



**DESTINY RESOURCE SERVICES CORP.**  
**2005 Third Quarter Interim Report**  
**For the Three and Nine Months Ended September 30, 2005**

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

*The following discussion and analysis of financial results for the three month and nine month periods ended September 30, 2005 ("Q3'05" and "2005 YTD") and September 30, 2004 ("Q3'04" and "2004 YTD") is based on information available until November 8, 2005 (unless otherwise noted) and upon the Company's consolidated interim financial statements for the periods presented, 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 prior fiscal year ended December 31, 2004.*

*Forward-looking Information*

*Statements 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 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 Q3'05 was \$21.2 million which increased by 74% from \$12.2 million in Q3'04. On YTD basis, 2005 revenues increased by 101% from \$26.2 million in 2004 to \$52.6 million. 71% of total revenues for YTD 2005 were represented by one client. (See Working Capital) As commodity prices remain high, exploration is a growing focus within the industry, which in turn has translated into increased overall revenues for the Company. Revenues by quarter and year over year can be cyclical, and the current period reflects a significantly higher level of contract work performed than levels achieved in the past for the current quarter and the year. Overall, the Company believes it is gaining in market share in its business.

**GROSS MARGIN**

Gross margin for Q3'05 was approximately \$4 million representing 19.1% of the current quarter's revenues compared to \$1.7 million representing 14% of revenues over the same quarter last year. Gross margin for YTD 2005 was approximately \$10.6 million representing 20.2% of revenues compared to \$3.7 million representing 14% of revenues over the same period last year.

The increase in Q3 and YTD gross margin dollars is attributed to such factors as: the increase in overall revenues for Q3'05 and YTD 2005 over the same period last year, improved field efficiencies achieved through decreased use of subcontractors and rental equipment, and 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.

**GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES**

General and administrative expenses, which represent primarily the costs associated with the corporate head office and the lease of the Survey & Mapping division's shop and office, were approximately \$1.5 million for Q3'05 compared to \$0.3 million over the same period last year. YTD 2005 accruals for the profit sharing plans represented \$1 million of this increase. Incentive accruals in 2004 were not booked until Q4.

The profit sharing plans have been 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 will be made one-half in cash and one-half in shares, to be purchased in the market.

**AMORTIZATION OF PROPERTY AND EQUIPMENT**

Amortization of property and equipment increased by \$499,970 to \$1,432,195 for 2005 YTD from \$932,225 over the same period last year. For Q3'05 this amount was \$569,481 compared to \$293,392 for Q3'04. Amortization is dependant on the timing of additions to property and equipment. The major components of additions for the current year included; the acquisition of Kodiak assets of \$2 million in Q1'05, and the investment in additional field operations equipment of approximately \$0.8 million for Q3'05 and \$3 million for Q1 and Q2'05 to service the increased needs of customers and to replace existing equipment at the end of its useful life. Disposals of property and equipment in 2005 resulted from normal course business activities with no specific noteworthy items.

### INTEREST EXPENSE

Interest expense at \$44,092 for Q3'05 and \$104,237 for 2005 YTD were lower than the \$124,375 for Q3'04 and \$543,030 for 2004 YTD. Following the 2004 Rights Offering, as at the end of 2004 all long-term debt had been repaid by the Company, with 2005 interest reflecting only interest on the short-term bank operating facility. In addition to levels of debt that existed in 2004 (none in 2005), the debt that was in place in the early part of 2004 had higher ongoing fees, which are also reflected in 2004 interest expense.

### INCOME TAXES

The Company did not have current taxes payable for the 2005 and 2004 Q3 and YTD periods, with minor "capital" taxes and expense related to an inactive subsidiary company recorded in 2004. The profitable operations in 2005 resulted in a draw-down of previously unrecorded future tax assets, and a resultant net future income tax expense of \$699,000 was recorded for the 2005 YTD period. Future income tax expense recorded during the year was a \$580,000 provision for Q1'05, a \$494,000 recovery for Q2'05 and a \$613,000 provision for Q3'05.

### 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>	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Revenue:								
Continuing operations	21,216	14,793	16,604	7,430	12,200	1,204	12,796	5,819
Discontinued operations	-	-	-	-	-	-	-	1,706
Total	21,216	14,793	16,604	7,430	12,200	1,204	12,796	7,525
Income (loss) from:								
Continuing operations	1,325	1,979	2,091	(421)	1,057	(1,437)	1,744	(1,030)
Discontinued operations	-	-	-	72	-	332	-	52
Total	1,325	1,979	2,091	(349)	1,057	(1,105)	1,744	(977)
Net income (loss) per share (basic & diluted):								
Continuing operations	0.24	0.36	0.38	(0.16)	0.40	(0.55)	0.66	(0.39)
Discontinued operations	-	-	-	0.03	-	0.13	-	0.02
Total	0.24	0.36	0.38	(0.13)	0.40	(0.42)	0.66	(0.37)
Weighted average # of shares outstanding (000s):								
Basic	5,554	5,548	5,495	2,636	2,636	2,636	2,636	2,636
Diluted	5,567	5,571	5,500	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 normally being the weakest 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 customer capital spending programs.
2. The effect of the Company's now discontinued operations can be seen in the 2003 revenue and income (loss) amounts. Amounts in 2004 represent net shutdown recoveries relating to insurance and bad debts for these discontinued operations.

### 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, payment of dividends, and capital to finance strategic acquisitions. Sources of funds available to meet these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and access to equity markets.

During the 2005 YTD period, the Company increased its bank facility from \$5 million to \$10 million, with the ability to draw to \$18 million during the months of June through September. In addition, the rate on the facility was reduced to prime plus 1%.

The Company believes that it has the capital resources and availability to meet its working capital, capital expenditure requirements, and to pay dividends in accordance with its dividend policy for 2005 and beyond.

### WORKING CAPITAL

At September 30, 2005 net working capital was at \$2.4 million compared to \$2.8 million at December 31, 2004. Significant components that attributed to the 16% decline include: net YTD capital expenditures of \$4.6 million incurred on the operating line, operating cash inflows of \$7.5 million and the payment of YTD cash dividends of \$3.3 million.

Approximately 94% of total accounts receivable of \$12.7 million at September 30, 2005 (67% of \$4.3 million at December 31, 2004) were represented by one client. Destiny provides services to this client both directly for the client's own account (for the development of seismic data for the client to sell) and for work for third party exploration and production companies, most of which are substantial oil companies and several of which specify Destiny as their sub-contractor of choice when contracting with Destiny's client. Approximately 96% of trade accounts receivable at September 30, 2005 was less than 60 days old (67% are less than 30 days old). Bad debt expenses for the Company's businesses have been negligible over the past three years.

### PROPERTY AND EQUIPMENT

Property and equipment assets totaled approximately \$9.3 million at the end of Q3'05, compared to \$5.0 as at December 31, 2004 for a net increase of \$4.3 million for the year. The acquisition of Kodiak assets, in January 2005, was \$2.0 million. Remaining capital expenditures of \$3.7 million were made for the investment of additional field equipment to allow operations to service expanding market demand for services and to replace existing equipment at the end of its useful life. YTD 2005 amortization was \$1.4 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, capital leases or other "off balance sheet" contractual obligations.

	<u>Payments Due by Future Year</u>				
	<u>total</u>	<u>less than 1 year</u>	<u>2 – 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
Operating Leases	\$ 2,385,753	\$ 747,855	\$ 999,625	\$ 589,557	\$ 48,715

### SHAREHOLDERS' EQUITY

Shareholders' equity increased from \$7.8 million at the end of 2004 to almost \$11 million at the end of Q3'05. The major components within this \$3.1 million increase for Q3 2005 were: generated net income of \$5.4 million dollars, disbursed cash dividends of \$3.3 million, and the share consideration of \$1 million issued on the acquisition of Kodiak assets.

As at November 8, 2005, the number of issued and outstanding common shares is 5,566,081 with 62,000 additional common shares reserved for potential future issuance pursuant to options outstanding under the Company's stock option plan.

### 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. See the 2004 Annual Report and the Q1'05 and Q2'05 interim reports.

## 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, 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. Destiny is also exposed to potential credit risk through its concentration of customers in the oil & gas exploration industry, and by its largest customer periodically accounting for a significant portion of Destiny's total revenues.

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 \$3.1 million was utilized at September 30, 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 has a cost structure that has sufficient variability 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 periodically encounters expansion opportunities to consider. 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.