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Divestco Inc.

Exponential Growth



# C o n t e n t s

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# a b o u t D i v e s t c o I n c .

Divestco Inc. ("Divestco" or the "Company") is a public (TSX-VEN: 'DVT') oil and gas software, data, technical services and seismic brokerage company committed to offering superior products and services to the oil and gas industry - and beyond. The company is based in Calgary, Alberta.

Our leading software product lines include GeoVista, MapQ, WinPICS 2D/3D seismic interpretation system, CrossLog Suite, Synthetic Suite, GeoCarta Tools, Envision 3D, DataStore and Oil Expert mapping and enterprise data management system, together with a wide array of smaller utilities and support applications. In addition, Divestco holds a U.S. patent on "The Rat" - a hardware device used widely for digitizing paper well logs and maps. The Rat is manufactured and marketed exclusively by Divestco.

Divestco also operates a significant database containing information relevant to oil and gas exploration. The oil and gas database includes general well information, production history, pressure data, reserves information, crown land leasing information, freehold land coverage, pipeline and facility information, grid, culture and transportation information and other oil and gas related information for selected areas of Canada and the United States. The comprehensive database is distributed primarily through its own software, however the company also directly licenses components of the database to customers that require raw data products. We also have an expanding proprietary seismic data library, which further compliments our current software and data offering.

Divestco is a leading provider of services to the oil and gas industry including seismic survey audit, database and custom mapping services. The services division also contains technical and corporate records and information management, which has been extended to include a new privacy practice group. A full service document scanning group specializing in high speed, high quality document conversions to all electronic formats supports both internal and external customers. Divestco also provides archiving and storage solutions through its archive group for storing, accessing, and managing seismic data.

We are the largest broker of seismic data in Canada, with 16 independent brokers currently under contract. In addition, Divestco holds an interest in a company that owns and operates a database pertaining to the location of historical seismic testing activity.

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and MD&A of the Company for the three months ended March 31, 2004 and the audited consolidated financial statements and MD&A for the year ended December 31, 2003.

The interim consolidated financial statements for the six months ended June 30, 2004 have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada. This MD&A is dated August 26, 2004.

## Forward Looking Statements

This MD&A contains forward-looking statements based upon current expectations that involve a number of business risks and uncertainties. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the factors discussed in the MD&A section of the Company's 2003 Annual Report.

## Non-GAAP Measurement

Earnings before interest, taxes, depreciation, and amortization ("EBITDA"), Income from operations or operating earnings, Cash Flow from Continuing Operations and Operations, Cash Flow from Continuing Operations and Operations per share - basic and diluted, are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company's results, liquidity and its ability to generate funds to finance its operations.

Management believes that in addition to net income, income from operations or operating earnings is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how those activities are financed or how the results are taxed. Management also utilizes Cash Flow and Cash Flow from Continuing Operations as key measures to assess the ability of the Company to finance operating activities and capital expenditures.

Cash flow from continuing operations is calculated by adding or deducting non-cash items from net income (loss) from continuing operations. Cash flow from operations is calculated by adding or deducting non-cash items from net income (loss).

## Business Environment

Divestco's business is tied to the oil and gas exploration and production industry. Commodity prices, as well as supply and demand for oil and natural gas liquids, determine the activity levels for oil and gas producers. Divestco's focus on the oil and gas industry as its primary customer base exposes it to all of the uncertainties associated with the demand for and pricing of oil and gas.

The Company's Services and Software segments generate steady sales throughout the year, but normally exhibit a noticeable dip in sales from mid-April through to the end of August, together with a noticeable increase in sales during the fall and winter months when significant drilling activities are underway in Canada. The Data segment is not generally susceptible to a seasonal change in sales volume. Brokerage is subject to fluctuations in industry activity, including traditional seasonal lows such as spring break up.

Copies of the Company's 2003 annual report and other continuous disclosures documents can be viewed at [www.sedar.com](http://www.sedar.com).

# Overall Performance

## Second Quarter Results

(000's except per share amounts)

	For the three months ended June 30			For the six months ended June 30			Year Ended
	2004 (Unaudited)	2003 (Unaudited & restated)	% change	2004 (Unaudited)	2003 (Unaudited & restated)	% change	2003 (Audited)
Revenues	\$6,073	\$3,209	89%	\$12,270	\$5,693	116%	\$15,043
EBITDA	891	197	353%	2,367	294	704%	1,697
Income (loss) from operations	151	(162)	N/A	930	(288)	N/A	153
Net income (loss) Per Share - basic and diluted <sup>(1)</sup>	0.015	(0.007)	N/A	0.047	(0.015)	N/A	0.042
Cash flow from operations Per share - basic and diluted <sup>(1)</sup>	832	207	302%	2,293	361	536%	1,629
	0.033	0.012	183%	0.090	0.024	282%	0.094
Total assets	31,692	12,314	157%	31,692	12,314	157%	24,195
Working capital (deficiency)	(5,748)	(624)	821%	(5,748)	(624)	821%	2,220
Long-term debt	235	421	(44)%	235	421	(44)%	313
Number of shares out- standing at end of period	25,325,200	15,000,000		25,325,200	15,000,000		25,423,091
Weighted average number of shares outstanding	25,424,903	14,991,593		25,423,997	13,800,470		17,228,894

(1) Diluted earnings (loss) per share are not materially different

## Three months ended June 30, 2004

The Company generated revenues in the second quarter of 2004 of \$6.07 million, an increase of \$2.86 million from the comparable period in 2003. EBITDA for the quarter increased by \$0.69 million while net income increased by \$0.51 million or 2.2 cents per share from the second quarter of 2003. The increase was primarily due to the Excalibur-Gemini Group Ltd. ("TEGGL") and International Datashare Corporation ("IDC") acquisitions completed in 2003, revenue recognized from the sale of a Canadian log license in 2003 which is being recognized on a percentage of completion basis, and continued sales of the Company's recently purchased seismic data library. A future income tax recovery of \$200,000 was also recorded in the second quarter of 2004 as management believes the Company will be able to utilize a greater portion of its tax pools than previously expected.

A significant project was completed in the second quarter of 2004. Divestco completed its first participation seismic program with a major oil and gas producer. For its capital contribution, the Company received 100% ownership of the seismic. Only the Company's proportionate share of the cost was recorded as an asset, which will enable the Company to show stronger earnings from sales of data in the future. Sales commenced in the third quarter of 2004.

Cash flow from operations in the second quarter was \$0.83 million, an increase of \$0.63 million or 2.1 cents per share from 2003. The Company continued to utilize this source of funds to finance its capital projects as well as its day-to-day operations. Divestco was successful in securing a new \$3.0 million (maximum) operating line and retired the debentures the Company issued in the first quarter of 2004 with a lower-interest loan.

## Six months ended June 30, 2004

The Company generated \$12.27 million in revenues, an increase of \$6.58 million from the comparable period in 2003. EBITDA was \$2.37 million representing a \$2.07 million increase from the same period in 2003. Net income was \$1.19 million or 4.7 cents per share (basic and diluted), an increase of \$1.42 million or 6.2 cents per share (basic and diluted). Again the increases were due primarily to the 2003 TEGGL and IDC acquisitions, revenue earned from the sale of a Canadian log license, and further sales of the recently purchased seismic data library.

Cash flow from operations for the first six months of 2004 was \$2.29 million or 9.0 cents per share (basic and diluted), an increase of \$1.93 million or 6.7 cents per share (basic and diluted) from the same period in 2003.

Divestco had a working capital deficiency of \$5.75 million as at June 30, 2004 compared to working capital at December 31, 2003 of \$2.22 million, a decrease of \$7.95 million. This was primarily due to the financing of two major capital expenditures with short-term debt and operating cash flow. The Company purchased a seismic data library in February of 2004 that was partially financed with the issuance of \$4.25 million in debentures. In addition, the Company participated in a speculative seismic survey program with a major oil and gas producer, which was completed in June of 2004 and funded with operating cash flow.

The Company is in the process of improving its working capital position. Sales of its recently shot seismic data are expected to commence in the third quarter. These sales will provide additional cash flow, which will be used to reduce the Company's operating line and other current liabilities. Two sale-lease back transactions were completed in the third quarter of 2004 again providing additional cash flow. Finally, Divestco will have the majority of the loan used to retire the debentures repaid by the end of 2004.

### Selected Quarterly Information for the Eight Most Recently Completed Quarters

(000's except per share amounts)

	2004	2004	2003	2003	2003	2003	2002	2002
	Q2	Q1	Q4 (restated)	Q3 (restated)	Q2 (restated)	Q1 (restated)	Q4 (restated)	Q3 (restated)
Revenues	\$ 6,073	\$ 6,198	\$ 6,293	\$ 3,056	\$3,209	\$ 2,485	\$ 1,543	\$ 1,414
EBITDA	891	1,476	1,278	124	197	97	174	165
Net income (loss) from continuing operations	387	803	992	(294)	(123)	(102)	21	34
Per share - basic & diluted <sup>(1)</sup>	0.015	0.032	0.061	(0.019)	(0.008)	(0.007)	0.001	0.003
Net income (loss)	387	803	1,238	(294)	(123)	(102)	21	34
Per share - basic & diluted <sup>(1)</sup>	0.015	0.032	0.076	(0.019)	(0.008)	(0.007)	0.001	0.003
Cash flow from continuing operations	832	1,461	1,156	133	207	154	174	169
Per share - basic & diluted <sup>(1)</sup>	0.033	0.057	0.066	0.007	0.014	0.010	0.014	0.014
Cash flow from operations	832	1,462	1,135	133	207	154	174	169
Per share - basic & diluted <sup>(1)</sup>	0.033	0.057	0.064	0.007	0.014	0.010	0.014	0.014

(1) Diluted earnings (loss) per share are not materially different

## Results of Operations

### Services

Revenues increased by 23% to \$1.34 million from \$1.09 million in the second quarter of 2003, with Services generating 22% of the Company's revenue for the second quarter of 2004. This rise is attributable to a revenue increase of \$0.04 million in the Survey Audit and Mapping, Geological Services, and Document Scanning divisions. Additional revenue of \$0.27 million was realized through the Archiving division, acquired through the IDC acquisition in September 2003. Offsetting the increases and additional revenue was a \$0.05 million decline in Information Management Services sales.

Revenues for the first six months of the year totaled \$3.68 million, up \$2.09 million from \$1.59 million for same period in 2003. The increase is attributable to the Services segment not being added to the Company until the TEGGL acquisition in March 2003 and the IDC acquisition in September 2003.

Operating earnings before amortization, however, declined by \$0.60 million to a loss of \$0.29 million from positive earnings of \$0.32 million in the second quarter of 2003. Hiring of additional staff and one-time charges as a result of restructuring and consolidation of the Archiving, Scanning and Log Divisions caused the decline. Concurrent with the restructuring, the Log, Archiving and Imaging Centre in NE Calgary underwent leasehold improvements and upgrades to computer equipment. Amortization declined by \$0.03 million or 21% to \$0.11 million from \$0.14 million in 2003. The decline was attributable to a change in amortization of certain intangible assets from 3 to 6 years in the fourth quarter of 2003. This was offset by an increase in amortization of the leasehold improvements. After amortization, Services had a loss of \$0.38 million compared to operating income of \$0.18 million in 2003.

Operating earnings before amortization for the first six months of 2004 were \$0.17 million compared to \$0.41 million for the same period in 2003, a 59% decrease. The hiring of additional staff and restructuring of the Archiving division in the second quarter offset revenues generated from a seismic library sale in the first quarter. Amortization was \$0.23 million, an increase of \$0.06 million from 2003, as a portion of Services was not added to the Company until March of 2003 with TEGGL acquisition. This led to an operating loss of \$0.07 million for 2004 compared to operating income of \$0.24 million in 2003.

As seasonal activity levels begin to increase commencing in the third quarter, Services will see an improvement in revenues as well as earnings. The period from April to August is typically the slowest for the oil and gas services industries as oil and gas producers are waiting for the ground to become durable enough to move drilling equipment onto the well sites.

Services expects to generate additional corporate consulting revenue, revenues from the training centre constructed in the Head Office, and is in the process of securing contracts for privacy consulting. Services, in conjunction with Data, is presently reprocessing the Company's seismic data library, acquired earlier on this year, creating a new exploration product for the oil and gas industry and adding significant value to the existing asset. Demand is expected to be high, with sales slated to commence in the third quarter of 2004.

### Data

Data performed well with additional sales of the Company's recently acquired seismic data library and revenue recognized from the sale of the Canadian log license in 2003 in connection with divestiture of its US operations. Revenues totaled \$2.64 million, contributing 43% of the Company's total revenue in the second quarter. Revenue for the first half of 2004 totaled \$4.26 million. There are no comparative figures for the previous year, as the segment was not added to the Company until the third quarter of 2003 as a result of the acquisition of IDC.

Operating earnings before amortization were \$0.74 million in the second quarter, due primarily to sales of the Company's seismic data library and revenue from the log license sale in 2003. Amortization was \$0.26 million and operating earnings were \$0.48 million.

Operating earnings before amortization were \$1.55 million in the first six months of 2004. Amortization was \$0.51 million and operating earnings were \$1.04 million.

Divestco expects to generate the first sale of its participation seismic data in the third quarter of 2004. Interest shown to date has been strong. In addition, the Company plans to be involved in a number of participation seismic programs prior to the end of 2004. This marks a new era in the Company's history and adds depth to its existing product lines. In addition, the Company has made significant investments into its log data infrastructure, providing a more efficient and higher quality well log information to the industry. Users are able to retrieve depth-registered rasters and digital curves on a one-off basis or by subscription on-line.

## Software

Revenues in the second quarter were \$1.30 million, up \$0.18 million or 16% from previous year's revenues of \$1.12 million. Software contributed 21% of Divestco's total revenue in the current quarter. Software added \$0.28 million of revenues through the acquisition of the GeoCarta product line from IDC. However, this was offset by a decline of \$0.29 million in revenues of the remaining product lines. This was caused by an increased number of resources focused on new product development including Envision, Divestco DataStore and GeoCarta Tools. Revenues for the six months ended June 30, 2004 were \$2.51 million, a 12% increase from the previous year's revenue of \$2.25 million.

Operating earnings before amortization were \$0.45 million in the second quarter compared to a loss of \$0.46 million in 2003, an increase of 198%. The increase is attributable to the deferral of \$0.51 million of development expenses. During the second quarter, the Company continued to develop new software products, which are slated for release in the third and fourth quarters of this year as outlined below. In addition, Software built a closer development relationship with Services. As the TEGGL and IDC acquisitions have settled out, the Development division now works much more closely with Services to formulate new strategies and target new functionality and products. Finally, Software increased its commitment to application development based on Microsoft's .Net framework providing shortened development cycles and improved system technologies for the Company's customers. Amortization was \$0.16 million compared to \$0.15 million in 2003. The Company changed its amortization of software code from 6 to 10 years in the fourth quarter of 2003, which was offset by computer hardware and software additions in the second quarter of 2004 and the GeoCarta product lines acquired from IDC in the third quarter of 2003. Operating earnings increased by \$0.90 million to \$0.29 million from a loss of \$0.61 million in 2003.

For the six months ended June 30, 2004, operating earnings before amortization were \$0.43 million compared to a loss of \$0.46 million in 2003, an increase of \$0.89 million. Amortization was \$0.31 million compared to \$0.32 million in 2003, a 3% decline attributable to a change in amortization of software code, offset by equipment additions in the second quarter of 2004 and the product lines acquired from IDC in the third quarter of 2003. Income from operations in 2004 was \$0.12 million, \$0.90 million increase from a loss of \$0.78 million for the same period in 2003.

Currently, Software is working on the following projects:

- Version 1.0 releases for Envision VSX and DDS;
- Major enhancements to GeoCarta Tools;
- Development of a dynamic link between GeoVista and WinPICS, accessing core GeoVista functionality (including querying, ticket viewing and mapping);
- Improved layer management system for GeoVista;
- Major Synth Suite revisions including improved cross-product integration;
- Release of DGI Gridding and Contouring engine for Divestco products (WinPICS initially); and
- OeX rationalization and modernization.

## Brokerage

Brokerage contributed 13% of the Company's total revenue in the second quarter. Revenues were \$0.79 million, a decrease of 21% from previous year's revenue of \$1.00 million. The decrease was attributable to a \$0.16 million and \$0.08 million decline in data and library card sales from the previous years, respectively, caused by slower than normal seismic activity for the period. In addition, line sales of the Company's purchased seismic library, were included in the Data segment for the second quarter, excluding the commissions earned. Revenue for the first six months of 2004 was \$1.82 million, a 2% decrease from the previous year, which had revenues of \$1.86 million.

Operating losses before amortization in the second quarter of 2004 were \$0.15 million, down from earnings \$0.33 million in 2003. Amortization was \$0.09 million in 2004 and 2003. This created an operating loss of \$0.23 million in 2004 versus operating income of \$0.27 million in 2003, a \$0.50 million decrease.

Operating losses before amortization for the first six months of 2004 was \$0.05 million, down from earnings in 2003 of \$0.34 million. Amortization was \$0.11 million in 2004 compared to \$0.09 million in 2003, an increase of 22%. This created an operating loss of \$0.17 million in 2004 versus operating income of \$0.24 million in 2003, a \$0.40 million decrease.

## Amortization

Amortization for the second quarter of 2004 was \$0.62 million compared to \$0.36 million in 2003, an increase of \$0.26 million or 72%. Amortization for the six months ended June 30, 2004 was \$1.16 million compared to \$0.58 million in 2003, an increase of \$0.58 million or 100%. The increase was primarily due to the Company's seismic data library purchase in the first quarter of 2004, leasehold improvements made to the Imaging and Archiving Centre, the Company's participation in a seismic survey in the current quarter, and the TEGGL and IDC acquisitions in 2003.

## Interest

Interest for the second quarter of 2004 totaled \$0.12 million relating to the debentures issued in the first quarter of 2004. In June 2004, the debentures were replaced with a non-revolving term loan. Interest for the same period in 2003 was negligible. Interest for the six months ended June 30, 2004, totaled \$0.27 million, which included a set-up fee incurred on the issuance of the debentures.

## Income Taxes and Tax Pools

The Company recorded a future tax recovery of \$200,000 in the second quarter compared to \$39,000 for the same period in 2003. Management decided to recognize some additional future benefit of the Company's tax pools, as they believe the Company will be able to utilize a greater portion of its tax pools before they expire.

The Company had non-capital losses of approximately \$6,700,000 as at June 30, 2004 (December 31, 2003 - \$8,400,000), which are available to reduce taxable income in future periods. The losses were transferred to the Company as a result of the merger of IDC. If not utilized, these non-capital losses will begin to expire in 2005.

The Company files Scientific Research and Development ("SR&ED") claims on an annual basis and has approximately \$490,000 (December 31, 2003 - \$490,000) of SR&ED expenses available to reduce future taxable income. In addition, the Company has approximately \$172,000 (December 31, 2003 - \$172,000) of unclaimed investment tax credits ("ITC's") available to reduce income taxes payable in future years. If not utilized, these ITC's will begin to expire in 2005. The future tax benefit of the ITC's was recognized in the 2003. The Company still expects to utilize the ITC's before they expire.

In the current quarter the Company received an ITC refund of approximately \$86,000 related to a 2002 SR&ED claim. In August 2004, the Company received notice from Canada Revenue Agency, approving the Company's 2003 SR&ED claim, which was approximately \$410,000.

## Major Transactions

During the second quarter of 2004, the Company completed its first participation seismic survey program over an area of approximately 265 square kilometres. There has been strong interest from oil and gas producers wishing to acquire this data. The Company anticipates sales of the data to commence in the third quarter of 2004.

## Liquidity and Capital Resources

Cash flow from operations in the second quarter was \$0.83 million compared to \$0.21 million in the same period in 2003. The increase of \$0.63 million or 302% was due to the addition of the Data segment in the third quarter of 2003 with the IDC acquisition.

Cash flow from operations for the six months ended June 30, 2004 was \$2.29 million compared to \$0.36 million for the same period in 2003. The increase of \$1.93 million or 536% was due to strong sales of the seismic data library purchased in the first quarter and the acquisitions of TEGGL and IDC in 2003.

The Company had a working capital deficiency of \$5.75 million as at June 30, 2004, an increase of \$1.52 million or 36% from the \$4.23 million deficiency at the end of the first quarter. As at December 31, 2003, the Company had a positive working capital balance of \$2.22 million. The decrease in the first quarter of 2004 from the end of 2003 was due primarily to the issuance of \$4.25 million in short-term debentures, proceeds of which, were used to partially finance the seismic data library purchase. The further increase from the first quarter of 2004 was caused by two factors: bank indebtedness increased by \$2.09 million or 498% with the proceeds being used to support day-to-day operations and finance capital expenditures including the participation seismic survey; brokerage payables increased by \$0.75 million or 47%; and deferred revenue increased by \$0.24 million or 13%. These increases were offset by a decrease in the accounts payable. As at March 30, 2004, the debentures were \$3.38 million.

The debentures were replaced with a US \$2.25 million non-revolving demand loan, bearing interest at bank prime plus 1.25%. Payments from the sale of the Canadian log license in 2003 are assigned to the loan that were previously assigned to the debenture holders. A majority of this loan will be repaid by the end of 2004, leaving a balance of approximately US \$0.20 million and significantly improving the Company's working capital deficiency.

During the second quarter, the Company secured a \$3.0 million revolving demand loan, bearing interest at bank prime plus 0.75% with HSBC Bank Canada ("HSBC"), replacing its previous operating line. The aggregate borrowing under this facility cannot exceed 75% of the Company's accounts receivable balance. The facility is secured by a general security agreement covering all of Divestco's personal and real property. As at June 30, 2004, \$2.1 million was drawn on this facility. Prior to this new facility, the Company had a \$1.1 million revolving credit facility, bearing interest at bank prime plus 1.5%. The Company also obtained a corporate credit card facility in the amount of \$150,000. As at June 30, 2004, a minimal amount was drawn on this facility.

Expectations are that the new credit facilities and cash flow from operations are sufficient, in the short-term and long-term, to maintain the Company's current capacity, to meet planned growth and to fund future development activities.

## Outstanding Share Data

Divestco is authorized to issue an unlimited number of voting and non-voting common shares. The common shares of the Company trade on the TSX Venture Exchange under the symbol "DVT". As at June 30, 2004, there were 25,325,200 common shares outstanding. During the six months ended June 30, 2004, 12,009 common shares were issued on the exercise of stock options and 109,900 shares were repurchased under a normal course issuer bid. As at December 31, 2003, there were 25,423,091 common shares outstanding.

On June 2, 2004, the Company announced it had received approval to commence a normal course issuer bid from the TSX Venture Exchange, to repurchase up to 1,278,000 of its common shares at prevailing market prices during the twelve months ending June 9, 2005. During the second quarter, the Company repurchased 109,900 shares at a purchase cost of \$105,598 (\$0.96 average price per share) resulting in a \$25,739 reduction to retained earnings.

Subsequent to six months ended June 30, 2003, an additional 100,100 shares were repurchased up to and including August 26, 2004 under the normal course issuers bid bringing the number of common shares outstanding to 25,225,100.

On June 2, 2004, the Company announced a small shareholder selling program ("the Program") that enables registered and beneficial shareholders who own in the aggregate 499 or fewer Common Shares ("Shares") of the Company as of June 4, 2004 ("the Eligible Shareholders"), to sell their Shares without incurring any brokerage commission. The sale of Shares will be executed through the facilities of the TSX Venture Exchange. The voluntary Program expires on August 31, 2004.

The Program is designed to assist Eligible Shareholders in selling their Shares in a convenient and inexpensive manner. The Program allows Eligible Shareholders the opportunity to sell all of their Shares. Participating shareholders will not incur any brokerage commissions if they elect to dispose of their Shares.

## Commitments and Contingencies

### Commitments

Under the terms of the seismic program acquisition agreement, Divestco is required to share a portion of the revenue earned from the sales of the data for the three years following the date of delivery, which occurred in June 2004. The revenue is to be paid in the form of "Acquisition Credits" allowing the other party to purchase the Company's existing seismic data or to participate in future seismic programs operated by the Company. A liability will be recorded at the time the sales are completed, based on the formula in the agreement, to a maximum of \$1,500,000.

Subsequent to the six months ended June 30, 2004, the Company sold and leased back \$414,046 in computer equipment. The leases have a term of 36 months and bear interest at 5.76%. Monthly payments total \$11,889. Management has determined the lease to be capital in nature in accordance with CICA accounting standard Handbook Section 3065.

### Contingencies

As a result of the acquisition of TEGGL, the Company assumed a claim filed against the Company by a former employee. In management's opinion, the claim is not determinable at this time so no estimate of loss has been made. However, should any loss result from the resolution of this claim, such loss would be accounted for in the period in which such a resolution occurs.

As a result of the amalgamation with IDC, the Company assumed a claim filed by a vendor in the amount of \$126,000. In a separate action, the Company has claimed \$610,000 in damages from the vendor for services rendered by IDC. The Company agreed to settle the assumed claim and accrued for this amount 2003. It is management's opinion that the Company will recover the full amount it has claimed from the vendor.

The Company has no other new contingencies or commitments other than those disclosed in its annual audited financial statements for the year ended December 31, 2003.

## Related Party Transactions

During the first six months of 2004, the Company earned \$163,421 in revenue from a company with common directors. The revenue earned consisted of subleasing office space, data loading, workstation rentals and creating maps. The Company did not earn revenue from this company during six months ended June 30, 2004.

In February 2004, \$4,000,000 of the total debentures, bearing interest at 12% and maturing on December 30, 2004, were issued to certain directors of the Company. \$100,000 of the set-up fees incurred to arrange the financing and \$111,801 of the interest accrued was paid to the directors. In June 2004, the debentures were fully repaid with proceeds the Company received from the non-revolving demand loan.

All related party transactions in the normal course of operations have been measured at the agreed upon exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third-parties.

## Accounting Policies and Estimates

### Adoption of a new accounting policy

During the six months ended June 30, 2004, the Company completed its first participation seismic survey with a major oil and gas producer. These financial statements reflect only the Company's proportionate costs of the survey as an asset given the nature of the agreement.

Future sales of the seismic data will be recorded when the seismic data is delivered to the customer. This occurs when seismic work, including data processing is complete and delivery to the customer has occurred. The survey is being amortized on straight-line basis over period of 15 years, consistent the Company's purchased seismic library.

### Change in the Company's revenue recognition policy

In 2003, the Company changed its accounting policy for recognizing revenue earned from licensing software products to a straight-line method, whereby the Company recognizes revenue earned from licensing software products rateably over the term of the license. Previously, the Company recognized the revenue at the date of sale. If future services were to be performed based on the license sales, the Company deferred a percentage of revenue based on the services that were to be provided. The deferred revenue was recognized rateably over the service term.

The change was made in response to the release of EIC 141 - Revenue Recognition in December 2003. Based on the way in which the Company is selling its software products, it was determined that a service was being provided over a period of time and that the earnings process was not complete at the date of delivery according to EIC 141. In addition, the straight-line method is being used by a majority of the Company's peers. Management believed that in order for the Company's financial statements to be comparable to its peers, its revenue recognition policy had to change.

The consolidated financial statements for the three and six months ended June 30, 2003 have been restated to reflect the change in accounting policy.

#### Stock Based Compensation

In 2003, the Company early-adopted the fair value recognition for stock based compensation as required by the CICA accounting standard Handbook section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This standard requires an option pricing model be used to determine the fair value of each option granted and the amount recognized over the vesting period of the option. Previously, the Company chose only to disclose pro-forma information for options granted after January 1, 2002, which resulted in no expense being recognized in the Company's financial results. As a result of early adopting, the Company was able to implement the new standard prospectively in 2003. Accordingly, a stock compensation expense has been recognized on the consolidated statement of income and retained earnings (deficit) with a corresponding increase recorded to contributed surplus in the consolidated balance sheet using the fair value method.

# Divestco Inc.

Consolidated Balance Sheets (Unaudited - Prepared by Management)

Jun 30, 2004

Dec 31, 2003

Assets		
Current		
Cash	\$ -	\$ 2,125,381
Cash - Funds held in trust	807,180	787,500
Accounts receivable	4,577,197	4,374,080
Prepaid expenses, supplies and deposits	471,346	322,263
	5,855,723	7,609,224
Long-term accounts receivable	371,367	-
Investment tax credits recoverable	839,986	1,020,129
Future income taxes	1,106,752	906,752
Investment in affiliated company	52,488	54,293
Property and equipment (Note 3)	16,870,072	8,141,905
Deferred development costs (Note 4)	510,000	-
Intangible assets	4,135,793	4,513,309
Goodwill	1,949,387	1,949,387
	<b>\$ 31,691,568</b>	<b>\$ 24,194,999</b>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 5)	\$ 2,512,888	\$ 140,000
Accounts payable and accrued Liabilities	2,418,946	1,647,874
Accounts payable - brokerage	2,319,450	1,797,244
Deferred revenue	2,142,641	1,662,865
Loan payable (Note 6)	2,118,848	-
Current portion of long-term debt	73,017	70,182
Current portion of capital leases	17,898	71,246
	11,603,688	5,389,411
Deferred revenue	105,326	-
Long-term debt	144,004	171,534
	11,853,018	5,560,945
Shareholders' Equity		
Equity instruments (Note 7)	18,377,081	18,475,890
Contributed surplus	235,394	96,592
Retained earnings	1,226,075	61,572
	19,670,550	18,634,054
	<b>\$ 31,691,568</b>	<b>\$ 24,194,999</b>

The accompanying notes are an integral part of these consolidated financial statements

# Divestco Inc.

Consolidated Statements of Income and Retained Earnings (Deficit)(Unaudited - Prepared by Management)

For the three months ended June 30      For the six months ended June 30

	2004	2003 (Restated - See Note 14)	2004	2003 (Restated - See Note 14)
Revenue	\$ 6,072,737	\$ 3,208,951	\$ 12,270,265	\$ 5,693,309
Operating Expenses				
Salaries and benefits	3,549,337	1,894,609	6,826,212	3,625,450
General and administrative	1,604,681	901,512	2,661,712	1,401,250
Research and development	-	202,659	277,000	302,659
Stock compensation expense (Note 10)	27,878	13,422	138,802	69,748
	5,181,896	3,012,202	9,903,726	5,399,107
Earnings before interest, taxes and amortization	890,841	196,749	2,366,539	294,202
Interest Expense	124,669	3,288	274,071	3,288
Amortization	615,273	355,537	1,162,458	578,430
Income (loss) from operations	150,899	(162,076)	930,010	(287,516)
Other income (loss)				
Foreign exchange gain	37,485	-	62,037	-
Equity investment income (loss)	(952)	-	(1,805)	191
	36,533	-	60,232	191
Income (loss) before income taxes	187,432	(162,076)	990,242	(287,325)
Future Income tax recovery	200,000	(39,000)	200,000	(62,000)
Net income (loss) for the period	387,432	(123,076)	1,190,242	(225,325)
Retained earnings (deficit), beginning of period	864,382	(332,688)	61,572	(347,776)
Adjustment for change in accounting policy (Note 14)	-	(427,121)	-	(309,784)
As restated	864,382	(759,809)	61,572	(657,560)
Purchase price of common shares repurchased in excess of book value (Note 7(c))	(25,739)	-	(25,739)	-
Retained earnings (deficit), end of period	\$ 1,226,075	\$ (882,885)	\$ 1,226,075	\$ (882,885)
Earnings (loss) per share - basic and diluted <sup>(1)</sup>	\$ 0.015	\$ 0.007	\$ 0.047	\$ 0.015
Weighted average number of shares	25,424,903	14,991,593	25,423,997	13,800,470

<sup>(1)</sup> Diluted earnings (loss) per share are not materially different

# Divestco Inc.

Consolidated Statements of Cash Flows (Unaudited - Prepared by Management)

For the three months ended June 30 For the six months ended June 30

	2004	2003 (Restated - See Note 14)	2004	2003 (Restated - See Note 14)
<b>Cash Flows from operating activities</b>				
Net income for the period	\$ 387,432	\$ (123,076)	\$ 1,190,242	\$ (225,325)
Adjustment for:				
Equity pick-up on long-term investment	952	-	1,805	(191)
Amortization	615,273	355,537	1,162,458	578,430
Future income tax recovery	(200,000)	(39,000)	(200,000)	(62,000)
Stock compensation expense	27,878	13,422	138,802	69,748
	831,535	206,883	2,293,307	360,662
Changes in non-cash working capital balance (Note 8(b))	532,283	613,489	1,581,317	2,061,932
Increase in long-term accounts receivable	(371,367)	-	(371,367)	-
Increase in non-current deferred revenue	105,326	-	105,326	-
	1,097,777	820,372	3,608,583	2,422,594
<b>Cash flows from financing activities</b>				
Bank indebtedness	2,092,888	11,243	2,372,888	(25,763)
Repayment of debentures	(3,377,375)	-	(4,250,000)	-
Repayment of loans payable	(935,752)	-	(935,752)	-
Repayment of notes payable	-	(1,451,526)	-	(1,451,526)
Repayment of long-term debt	(15,924)	(23,971)	(24,695)	(39,964)
Repayment of capital lease obligations	(23,320)	(103,351)	(53,348)	(125,352)
Proceeds received from issuance of debentures	-	-	4,250,000	-
Proceeds received from loan payable	3,054,600	-	3,054,600	-
Proceeds received from long-term debt	-	30,743	-	30,743
Issue of common shares, net of related expenses	(25,435)	82,500	(18,950)	673,887
Repurchase of common shares	(105,598)	-	(105,598)	-
	664,084	(1,454,362)	4,289,145	(937,975)
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(2,035,852)	(86,978)	(10,023,109)	(128,440)
Acquisition of The Excalibur-Gemini Group Ltd.	-	-	-	(1,331,673)
	(2,035,852)	(86,978)	(10,023,109)	(1,460,113)
Increase (decrease) in cash	(273,991)	(720,968)	(2,125,381)	24,506
Cash, beginning of period	273,991	1,500,089	2,125,381	754,615
Cash, end of period	\$ -	\$ 779,121	\$ -	\$ 779,121

The accompanying notes are an integral part of these consolidated financial statements

## Divestco Inc.

Notes to Consolidated Financial Statements (Unaudited - Prepared by Management)

JUNE 30, 2004

### 1) Significant Accounting Policies

These interim consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada. The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. These interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality.

These interim consolidated financial statements do not include all of the note disclosures required for the annual consolidated financial statements, and therefore, should be read in conjunction with audited financial statements as at and for the year ended December 31, 2003. These interim consolidated financial statements have been prepared following the same significant accounting policies as the most recently issued annual consolidated financial statements, except for the following new significant accounting policy adopted by the Company for the six months ended June 30, 2004.

### 2) New Accounting Policy

During the six months ended June 30, 2004, the Company completed its first participation seismic survey with a major oil and gas producer. These financial statements reflect only the Company's proportionate costs of the survey as an asset given the nature of the agreement.

Future sales of the seismic data will be recorded when the seismic data is delivered to the customer. This occurs when seismic work, including data processing is complete and delivery to the customer has occurred. The survey is being amortized on straight-line basis over a period of 15 years, consistent with the Company's purchased seismic library.

### 3) Property and Equipment

	As at June 30, 2004	As at Dec 31, 2003
Seismic data library	\$ 8,640,990	\$ -
Databases	5,568,613	5,787,567
Property and equipment	2,660,469	2,354,338
	<u>\$ 16,870,072</u>	<u>\$ 8,141,905</u>

#### 4) Deferred Development Costs

During the three months ended June 30, 2004, the Company deferred \$510,000 of development costs related to the development of new software product lines and significant enhancements to existing product lines. (2003 - \$NIL since no project met the criteria for deferral). No amortization on deferred development costs has been recorded, as the products did not enter commercial production during the quarter.

Deferred development costs are charged to earnings in the period they are incurred unless they meet the criteria for deferral under CICA accounting standard Handbook Section 3450. Amortization of development costs deferred to future periods commences with the commercial production of the product and is charged to earnings based on anticipated sales or use of the product, over a period not exceeding three years. Deferred development costs are presented net of amortization.

#### 5) Bank indebtedness

In June 2004, the Company secured two new credit facilities. The first being a revolving demand loan, bearing interest at bank prime plus 0.75%, with a maximum available of \$3,000,000. As at June 30, 2004, \$2,104,187 was drawn on this facility. The effective interest rate was 4.75% for the period. The second being a corporate credit card facility reserved for senior management, with maximum available credit of \$150,000 was also secured. As at June 30, 2004, \$7,798 was drawn on this facility.

The facilities are secured by a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property. The facilities are also subject to the Company meeting certain debt covenants. The Company was not in violation of any debt covenants as at June 30, 2004. Bank indebtedness includes cheques written in excess of amounts on deposit.

#### 6) Loans Payable

In June 2004, the Company secured a US \$2,250,000 non-revolving demand loan, bearing interest at bank prime plus 1.25%. The Company used the funds to repay the debentures issued in February 2004. Payments the Company is receiving in 2004 from its retained interest in its log library, previously assigned to the debenture holders, have been assigned to the bank. A principal payment of US \$675,000 was assigned on June 30, 2004. The effective rate was 5.0% for the period. The loan matures on September 30, 2005.

The loan is secured by a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property.

Principal payments are as follows in \$US:

2004	\$ 1,350,000
2005	225,000
	<u>\$ 1,575,000</u>

## 7) Equity Instruments

### A Authorized

An unlimited number of voting common shares

An unlimited number of non-voting common shares

### B Issued

	Balance as at the period ended June 30, 2004		Balance as at the year ended December 31, 2003	
	# of Shares	Amount	# of Shares	Amount
<b>Common Shares</b>				
Balance, beginning of period <sup>(1)</sup>	25,423,091	\$ 18,366,421	12,596,112	\$ 4,487,303
Issued for cash	-	-	463,429	578,887
Issued for cash via private placement <sup>(2)</sup>	-	-	2,905,079	3,675,551
Issued for acquisition of:				
The Excalibur-Gemini Group Ltd.	-	-	1,655,850	1,764,951
International Datashare Corporation	-	-	7,500,000	7,500,000
Issued in exchange for data sets, property and equipment <sup>(3)</sup>	-	-	204,149	255,000
Exercise of options	12,009	6,485	38,428	29,729
Issued for settlement of loans payable to various shareholders	-	-	60,044	75,000
Repurchased under normal course issuer bid	(109,900)	(79,859)	-	-
Balance, end of period <sup>(4)</sup>	25,325,200	18,293,047	25,423,091	\$ 18,366,421
	# of Warrants	Amount	# of Warrants	Amount
<b>Share Purchase Warrants</b>				
Balance, beginning of period	1,597,794	\$ 347,619	-	\$ -
Issued on private placement	-	-	1,452,540	316,017
Issued to brokers on private placement	-	-	145,254	31,602
Balance, end of period <sup>(4)</sup>	1,597,794	\$ 347,619	1,597,794	\$ 347,619
Share issue costs, net of future income taxes	-	\$ (263,585)	-	\$ (238,150)
Total equity instruments	-	\$ 18,377,081	-	\$ 18,475,890

<sup>(1)</sup> Effective September 23, 2003, the Company amalgamated with International Datashare Corporation ("IDC"). As part of the amalgamation agreement, the shares of the Company were exchanged for 1,200,8767 shares in the newly amalgamated company. All share and per share information in these consolidated financial statements and notes have been retroactively adjusted to reflect this change.

<sup>(2)</sup> On September 23, 2003, 1059778 Alberta Ltd., a wholly owned subsidiary of the Company, completed a private placement for net proceeds of \$3,816,058. The placement was done through the issuance of 2,905,079 units at a price of \$1.37 per unit. Each unit consists of one common share plus one-half of a common share purchase warrant exercisable at \$2.09. The common share purchase warrants expire on September 23, 2004. In addition, brokers were issued broker warrants totaling 5% of the units issued, exercisable at \$2.09. The broker warrants expire on September 23, 2004.

<sup>(3)</sup> During 2003, the Company purchased certain data sets, property and equipment of where a portion of the consideration was paid in common shares of the Company.

<sup>(4)</sup> As at June 30, 2004, there were 8,112,064 shares held in escrow. 6,656,429 shares were held by officers, directors and companies controlled by a director. The shares are due to be released from escrow on September 23, 2004.

## C Normal course issuer bid

On June 2, 2004, the Company received approval from the TSX Venture Exchange to repurchase up to 1,278,000 of its common shares at prevailing market prices during the twelve months ending June 9, 2005. During the six months ended June 30, 2004, the Company repurchased 109,900 shares at a purchase cost of \$105,598 (\$0.96 average price per share) resulting in a \$25,739 reduction to retained earnings. Subsequent to the six months ended June 30, 2004, the Company repurchased \$100,100 shares at a purchase cost of \$99,772 (\$1.00 average price per share).

## D Small shareholder selling program

On June 2, 2004, the Company announced a small shareholder selling program ("the Program") that enables registered and beneficial shareholders who own in aggregate 499 or fewer Common Shares ("Shares") of the Company as of June 4, 2004 ("the Eligible Shareholders") to sell their Shares without incurring any brokerage commission. The sale of Shares will be executed through the facilities of the TSX Venture Exchange. The voluntary Program expires on August 31, 2004.

The Program is designed to assist Eligible Shareholders in selling their Shares in a convenient and inexpensive manner. The Program allows the Eligible Shareholders the opportunity to sell all of their Shares. Participating shareholders will not incur any brokerage commissions if they elect to dispose of their Shares.

## E Stock Options

The Company has established a stock option plan (the "Plan") whereby the Company may grant options to purchase common shares to directors, officers, employees and consultants. The options have a five year term and are exercisable pursuant to a vesting schedule of one-third upon the date of grant (the "grant date"), one-third following the first anniversary of the grant date and the remaining one-third following the second anniversary of the grant date. 2,650,000 Common Shares of the Company have been reserved under the Plan.

The following is a continuity of stock options outstanding for which shares have been reserved:

	# of Shares	Options Price per Share	Weighted Average Exercise
Options outstanding, December 31, 2002	858,668	\$0.54 - \$1.25	\$ 0.92
Options granted	755,810	\$1.25 - \$3.19	\$ 1.25
Cancelled	(141,513)	\$0.54 - \$3.19	\$ 2.27
Exercised	(38,429)	\$0.54 - \$1.25	\$ 0.85
Options outstanding, December 31, 2003	1,434,536	\$0.54 - \$3.19	\$ 1.20
Options granted	571,172	\$ 1.20	\$ 1.20
Cancelled	(86,209)	\$ 3.19	\$ 3.19
Exercised	(12,009)	\$ 0.54	\$ 0.54
Expired	(96,746)	\$1.04 - \$1.40	\$ 1.24
<b>Options outstanding, June 30, 2004 <sup>(1)</sup></b>	<b>1,810,744</b>	<b>\$0.54 - \$1.40</b>	<b>\$ 1.11</b>

<sup>(1)</sup> Subsequent to the six months ended June 30, 2004, 25,618 options expired with exercise prices of \$0.83 and \$1.20

## E Stock Options - Continued

The options that have vested at June 30, 2004 are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
171,130	\$ 0.54	\$ 0.54	0.81	171,130	\$ 0.54
69,056	\$ 0.83	\$ 0.83	1.65	66,054	\$ 0.83
440,140	\$ 1.04	\$ 1.04	2.94	293,427	\$ 1.04
517,605	\$ 1.25	\$ 1.25	3.66	345,070	\$ 1.25
545,148	\$ 1.20	\$ 1.20	4.57	181,716	\$ 1.20
67,665	\$ 1.40	\$ 1.40	2.13	67,665	\$ 1.40
1,810,744		\$ 1.11	3.35	1,125,062	\$ 1.06

The options that have vested at December 31, 2003 are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
183,139	\$ 0.54	\$ 0.54	1.30	183,139	\$ 0.54
69,056	\$ 0.83	\$ 0.83	2.15	66,054	\$ 0.83
465,960	\$ 1.04	\$ 1.04	3.44	310,640	\$ 1.04
522,409	\$ 1.25	\$ 1.25	4.15	201,758	\$ 1.25
107,763	\$ 1.40	\$ 1.40	2.62	71,842	\$ 1.40
86,209	\$ 3.19 <sup>(1)</sup>	\$ 3.19	2.77	86,211	\$ 3.19
1,434,536		\$ 1.20	3.26	919,644	\$ 1.20

<sup>(1)</sup> Rolled over as a result of the acquisition of IDC.

## 8) Cash Flows

	For the three months ended June 30		For the six months ended June 30	
	2004	2003 (Restated - See Note 12)	2004	2003 (Restated - See Note 12)
<b>A</b> Interest and income taxes paid (recovered)				
Interest Paid	\$ 158,680	\$ 3,288	\$ 274,071	\$ 3,288
Income taxes paid (recovered)	\$ (105,532)	\$ -	\$ (180,143)	\$ -
<b>B</b> Changes in non-cash working capital balances				
Funds held in trust	\$ (6,600)	\$ -	\$ (19,680)	\$ -
Account receivable	(112,560)	(200,373)	(203,117)	(340,739)
Investment tax credits recoverable	105,532	(120,000)	180,143	(240,000)
Prepaid expenses, supplies and deposits	6,148	44,111	(149,083)	(133,799)
Accounts payable and accrued liabilities	(449,096)	178,984	771,072	292,342
Accounts payable and accrued - brokerage	745,378	698,776	522,206	2,383,025
Deferred Revenue	243,481	11,991	479,776	101,103
	\$ 532,283	\$ 613,489	\$ 1,581,317	\$ 2,061,932

## 9) Related Party Transactions

- A** During the six months ended June 30, 2004, the Company earned \$163,421 in revenue from a company with common directors.
- B** In February 2004, \$4,000,000 of the total debentures, bearing interest at 12% and maturing on December 30th, 2004, were issued to certain directors of the Company. \$100,000 of the set-up fees incurred to arrange the financing and \$111,801 of the interest accrued was paid to the directors. In June 2004, the debentures were fully repaid with the proceeds the Company received from a non-revolving demand loan (Note 6).
- C** During the six months ended June 30, 2003, the Company purchased capital assets of \$255,000 in exchange for 204,149 common shares from a company controlled by a director of the Company. The transaction was measured at the exchange amount as the fair values of the assets acquired were supported by independent evidence.
- D** During the six months ended June 30, 2003, of the common shares issued for cash, 193,941 common shares were issued to officers and directors of the Company for gross proceeds of \$242,250.

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

## 10) Stock Compensation

The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), expected volatility (0.20), risk-free interest rate (5.0%), and weighted average life of 5 years. The compensation expense is recognized over the 3-year vesting period of the stock options.

Had compensation expense related to employees been determined based on the fair value at the grant dates for options issued on or after January 1, 2002 and before December 31, 2002, the net income and earnings per share for the three and six months June 30, 2004 and 2003 respectively, would have been reduced to the pro forma amounts indicated below:

		For the three months ended June 30		For the six months ended June 30	
		2004	2003 (Restated - See Note 12)	2004	2003 (Restated - See Note 12)
Net income (loss)	- as (re)stated	\$ 387,432	\$ (123,076)	\$ 1,190,242	\$ (225,325)
	- pro forma	\$ 372,991	\$ (152,971)	\$ 1,161,359	\$ (285,116)
Earnings (loss) per share	- as (re)stated	\$ 0.015	\$ (0.007)	\$ 0.047	\$ (0.015)
	- pro forma	\$ 0.015	\$ (0.010)	\$ 0.046	\$ (0.021)

## 11) Segmented Information

The Company operates in four segments within the oil and gas industry. The services division provides geophysical survey audit, information management, mapping, archiving services, imaging and geophysical/geological services. The data division provides log services and a full suite of support data layers. This division also sells copies of the Company's log library and proprietary seismic data sets. The software division provides software sales maintenance and support. The brokerage division offers full service seismic brokerage. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the annual financial statements. The Company eliminates inter-segment sales and transfers. Segment profit (loss) is measured as net profit (loss) before consideration of income taxes and discontinued operations.

As at and for the three months ended Jun 30, 2004	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,342,709	\$ 2,637,571	\$ 1,300,242	\$ 792,215	\$ 6,072,737
Income (loss) from operations	(383,864)	479,246	286,040	(230,523)	150,899
Amortization	106,315	263,700	160,620	84,638	615,273
Research and development	-	-	-	-	-
Total assets <sup>(1)</sup>	4,977,841	17,870,315	6,494,106	1,242,554	30,584,816
Capital expenditures <sup>(2)</sup>	145,351	1,202,265	615,952	72,284	2,035,852

As at and for the three months ended Jun 30, 2003	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,094,334	\$ -	\$ 1,118,858	\$ 995,759	\$ 3,208,951
Income (loss) from operations	182,483	-	(614,988)	270,429	(162,076)
Amortization	138,749	-	154,211	62,577	355,537
Research and development	-	-	202,659	-	202,659
Total assets	1,986,033	-	9,061,223	1,266,503	12,313,759
Capital expenditures <sup>(2)</sup>	10,769	-	76,209	-	86,978

As at and for the six months ended Jun 30, 2004	Services	Data	Software	Brokerage	Total
Revenue	\$ 3,682,397	\$ 4,261,400	\$ 2,510,549	\$ 1,815,919	\$ 12,270,265
Income (loss) from operations	(65,954)	1,040,176	119,074	(163,286)	930,010
Amortization	231,455	507,300	310,782	112,921	1,162,458
Research and development	-	-	277,000	-	277,000
Total assets <sup>(1)</sup>	4,977,841	17,870,315	6,494,106	1,242,554	30,584,816
Capital expenditures <sup>(2)</sup>	241,673	9,027,608	651,488	102,340	10,023,109

As at and for the six months ended Jun 30, 2003	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,590,740	\$ -	\$ 2,245,954	\$ 1,856,615	\$ 5,693,309
Income (loss) from operations	240,836	-	(773,848)	245,496	(287,516)
Amortization	170,253	-	316,297	91,880	578,430
Research and development	-	-	302,659	-	302,659
Total assets	1,986,033	-	9,061,223	1,266,503	12,313,759
Capital expenditures <sup>(2)</sup>	10,769	-	117,671	255,000	383,440

(1) Excludes future income tax asset of \$1,106,752

(2) Excludes business acquisitions

## 11) Segmented Information - continued

	As at June 30	
	2004	2003
Reconciliation		
Assets		
Total assets for reportable segments	\$ 30,584,816	\$ 12,313,759
Future income taxes not allocated to segments	1,106,752	-
Total assets for the Company	\$ 31,691,568	\$ 12,313,759

During the three months ended June 30, 2004, the Company had foreign sales of \$1,703,461 (2003 - \$236,554). During the six months ended June 30, 2004, the Company had foreign sales of \$2,301,461 (2003 - \$417,254).

## 12) Contingencies

- A** As a result of the purchase of TEGGL in 2003 the Company assumed a claim filed against the Company by a former employee. In management's opinion, the claim is not determinable at this time so no estimate of loss has been made. However, should any loss result from the resolution of this claim, such loss would be accounted for in the period in which such a resolution occurs.
- B** As a result of the amalgamation with IDC in 2003, the Company assumed a claimed filed by a vendor in the amount of \$126,000. In a separate action, the Company has claimed \$610,000 in damages from the vendor for services rendered by IDC. The Company has agreed to settle the assumed claim and has accrued for this amount in 2003. It is management's opinion, the Company will recover the full amount it has claimed from the vendor.
- C** Under the terms of the seismic program acquisition agreement, Divestco is required to share a portion of the revenue earned from the sales of the data for the three years following the date of delivery, which occurred in June 2004. The revenue is to be paid in the form of "Acquisition Credits" allowing the other party to purchase the Company's existing seismic data or to participate in future seismic programs operated by the Company. A liability will be recorded at the time the sales are completed, based on the formula in the agreement, to a maximum of \$1,500,000.

## 13) Subsequent event

Subsequent to the six months ended June 30, 2004, the Company sold and leased back \$414,046 in computer equipment. The term of the lease is 36 months and bears interest at 5.76%. Monthly payments total \$11,889. Management has determined the lease to be capital in nature in accordance with CICA accounting standard Handbook Section 3065.

## 14) Change in Accounting Policies

In 2003, the Company changed its accounting policy for recognizing revenue earned from licensing software products to a straight-line method, whereby the Company recognizes revenue earned from licensing software products rateably over the term of the license. Previously, the Company recognized the revenue at the date of sale. If future services were to be performed based on the license sales, the Company deferred a percentage of revenue based on the services that were to be provided. The deferred revenue was recognized rateably over the service term.

In addition in 2003, the Company early adopted the fair value recognition for stock based compensation as required by the CICA accounting standard Handbook section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This standard requires an option-pricing model be used to determine the fair value of each option granted and the amount recognized over the vesting period of the option. Previously, the Company used the fair value method to account for such compensation but chose to disclose pro-forma information for options granted after January 1, 2002, which resulted in no expense being recognized in the Company's financial results. As a result of early adopting, the Company can implement the new standard prospectively.

#### 14) Change in Accounting Policies - Continued

The financial statements at and for the three and six months ended June 30, 2003 have been restated to reflect these changes in accounting policies as follows:

	As stated for the three months ended June 30, 2004	Adjustments	As stated for the three months ended June 30, 2003
Revenue	3,269,962	(61,011)	3,208,951
Net loss for the period	(5,739)	(117,337)	(123,076)
Deficit - beginning of period	(332,688)	(427,121)	(759,809)
Deficit - end of period	(338,427)	(544,458)	(882,885)
	As stated for the six months ended June 30, 2004	Adjustments	As stated for the six months ended June 30, 2004
Revenue	5,815,330	(122,021)	5,693,309
Net loss for the period	(33,556)	(191,769)	(225,325)
Deficit - beginning of period	(347,776)	(309,784)	(657,560)
Deficit - end of period	(381,332)	(501,553)	(882,885)

#### 15) Comparative figures

Certain figures with respect to the three and six months ended June 30, 2003, have been reclassified to conform to the current period's presentation.

#### 16) National Instrument 51-102 Notice

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the six months ended June 30, 2004.

# Corporate Information

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## Directors

Stephen Popadynetz  
John A. Brussa <sup>(1,2)</sup>  
Wade Brillon <sup>(1)</sup>  
M.Scott Ratushny <sup>(1)</sup>  
Edward L. Molnar  
Brent Gough

(1) Member of the Audit Committee

(2) Chairman of the Board

## Officers

Stephen Popadynetz - Chief Executive Officer  
Terry Barnhart - President  
Steve Sinclair-Smith - VP Technical Services  
Mathew Hepton - VP Software Development  
Shannon Niemi - VP Sales and Marketing  
Clare Bowie - VP Databases  
Peter Ciavarella - VP Geological Services  
Chuck Smith - VP Geomatics

## Controller

Joanne Finnerty

## Corporate Secretary

Faralee A. Chanin

## Stock Exchange Listing

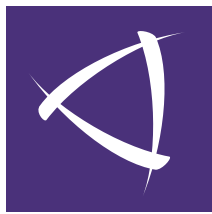
TSX Venture Exchange: DVT

## Bankers

HSBC Bank of Canada

## Registrar and Transfer Agent

CIBC Mellon Trust Company



**Divestco Inc.**

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