DESTINY RESOURCE SERVICES CORP.

2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2006

2006 ANNUAL REPORT

FOR THE YEAR-ENDED DECEMBER 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2006 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

The following discussion and analysis of financial results for the year ended December 31, 2006 is based on information available until March 5, 2007 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") and "funds from operations" which should not be considered an alternative to, or more meaningful than "net income" or "cash flow from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Company's financial performance. These terms do not have any standardized meaning as prescribed by GAAP and therefore, the Company's determination of EBITDA or funds from operations may not be comparable to that reported by other companies. EBITDA is calculated from the consolidated statements of operations and retained earnings (deficit) as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "net change in non-cash working capital". The Company evaluates its performance based on EBITDA and funds from operations. The Company considers funds from operations and EBITDA to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment.

OVERALL PERFORMANCE

The Company's seismic drilling and survey & mapping divisions recognized significant growth in revenues and gross margin due to enhanced activities and utilization improvement. Increases were also achieved in field margins as this was the second year of an extensive education and training program. The US component of survey & mapping also completed its second year of operations and doubled the previous year's revenue generating a positive contribution to the bottom line.

The acquisition of Advanced Locating Services will allow for vertical integration within the existing survey business and will also permit further expansion and growth opportunities.

Overall revenues increased by over a third from prior year ($89 million compared to $64.5 million) and gross margin increased by 48% ($19.2 million compared to $12.9 million). Annual dividends for 2006 at $5.4 million ($0.96 per share) have increased by almost $1 million from 2005 at $4.4 million ($0.80 per share). Earnings per share for 2006 were $1.38 compared to $1.31 last year. Funds from operations for 2006 was $14.1 million ($9.5 for 2005).

The calculated working capital ratio at 1.42 shows a marked improvement over the 1.06 at the end of 2005. It should be noted that during 2005 significant capital expenditures were incurred through the operating line which had a negative impact on this ratio. During 2006 the combination of profitable operations and a significantly lower level of capital expenditures over last year contributed to a better ratio at the end of this year.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's operations for the three months and years ended December 31, 2006 and 2005:

(000's, except per share)	Three months ended December 31		Year ended December 31	
	2006	2005	**2006**	2005
	$	**$**	**$**	**$**
Revenue	**22,261**	11,844	**89,031**	64,457
Gross margin	**4,691**	2,321	**19,176**	12,946
EBITDA[1]	**3,448**	2,118	**14,346**	9,652
Per share – basic	**0.62**	0.38	**2.57**	1.74
Per share – diluted	**0.62**	0.38	**2.56**	1.74
Net income for the period	**1,982**	1,842	**7,668**	7,237
Per share – basic	**0.36**	0.33	**1.38**	1.31
Per share – diluted	**0.35**	0.33	**1.37**	1.31
Funds from operations[1]	**3,701**	2,087	**14,115**	9,547
Per share – basic	**0.66**	0.38	**2.53**	1.73
Per share – diluted	**0.66**	0.38	**2.52**	1.73
Capital expenditures	**1,232**	2,854	**3,277**	8,677
Weighted average shares outstanding				
Basic	**5,576**	5,568	**5,575**	5,533
Diluted	**5,595**	5,568	**5,595**	5,542
Total assets			**31,180**	21,744
Working capital			**5,620**	601
Shareholders' equity			**14,123**	11,787

(1) "EBITDA" and "funds from operations" are provided to assist investors in determining the ability of Destiny to generate cash from operations. EBITDA is calculated from the consolidated statements of operations and retained earnings as gross margin less general and administrative expenses (not including gain on disposal of property and equipment). Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "net change in non-cash working capital". These measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies; however, Destiny is consistent in its calculation of EBITDA and funds from operations for each reporting period.

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2006 ("2006") and December 31, 2005 ("2005") as well as the three months ended December 31, 2006 ("Q4'06") and December 31, 2005 ("Q4'05").

REVENUE

Revenue for 2006 was at $89 million compared to $64.5 million in 2005. This represented a 38% increase, which can be attributed to:

- Extension of the season from the traditional 4 months to 8 months for the 2006 heli-portable projects, due to client demand.
- The survey business in the US has doubled its revenue over last year.
- Reputation in the industry allows us to expand business with existing clients and attract new clients.

Revenue for Q4'06 was $22.3 million compared to $11.8 million for Q4'05. Increased demand for services in Q3'05 resulted in more work being compressed into that quarter with less available for Q4'05. Also revenues for all four quarters in 2006 were higher than in 2005.

GROSS MARGIN

Gross margin at $19.2 million for 2006 represented 21.6% of revenues compared to gross margin of $12.9 million or 20.2% of revenues for 2005. The overall increase for 2006 over 2005 is due to:

- Larger revenues in 2006 compared to 2005.
- Further efficiencies have translated into better field margins, as we are in the second year of an extensive education and training program.
- The investment of new capital equipment in 2005 resulted in lower repair and maintenance costs for 2006.

For Q4'06, gross margin was $4.7 million or 21.1% of Q4'06 revenues compared to $2.3 million or 19.6% of Q4'05 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. Improvements in the quarter were reflective of the entire year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses, which represent primarily the costs associated with the corporate head office, the profit sharing plans and the lease of the Survey & Mapping division's shop and office, were approximately $4.8 million for 2006 compared to $3.3 million in the same period last year. The 2006 expense of $2.9 million (1.6 million in 2005) for the Company's profit sharing plans represented the majority of this increase. The balance of the increase can be attributed to increased infrastructure costs in response to increased business activities.

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 Q4'06 was $1.2 million compared to $0.2 million for Q4'05. The fourth quarter accrual for profit sharing in 2006 was $0.9 million higher than over the same period last year.

AMORTIZATION OF PROPERTY & EQUIPMENT

Amortization expense for 2006 was $3.2 million compared to $2.1 million in 2005. Amortization is dependant on the timing of additions to property and equipment and intangibles. In 2005 a total of $8.7 million was invested in purchases of property and equipment. These purchases were amortized at the full rate in 2006. Disposals of property and equipment in 2006 resulted from normal course business activities with no specific noteworthy items.

GAIN ON DISPOSAL OF CAPITAL ASSETS

The Company reported a gain on the sale of capital assets of $0.1 million in both 2006 and 2005. These gains represent the normal course disposal of capital assets.

INTEREST EXPENSE

Total interest expense at $0.2 million at the end of 2006 has remained very close to the less than $0.2 million at the end of 2005.

INCOME TAXES

The Company was not in a taxable position in 2006 or 2005, with the exception of a small current tax obligation from the acquired Advanced Locating Services business at the end of 2006. The Company has unutilized Canadian non-capital tax loss carry forwards available as at December 31, 2006, the benefit of which has been fully recognized in the consolidated financial statements.

Summary of Quarterly Results

(000's, except per share amounts)	**Q4 2006**	**Q3 2006**	**Q2 2006**	**Q1 2006**	**Q4 2005**	**Q3 2005**	**Q2 2005**	**Q1 2005**
Total Revenue	**22,261**	23,636	16,934	26,199	11,844	21,216	14,793	16,604
Net income for the period	**1,982**	1,869	504	3,313	1,842	1,325	1,979	2,091
Basic earnings per share	**0.36**	0.34	0.09	0.59	0.33	0.24	0.36	0.38
Diluted earnings per share	**0.35**	0.34	0.09	0.59	0.33	0.24	0.36	0.38
Number of shares outstanding weighted average								
Basic	**5,576**	5,575	5,575	5,575	5,568	5,554	5,548	5,495
Diluted	**5,595**	5,594	5,596	5,596	5,591	5,567	5,571	5,500

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**
Q4'06	**Q4'05**	
$22,261	$11,844	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. In 2005, 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.
Q3'06	**Q3'05**	
$23,636	$21,216	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.
Q2'06	**Q2'05**	
$16,934	$14,793	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.
Q1'06	**Q1'05**	
$26,199	$16,604	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

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 funds from operations, external lines of credit, equipment financing, term loans and equity markets.

The Company believes it has adequate cash generating capability, capital resources and access to capital to meet its working capital, capital expenditure and dividend requirements for 2007 and beyond.

WORKING CAPITAL

At December 31, 2006, the Company had a net working capital position of $5.6 million compared to $0.6 million at December 31, 2005. Significant components within this $5 million increase are:

- Funds from operations generated a positive increase of $14.1 million.
- Capital expenditures funded by funds from operations were $3.3 million.
- 2006 YTD dividends paid to shareholders was $5.4 million.

The calculated working capital ratio at 1.42 shows a marked improvement over the 1.06 at the end of 2005. It should be noted that during 2005 significant capital expenditures were incurred through the operating line which had a negative impact on this ratio. During 2006 the combination of profitable operations and a significantly lower level of capital expenditures over last year contributed to a better ratio at the end of this year.

PROPERTY AND EQUIPMENT

The net book value of property and equipment was $11.9 million at December 31, 2006, an increase of $0.4 million from $11.5 million as at December 31, 2005. Amortization for 2006 amounted to $3.2 million ($2.1 million in 2005). Total 2006 capital expenditures were $3.3 million ($8.7 million in 2005). The remaining $0.3 million was acquired with the purchase of Advanced Locating Services business.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2006

As at December 31, 2006 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	$9,330,529	$1,504,656	$2,320,432	$1,809,771	$3,695,670

Operating lease commitments have increased by approximately $7.1 million over last year end. This increase arises primarily from two components.

1. Vehicles, that were on short-term rental and have been converted to longer-term operating leases, are expected to save approximately 15% in total costs over the life of these leases. This has required an additional commitment of approximately $1.3 million.

2. Premise expansion requirements for the growing businesses have resulted in a further commitment of $5.8 million on these leases.

SHAREHOLDERS' EQUITY

Shareholders’ equity increased by $2.3 million from $11.8 million at the end of 2005 to $14.1 million. The major components of this increase were generated net income of $7.7 million net of disbursed cash dividends of $5.4 million.

As at March 5, 2007, the number of issued and outstanding common shares is 5,577,081 with 51,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company’s stock option plan.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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, 2005) 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 2006 and 2005. Management's assessment of this obsolescence is based upon aging of inventory items and judgment. Discount factors are applied and are dependent on the date of last activity for a particular inventory item and range from 0% to 50%. Management's judgment based on experience and historical trends are used for discount factors of greater than 50% for any particular inventory item.

Income taxes

The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities. Income tax rates used and statutes followed are those currently enacted or substantively enacted) that are expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

Financial Instruments

On January 1, 2007 we prospectively adopted the new Canadian accounting standards for financial instruments, hedges, and comprehensive income. The new rules will require the classification of investment securities as either trading, held to maturity or available for sale. Trading securities will be measured at fair value with gains or losses recorded in income. Available for sale securities will be measured at fair value with gains and losses recorded in a new section of shareholders equity under comprehensive income. There will be no change in accounting for held to maturity securities. At this time we do not expect these standards to have a significant impact in our financial statements upon adoption.

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 $2 million as at December 31, 2006 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.

EVALUATIONS OF DC&P AND ICFR

The President & Chief Executive Officer "(CEO") and Vice-President, Finance & Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

In accordance with the requirements of Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, evaluations of the design and operating effectiveness of disclosure controls and procedures and the design effectiveness of internal control over financial reporting were carried out under their supervision as of the end of the period covered by this report.

Based on these evaluations, the CEO and CFO have concluded that the Company's disclosure controls and procedures are designed and operating effectively to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, are made known to them by others within those entities. They have also concluded that the Company's internal control over financial reporting are designed effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP").

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