



**DESTINY RESOURCE SERVICES CORP.
2005 First Quarter Interim Report
For the Three Months Ended March 31, 2005**

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis of financial results for the three month period ended March 31, 2005 ("Q1'05" and 2004 ("Q1'04") is based on information available until May 10, 2005 (unless otherwise noted) and upon the Company's consolidated financial statements, which were prepared in accordance with Canadian generally accepted accounting principles, and should be read in conjunction with the Company's consolidated financial statements and Annual Report for the year ended December 31, 2004.

Forward-looking Information

Statements in this MD&A relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known (see Business Risks section) 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.

REVENUE

Revenue for Q1'05 was \$16.6 million, a \$3.8 million or 30% increase from the \$12.8 million recorded in Q1'04. Revenues by quarter and year over year can be very cyclical, and the current period reflects a significantly higher level of contract work performed.

GROSS MARGIN

Gross margin for Q1'05 was \$4.0 million, a \$1.3 million or 50% increase from the \$2.7 million recorded in Q1'04. Gross margins also improved to 24.2% of revenues, compared to 20.9% in Q1'04. The increase in gross margin dollars is attributed to such factors as:

- the 30% increase in revenue from Q1'04 to Q1'05.
- improved field efficiency achieved through decreased use of higher cost subcontractors and rented equipment.
- the Company's past efforts to alter its cost structure so that a greater portion of direct expenses are variable as opposed to fixed which results in a reduction in overall costs.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

G&A expenses, which represent primarily the costs associated with the corporate head office and the lease of the survey & mapping division's shop and office, totaled \$987,473 for Q1'05 and \$292,529 for Q1'04. The new Kodiak division represented \$102,884 of the total G&A expense for Q1'05 and accrual for the Company's new profit sharing plans accounted for the balance of the increase.

AMORTIZATION OF PROPERTY AND EQUIPMENT

Amortization of property and equipment increased by \$69,896 or 22% to \$391,277 for Q1'05 compared to \$321,381 for Q1'04. Amortization is a function of the timing of additions to property and equipment, with the net increase in Q1'05 primarily related to the acquisition of the Kodiak division in January.

Disposals of property and equipment resulted in a minor gain of \$2,486 for Q1'05 compared to a loss of \$77,500 in Q1'04. These totals represent the normal course disposal of capital assets with no noteworthy specific items.

INTEREST EXPENSE

Interest expense declined by \$216,310 or 93% to \$16,767 for Q1'05 compared to \$233,077 for Q1'04. As at the end of 2004, the Company had repaid all of its long-term debt, with 2005 interest reflecting interest on the short-term bank operating facility. In addition, the facility that was in place in 2004 had higher ongoing fees. In comparison, as at the end of Q1'04, total long-term debt was \$8.3 million.

INCOME TAXES

The Company did not have current taxes payable for the Q1'05 and Q1'04 periods, with minor "capital" taxes and expense related to an inactive subsidiary company recorded in 2004. The profitable operations of Q1'05 resulted in a draw-down of previously unrecorded future tax assets, and a resultant future income tax expense of \$580,000 was recorded for the Q1'05 period.

SUMMARY OF QUARTERLY RESULTS

A summary of operating results by quarter for the last 2 years is as follows:

<i>(in \$000's, except per share and # of share amounts)</i>	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Revenue:								
Continuing operations	16,604	7,430	12,200	1,204	12,796	5,819	10,154	1,333
Discontinued operations	-	-	-	-	-	1,706	7,686	5,256
Total	16,604	7,430	12,200	1,204	12,796	7,525	17,840	6,589
Income (loss) from:								
Continuing operations	2,090	(421)	1,057	(1,437)	1,744	(1,030)	183	(1,089)
Discontinued operations	-	72	-	332	-	52	594	(1,078)
Total	2,090	(349)	1,057	(1,105)	1,744	(977)	777	(2,167)
Net income (loss) per share (basic & diluted):								
Continuing operations	0.38	(0.16)	0.40	(0.55)	0.66	(0.39)	0.07	(0.41)
Discontinued operations	-	0.03	-	0.13	-	0.02	0.23	(0.41)
Total	0.38	(0.13)	0.40	(0.42)	0.66	(0.37)	0.30	(0.82)
Weighted average # of shares outstanding (000s):								
Basic	5,495	2,636	2,636	2,636	2,636	2,636	2,636	2,636
Diluted	5,500	2,636	2,636	2,636	2,636	2,636	2,636	2,636

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 and Q2 and Q4 being traditionally being the weakest quarters. The underlying causes of the seasonality are weather conditions and the Company being restricted from entering and conducting work in certain wildlife areas.
2. The effect of the Company's now discontinued operations can be seen in the 2003 revenue and income (loss) amounts.

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 access to equity markets.

The Company believes that it has the capital resources and availability to meet both its working capital and capital expenditure requirements for 2005 and beyond.

WORKING CAPITAL

At March 31, 2005 the Company had net working capital of \$2.6 million, a slight decrease from the \$2.8 million at December 31, 2004.

Approximately 16% of accounts receivable at March 31, 2005 (2004 – 25%) and 26% (2004 – 22%) of revenues for the three month period ended March 31 were represented by sales to one customer.

PROPERTY AND EQUIPMENT

Capital assets totaled \$7.8 million at the end of Q1'05, a \$2.7 million increase from the \$5.0 million as at December 31, 2004. The increase is due to the \$2.0 million acquisition of Kodiak in January 2005, other capex purchases totaling \$1.0 million, less amortization for the quarter of \$0.4 million.

CONTRACTUAL OBLIGATIONS

Upon closing of the Right Offering in December 2004, Destiny repaid all remaining long-term debt, and its' only future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no hedging or 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	\$ 2,195,213	\$ 547,330	\$ 722,637	\$ 570,810	\$ 354,436

SHAREHOLDERS' EQUITY

As at the end of Q1'05, shareholders' equity increased by \$2.0 million to \$9.8 million compared to \$7.8 million at December 31, 2004. The increase is a result of net income of \$2.1 million, share consideration issued on the acquisition of Kodiak of \$1.0 million, less dividends paid in the quarter of \$1.1 million.

As at May 10, 2004, the number of issued and outstanding common shares is 5,547,581, as reflected in note 4 to the attached unaudited consolidated financial statements. The number of additional shares reserved for potential future issuance pursuant to the Company's stock option plan is 90,375 common shares.

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 financial condition and results. Management believes the critical accounting estimates for the Company are as follows:

Property and equipment

Property and equipment assets are recorded at cost and are amortized over their estimated useful lives. The Company evaluates the carrying value of property and equipment 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 property and equipment and the appropriate method of amortization. Factors considered in estimating the useful lives of property and equipment 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 property and equipment 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 (\$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.

New Canadian Accounting Pronouncements

The Canadian Institute of Chartered Accountants (CICA) has issued a number of accounting pronouncements, some of which may impact the Company's reported results and financial position in future periods.

Comprehensive Income/Financial Instruments/Hedges

The CICA issued new standards in early 2005 for Comprehensive Income (CICA 1530), Financial Instruments (CICA 3855) and Hedges (CICA 3865), which will be effective for the reporting year-end 2007. The new standards will bring Canadian rules in line with current rules in the US. The standards will introduce the concept of "Comprehensive Income" to Canadian GAAP and will require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to comprehensive income and be brought into net income at the time the underlying hedged item is settled. It is expected that this standard will be effective for Destiny's 2007 reporting. Any instruments that do not qualify for hedge accounting will be marked-to-market with the adjustment (tax effected) flowing through the income statement.

Destiny does not have any hedges in place so there will be no impact based on current positions.

BUSINESS RISKS

Destiny is subject to the risks and variables inherent in the oilfield services industry. Demand for the Company's products and services depends on the exploration, and to a lesser extent, development 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 and safety 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.

Given the Company's businesses are concentrated in the seismic services industry, the major business risk the Company faces is that revenues are subject to very wide seasonal and annual variations, all of which are beyond the ability of the Company to control while a meaningful proportion of the Company's costs are, at least in the short-term, fixed in nature. As a consequence, profits (losses) can vary widely from quarter to quarter and year to year.

The risks inherent in the oilfield services industry impact the Company's ability to meet its financial covenants on its revolving, bank operating loan facility (of which \$3 million was utilized at March 31, 2005). Accordingly, the Company may become in violation of its covenants on the bank facility, which might result in repayment being demanded.

OUTLOOK

Destiny believes that it has adequate working capital, cash flow from operations, and access to capital to fund ongoing business requirements. Management believes the Company to have 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, which is escalating in value and is plentiful in the areas in which the Company operates.

Destiny has expansion opportunities it is reviewing. 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, and retain cash that might otherwise be paid as dividends or any combination of the foregoing.

This report, or any part of it, may include comments that do not refer strictly to historical results or actions and may constitute forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or of the industry to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include general and industry economic and business conditions which, among other things, affect the demand for the services of the Company; competitive factors and industry capacity; the availability of personnel to manage the Company and manage and deliver its services; the ability of the Company to finance and implement its business strategy; changes in, or the failure to comply with, government law and regulations (especially relating to health, safety and environment); weather; and other such risks as may be identified in this report or in other published documents. Accordingly, there is no certainty that the Company's plans will be achieved.