \$1.2 million in 2004. Approximately \$0.6 million of the total \$0.9 million in incremental amortization expense related to the assets of Kodiak, which were acquired in early 2005. The balance of \$0.3 million resulted from additional capital investment being made to allow the Company to pursue growth opportunities within its current lines of business. Amortization for Q4'05 was at \$0.7 million compared to \$0.3 million over the same period last year.

GAIN ON DISPOSAL OF CAPITAL ASSETS

The Company reported a gain on the sale of capital assets of \$0.1 million in both 2005 and 2004. These gains represent the normal course disposal of capital assets.

INTEREST EXPENSE

Total interest expense decreased from \$0.8 million in 2004 to \$0.2 million in 2005. Interest expense on long-term debt and debentures was \$0.7 million for 2004 compared to none in 2005 as all of these debt facilities had been repaid by the end of 2004. Bank charges, operating loan and other interest expense were \$0.2 million for 2005, which was slightly higher than \$0.1 million for 2004. The large current year capital expenditures, which increased the demand on the operating lines, was offset by the increased profitability of the Company. This resulted in only a minor increase in overall interest expense for 2005. Interest expense for Q4'05 was less than \$0.1 million compared to \$0.2 million in Q4'04.

INCOME TAXES

The Company was not in a taxable position in 2005 or 2004, with minor "capital" taxes and minor income tax expense related to an inactive subsidiary company being the only tax expense recognized in 2004.

The Company has unutilized Canadian non-capital tax loss carry forwards available as at December 31, 2005, the benefit of which has been fully recognized in the consolidated financial statements.

Summary of Quarterly Results

<i>(000's, except per share amounts)</i>	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Total Revenue	11,844	21,216	14,793	16,604	7,430	12,200	1,204	12,796
Income (loss) from continuing operations	1,842	1,325	1,979	2,091	(421)	1,057	(1,437)	1,744
Income (loss) from discontinued operations	---	---	---	---	72	---	332	---
Income (loss) for the period	1,842	1,325	1,979	2,091	(349)	1,057	(1,105)	1,744
Basic & diluted earnings (loss) per share:								
From continuing operations	0.33	0.24	0.36	0.38	(0.16)	0.40	(0.55)	0.66
From discontinued operations	---	---	---	---	0.03	---	0.13	---
For the period	0.33	0.24	0.36	0.38	(0.13)	0.40	(0.42)	0.66
Basic & diluted number of shares outstanding (weighted average)	5,568 5,591	5,554 5,567	5,548 5,571	5,495 5,500	2,664	2,636	2,636	2,636

The Summary of Quarterly Results highlights the fact that the Company's business is seasonal with Q1 and Q3 traditionally being the two strongest quarters and Q2 and Q4 traditionally being the weakest quarters. The underlying causes of the seasonality are the weather and the Company being restricted from entering certain wildlife areas at certain times of the year. Revenue activity for the Company's continuing operations, by fiscal quarter, can be characterized as follows:

Revenue by quarter (000's)		Description of Quarterly Seasonality
Q4'05	Q4'04	
\$11,844	\$7,430	The fourth quarter is traditionally the Company's third busiest quarter. 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. As a result of the increased activity during Q3-05, Q4'05 became the slowest quarter due primarily to lower capacity experienced from holiday season.
Q3'05	Q3'04	
\$21,216	\$12,200	The third quarter is traditionally the Company's second busiest quarter. Ground conditions are normally dry and, as in the first quarter, the Company is permitted access to all of the areas in which the Company operates. The relative strength of this quarter is largely dependent on utilization rates for the Company's six heli-portable drill crews and the number of days lost due to weather conditions. Increased client demand for services, due to increased volumes of work required, has created opportunity for an extension in the traditional season. For 2005 this was the busiest quarter due to the extension of the season as a result of demand from clients.
Q2'05	Q2'04	
\$14,793	\$1,204	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. However, in 2005, there were opportunities to conduct business in some areas without these restrictions. The increased volume of work required by clients in 2005 has created the opportunity for an earlier overall start to the season that in previous years. Increased client demand for services resulted in a longer season and very little impact of the traditional spring break-up for 2005.
Q1'05	Q1'04	
\$16,604	\$12,796	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. It should be noted that an early spring thaw did reduce the amount of revenue that can be generated in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

Destiny's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment and capital to finance strategic acquisitions. Sources of funds to satisfy these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and equity markets.

The Company believes it has adequate cash generating capability, capital resources and access to capital to meet its working capital, capital expenditure and dividend requirements for 2006 and beyond.

WORKING CAPITAL

At December 31, 2005, the Company had a net working capital position of \$0.6 million compared to \$2.8 million at December 31, 2004. Significant components of this \$2.2 million decrease are:

- Cash flow from operations generated a positive increase of \$9.5 million.
- Capital expenditures funded by cash flows from operations were \$7.7 million. These expenditures included the acquisition of Kodiak which occurred early in 2005. The balance of this amount related primarily to expansionary requirements from the growth in activity and market share of operations during the year.
- 2005 YTD dividends paid to shareholders was \$4.4 million.

Net working capital of \$0.6 million at the end of 2005, although in excess of a 1:1 ratio, is tighter than the Company prefers. Capital expenditures through-out the year, other than the acquisition of Kodiak, were financed by cash flow from operations. Some equipment purchases at the end of Q4'05 reduced working capital to the level reported.

Operations in 2006 to date have restored the balance. The Company has available a \$10 million revolving demand bank operating loan facility, which was drawn by \$1.9 million at the end of 2005.

PROPERTY AND EQUIPMENT

The net book value of property and equipment was \$11.5 million at December 31, 2005, an increase of \$6.5 million from \$5.0 million as at December 31, 2004. Amortization for 2005 amounted to \$2.1 million (\$1.2 million in 2004). Total 2005 capital expenditures were \$8.7 million (\$1.7 million in 2004) of which \$7.7 million was paid from cash and the remaining \$1 million was issued in equity for the acquisition of Kodiak assets.

\$6.4 million or 74% of the 2005 capital expenditures related to expansionary investment. Details of this investment are as follows:

- \$2.0 million related to the acquisition of Kodiak (\$1 million in cash and \$1 million in equity). An additional \$1.8 million was invested into additional technology development within this division.
- \$2.6 million was invested in expansionary capital for the other operating entities to purchase additional equipment in order to accommodate growth as a result of increased customer demand for services and increased gain in market share.

The remaining \$2.0 million pertained to sustaining normal course business operations.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2005

As at December 31, 2005 year end the Company's future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no other "off balance sheet" contractual obligations.

	Payments Due by Future Year				
	Total	Less than 1 year	2 - 3 years	4 - 5 Years	After 5 years
Operating Leases	\$ 2,247,000	\$ 743,000	\$ 934,000	\$ 570,000	\$ ---

SHAREHOLDERS' EQUITY

Shareholders' equity increased from \$7.8 million at the end of 2004 to \$11.8 million at the end of 2005. The major components within this \$4 million increase were: generated net income of \$7.2 million, disbursed cash dividends of \$4.4 million, exercise of options provided \$0.2 million and the share consideration of \$1 million issued on the acquisition of Kodiak assets.

As at March 23, 2006, the number of issued and outstanding common shares is 5,575,081 with 53,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan.

CRITICAL ACCOUNTING ESTIMATES

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

Capital Assets

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

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

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

Allowance for Doubtful Accounts

Accounts receivable is net of an allowance of less than \$0.1 million which has been recorded (\$0.1 million – December 31, 2004) in the consolidated financial statements, reflecting the amount of the balance for which collection is considered doubtful. In assessing the ability to collect accounts receivable, management reviews individual customer receivable balances to determine accounts on which collection is not certain. For these accounts, an allowance for doubtful accounts is established. The amount of the allowance is based upon a review of the customer's credit information, past payment practices and overall financial strength of the customer.

Accrued liabilities

Accrued liabilities normally include management's estimates of expected future costs to be incurred arising out of current year operating activity, including costs for repairs and maintenance and project completion.

Inventory

Inventory is net of an obsolescence provision of \$0.1 million for both for 2005 and 2004. 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.

BUSINESS RISKS

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

The risks inherent in the oilfield services industry could impact the Company's ability to meet its financial covenants on its revolving, bank operating loan facility. Accordingly, these inherent risks could cause the Company to become in violation of its covenants on the bank facility, which might result in repayment being demanded. Bank lines were drawn by \$1.9 million as at December 31, 2005 and were well below the maximum allowable limit at that time.

OUTLOOK

The Company believes it has adequate working capital, capitalization and access to capital. Management believes the Company has a cost structure that has sufficient variability as to be able to adapt to the volatility of its industry. The Company has experienced management, at all levels of sales, operations and administration who are motivated to achieve success in both the short- and long-term. The Company provides services principally in connection with the exploration for a commodity, natural gas, that is escalating in value and is plentiful in the areas in which the Company operates.

The Company is encouraged by the indications of demand for its services.

Destiny will continue to review expansion opportunities, both organic and by acquisition. These involve, in each case, the requirement for capital expenditures beyond the normal course for the Company. Destiny may pursue any or all of these opportunities, and others that may present themselves. In doing so the Company may incur term debt, issue equity, retain cash that might otherwise be paid as dividends or any combination of the foregoing.

DISCLOSURE CONTROLS AND PROCEDURES

As defined in Multilateral Instrument 52-109, disclosure controls and procedures require that controls and other procedures be designed to provide reasonable assurance that financial and non-financial information required to be disclosed is duly recorded, processed, summarized, accumulated and communicated to management. It must be disclosed on a timely basis and be in accordance with provincial and territorial securities legislation.

The Company has designed and evaluated the effectiveness of its disclosure controls and procedures, as defined, and has concluded they were effective as of the end of the period covered by this report.