



Divestco

2007 ANNUAL REPORT



# The Evolution of Exploration

An Integrated Solution

07

Integrated, innovative solutions  
to enable our customers to drive  
the evolution of exploration and  
to deliver shareholder value.



07

# Divestco is a growth-oriented company that provides a comprehensive and integrated portfolio of software, services, data and consulting to the oil and gas industry.

Our offerings consist of a diverse range of innovative and complementary products and services, with unique value-added bundling and integration options. Divestco has developed its business model based on a plan of strategic acquisition and organic growth.

Based in Calgary, Alberta, Divestco has more than 500 employees worldwide, with additional offices in Denver, Colorado and Houston, Texas.

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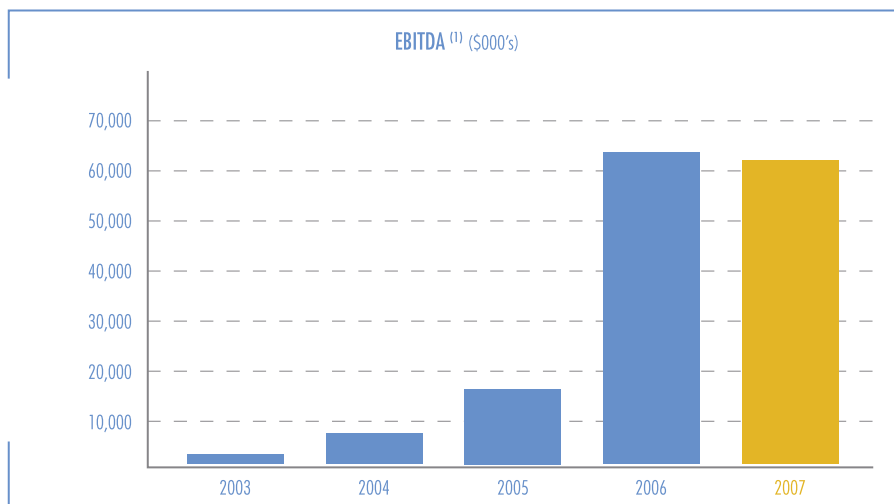
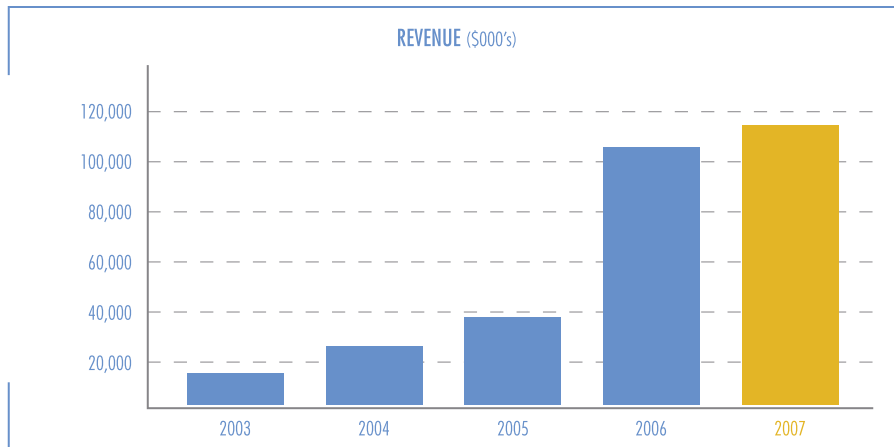


## FINANCIAL HIGHLIGHTS

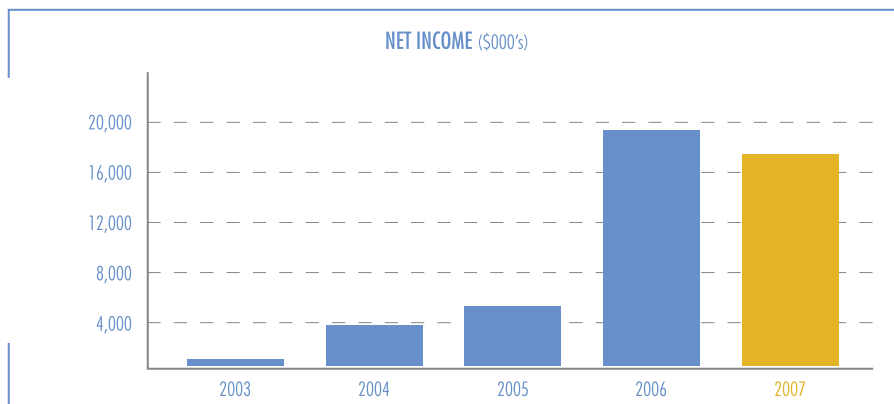
FINANCIAL RESULTS (Thousands, Except Per Share Amounts)	THREE MONTHS ENDED DECEMBER 31			YEAR ENDED DECEMBER 31		
	2007	2006	% Change	2007	2006	% Change
Revenue	\$35,528	\$30,546	16%	\$116,070	\$106,463	9%
EBITDA <sup>(1)</sup>	21,755	16,853	29%	61,677	63,663	-3%
Operating Income <sup>(1)</sup>	4,937	12,748	-61%	23,569	26,377	-11%
Net Income	5,116	8,690	-41%	17,541	19,615	-11%
Per Share - Basic	0.12	0.25	-52%	0.45	0.60	-25%
Per Share - Diluted	0.12	0.24	-50%	0.42	0.58	-28%
Funds from Operations <sup>(1)</sup>	15,092	16,866	-11%	35,611	63,263	-44%
Per Share - Basic	0.36	0.48	-25%	0.91	1.94	-53%
Per Share - Diluted	0.34	0.47	-28%	0.85	1.88	-55%
Shares Outstanding	41,579	35,399	17%	41,579	35,399	17%
Weighted Average Shares Outstanding						
Basic	41,471	34,912	19%	39,200	32,665	20%
Diluted	43,779	36,003	22%	41,763	33,704	24%

<sup>(1)</sup> See the Non-GAAP Measures Section.

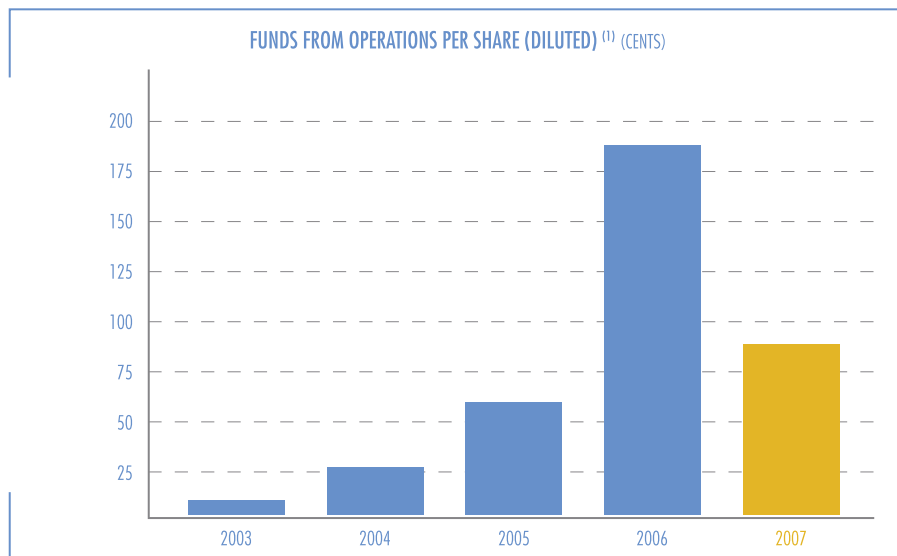
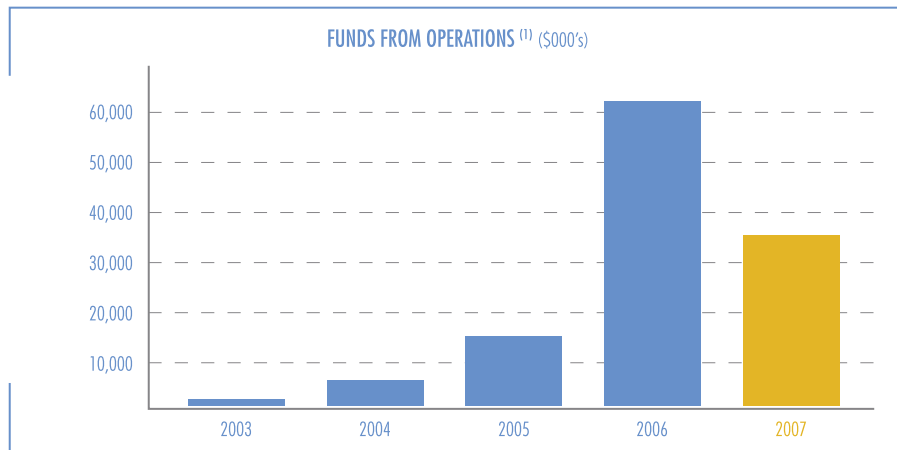
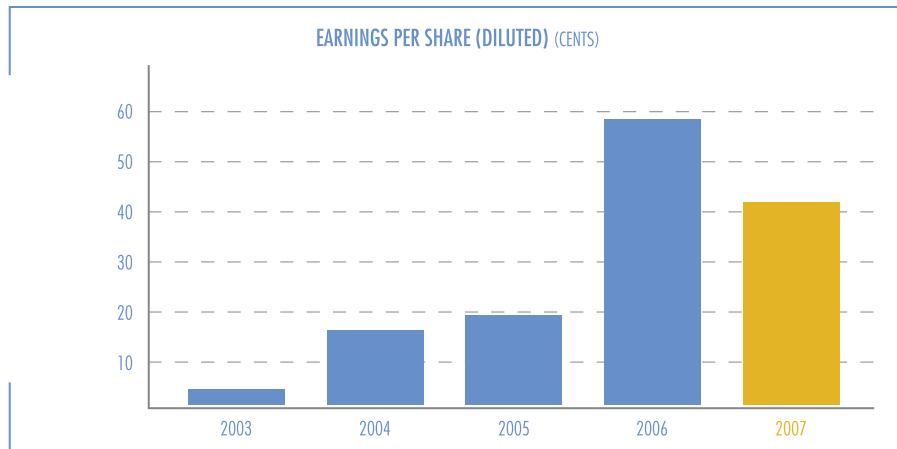
# FINANCIAL HIGHLIGHTS: YEARLY COMPARISON



<sup>(1)</sup> See the Non-GAAP Measures Section.

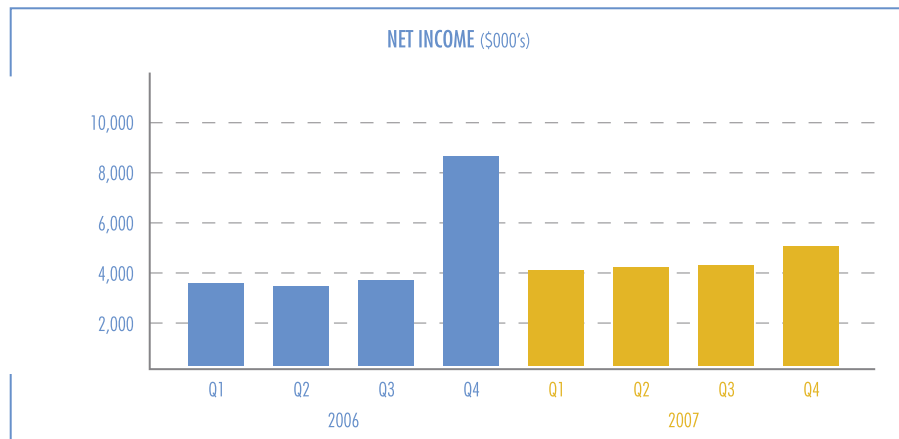
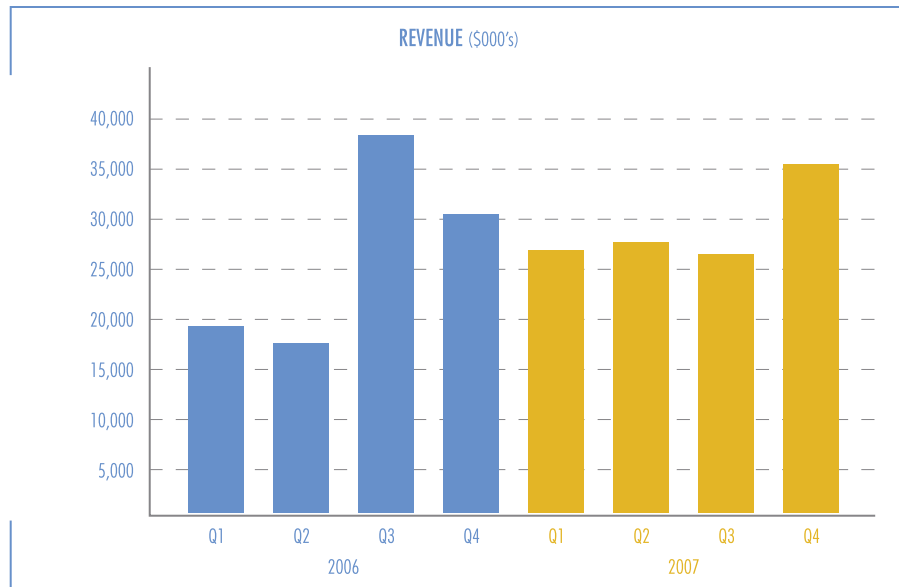


# FINANCIAL HIGHLIGHTS: YEARLY COMPARISON



<sup>(1)</sup> See the Non-GAAP Measures Section.

# FINANCIAL HIGHLIGHTS: QUARTERLY COMPARISON





# MESSAGE TO SHAREHOLDERS

Divestco exited 2007 with its 17th consecutive quarter of profitability. I am proud of what Divestco has achieved in our relatively short corporate history and, indeed, I am proud of what we accomplished in 2007. What makes this even more impressive is that we did this despite the economic uncertainty around us, further verifying the solid foundation we have built to maintain our positive track record.

## ALBERTA'S ROYALTY REVIEW

Following the proposed royalty changes announced by the Alberta government in the fall of 2007 and continued depressed natural gas prices, Divestco witnessed a moderate slow-down in portions of our service segments consistent with the overall reduction in our clients' cash flows. In January 2009, when the new Alberta royalties are expected to take effect, we anticipate continued erosion of our Alberta customers' capital budgets and subsequently, a corresponding reduction in demand for some of our services in Alberta. Divestco maintains a strong data and service presence outside of Alberta and we have witnessed an increase in activity in British Columbia and Saskatchewan which is expected to partially offset the expected decline in our Alberta-related revenue. Divestco has positioned many of its assets in areas where oil and gas investments must be made, thus providing a hedge to potential slowing in general oil and gas business levels.

## GROWTH THROUGH ACQUISITIONS

One of our core competencies is our ability to identify and integrate key acquisitions that are accretive to our business segments. This allows us to further augment and improve our overall product and service offerings. In 2007, Divestco continued this strategy by completing five acquisitions:

- BlueGrouse Seismic Solutions Ltd. (BlueGrouse) in May 2007, a seismic data and brokerage company.
- Geomatics business unit of Veritas Energy Services Partnership (Veritas) in May 2007.
- Spectrum Seismic Processing Partnership (Spectrum) in June 2007, a seismic processing company.
- i Land Data Ltd. (iLand) in June 2007, a software company.
- Canadian Landmasters Resource Services Ltd. (Landmasters) in November 2007, a land services company.

BlueGrouse was a Calgary-based company focused on providing the oil and natural gas industry with quick, reliable access to cost-effective, high-resolution seismic data. BlueGrouse had four main components to its business model: Data Library, Multi-Client Services, Data Brokerage and Data Management.

The BlueGrouse seismic data library consisted of approximately 32,000 net kilometers of 2D and 3,500 net square kilometers of 3D seismic data that strategically complemented our existing seismic database. The addition of BlueGrouse also facilitated the expansion of our Seismic Brokerage division, which was already Canada's largest.

Veritas' Geomatics business unit delivered top quality survey audit and geospatial data management services to the seismic industry in Canada since 1982. Divestco's own Survey Integrity and Spatial Data Services departments have established an excellent reputation as innovators in the industry. With the use of leading edge technology and highly-skilled personnel, they have provided top quality service and products since 1994. This acquisition combined the two geomatics leaders in the Canadian oil and gas industry and created a dominant single entity with unparalleled technology and capacity in North America.

Spectrum provided a full range of onshore seismic data processing services in western Canada since 1993 and brought with it a reputation for excellent client service. Spectrum has an extremely strong technical group that has identified many innovative software solutions which, when implemented, will complement Divestco's existing Seismic Processing division. Over time, we expect to capitalize on economies of scale and take advantage of new and innovative processing business opportunities.

iLand provided data management related software to the oil and gas industry since 1996 including Project Tracker, Facility Manager and Reclamation Manager. iLand's suite of products have a number of synergies with Divestco's existing software products and services. The acquisition of iLand provided us with a natural extension to our existing land-based suite of products and services. It is expected that our infrastructure, including software development and customer support, will have a positive impact on iLand's ability to deliver quality products and services.

Landmasters was a Calgary-based land services company with branch and field offices in Edmonton and Medicine Hat, Alberta, and Carlyle, Saskatchewan. Since 1976, it has provided professional land services to the resource, pipeline and utility industries in western Canada. Together with the acquisition of Cavalier Land Ltd. (Cavalier Land) in July 2006, one of western Canada's leading land services companies and LandRite, our land management software system, Divestco is positioned to optimize and increase the suite of land services we can offer to the land departments of our producer client base. Along with the comprehensive integrated solutions we already provide, we are excited to be able to extend these additional synergies to our customers. Landmasters also provides further expansion opportunities into Saskatchewan, which could prove beneficial in light of the increased industry activity in this region.

## SEISMIC GROWTH

Divestco continued to add to its already large seismic database in 2007. In addition to the BlueGrouse acquisition, the Company completed seven 3D seismic surveys covering an approximate area of 1,084 square kilometers. Divestco also acquired a number of existing seismic datasets totaling approximately 1,581 net square kilometers of 3D seismic and 290 net linear kilometers of 2D data and the remaining ownership interest in two 3D data libraries covering approximately 825 net square kilometers.

Divestco now controls one of Western Canada's largest premier seismic databases with approximately 100,000 gross kilometers of 2D data and 16,000 gross square kilometers of 3D data. Divestco also controls the largest 3D British Columbia seismic dataset in the industry. In response to the Alberta Royalty Review, the Company will continue to focus on acquiring additional data in British Columbia and Saskatchewan subject to demand from clients in Alberta.

## FINANCIAL STRENGTH AND RELIABILITY

I am pleased to report that Divestco achieved record revenue for the year 2007. Total revenue for 2007 increased by 9% to \$116.1 million compared to \$106.5 million in 2006. EBITDA<sup>(1)</sup> was \$61.7 million compared to \$63.7 million in 2006, a 3% decrease. Net income for 2007 decreased by \$2.1 million (11%) to \$17.5 million from \$19.6 million earned in 2006. Most importantly, Divestco has achieved over four years of consecutive quarter by quarter profitability. We credit our reliability to our continuous focus on operating a well managed, strategically positioned business committed to providing superior products and services. (Message to Shareholders continued page 08)

<sup>(1)</sup> See the Non-GAAP Measures Section.

# MESSAGE TO SHAREHOLDERS

## CONCLUSION

Notwithstanding the fact that Divestco has continued to deliver substantial positive returns and growth, the stock price has not been immune to the overall downgraded market perception of the oil and gas service industry. To create greater flexibility when favorable market conditions return, Divestco is pursuing a more focused and less expansive strategy. Divestco is forecasting overall growth and continued profitability in 2008, however consistent with our industry peers we are cautiously optimistic. Despite a recent indication of strengthening natural gas prices, we are concentrating on our core business lines and strategic assets. By doing this, Divestco expects to be well positioned for future growth during the next positive market cycle. 2008 promises to be an interesting and exciting year and I look forward to the challenges and potential rewards that may lie ahead.

On behalf of the Board of Directors, I want to express my appreciation to our staff who, day in and day out, continue to prove to the industry that Divestco is the dominant market player, providing a comprehensive and integrated portfolio of data, software, services and consulting to the oil and gas industry. I also want to thank our shareholders for their continued commitment to Divestco.



Stephen Popadynetz  
Chief Executive Officer

## OVERVIEW

Divestco is a growth-oriented company that provides a comprehensive and integrated portfolio of software, services, data and consulting to the oil and gas industry. Through our continued commitment to align and bundle products and services to generate value for our customers, we are creating an unparalleled set of integrated solutions and unique benefits for the marketplace. We have the breadth and uniqueness of software, services, data and consulting solutions along with the expertise that offers our customers the ability to access and analyze information and make business decisions to optimize their success in the upstream oil and gas industry.

Divestco has developed its business model based on a plan of strategic acquisition and organic growth.

Divestco's key advantage is its integrated business model made up of four key operating segments: Software, Services, Data and Consulting. Together, our capabilities in these areas mean we have a broad portfolio of products and services to offer to the oil and gas industry and we are uniquely capable of creating innovative product bundles. Customers can choose from individual products and services, bundled offers and custom solutions to best meet their needs. The complementary nature of our products and services lets us provide a "one-stop-shop" that benefits customers in terms of time reductions, cost savings, innovation and completeness of solutions.

## 2007 HIGHLIGHTS

- Increased revenue approximately 9% from \$106 million in 2006 to \$116 million in 2007
- Completed five key corporate acquisitions:
  - BlueGrouse, with a seismic database of 32,000 km of 2D data and 3,500 km<sup>2</sup> of 3D (value \$30.2 million, including the assumption of debt)
  - Geomatics business unit of Veritas (value \$3.2 million)
  - Spectrum (value \$1.9 million)
  - iLand (value \$0.8 million)
  - Landmasters (value \$1.1 million)
- Closed a \$60 million bank facility with Wells Fargo Financial Corporation Canada (WFFCC)
- Acquired approximately an additional net 2,400 km<sup>2</sup> of 3D, net 300 km of 2D and acquired 100% ownership in 1,060 km<sup>2</sup> of 3D seismic data

## FOCUS AREAS

Divestco's aim is to be a single source provider for oil and gas companies by offering a diverse range of innovative, complementary and attractively priced products and services with unique bundling and integration options. The Company will continue to focus on delivering growth and shareholder value both through strategic acquisitions and aggressive organic growth. The pursuit of new bundling opportunities, enhanced integration and cross-selling to meet customers' needs as well as deliver value to the industry, will also be emphasized.

# SOFTWARE

## OVERVIEW

Divestco's Software segment provides over 20 geological, geophysical and land applications used by oil and gas professionals, including geologists, geophysicists, engineers, land agents and land administrators worldwide. Core software products include: WinPICS, GeoVista, GeoCarta Tools, MapQ, LandRite and iLand. Divestco's software suite is designed with a thorough understanding of the workflows and requirements of oil and gas professionals.

### Geophysical →

**WinPICS:** Full-featured, integrated seismic workstation with superior stratigraphic structural interpretation capabilities for both 2D and 3D seismic data, an ancillary 3D visualization offering and integrated stratigraphic log modeling.

### Geological, Data Access, Analysis and Mapping Tools →

**GeoVista:** Easy-to-use oil and gas data browser with extensive query capabilities, log cross section capabilities and bundled data offerings.

**GeoCarta Tools:** An open system that provides browse, query and mapping capabilities for oil and gas professionals within a leading GIS platform and allows for seamless integration of both internal and external oil and gas datasets.

### Land →

**LandRite:** Comprehensive proprietary land management system built on standard land administration practices.

**MapQ:** Advanced, user-friendly mapping tool that combines proprietary and public data into easy-to-read presentation-quality maps.

**iLand:** A software suite (Project Tracker, Reclamation Manager and Facility Manager) that automates and simplifies how you manage, track and report on your energy sector assets.

## 2007 HIGHLIGHTS

- Increased revenue by \$1.4 million (20%) due to continued growth in existing key products and the acquisition of iLand
- In June 2007 Divestco acquired iLand, a provider of data management software whose suite of products have numerous synergies with our existing software products and services

## FOCUS AREAS

- We will continue to focus on integration so that our customers can work collectively and share information seamlessly to make informed and accurate business decisions
- Divestco is investing heavily in long-term research and development activities; once commercialized, these activities will add to the software revenue stream through new product offerings and differentiators in several of our existing products
- Opportunities for custom software development consulting work are aggressively being pursued

## OVERVIEW

Divestco's Services segment offers survey integrity services, archiving, seismic processing, spatial data services and seismic brokerage. These services are provided to customers who require data quality assurance, processing and data management services for geophysical and geological information. Our services have a strong, long-standing reputation in the industry for reliability and accuracy. The broad range of service areas enables us to provide integrated and customized solutions to best meet customer requirements.

**Geomatics:** Our Geomatics division provides customers with seismic survey integrity and geospatial data services, including data integrity validation, GIS mapping, database management and hosting, remote sensing analysis and geological modeling services. We have a team of geomatics, survey, GIS, geological, and geophysical professionals to provide integrated solutions. Our goal is to position clients for success through our commitment to quality and our focus on continuous improvements and to increase clients' confidence in the geospatial data they use to make interpretive and expenditure decisions.

**Archive:** Archive uses industry-leading data management practices to provide clients with secure and cost-effective archive solutions for storing, accessing, and managing their proprietary seismic data.

**Processing:** Divestco Processing has been providing seismic processing for over 35 years and is built around top-level service, expert staff, state-of-the-art software, strong research and development and industry-leading turnaround. We provide our clients with access to processing experts for consultation, custom software solutions, problem solving and quality control.

**Brokerage:** Seismic Brokerage and Data Sales Management provides clients with the industry's largest data brokerage and management services, including using eBroker for exclusive online quality inspection project management.

## 2007 HIGHLIGHTS

- In May 2007, Divestco acquired the Geomatics business unit of Veritas which delivers survey integrity and geospatial data management services to the oil and gas industry
- In June 2007, we acquired Spectrum which added a full range of onshore seismic data processing services and a strong technical group with innovative software solutions to Divestco's existing processing business, providing customers with expanded capacity and industry-leading technical capabilities
- Increased revenue by \$7.6 million (45%) related mainly to the acquisition of the Processing division in May 2006, Veritas' Geomatics business unit in May 2007 and Spectrum in June 2007

## FOCUS AREAS

- Sustain our focus on the integration of services to create additional benefits and efficiencies for our customers
- Continue to build on our internal efficiencies, quick turnaround times and high quality services for clients
- Enhance infrastructure so our clients can be linked to the integrated and comprehensive suite of service offerings

# DATA

## OVERVIEW

Divestco's Data segment offers the market over 120 datasets including proprietary seismic data, drilling data, log data and a full suite of exploration and production data (well, land, drilling, log and mapping). We also provide ancillary document management services such as high-quality technical document digitizing, rasterizing and scanning services for our customers' data management needs. Our data has become an indispensable resource for geologists, geophysicists, engineers and land agents and complements both Divestco and other third-party industry software applications. It is also used in value-added software/data bundles offered to our customers.

**Geological Data:** Normalized formation data across the Western Canadian Sedimentary Basin (WCSB). All major formations have been modeled in 3D and their erosional limits have been mapped. Reserves data for the western Canadian provinces are acquired annually and offered as a common database. In addition, WCSB Calculated Tops and 50% coverage of regional typelogs are complete.

**Drilling Data:** Rig activity, well permit and licensing activity, drilling history records and drilling studies are available from across North America.

**Seismic Data:** Actively acquiring 3D seismic data, focusing on areas with significant geological potential. Divestco has a seismic data library with approximately 99,000 gross km of 2D (79,000 net km) and 16,000 gross km<sup>2</sup> of 3D (14,000 net km<sup>2</sup>).

**Well Log Data:** Canada's first and most complete collection of digital curve data and scanned well logs; Divestco has accumulated log data for over half a million Canadian wells.

**Well Data:** Extensive well data records include expanded production/injection, pressure, tests, formations, cores, casings, gas analysis and completions data, as well as highly accurate well positioning in major grid and datum versions. U.S. production history and calculated well positions.

**Land Data:** Live online access to up-to-date Open, Held and Disposed Crown, First Nations Land, Sales and Results, Nickle's Enhanced Freehold and available with NAD27 and NAD83 polygonization.

**GIS Data:** Custom map data layers for Canada and the United States both onshore and offshore. Layers include grids, culture, watersheds, transportation and pipelines. Accurate spatial grids and WCSB formation edges and pools from the Westcan library.

## 2007 HIGHLIGHTS

- Acquired approximately an additional net 2,400 km<sup>2</sup> of 3D, net 300 km of 2D and acquired 100% ownership in 1,060 km<sup>2</sup> of 3D seismic data
- In May 2007, Divestco announced the acquisition of BlueGrouse which has four main components to its business model: Data Library, Multi-Client Services, Data Brokerage and Data Management
- Completed the quality control of over 500,000 well logs, building on our reputation of having the highest level of log quality in the industry

## FOCUS AREAS

- Data acquisition, integration and analytical visualizations in Canada and the U.S.
- Continue to enhance our seismic library by acquiring seismic data in less cyclical areas of the WCSB
- Facilitate data integration and visualization with software applications and third-party solutions

## OVERVIEW

Divestco's Consulting segment provides comprehensive solutions including business consulting services, ERP/CRM systems implementations, custom software development, hardware devices and network infrastructure as well as land management services to the oil and gas industry. Our consulting services are custom-driven and focused on innovation, integration and decreasing clients' operational costs, possible through the breadth of products and services we can make available to our customers.

**Enterprise Resource Planning (ERP) Solutions:** Implementing and supporting critical financial, operations and resource management systems (Microsoft Dynamics AX®, Microsoft Dynamics GP®, Microsoft Dynamics SL®) to assist customers in managing profitability.

**Customer Relationship Management (CRM) Solutions:** Implementing CRM solutions to enable clients to effectively manage their customer bases and increase revenues.

**Technical Services:** Technical infrastructure architecture, installation, and proactive monitoring and support solutions (NetGuard: remote network monitoring services and onsite technical support services, IT implementations and consulting) to maintain business continuity for our clients.

**Industry Solutions:** Supplying industry-leading oilfield service field ticketing solutions, project management and joint venture accounting solutions for oil and gas exploration and production.

**Cavalier Land and Landmasters:** One of western Canada's leading land services companies with operations throughout the region. It provides surface acquisition services, public consultation and regulatory guidance, freehold mineral acquisition services, and crown land sale representation. Cavalier has over 20 land agents across Alberta and Saskatchewan, with extensive petroleum and agricultural experience and a focus on acquisition and consultation.

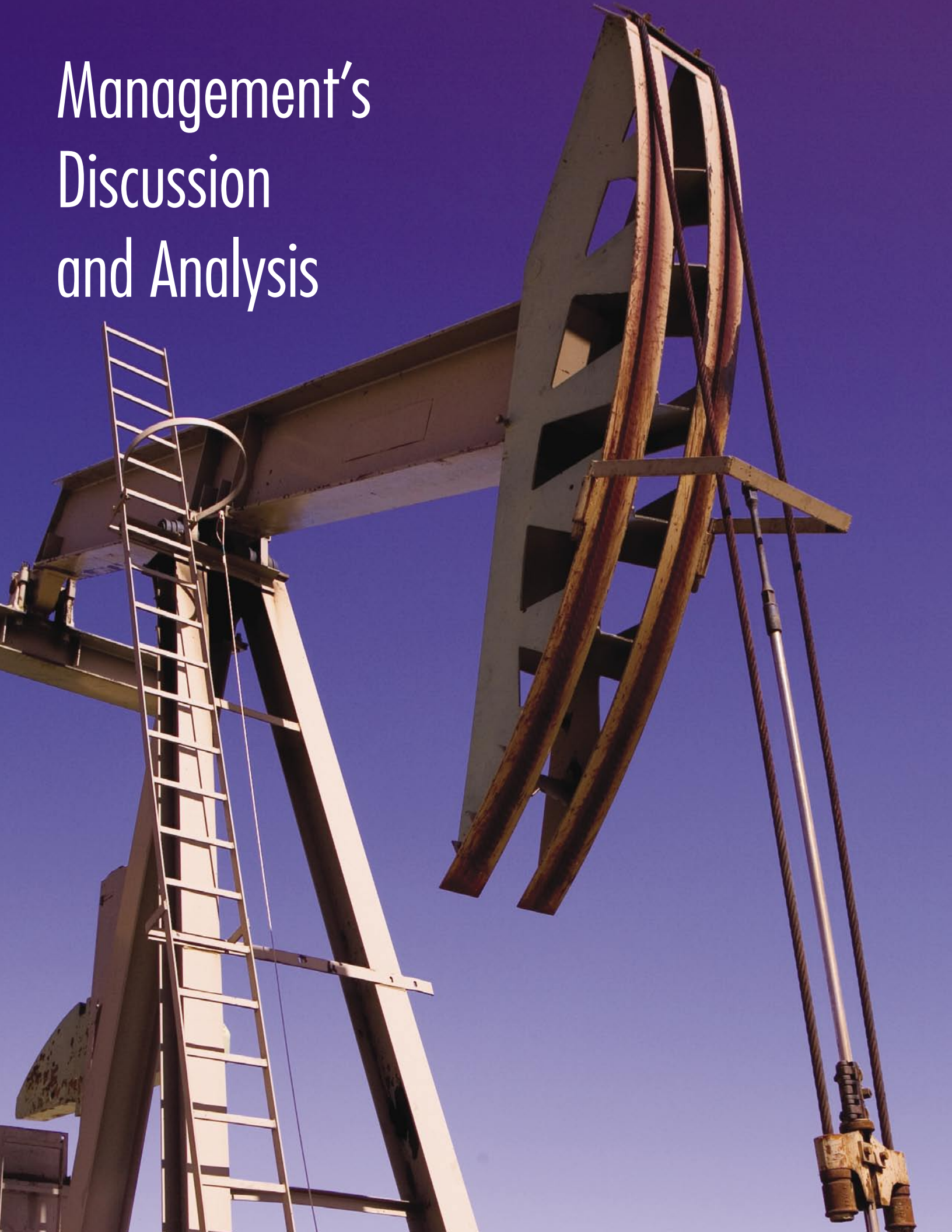
## 2007 HIGHLIGHTS

- Restructured the Business Consulting division to offer clients the highest levels of customer service
- Successfully completed over 15 implementation projects
- Cavalier Land completed the acquisition of Landmasters in November, giving Cavalier Land a strong Saskatchewan presence and offices in Medicine Hat, Alberta and Carlyle, Saskatchewan

## FOCUS AREAS

- Continue expansion of Technical Services and ERP practices
- Broaden our consulting offerings by bringing to market new solutions that meet customer needs and leverage our products and services

# Management's Discussion and Analysis



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

Management's Discussion and Analysis (MD&A) for Divestco Inc. (Divestco or the Company) focuses on key statistics from the financial statements and pertains to known risks and uncertainties relating to the oil and gas exploration and production industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political, and environmental conditions. This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2007 and 2006. Unless otherwise disclosed, all financial information in this section has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and is reported in Canadian dollars.

This MD&A is dated March 18, 2008.

## FORWARD LOOKING STATEMENTS

This Annual Report 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 the expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the factors discussed in the Business Risks and Environment section of this MD&A.

## NON-GAAP MEASURES

This Annual Report uses the terms EBITDA (earnings before interest, income taxes, depreciation, and amortization), operating income, funds from operations, and funds from operations per share (basic and diluted); however, these terms are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. While these measures may not be comparable to similar measures presented by other issuers, they are described and presented in this Annual Report 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.

### EBITDA

Divestco uses EBITDA as a key measure to evaluate the performance of segments, divisions and the Company, with the closest GAAP measure being net income. EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to financing decisions, and depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on Canadian GAAP and should not be considered an alternative to Operating Income or Net Income in measuring the Company's performance, nor should it be used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the Consolidated Statements of Cash Flows. Investors should carefully consider the specific items included in Divestco's computation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by Divestco may not be comparable in all instances to EBITDA as reported by other companies. (EBITDA continued page 16)

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a reconciliation of EBITDA with net income and operating income:

EBITDA (Thousands)	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	2007	2006	2007	2006
Net Income	\$5,116	\$8,690	\$17,541	\$19,615
Income Tax Expense (Reduction)	(209)	4,101	5,768	8,867
Other Income (Loss) <sup>(1)</sup>	(30)	43	(260)	2,105
Operating Income	\$4,937	\$12,748	\$23,569	\$26,377
Interest	1,075	399	3,684	1,235
Depreciation and Amortization	15,743	3,706	34,424	36,051
EBITDA	\$21,755	\$16,853	\$61,677	\$63,663

<sup>(1)</sup> Other income (loss) includes foreign exchange gains or losses, gains or losses on sales of property, plant and equipment/investments, and equity investment income or loss.

## Funds from Operations

Divestco reports funds from operations because it is a key measure used by management to evaluate its performance and to assess the ability of the Company to finance operating activities and capital expenditures. Funds from operations excludes certain working capital changes and other sources and uses of cash, which are disclosed in the Consolidated Statements of Cash Flows. Funds from operations is not a calculation based on Canadian GAAP and should not be considered an alternative to the Consolidated Statements of Cash Flows. Funds from operations is a measure that can be used to gauge Divestco's capacity to generate discretionary cash flow. Investors should be cautioned that funds from operations as reported by Divestco may not be comparable in all instances to funds from operations as reported by other companies. While the closest GAAP measure is cash flows from operating activities, funds from operations is considered relevant because it provides an indication of how much cash generated by operations is available before proceeds from divested assets and changes in certain working capital items.

The following reconciles funds from operations with cash flows from operating activities:

FUNDS FROM OPERATIONS (Thousands)	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	2007	2006	2007	2006
Cash Flows from Operating Activities	\$13,869	\$18,695	\$22,571	\$66,405
Changes in Non-Cash Working Capital Balances	672	(2,512)	13,870	(2,884)
Increase (Decrease) in Non-Current Deferred Revenue	691	783	(270)	142
Decrease in Long-Term Accounts Receivable	(140)	(100)	(560)	(400)
Funds from Operations	\$15,092	\$16,866	\$35,611	63,263

## BUSINESS RISKS AND ENVIRONMENT

### Demand for Products and Services

Divestco's business is tied primarily to the oil and gas exploration and production industry and as a result, the Company is exposed to all of the uncertainties that are associated with that industry. The demand and price for services and products offered by Divestco depends on the activity levels for oil and gas producers, which are determined by commodity prices, supply and demand for oil and natural gas, and to a lesser extent, government regulation (including regulation of environmental matters and material changes in taxation policies).

Divestco receives a significant portion of its revenue from the licensing of seismic data. To mitigate its demand risk, the Company spends a significant amount of time determining the optimal location to conduct a seismic survey, which includes using its contacts in the oil and gas exploration and production industry, and pre-selling licenses to the data. For larger seismic programs, the Company may rely on third parties to share in the cost, which means these parties are also susceptible to the risks and uncertainties associated with the oil and gas industry.

Although Divestco does what it considers to be a thorough analysis of the factors that may affect the probability of future sales of its seismic surveys and obtains pre-sale commitments for a majority of the estimated costs of its participation seismic surveys, there is no certainty of future demand for these surveys by the oil and gas industry.

### Seasonality

Acquisition of seismic data is usually completed in the winter season when the ground is frozen. These conditions are imperative especially in the northern areas of Alberta and British Columbia where seismic acquisition requires the use of heavy equipment. The Company depends on qualified contractors to complete the surveys on time and within budget. To help ensure this, Divestco obtains written cost estimates before a survey begins, and then regularly follows up with the contractor on the progress and costs incurred during the survey.

The Company's Services segment normally exhibits a noticeable reduction in sales from mid-April through to the end of September, and a noticeable increase in sales during the fall and winter months when significant drilling and exploration activities are underway in North America. Divestco tries to minimize these fluctuations by entering into certain long-term archiving contracts with customers, as well as by performing specific types of contract work appropriate for lower activity months. The Software segment experiences a slow-down during July and August, which is generally a slower period for the oil and gas industry in western Canada.

### Competition

The Company operates in a highly competitive, price-sensitive industry. In addition, Divestco competes with some senior companies that generally have access to a larger pool of capital resources and may have a significant international presence. Divestco attempts to distinguish itself from its competitors by selling a wide range of oil and gas exploration products and services on either a stand-alone basis or as customized and bundled solutions.

### Skilled Labour

Divestco's success also depends on attracting and retaining highly-skilled management, geophysical, geological, software development, sales, consulting, and other staff. The Company achieves this by offering an attractive compensation package and training. To protect its competitive advantage and intellectual property, Divestco obtains confidentiality agreements and non-compete agreements from some of these individuals.

### Government Regulations and Safety

The Company's seismic operations are subject to a variety of Canadian federal and provincial laws and regulations, including laws and regulations relating to safety and the protection of the environment. In its operations, Divestco and its contractors are required to invest financial and managerial resources to comply with such laws and related permit requirements. However, because such laws and regulations are subject to change, it is not feasible for the Company to predict the cost or impact of such laws and regulations on its future operations. As well, the adoption or modification of laws and regulations, which may lead oil and gas companies to curtail exploration and development, could also adversely affect Divestco's seismic operations by reducing the demand for seismic surveys.

You can view copies of the Company's other continuous disclosure documents at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.divestco.com](http://www.divestco.com).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

FINANCIAL RESULTS (Thousands, Except Per Share Amounts)	THREE MONTHS ENDED DECEMBER 31			YEAR ENDED DECEMBER 31		
	2007	2006	% Change	2007	2006	% Change
Revenue	\$35,528	\$30,546	16%	\$116,070	\$106,463	9%
Operating Expenses	13,773	13,693	1%	54,393	42,800	27%
EBITDA <sup>(1)</sup>	21,755	16,853	29%	61,677	63,663	-3%
Interest	1,075	399	169%	3,684	1,235	198%
Depreciation and Amortization	15,743	3,706	325%	34,424	36,051	-5%
Operating Income <sup>(1)</sup>	4,937	12,748	-61%	23,569	26,377	-11%
Other Income (Loss)	(30)	43	n/a	(260)	2,105	n/a
Income Tax Expense (Reduction)	(209)	4,101	n/a	5,768	8,867	-35%
Net Income	\$5,116	\$8,690	-41%	\$17,541	\$19,615	-11%
Per Share - Basic	0.12	0.25	-52%	0.45	0.60	-25%
Per Share - Diluted	0.12	0.24	-50%	0.42	0.58	-28%
Funds from Operations <sup>(1)</sup>	\$15,092	\$16,866	-11%	\$35,611	\$63,263	-44%
Per Share - Basic	0.36	0.48	-25%	0.91	1.94	-53%
Per Share - Diluted	0.34	0.47	-28%	0.85	1.88	-55%
Shares Outstanding	41,579	35,399	17%	41,579	35,399	17%
Weighted Average Shares Outstanding						
Basic	41,471	34,912	19%	39,200	32,665	20%
Diluted	43,779	36,003	22%	41,763	33,704	24%

FINANCIAL POSITION (Thousands)	BALANCE AS AT DECEMBER 31		
	2007	2006	2005
Total Assets	\$235,509	\$132,942	\$80,198
Working Capital <sup>(2)</sup>	(32,429)	(10,955)	3,515
Long-Term Debt Obligations (Including Current Portion)	44,289	9,931	11,604

<sup>(1)</sup> See the Non-GAAP Measures Section.

<sup>(2)</sup> Excluding the current portion of deferred revenue of \$4.4 million, the Company's working capital deficiency was \$28.1 million at December 31, 2007 related primarily to the following: reclassification of the convertible debentures assumed from the May 2007 BlueGrouse acquisition from long-term to current liabilities as they mature in November 2008, four 3D surveys completed in the fourth quarter at a cost of approximately \$20 million and corporate income taxes of \$7.3 million. The Company's main focus in 2008 is to strengthen its Balance Sheet and return to a positive working capital position.

## CONSOLIDATED FOURTH QUARTER FINANCIAL RESULTS – 2007

Divestco generated 12 cents per share in earnings (diluted) for the fourth quarter of 2007 compared to 24 cents (diluted) in 2006. Net income was \$5.1 million compared to \$8.7 million in 2006, a decrease of \$3.6 million (41%). Revenues were \$35.5 million, an increase of \$5 million (16%) from \$30.5 million in 2006. Funds from operations decreased by \$1.8 million (10%) from \$16.9 million in 2006 (\$0.47 per share – diluted) to \$15.1 million (\$0.34 per share – diluted) in 2007.

### Highlights for the Fourth Quarter of 2007:

- An increase in revenue of \$2.3 million (11%) in our Data segment to \$22.4 million from \$20.1 million for the same period in 2006. Seismic participation revenue increased by \$8.8 million (254%) to \$12.2 million from \$3.4 million in 2006 as we completed four new 3D seismic surveys in the quarter compared to a single survey during the same period in 2006. Total aggregate library sales for the quarter were \$10.1 million, down from \$16.7 million in 2006, a decrease of \$6.6 million (39%). However, library sales were up significantly on an annual basis.
- We acquired approximately 797 net square kilometres of 3D seismic valued at approximately \$30.1 million, complementing our existing seismic datasets.
- Our Services business increased its revenue by \$2 million (40%) mainly due to the completion of a large Archive project, from the work completed on Divestco's four new 3D seismic surveys, and from two acquisitions completed in 2007: Spectrum and the Geomatics business unit from Veritas.
- Software increased its revenue by \$818,000 (44%), related to a large software consulting project that commenced in the second quarter, and to the acquisition of iLand in June 2007.

## CONSOLIDATED ANNUAL FINANCIAL RESULTS – 2007

Divestco generated 42 cents per share in earnings (diluted) for the year ended December 31, 2007, compared to 58 cents (diluted) for fiscal 2006. Net income was \$17.5 million compared to \$19.6 million in 2006, a decrease of \$2.1 million (11%). Revenues were a record \$116.1 million, an increase of \$9.6 million (9%) from \$106.5 million in 2006. Funds from operations decreased by \$27.7 million (44%) from \$63.3 million in 2006 (\$1.88 per share – diluted) to \$35.6 million (\$0.85 per share – diluted) in 2007.

### Highlights for Fiscal 2007:

- Our aggregate data library (inventory) sales increased by \$23.6 million (99%) to \$47.6 million from \$23.9 million for the same period in 2006, demonstrating the quality of the dataset the Company is building.
- Services increased its revenue by \$7.6 million (45%) related mainly to the purchase of Veritas' Geomatics business unit and ancillary work captured on the Company's newly acquired seismic datasets.
- Consulting's revenue increased by \$4.3 million (49%), primarily due to the acquisition of Cavalier Land in July of 2006, and the acquisition of Landmasters in November 2007.
- Our Software business increased its revenue by \$1.4 million (20%), related to growth in its existing product lines and a consulting project that commenced in the second quarter.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OUTLOOK

Divestco is forecasting overall growth in 2008, however consistent with our industry peers we are cautiously optimistic. With the royalty changes announced by the Alberta government this fall and despite a recent but modest indication of strengthening natural gas prices, Divestco has witnessed a moderate slow-down in portions of its Service segments consistent with the overall reduction in its clients' cash flows. In January of 2009, when the new Alberta royalties are expected to take effect, Divestco is forecasting continued erosion of its Alberta customers' capital budgets and as such, a corresponding reduction in demand for some of its services in Alberta. As Divestco maintains a strong data and service presence outside of Alberta, the Company has witnessed an increase in activity in British Columbia and Saskatchewan, which is expected to partially offset the expected decreases in the Alberta related revenue. Divestco has positioned many of its assets in areas where oil and gas investments must be made, thus providing a hedge to potential slowing in general oil and gas business levels.

We achieved record aggregate data library sales in 2007 which is a validation of the quality of the library Divestco has been building over the last few years and our focus on a less cyclical area of the Western Canadian Sedimentary Basin (British Columbia) for acquiring new data. We expect this trend of increased demand to continue, especially in light of the new Alberta Royalty Review.

SELECTED QUARTERLY INFORMATION (Thousands, Except Per Share Amounts)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$35,528	\$26,220	\$27,529	\$26,793	\$30,546	\$38,257	\$18,056	\$19,605
EBITDA <sup>(1)</sup>	21,755	13,120	14,053	12,752	16,853	26,572	8,049	12,192
Operating Income <sup>(1)</sup>	4,937	6,206	6,283	6,145	12,748	5,796	2,673	5,163
Net Income	5,116	4,188	4,166	4,071	8,690	3,783	3,550	3,591
Per Share - Basic	0.12	0.10	0.11	0.11	0.25	0.11	0.11	0.12
Per Share - Diluted	0.12	0.10	0.10	0.11	0.24	0.11	0.11	0.11
Funds from Operations <sup>(1)</sup>	15,092	1,083	13,776	5,662	16,866	26,440	8,215	11,751
Per Share - Basic	0.36	0.03	0.35	0.16	0.48	0.78	0.26	0.39
Per Share - Diluted	0.34	0.02	0.33	0.15	0.47	0.74	0.24	0.37

<sup>(1)</sup> See the Non-GAAP Measures Section.

The trend illustrated in the table above is a result of Divestco's organic and acquisition growth over the past two years and unanticipated negative market conditions including: low natural gas prices, a high Canadian dollar and the Alberta Royalty Review. Generally, our busiest quarters are the first and fourth, when significant drilling and exploration activities are underway in North America.

**SEGMENT REVIEW** →  
**SUMMARY**

<b>THREE MONTHS ENDED DECEMBER 31, 2007</b> (Thousands)						
	Software	Services	Data	Consulting	Corporate & Other	Total
Revenue	\$2,691	\$7,174	\$22,364	\$3,299	\$-	\$35,528
EBITDA <sup>(1)</sup>	1,323	2,298	20,476	41	(2,383)	21,755
Interest (Net of Interest Revenue)	-	-	131	(9)	953	1,075
Depreciation and Amortization	403	677	14,215	399	49	15,743
Operating Income (Loss) <sup>(1)</sup>	920	1,621	6,130	(349)	(3,385)	4,937

<b>THREE MONTHS ENDED DECEMBER 31, 2006</b> (Thousands)						
	Software	Services	Data	Consulting	Corporate & Other	Total
Revenue	\$1,873	\$5,142	\$20,114	\$3,417	\$-	\$30,546
EBITDA <sup>(1)</sup>	832	1,025	17,092	(39)	(2,057)	16,853
Interest (Net of Interest Revenue)	-	-	132	(8)	275	399
Depreciation and Amortization	325	498	2,562	282	39	3,706
Operating Income (Loss) <sup>(1)</sup>	507	527	14,398	(313)	(2,371)	12,748

<b>YEAR ENDED DECEMBER 31, 2007</b> (Thousands)						
	Software	Services	Data	Consulting	Corporate & Other	Total
Revenue	\$8,494	\$24,731	\$69,690	\$13,155	\$-	\$116,070
EBITDA <sup>(1)</sup>	3,673	4,706	61,508	1,102	(9,312)	61,677
Interest (Net of Interest Revenue)	3	-	605	(47)	3,123	3,684
Depreciation and Amortization	1,467	2,466	28,963	1,350	178	34,424
Operating Income (Loss) <sup>(1)</sup>	2,203	2,240	31,940	(201)	(12,613)	23,569

<b>YEAR ENDED DECEMBER 31, 2006</b> (Thousands)						
	Software	Services	Data	Consulting	Corporate & Other	Total
Revenue	\$7,054	\$17,083	\$73,384	\$8,847	\$95	\$106,463
EBITDA <sup>(1)</sup>	3,088	3,277	65,033	(576)	(7,159)	63,663
Interest (Net of Interest Revenue)	-	-	317	(22)	940	1,235
Depreciation and Amortization	1,180	1,529	32,610	586	146	36,051
Operating Income (Loss) <sup>(1)</sup>	1,908	1,748	32,106	(1,140)	(8,245)	26,377

<sup>(1)</sup> See the Non-GAAP Measures Section.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## SEGMENT REVIEW SOFTWARE

Our Software segment sells and licenses software and is responsible for development, maintenance and support of its products.

### Fourth Quarter Financial Results – 2007

In the fourth quarter of 2007, revenue in Software amounted to \$2.7 million compared to \$1.9 million for the same quarter in 2006, generating 8% (Q4 2006 - 6%) of the Company's total revenue for the three month period. The increase of \$0.8 million (44%) was due to a large custom development project for a major oil and gas producer that started late in the second quarter, organic growth in existing product lines (including LandRite, MapQ and WinPICS sales) and from the acquisition of iLand in June 2007.

EBITDA for the fourth quarter was \$1.3 million compared to \$0.8 million in 2006, an increase of \$0.5 million (63%). General and administrative expenses (G&A) increased by 30% from 2006 due to a rise in software licenses and contractor costs tied to additional development activities and the purchase of iLand. Deferred development costs increased by 40% due to a large custom development project that commenced late in the second quarter. Amortization was \$403,000 compared to \$324,000 in 2006, an increase of \$79,000 (24%) related to additional amortization of deferred development costs and due to leasehold improvements completed at the end of Q3. Operating income for Software was \$920,000 compared to operating income of \$507,000 in 2006, an increase of \$413,000 (82%).

### Annual Financial Results – 2007

During the year ended December 31, 2007, revenue in Software amounted to \$8.5 million compared to \$7.1 million for the same period in 2006, generating 7% (2006 - 7%) of the Company's total revenue for the year. The increase of \$1.4 million (20%) was due to an increase in our LandRite, GeoCarta Tools, GeoVista and WinPICS product lines, the acquisition of iLand and a key custom development project.

EBITDA for 2007 was \$3.7 million compared to \$3.1 million in 2006, an increase of \$0.6 million (19%). Salaries and benefits increased by 16% due to the acquisition of iLand, new hires due to future product initiatives and annual salary increases. General and administrative expenses (G&A) increased by 42% from 2006 due to a rise in contractor and software license costs related to a large internal development project, a large external customer development project and the acquisition of iLand. Deferred development costs decreased by 11% as internal development was scaled back to allow internal resources to be reallocated to external projects. Amortization was \$1.5 million compared to \$1.2 million in 2006, an increase of \$0.3 million (25%), related to the acquisition of iLand, the additional amortization of deferred development costs, and the purchase of computer hardware and leasehold improvements. Operating income for Software was \$2.2 million compared to operating income of \$1.9 million in 2006, an increase of \$0.3 million (16%).

### Outlook

Software development activity at Divestco remains strong with development of our key product lines continuing on all fronts. Our GeoCarta Tools customization and functional development continues. We are working with a key Divestco customer, and over the summer we are looking to release to this client a version that includes significant refinements and next generation functionality. The second quarter of 2008 will see the release of GeoVista 4.7 (which includes several new key features), and the next version of EarthTools nearing completion. LandRite development is ongoing, and we've had great success in recent months growing this product's install base and revenue line. We are excited about the prospects for this best-of-breed tool over the next 12 months. We are equally excited about our WinPICS/EnvisionVSX offering, as we are working on several fronts to introduce these tools to new segments of our market.

## SERVICES

Our Services segment offers data quality assurance and processing as well as data management services for geophysical and geological related information. More specifically, we provide geomatics (seismic survey audit, custom mapping and database management services), archive, seismic brokerage and seismic processing services.

### Fourth Quarter Financial Results – 2007

In the fourth quarter of 2007, revenue in Services amounted to \$7.2 million compared to \$5.1 million for the same quarter in 2006, generating 20% (Q4 2006 – 17%) of the Company's total revenue for the three month period. The increase of \$2.1 million (41%) was primarily due to the purchase of the Veritas Geomatics business unit in May 2007, completion of a large archive project and work related to new seismic data acquired in the quarter. This was offset by a decrease in expected geomatics, processing and brokerage revenue due to the general slow-down in the oil and gas industry experienced in the latter half of 2007.

EBITDA for the fourth quarter was \$2.3 million compared to \$1.0 million in 2006, an increase of \$1.3 million (130%). Salaries and benefits increased by 21% and G&A expenses increased by 10% related to the acquisition of Veritas Geomatics and addition of BlueGrouse's brokerage business unit. Amortization was \$677,000, an increase of \$178,000 (36%) from \$498,000 in 2006, related to the Geomatics purchase and the replacement of old equipment subsequent to the acquisition. Operating income for Services was \$1.6 million as compared to \$0.5 million in 2006, an increase of \$1.1 million (220%).

### Annual Financial Results – 2007

During the year ended December 31, 2007, revenue in Services amounted to \$24.7 million compared to \$17.1 million for fiscal 2006, generating 21% (2006 – 16%) of the Company's total revenue for the year. The increase of \$7.6 million (45%) was primarily due to a full year of seismic processing revenue as a result of the acquisition of Processing in May 2006, and the capture of previously outsourced new and existing seismic processing on Divestco's shot and owned seismic database. In addition, the acquisition of Veritas' Geomatics business unit added another \$1 million in revenue while Archive increased its revenue \$1.8 million due to the completion of two large projects in 2007. This was offset by a \$0.5 million decrease in brokerage revenue as well as expected geomatics and processing revenues related to a general slow-down in the industry in the latter half of 2007.

EBITDA for 2007 was \$4.7 million compared to \$3.3 million in 2006, an increase of \$1.4 million (42%). Salaries and benefits increased by 50% and G&A expenses increased by 29% due to the acquisition of the Processing in 2006 and the acquisitions of Veritas' Geomatics business unit and Spectrum in 2007. Amortization was \$2.5 million, an increase of \$1 million (67%) from \$1.5 million in 2006, mainly related to acquisitions. Operating income for Services was \$2.2 million as compared to \$1.7 million in 2006, an increase of \$0.5 million (29%).

### Outlook

Divestco recently commenced a reprocessing project to re-audit and re-process all the 100%-owned 2D seismic lines we acquired in the BlueGrouse acquisition. This project will allow Divestco to factor a market premium onto its dataset by creating value for customers through improving the integrity of the data. Based on customer reaction and demand for the completed reprocessing on our first large 2D dataset, purchased in 2004, we are confident there will be significant interest in the reprocessed dataset.

We created a new Geomatics division by merging our existing Survey Audit, GIS Mapping, and Database services with our recently acquired from Veritas, allowing us to offer an unparalleled geomatics product and service offering to the industry. Our sustained focus on the NAD83 suite of services has allowed many customers to take the first step towards the CAPP recommended compliance through an upgrade of their grid version, and through preparation to move to the new datum. Significant movement has been recognized in this area with many clients now engaging our Company to develop a plan of action. Geological Modeling, a group within Geomatics, has also seen greater activity due to increased exploitation efforts on customers' current assets. The expectation is that this trend will continue as Divestco has secured a significant flagship contract with many other projects on the horizon. *(Outlook continued page 24)*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

With the acquisition of Spectrum in 2007, the Processing division has been able to fast track development to modernize our processing platform. Our employee expertise and customer contacts in the industry are also contributing to our ability to maintain activity levels within our Processing division. With the emergence of structural and international processing capabilities, we are starting to see increased activity levels in areas traditionally not associated with our Processing division. We are confident that expansion outside of the Western Canadian Sedimentary Basin will continue as our presence outside this area has been steadily increasing.

## DATA

Our Data segment acquires, licenses, and maintains Divestco's proprietary seismic data and a full suite of support data layers (log, well and drilling data as well as ancillary services).

BALANCE AS AT DECEMBER 31		
Seismic Library	2007	2006
2D in Gross Kilometres	99,463	58,273
2D in Net Kilometres	79,283	46,273
3D in Gross Kilometres	15,772	7,279
3D in Net Kilometres	13,750	5,770

### Fourth Quarter Financial Results – 2007

In the fourth quarter of 2007, revenue in Data amounted to \$22.4 million compared to \$20.1 million for the same quarter in 2006, generating 63% (Q4 2006 – 66%) of the Company's total revenue for the three month period. The growth was due to an \$8.9 million (254%) increase in 3D participation revenue to \$12.2 million from \$3.5 million in fourth quarter of 2006, as we completed four new surveys in the quarter compared to a single survey during the same period in 2006. In the quarter, aggregate library sales decreased by \$6.5 million (39%) from \$16.7 million in 2006 to \$10.2 million in 2007 as we concentrated on acquiring new data which is typical for this time of year due to ideal weather conditions. However, on an annualized basis, library sales grew significantly. Our U.S. division experienced a decline of \$245,000 in revenue from 2006 mainly related to foreign currency fluctuations while BlueGrouse added \$231,000 in revenue.

EBITDA for the fourth quarter was \$20.5 million compared to \$17.1 million in 2006, an increase of \$3.4 million (20%). Salaries and benefits decreased by 34% from 2006 mainly due to a fall in seismic data commissions, log data work being transferred offshore, and the increased strength of the Canadian dollar pushing salaries in our U.S. division lower. G&A expenses decreased by 42% from the same period in 2006 due to a one-time royalty payout charge in 2006. This was offset by the acquisition of BlueGrouse and an increase in consulting fees due to a change in pay structure. Amortization increased by \$11.6 million (446%) to \$14.2 million in 2007 from \$2.6 million in 2006 as a result of the completion of four 3D participation programs which are amortized at a rate of 40% upon delivery to the client and the purchase of two existing 3D seismic datasets. During the quarter, we acquired approximately 797 net square kilometres of 3D seismic valued at approximately \$31.5 million. Operating income was \$6.1 million compared to \$14.4 million in 2006.

### Annual Financial Results – 2007

During the year ended December 31, 2007, revenue in Data amounted to \$69.7 million compared to \$73.4 million for the same period in 2006, generating 60% (2006 – 69%) of the Company's total revenue for the twelve month period. The decrease of \$3.7 million (5%) was due to participation revenue being down by \$27.3 million (55%) as the Company switched its focus to acquiring existing, off the shelf datasets due to the general slow-down in the industry that decreased demand for new participation programs. This was offset by an increase in aggregate library (inventory) sales to a record \$47.6 million in 2007 from \$23.9 million in 2006, a total increase of \$23.7 million (99%). The increase in aggregate library sales was due in part to the data acquired in the BlueGrouse acquisition as well as other 2007 acquired datasets. In addition, foreign exchange fluctuations accounted for the decline in revenue in Canadian dollars for our U.S. division while revenue in U.S. dollars was up slightly from 2006 as a rise in Drilling Records subscriptions was offset by a decrease in Production Data subscriptions.

EBITDA for the twelve months of 2007 was \$61.5 million compared to \$65.0 million in 2006, a decrease of \$3.5 million (5%). Salaries and benefits remained flat from 2006, while G&A expenses increased by 22% primarily due to the acquisition of BlueGrouse. Amortization decreased by \$3.6 million (11%) to \$29.0 million in 2007 from \$32.6 million in 2006 due to an increase in the purchase of existing seismic assets which do not attract the initial 40% amortization rate associated with participation surveys. Operating income was \$31.9 million compared to \$32.1 million in 2006, a decrease of \$0.2 million (1%).

### Outlook

The Company has achieved record aggregate data library sales in 2007. The increases in data library sales are a validation of the quality of the library Divestco has been building over the last few years and the focus of the Company's library on a less cyclical area of the Western Canadian Sedimentary Basin (British Columbia). Divestco expects this trend of increased demand to continue, especially in light of the new Alberta Royalty Review.

We are currently in the field on a number of seismic participation surveys that are expected to be completed and delivered in the first and second quarter of 2008. Although the seismic acquisition pipeline remains relatively strong, as a result of the new Alberta Royalty Review, Divestco has had customers cancel two large seismic programs contemplated in the Grande Prairie region that were slated for completion early in 2008. To mitigate this, the Company will continue to focus on areas of the WCSB that are less cyclical such as British Columbia.

Our Support Data division will continue to build on its strong foundation and continue to focus on streamlining data management processes geared to enable more efficient management and consolidation of Divestco's support data libraries into more centralized data structures. Executing on key strategic objectives, ongoing data clean-up projects coupled with the addition of several key datasets will provide customers with even better data coverage and choices. Support Data will continue to work with our Software division to ensure continuity in the development of data access tools, infrastructure and the provision of data through Divestco's applications. In stride with the industry's move to GIS ready data, the Support Data Division will use its vast GIS data, software and geomatics expertise to position Divestco's data libraries as an available and preferred choice for exploration and production customers working in North America.

Our Logs division will continue to focus on three key areas: cost reductions, quality improvement and increasing coverage. We will also seek to complement existing datasets with new ones as the market demands.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CONSULTING

Our Consulting segment offers end-to-end technology solutions including business consulting services, Enterprise Resource Planning (ERP) and Customer Relations Management (CRM) system implementations, custom software development, hardware devices and network infrastructure. We also offer land management services for oil and gas industry through Cavalier Land and Landmasters.

### Fourth Quarter Financial Results – 2007

In the fourth quarter of 2007, revenue in Consulting amounted to \$3.3 million compared to \$3.4 million for the same quarter in 2006, generating 9% (Q4 2006 – 11%) of the Company's total revenue for the three month period. Revenue in Business Consulting was up due to a large-scale software consulting project it was working on with our Software division, and another significant contract that commenced in the third quarter. This was offset by a decrease in revenue related to the closure of the Edmonton and Vancouver consulting offices. Revenue in Land Management Services was up slightly due to the acquisition of Landmasters, however the division felt the effects of the industry slow-down in Alberta which started in the second half of 2007.

EBITDA for the fourth quarter was \$41,000 compared to a negative \$39,000 in 2006, an increase of \$80,000. Salaries and benefits in Business Consulting decreased due to the closure of the two offices, internal efficiencies and cost reductions. This was offset by an increase in salaries and wages in Land Management Services due to the acquisition of Landmasters. G&A expenses were down 12% due to the same reasons. Amortization was \$399,000, an increase of \$117,000 (41%) from \$282,000 in 2006 due to the purchase of computer equipment in Business Consulting and the Landmasters acquisition. Operating income was a negative \$349,000 compared to a negative \$313,000 in the same quarter of 2006.

### Annual Financial Results – 2007

During the year ended December 31, 2007, revenue in Consulting amounted to \$13.1 million compared to \$8.8 million for the same period in 2006, generating 11% (2006 – 8%) of the Company's total revenue for the year. The acquisition of Cavalier Land and Landmasters increased revenue in Land Management Services by \$5 million. Revenue for Business Consulting was down by \$0.6 million mainly due to the closure of the Vancouver and Edmonton offices while two new significant projects helped to mitigate the decline.

EBITDA for 2007 was \$1.1 million compared to a negative \$0.6 million in 2006, an increase of \$1.7 million. Salaries and benefits increased by 17% due to the addition of Cavalier Land and Landmasters which was offset by a decrease in Business Consulting with the closure of the two offices. G&A expenses were up 26% due to the acquisition of Cavalier Land in 2006 and Landmasters in 2007, offset by a reduction in costs due to the closure of the two offices in Business Consulting and the reduction in software sales. Amortization was \$1.4 million for the year up \$0.8 million from \$0.6 million for the same period in 2006, mainly due to acquisitions. Operating income was a negative \$201,000 compared to a loss of \$1.1 million in the same period of 2006.

### Outlook

The Company is very pleased with the November 2007 acquisition of Landmasters, and we believe the opportunities it provides for further expansion into Saskatchewan, in light of the increased industry activity in this region, will prove beneficial. The company is well situated to respond to market conditions and continues to work towards improving efficiency in order to capitalize on future growth opportunities.

Business Consulting's focus is primarily on effective project management, cost reductions and increasing revenue. We are also exploring product integration strategies, particularly between Records Information Management and Business Intelligence. Our ERP and Technical Services areas will continue to grow as we close many opportunities that are currently in progress.

## CORPORATE AND OTHER

Our Corporate segment includes costs from our corporate general and administrative functions associated primarily with setting Divestco's overall strategic plan including: finance, accounting, marketing, human resources (HR), and information technology (IT) functions. Salaries and benefits, audit, legal, travel, investor relations, stock compensation and interest on long-term debt are also included in this segment.

### Fourth Quarter Financial Results – 2007

In the fourth quarter of 2007, salaries and benefits increased by 16% primarily due to new hires in Corporate and IT. G&A expenses increased by 15% to \$1.5 million in 2007 from \$1.3 million in 2006 due in large part to an increase in occupancy costs and professional fees (legal, audit and tax fees) due to company growth. These were offset by a decrease in bad debts due to improved collection efforts. Interest expense was \$953,000 in 2007 compared to \$275,000 in 2006. The increase of \$678,000 (244%) was primarily due to the new debt facility secured from WFFCC of which \$42.8 million was outstanding as at December 31, 2007. Amortization was \$50,000 in 2007 compared to \$39,000 in 2006, an increase of \$11,000 (28%). Total expenditures on property and equipment amounted to \$41,000 in 2007 compared to \$32,000 in 2006, a slight increase of \$9,000 (28%).

### Annual Financial Results – 2007

Salaries and benefits increased by 20% from the prior year due to increase in total compensation due to increased staffing levels through acquisition, new hires and salary revisions. G&A expenses increased by 33% to \$5.7 million in 2007 from \$4.3 million in 2006 due to increases in stock compensation expense, professional fees related to our internal control certification process, implementation of a new ERP system, higher insurance premiums from increasing our coverage and occupancy cost increases. Interest expense was \$3.1 million in 2007 compared to \$0.9 million in 2006. The increase of \$2.2 million (244%) was primarily due to the new debt facility secured from WFFCC of which \$42.8 million was outstanding as at December 31, 2007 and the assumption of the convertible debentures as a result of the BlueGrouse acquisition. Amortization was \$178,000 in 2007 compared to \$146,000 in 2006, an increase of \$32,000 (22%). The increase is attributed to the purchase of computer equipment and leasehold improvements. Total expenditures on property and equipment amounted to \$303,000 in 2007 compared to \$313,000 in 2006, a decrease of \$10,000 (3%).

### Outlook

We have moved into the next phase of our ERP implementation project which is expected to last until the end of 2008. Aside from growth related to acquisitions, the Corporate segment does not expect a material increase in expenses in 2008.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the fourth quarter of 2007 was \$15.7 million compared to \$3.7 million for the same period in 2006. The increase of \$12 million (325%) was due to five corporate acquisitions completed in 2007, four 3D seismic surveys completed in the quarter, the purchase of two existing seismic datasets and \$518,000 in computer hardware and software purchases including \$327,000 under capital lease.

Depreciation and amortization for the year ended December 31, 2007 was \$34.4 million compared to \$36.1 million in the same period in 2006, a decrease of \$1.7 million (5%). The increase from our five corporate acquisitions completed in 2007, as well as from \$2.1 million in computer hardware and software purchases (including \$637,000 purchased under capital lease) and leasehold improvements, was offset by completing fewer participation surveys in 2007 compared to 2006. Divestco acquired a number of existing seismic assets in 2007 including the acquisition of BlueGrouse. Participation surveys are amortized 40% upon delivery and existing purchased datasets are amortized straight-line over a ten-year period.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INCOME TAXES

For the fourth quarter of 2007, Divestco recorded a current tax expense of \$0.4 million and a future tax reduction of \$0.6 million for a net reduction of \$0.2 million on \$4.9 million (-4.1%) of income before taxes (2006 – 32.1%) related mainly to corporate income tax rate reductions in the quarter.

For the year ended December 31, 2007, we recorded a current tax expense of \$8.7 million and a future tax reduction of \$2.9 million for a net expense of \$5.8 million on \$23.3 million (24.7%) of income before taxes (2006 – 31.1%) with the decrease due to corporate income tax rate cuts enacted before the end of 2007.

As at December 31, 2007, Divestco's Canadian subsidiaries had \$2.9 million in non capital loss carry-forwards in Canada which were assumed through various acquisitions in 2007 and which begin to expire in 2027. The Company had \$6.5 million in non capital loss carry-forwards as at December 31, 2006 which were used to reduce taxable income in 2007. Our U.S. subsidiary had approximately \$80,000 in net operating losses which begin to expire in 2025. In addition, the Company and its subsidiaries had \$6.4 million in undepreciated capital cost pools in Canada.

## MAJOR TRANSACTIONS

### Seismic Related

During the fourth quarter of 2007, Divestco completed four 3D seismic surveys covering an approximate area of 587 square kilometres at a cost of \$23.8 million (excluding \$0.8 million in costs related to services provided by Divestco's survey audit, seismic processing and archive departments which are eliminated on consolidation). We also acquired four existing datasets totalling approximately 210 net square kilometres of 3D seismic for approximately \$7 million.

During the year ended December 31, 2007, Divestco completed seven 3D seismic surveys covering an approximate area of 1,084 square kilometres at a cost of \$41.5 million (excluding \$3.2 million of costs related to services provided by Divestco's survey audit, seismic processing and archive departments which are eliminated on consolidation). Divestco acquired a number of existing datasets totalling approximately 1,581 net square kilometres of 3D seismic and 290 net linear kilometres of 2D data for approximately \$26.4 million. We also acquired the remaining ownership interest in two 3D data libraries for \$9.6 million, covering approximately 825 net square kilometres and assumed approximately 32,000 net kilometres of 2D and 3,500 net square kilometres of 3D seismic data through the acquisition of BlueGrouse.

### Corporate

On April 20, 2007, Divestco entered into a new \$60 million financing arrangement with Wells Fargo Financial Corporation Canada. We replaced its previous operating and term credit facilities with five-year committed revolving and term facilities.

On May 3, 2007, the Company closed its Plan of Arrangement (the Arrangement) with BlueGrouse which was approved by BlueGrouse's shareholders on May 1, 2007. Pursuant to the Arrangement, BlueGrouse shareholders received 0.3125 Divestco shares for each BlueGrouse share held. BlueGrouse has four main components to its business model: Data Library, Multi-Client Services, Data Brokerage and Data Management.

On May 24, 2007, the Company acquired the Geomatics business unit of Veritas. Total consideration was \$3.2 million with \$2.6 million paid in cash on closing (including acquisition costs) and the remaining \$0.6 million to be paid by December 31, 2007. The business delivers survey audit and geospatial data management services to the seismic industry.

On June 19, 2007, the Company acquired all of the issued and outstanding shares of JMG Seismic Processing Ltd. and KRJ Seismic Processing Ltd., partners of Spectrum. Total consideration was \$1.9 million with \$0.4 million paid in cash on closing (including acquisition costs), \$0.6 million in Divestco common shares and the remaining \$0.9 million to be paid over a two-year period commencing on June 19, 2008. Spectrum provides a full range of onshore seismic data processing services in western Canada.

On June 19, 2007, the Company acquired all of the issued and outstanding shares of iLand. Total consideration was \$816,000 with \$380,000 paid in cash on closing (including acquisition costs), \$361,000 in Divestco common shares and the remaining \$75,000 to be paid on June 19, 2008. iLand provides data management related software to the oil and gas industry.

On November 28, 2007, the Company acquired all of the issued and outstanding shares of Landmasters. Total consideration was \$1.1 million with \$0.4 million paid in cash on closing (including acquisition costs), \$0.6 million in Divestco common shares and the remaining \$0.2 million to be paid over a three-year period commencing on December 31, 2008. Landmasters acquires surface and mineral rights on behalf of its clients.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

Excluding the current portion of deferred revenue of \$4.4 million (December 31, 2006 — \$11.6 million), Divestco exited the fourth quarter of 2007 with a \$28.1 million working capital deficiency compared to a positive \$0.6 million at the end of 2006 due to: reclassification of the convertible debentures assumed from BlueGrouse from long-term to current liabilities as they mature in November 2008, four 3D surveys completed in the fourth quarter at a cost of approximately \$20 million and corporate income taxes of \$7.3 million. Our main focus in 2008 is to strengthen the Company's the Balance Sheet and return to a positive working capital balance.

As announced on April 20, 2007, Divestco entered into a new \$60 million financing arrangement with a new lender. The Company replaced its previous operating and term credit facilities with five-year committed revolving and term facilities which are classified as long-term liabilities on the Company's Balance Sheet (excluding the current portion of the term debt facilities). Divestco has the appropriate structure in place to match the acquisition of long-term assets with long-term debt.

### Operating Activities

Funds from operations for the fourth quarter of 2007 were \$15.1 million (34 cents per share — diluted) compared to \$16.9 million (47 cents per share — diluted) in 2006, an decrease of \$1.8 million (11%). Revenue increased by \$5 million (16%) related to the five corporate acquisitions we completed in 2007. This was offset by \$5.7 million in regards to the non-cash component of a data exchange in which cash flows from investing activities and operating activities reflect only the net cash portion. In addition, we had a \$0.7 million increase in interest expense related to our new credit facility and a \$0.3 million increase in current tax expenses.

Funds from operations for the year ended December 31, 2007, were \$35.6 million (\$0.85 per share — diluted) compared to \$63.3 million (\$1.88 per share — diluted) in 2006, a decrease of \$27.7 million (44%). While revenue increased by \$9.6 million (9%) related to the five corporate acquisitions we completed in 2007. This was offset by \$16.3 million in regards to the non-cash component of a small number of data exchanges in which cash flows from investing activities and operating activities reflect only the net cash portion. In addition, we had an \$8.4 million increase in current tax expense related to the allocation of income to Divestco from its limited partnership and an increase in operating expenses of \$11.6 million (27%) related to our corporate acquisitions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financing Activities

The Company's financing activities for the three months and year ended December 31, 2007 are highlighted as follows:

- \$43.6 million in new bank financing from WFFCC used to extinguish approximately \$16 million in prior revolving and term debt facilities, with the remainder used to fund corporate acquisitions and current working capital shortfalls.
- \$3.3 million in retired BlueGrouse term debt.
- \$2.6 million in proceeds received from the exercise of stock options, broker compensation options and share purchase warrants (Q4 2007 – \$0.1 million).
- \$1.9 million repayment of capital lease obligations and promissory notes (Q4 2007 – \$0.7 million).
- \$0.6 million incurred by the Company to repurchase its shares.

## Investing Activities

The Company's investing activities for the three months and year ended December 31, 2007 are highlighted as follows:

- \$77.7 million to purchase existing seismic data and acquire new data libraries through multi-client surveys (Q4 2007 – \$30.2 million).
- \$3.9 million in cash consideration (net of cash acquired) related to the five corporate acquisitions completed in 2007.
- \$1.4 million in purchases of computer hardware and software as well as leasehold improvements (Q4 2007 – \$0.2 million) excluding \$637,000 in computer equipment acquired under lease (Q4 2007 – \$327,000).

## Debt Instruments

Divestco has a \$60 million credit facility in place with WFFCC, an affiliate of U.S.-based Wells Fargo & Company (Wells Fargo). The WFFCC bank facilities are committed with a five year maturity. The facility is available in three tranches: a \$25 million committed revolver, a \$20 million term loan facility and a \$15 million term loan facility. On December 20, 2007, the facilities were amended to increase the committed revolver to from \$20 to \$25 million and reduce one of the committed term loan facilities from \$20 to \$15 million.

The committed revolver draws are not required to be repaid until maturity; however, if advances are paid down in advance they can be redrawn at a later date. Each draw on the term loan facilities is amortized over six years from the date of draw down and repaid on a monthly basis. The Company has two pricing options on all the credit facilities: floating Canadian Base Rate plus 2.00%, or Canadian LIBOR (London InterBank Offer Rate) plus 3.25%. The Canadian LIBOR options are available with locked-in interest rate periods of 1, 2, or 3 months. As at December 31, 2007, \$42.8 million was drawn on this facility including \$20.2 million on the revolver, \$18.1 million on the first term loan and \$4.5 million on the second term loan. The facilities are subject to the Company meeting certain debt covenants. As at December 31, 2007, the Company was not in violation of any of its covenants.

The WFFCC bank facilities are secured by a first floating charge on all the Company's assets. Expectations are that the recently acquired WFFCC credit facilities and funds from operations will be sufficient in the short-term and long-term to meet planned growth and to fund future capital expenditures.

## OUTSTANDING SHARE DATA

Divestco's common shares trade on the TSX under the symbol DVT. The Company is authorized to issue an unlimited number of voting common shares.

The following table provides details of the Company's equity instruments:

BALANCE AS AT			
	Mar 18, 2008	Dec 31, 2007	Dec 31, 2006
Common Shares			
Outstanding	41,652,827	41,579,904	35,399,114
Weighted Average Outstanding			
Basic		39,200,314	32,664,507
Diluted		41,673,015	33,704,401
Stock Options			
Outstanding	2,440,209	2,743,248	2,765,706
Exercise Price Range	\$1.00 to \$6.10	\$1.00 to \$6.10	\$0.83 to \$6.10
Warrants			
Outstanding	-	-	538,500
Exercise Price	-	-	\$2.50
Broker Compensation Options			
Outstanding	-	-	220,553
Exercise Price	-	-	\$2.00

### Common Shares

During the year ended December 31, 2007, 538,500 warrants were exercised for total proceeds of \$1,346,250 and 220,553 broker compensation options were exercised for total proceeds of \$441,106.

On January 9, 2007, the Company received approval from the TSX to repurchase up to 1,770,000 of its common shares at prevailing market prices commencing on January 15, 2007, and terminating on the earlier of the January 14, 2008, and the date on which the maximum number of common shares are purchased pursuant to this Normal Course Issuer Bid (NCIB). During the year ended December 31, 2007, 276,900 shares were repurchased under this NCIB for a total cost of \$609,828 (\$2.20 average price per share) resulting in a \$153,189 reduction to retained earnings.

On January 24, 2008 the Company announced a Notice of Intention to make a NCIB was filed with and accepted by the Toronto Stock Exchange to purchase up to 2,092,853 (a maximum of 5%) of its issued and outstanding Common Shares (41,857,070 Common Shares as at January 14, 2008) in a twelve-month period. The NCIB commenced January 28, 2008, and will terminate on the earlier of January 27, 2009 and the date on which the maximum number of common shares are purchased pursuant to this NCIB.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Stock Options

As at December 31, 2007, there were 4,041,369 common shares reserved for grants of stock options.

During the year ended December 31, 2007:

- 959,321 stock options were granted with exercise prices ranging from \$2.40 to \$8.58 including 336,986 BlueGrouse options that were exchanged for Divestco options and 385,000 options granted to officers and a director.
- 565,920 stock options were exercised at exercise prices ranging from \$1.00 to \$3.00 including 168,657 exercised by officers and a director.
- 415,859 stock options were forfeited with exercise prices ranging from \$1.00 to \$8.58 including 50,105 options held by officers and a director.

Subsequent to December 31, 2007:

- 72,657 options were exercised with exercise prices ranging from \$1.20 to \$1.25
- 230,386 options were forfeited with exercise prices ranging from \$2.51 to \$6.10

## Convertible Debentures

As at December 31, 2007 there was \$8,142,000 in convertible debentures assumed through the acquisition of BlueGrouse. Each debenture bears interest at a rate of 10% per annum and is convertible, in whole or in part, into common shares at a conversion price of \$4.48 per common share (Conversion Price) at any time on or before November 21, 2008 (Maturity Date). On or before the Maturity Date, the holders of the debentures shall have the option of either converting their debentures into common shares at the Conversion Price or receiving the cash value of the principal amount of the debentures, plus any accrued and unpaid interest. As at December 31, 2007, \$609,000 represented the equity component of the convertible debentures and is classified in Shareholders' Equity section of the Consolidated Balance Sheets.

## Commitments

Divestco has entered into various commitments primarily related to debt, building and equipment leases and multi-year data licences. The following table is a summary of the Company's contractual obligations as at December 31, 2007:

PAYMENTS DUE BY FISCAL YEAR (Thousands)						
	2008	2009	2010	2011	2012+	Total
Long-Term Debt Obligations	\$4,245	\$4,245	\$4,245	\$4,245	\$25,868	\$42,848
Promissory Notes	1,316	417	67	-	-	1,800
Capital Leases	328	181	110	81	-	700
Operating Leases <sup>(1)</sup>	3,968	3,759	7,351	8,909	95,514	119,501
Total Contractual Obligations	\$9,857	\$8,602	\$11,773	\$13,235	\$121,382	\$164,849

<sup>(1)</sup> Includes amounts paid for occupancy costs (net of subleases) and office equipment leases. On May 31, 2007, Divestco entered into a new 15-year office space lease that is scheduled to commence in May 2010.

## RELATED PARTY TRANSACTIONS

Divestco had the following related party transactions:

- In 2007, the Company paid \$217,000 (2006 – \$337,000) in consulting fees and brokerage commissions to a company controlled by a director. Included in accounts payable as at December 31, 2007, was \$17,000 (December 31, 2006 – \$Nil) related to these fees and commissions.
- In 2007, the Company paid \$396,000 (2006 - \$467,000) in legal fees to the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable as at December 31, 2007, was \$66,000 (December 31, 2006 – \$31,000) related to these legal fees..

All related party transactions are in the normal course of operations and 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.

## CRITICAL ACCOUNTING ESTIMATES

The costs associated with purchasing or creating the seismic data library are capitalized. Purchases of existing seismic data are capitalized and amortized on a straight-line basis over 10 years. The Company also creates seismic data and capitalizes the costs paid to third parties for the acquisition of data, permitting, surveying, and other related costs. Created seismic may be acquired without pre-sale commitments or with pre-sale commitments that include an exclusive data use period. Created seismic, without pre-sale commitments, is amortized on a straight-line basis over a seven-year period. Created seismic with pre-sale commitments is initially amortized at 40% on delivery of the data to the customer with the remaining balance on a straight-line basis over the next six-year period. Some of the created seismic is acquired jointly with others. The Company's financial statements reflect only its proportionate share of the costs of the jointly created seismic data library.

The fair value of share options, broker compensation options, and warrants were estimated using the Black-Scholes option pricing model with the following assumptions: an average expected volatility of 69% (2006 – 60%), an average risk free interest rate of 4.2% (2006 – 5.0%), and an expected life of five years for the stock options and two years for the broker compensation options and warrants. The value of the stock options is recognized as a compensation expense over the three-year vesting period. In October 2005, the Company changed the vesting period of stock options granted going forward to three years from two years. The value for the broker compensation options is recorded in contributed surplus and is reduced as the broker options are exercised. The value of the warrants has been recorded as a separate line item under equity instruments and is reduced as the warrants are exercised.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## NEW ACCOUNTING PRONOUNCEMENTS

### Financial Instruments

January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Presentation and Disclosure, Section 3865 Hedges and Section 1530 Comprehensive Income. Prior periods have not been restated. The new standards establish guidelines for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. The Company has combined this new statement with its Consolidated Statements of Income.

The new standards require all financial instruments to be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost determined using the effective interest rate method. Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument. Prior to January 1, 2007, transaction costs were recorded as deferred charges and recognized in net earnings on a straight-line basis over the life of the financial instrument. On adoption, transaction costs are recognized as if the effective interest rate method had always been applied whereby the amount recognized varies over the life of the financial instrument based on principal outstanding. Amortization of premiums or discounts and losses due to impairment are included in current period net income.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income and reclassified to net income when derecognized or impaired.
- Held-for-trading financial instruments are measured at fair value. All gains and losses on derivatives that are not designated or do not qualify for hedge accounting are included in net income in the period in which they arise.
- All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value. All gains and losses are included in net income in the period in which they arise.

Under adoption of these new standards, the Company designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

On adoption, the Company has elected to recognize, as separate assets and liabilities, only those embedded derivatives in hybrid instruments issued, acquired or substantially modified on or after January 1, 2003. The impact of the change in accounting policy related to embedded derivatives was not material.

The Company had no “other comprehensive income or loss” transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

### Future Accounting Pronouncements

In December 2006, the CICA issued the following new recommendations which apply to fiscal years beginning on or after October 1, 2007:

Section 3862 Financial Instruments Disclosures and Section 3863 Financial Instruments Presentation which take effect on January 1, 2008. The sections require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks.

Section 1535 Capital Disclosures which takes effect on January 1, 2008. Section 1535 specifies the disclosure of an entity's objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements, and the consequences of non-compliance. This section is expected to have a minimal impact of the Company's Consolidated Financial Statements.

Section 3064 Goodwill and Intangible Assets replacing Section 3062 Goodwill and Other Intangible Assets. This new section will be effective on January 1, 2009. This new section applies to goodwill subsequent to initial recognition and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new standard is not expected to have a material impact on the Company's Consolidated Financial Statements.

## SECURITIES REGULATIONS UPDATE

### Disclosure Controls and Procedures

Disclosure Controls and Procedures are controls and procedures designed and implemented by, or under the supervision of Divestco's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to ensure that material information relating to the Company is communicated to them by others in the organization as it becomes known and is appropriately disclosed as required under the continuous disclosure requirements of securities legislation. In essence, these types of controls are related to the quality and timeliness of financial and non-financial information in securities filings.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as at December 31, 2007, by and under the supervision of Divestco's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures, as defined in the Canadian Securities Administrators' Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", are effective to ensure that information required to be disclosed in reports that the Company files or submits under Canadian securities legislation is recorded, processed, summarized, and reported within the time periods specified in those rules and forms.

There were no changes in Divestco's disclosure controls and procedures that occurred during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, Divestco's internal control over financial reporting.

### Internal Control Over Financial Reporting

Divestco maintains a set of internal controls and procedures over financial reporting which have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Divestco evaluated the design of its controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2007. This evaluation was performed under the supervision of the CEO and the CFO with the assistance of other Divestco employees and independent consultants to the extent necessary and appropriate. Based on this evaluation, the CEO and the CFO concluded that the design of these internal controls and procedures provided reasonable assurance regarding the reliability of financial reporting for the year ended December 31, 2007.

There were no changes in Divestco's internal control over financial reporting that occurred during the period ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, Divestco's internal control over financial reporting.



# MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

To the Shareholders of Divestco Inc.

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying consolidated financial statements of Divestco Inc. Financial and operating information presented throughout this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP was appointed by the Company's Board of Directors to conduct an audit of the financial statements of the Company so as to express an opinion on the financial statements. KPMG LLP has audited the financial statements to provide a reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

Stephen Popadynetz  
Chief Executive Officer

Calgary, Canada  
March 18, 2008

Rod Chisholm  
Chief Financial Officer



## AUDITORS' REPORT

### To the Shareholders of Divestco Inc.

We have audited the consolidated balance sheets of Divestco Inc. as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

**KPMG LLP**

Chartered Accountants

Calgary, Canada  
March 18, 2008

# CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 (Thousands)	2007	2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$2,466	\$1,437
Funds Held in Trust	678	-
Accounts Receivable	27,083	21,875
Prepaid Expenses, Supplies and Deposits	1,794	923
Investment Tax Credits Recoverable	-	651
	32,021	24,886
Long-Term Accounts Receivable	-	560
Investment in Affiliated Company (Note 4)	72	68
Data Libraries (Note 5)	161,354	71,201
Participation Surveys in Progress	1,047	2,721
Property and Equipment (Note 6)	5,981	6,069
Deferred Development Costs (Note 7)	4,736	2,877
Deferred Finance Costs (Note 9)	-	323
Intangible Assets (Note 8)	20,208	15,719
Goodwill (Note 3)	10,090	8,518
	\$235,509	\$132,942
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Bank Indebtedness	\$-	\$6,451
Accounts Payable and Accrued Liabilities	39,391	14,147
Income Taxes Payable	7,286	345
Current Portion of Deferred Revenue	4,351	11,603
Current Portion of Long-Term Debt Obligations (Note 9)	5,889	3,295
Convertible Debentures (Note 10)	7,533	-
	64,450	35,841
Deferred Revenue	530	260
Long-Term Debt Obligations (Note 9)	38,400	6,636
Future Income Taxes (Note 11)	13,406	12,968
	116,786	55,705
<b>Shareholders' Equity</b>		
Equity Instruments (Note 12(b))	68,690	46,854
Contributed Surplus (Note 12(f))	3,661	2,008
Equity Portion of Convertible Debentures (Note 10)	609	-
Retained Earnings	45,763	28,375
	118,723	77,237
Commitments (Note 14)	\$235,509	\$132,942

See Notes to Consolidated Financial Statements.



John Brussa, Chairman of the Board



Stephen Popadynetz, Director

Approved by the Board:

# CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME & RETAINED EARNINGS

YEAR ENDED DECEMBER 31 (Thousands, Except Per Share Amounts)	2007	2006
Revenue	\$116,070	\$106,463
Operating Expenses		
Salaries and Benefits	35,008	26,810
General and Administrative	17,854	14,914
Stock Compensation Expense (Note 12(f))	1,531	1,076
	54,393	42,800
Interest Expense	3,684	1,235
Depreciation and Amortization	34,424	36,051
Other Income (Loss)	(260)	2,105
Income Before Income Taxes	23,309	28,482
Income Taxes		
Current	8,723	312
Future (Reduction)	(2,955)	8,555
	5,768	8,867
Net Income and Comprehensive Income for the Year	17,541	19,615
Retained Earnings, Beginning of Year	28,375	8,760
Purchase Price of Common Shares Repurchased in Excess of Book Value (Note 12(e))	(153)	-
Retained Earnings, End of Year	\$45,763	\$28,375
Earnings Per Share		
Basic	\$0.45	\$0.60
Diluted	\$0.42	\$0.58
Weighted Average Number of Shares		
Basic	39,200	32,665
Diluted	41,763	33,704

See Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31 (Thousands)	2007	2006
Cash Flows from Operating Activities		
Net Income for the Year	\$17,541	\$19,615
Items Not Affecting Cash:		
Equity Investment Loss	2	11
Depreciation and Amortization of Data Libraries, Property and Equipment and Intangible Assets	33,686	35,448
Amortization of Deferred Development Costs	738	603
Amortization of Deferred Finance Costs	604	86
Future Income Taxes (Reduction)	(2,955)	8,555
Data Exchanges (Note 5)	(16,328)	-
Gain on Sale of Investment Securities	-	(2,132)
Loss on Sale of Property and Equipment	172	-
Unrealized Foreign Exchange Loss	-	1
Non-Cash Retention Bonus	620	-
Stock Compensation Expense (Note 12(f))	1,531	1,076
	35,611	63,263
Changes in Non-Cash Working Capital Balances (Note 13)	(13,870)	2,884
Increase (Decrease) in Non-Current Deferred Revenue	270	(142)
Decrease in Long-Term Accounts Receivable	560	400
	22,571	66,405
Cash Flows from Financing Activities		
Bank Indebtedness	(6,451)	6,451
Advances to Affiliated Company	(6)	-
Issue of Common Shares, Net of Related Expenses (Note 12(b))	2,606	16,085
Repayment of Long-Term Debt Obligations	(15,448)	(2,923)
Deferred Financing Costs	(1,340)	-
Proceeds Received from Long-Term Debt Obligations	45,209	-
Repurchase of Common Shares (Note 12(e))	(609)	-
	23,961	19,613
Cash Flows from Investing Activities		
Purchase of Data Libraries	(61,360)	(74,428)
Decrease (Increase) in Participation Surveys in Progress	1,722	(2)
Purchase of Property and Equipment	(1,374)	(1,405)
Purchase of Intangibles	-	(176)
Acquisitions (Note 3)	(3,948)	(15,001)
Purchase of Investment Securities	-	(109)
Proceeds on Sale of Investment Securities	-	7,753
Proceeds on Sale of Property and Equipment	172	-
Deferred Development Costs	(2,597)	(1,616)
Changes in Non-Cash Working Capital Balances (Note 13)	21,881	(978)
	(45,504)	(85,962)
Foreign Exchange Gain (Loss) on Cash Held in a Foreign Currency	1	(1)
Increase in Cash and Cash Equivalents	1,029	55
Cash and Cash Equivalents, Beginning of Year	1,437	1,382
Cash and Cash Equivalents, End of Year	\$2,466	\$1,437

See Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

Divestco Inc. (the Company), is incorporated under the Business Corporations Act of Alberta and is a publicly traded company on the TSX under the symbol DVT.

## 01. SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles within the framework of the following significant accounting policies:

- (a) **Principles of Consolidation:** The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned from the date of acquisition. All significant intercompany accounts and transactions have been eliminated on consolidation.
- (b) **Use of Estimates:** The preparation of financial statements requires management to make estimates based on currently available information. In particular, management makes estimates for the amounts recorded for the amortization of data libraries, property and equipment as well as the valuation of intangible assets and goodwill. By their very nature, these estimates are subject to measurement uncertainty and the effect on the Consolidated Financial Statements of future periods could be material. The effect on the Consolidated Financial Statements resulting from a revision in estimates, if any, will be accounted for prospectively.
- (c) **Comparative Figures:** Certain figures with respect to the year ended December 31, 2006 have been reclassified to conform to the current year's presentation.
- (d) **Cash and Cash Equivalents:** Cash and cash equivalents consists of cash on hand, bank balances (including temporary bank overdrafts), term deposits with maturities of three months or less.
- (e) **Short-Term Investments:** Short-term investments represent portfolio investments in marketable securities that are accounted for using the cost method. The initial investment is recorded at cost and any earnings from the investment are recognized only to the extent received or receivable. When there is a loss in value of the investment that is other than a temporary decline, the investment is written down to recognize the loss. The Company's management reviews the underlying value of the investment on a regular basis by reference to estimated fair value based on established criteria including trading value, anticipated cash flows and profitability of the investee.
- (f) **Investment in Affiliated Company:** The Company uses the equity method to account for an affiliated entity in which the Company exercises significant influence, but does not control. Under the equity method of accounting, the investment is initially recorded at cost and the carrying value of the investment is adjusted to recognize the Company's proportionate share of the net earnings (losses) of the entity.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

- (g) **Data Libraries:** The cost associated with purchasing or creating the seismic data library is capitalized. Purchases of existing seismic data are capitalized and amortized on a straight-line basis over 10 years. The Company also creates seismic data and capitalizes the costs paid to third parties for the acquisition of data, permitting, surveying and other related costs. Created seismic may be acquired without pre-sale commitments or with pre-sale commitments that include an exclusive data use period. Created seismic, without pre-sale commitments, is amortized on straight-line basis over a seven-year period. Created seismic with pre-sale commitments is initially amortized at 40% on delivery of the data to the customer with the remaining balance on a straight-line basis over the next six-year period commencing a year from the delivery date. Certain of the created seismic is acquired jointly with others. These financial statements reflect only the Company's proportionate share of the costs of the jointly created seismic data library. The costs associated with purchasing or creating the log library, reference library, datasets and map library are recorded at cost less accumulated amortization.

Amortization is provided for as follows:

	AMORTIZATION METHOD	RATE
Seismic Data Library	Straight-Line	7 to 10 years
Datasets	Straight-Line	10 years
Log and Drilling Library	Straight-Line	20 years
Reference Library	Declining Balance	20%
Map Library	Straight-Line	15 years

The Company records only one half year's worth of amortization in the year of acquisition with the exception of the seismic data library. The carrying value of the data libraries is reviewed by the Company, at least annually, to assess if there has been an impairment in value. Additional amortization is recorded if it is determined that estimated future sales will not be sufficient to cover the carrying value of the asset.

- (h) **Property and Equipment:** Property and equipment are recorded at cost less accumulated amortization. Amortization is provided for as follows:

	AMORTIZATION METHOD	RATE
Computer Hardware and Software	Declining Balance	30%
Office Furniture and Equipment	Declining Balance	20-30%
Leasehold Improvements	Straight-Line	Term of Lease

The Company records one half year's worth of amortization in the year of acquisition. Periodically, the Company reviews the appropriateness of its amortization policies.

- (i) **Intangible Assets:** Intangible assets are recorded at cost less accumulated amortization. Amortization is provided for as follows:

AMORTIZATION METHOD		RATE
Non-Competition Agreements	Straight-Line	Term of Agreement
Customer Related Intangibles	Straight-Line	6 Years
Proprietary Software	Declining Balance	50%
Software Code	Straight-Line	10 Years
Office Leases Below Market Value	Straight-Line	Term of Lease
Well Logs Licence Agreement	Straight-Line	10 Years

Intangible assets are tested for impairment on an annual basis.

- (i) **Participation in Joint Ventures:** Certain of the Company's seismic data acquisition activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(k) **Revenue Recognition and Deferred Revenue:**

The Company's revenue is generated from the following sources:

- (i) Software and software licences, including maintenance and support
- (ii) Data libraries
- (iii) Seismic brokerage (recorded on a net basis)
- (iv) Seismic data licence sales
- (v) Consulting
- (vi) Other services including: seismic survey audit, information and land management, custom mapping, archiving, imaging, geophysical/geological services, database management and seismic processing.

Revenue for contracts with multiple obligations (delivered and undelivered products, support obligations and product and data updates) is allocated by the Company to each element of the contract based on objective evidence, specific to the Company, of the fair value of the element. Should it not be possible to measure an individual component, revenue is deferred until delivery of the entire contractual obligation(s).

- (i) Revenue earned from the sale of perpetual software licences is recognized upon delivery. Maintenance and support, included with the product, is recognized rateably over the term defined in the purchase agreement. Revenue earned from the renewal of maintenance and support contracts is recognized rateably over the term of the agreement. Revenue from software licences, including maintenance and support, which are sold on a monthly, quarterly and annual basis, is recognized rateably over the term of the licence.
- (ii) Data sales are recognized when the customer receives the file containing the images. In the cases where the Company sells a copy of its entire log library, revenue is recognized on the sale as milestones are achieved. The revenue recognized is determined based on the total contract value and the milestones achieved to the end of the reporting period. If a loss on a contract is probable, the loss will be recognized at the date of determination.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

- (iii) Revenue with respect to the seismic brokerage division represents brokerage commissions earned from selling goods on behalf of others and is recognized on a net basis upon the closing of the transaction. As a matter of practice, the Company generally settles brokerage payables after the related receivables are collected.
- (iv) Seismic data licence revenue is recognized on the date the customer receives the data. This occurs when the seismic work, including data processing, is complete and delivery to the customer has occurred. The Company occasionally enters into data and services exchange transactions with third parties. Where there is no or minimal cash consideration, the Company does not recognize revenue or an asset acquisition on these exchanges. In exchange transactions with material cash consideration, the Company recognizes revenue equal to the fair value of the data license and services sold and a seismic data library asset equal to the fair value of the data acquired. Cash flow from investing activities and operating activities reflect only the net cash portion.
- (v) Consulting revenue is recorded as milestones are achieved whereby customers are billed as phases of a project are completed.
- (vi) Revenue with respect to providing all other products and services is recognized under the completed contract method such that revenue is recognized only when the rendering of services and/or provision of the product under a contract is completed or substantially completed, as performance does not consist of the execution of more than one act.

Fees that have been prepaid but do not yet qualify for revenue recognition under the Company's policies are reflected as deferred revenues on the Company's balance sheet.

- (l) **Future Income Taxes:** The asset and liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and the tax basis of assets and liabilities which are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recognized to the extent that they are more likely than not to be realized.
- (m) **Stock-Based Compensation Plan:** The Company applies the fair value method for valuing stock options, broker options and warrant grants. Under this method, compensation cost attributable to all stock options, broker options and warrants are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, broker options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation does not incorporate an estimated forfeiture rate for stock options that will not vest, rather actual forfeitures are accounted for as they occur.
- (n) **Employee Share Ownership Plan:** The Company has an employee share ownership plan (ESOP) whereby each employee may elect to contribute up to 25% of their regular salary towards the savings plan. The Company matches the employee's contribution up to 3% of their monthly regular salary to a maximum of \$300 per month. The common shares are purchased through the facilities of the TSX. The Company's contributions under the ESOP for 2007 were \$484,000 (2006 — \$376,000) and categorized as salaries and benefits in the Consolidated Statements of Income.

- (o) **Goodwill:** Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is recorded in the Consolidated Statements of Income.

- (p) **Earnings Per Share:** The Company utilizes the treasury stock method of reporting earnings per share amounts which assumes that any proceeds obtained on the exercise of options would be used to purchase common shares at the average market price during the year. Basic earnings per share amounts are calculated by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The dilutive effect of convertible debentures is reflected in diluted earnings per share by application of the "if-converted" method. Under this method, income charges (net of tax) applicable to convertible debentures are added back to earnings. The convertible debentures are assumed to have been converted at the beginning of the year (or at time of issuance or acquisition, if later), and the resulting common shares are included in the weighted average number of common shares outstanding for the year. In applying the "if-converted" method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive. Convertible debt is anti-dilutive whenever its interest (net of income tax) per common share obtainable on conversion exceeds basic earnings per share.

- (q) **Investment Tax Credits:** The Company records investment tax credits on the cost reduction basis whereby investment tax credits related to current expenditures are included in the determination of net income in the year the tax credits are earned. Investment tax credits earned on deferred development salaries are deducted from deferred development costs and amortized to income on the same basis as the deferred development costs. In addition, investment tax credits related to the acquisition of property and equipment are deducted from the related asset values. These claims are subject to audit by the science advisors from the Canada Revenue Agency. As a result, the amounts recorded as investment tax credits recoverable are subject to specific measurement uncertainty. When the estimate is known to be materially different from the actual recovery, an adjustment is made in the period in which the determination is made.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

- (r) **Research and Development:** Research costs are charged to net income in the period in which they are incurred. Development costs are charged to earnings in the period they are incurred unless they meet the criteria for deferral under the accounting standard for research and development costs. 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. The Company periodically reviews these costs for possible impairment and recognizes changes in estimates in the period of the change.
- (s) **Foreign Currency:** The Company translates amounts of foreign currency into Canadian dollars on the following basis:
- (i) Monetary assets and liabilities — at the rate of exchange prevailing at the period end
  - (ii) Non-monetary items — at the rate of exchange prevailing at the dates of the transactions
  - (iii) Revenues and expenses — at the monthly average rate of exchange

Gains and losses on translation of current monetary assets and liabilities are included in income.

- (t) **Financial Instruments:** The new standards require all financial instruments to be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost determined using the effective interest rate method. Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument. Prior to January 1, 2007, transaction costs were recorded as deferred charges and recognized in net earnings on a straight-line basis over the life of the financial instrument. On adoption, transaction costs are recognized as if the effective interest rate method had always been applied whereby the amount recognized varies over the life of the financial instrument based on principal outstanding. Amortization of premiums or discounts and losses due to impairment are included in current period net income.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income and reclassified to net income when derecognized or impaired.
- Held-for-trading financial instruments are measured at fair value. All gains and losses on derivatives that are not designated or do not qualify for hedge accounting are included in net income in the period in which they arise.
- All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value. All gains and losses are included in net income in the period in which they arise.

Under adoption of these new standards, the Company designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

## 02. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Presentation and Disclosure, Section 3865 Hedges and Section 1530 Comprehensive Income. Prior periods have not been restated. The new standards establish guidelines for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. The Company has combined this new statement with its Consolidated Statements of Income.

On adoption, the Company has elected to recognize, as separate assets and liabilities, only those embedded derivatives in hybrid instruments issued, acquired or substantially modified on or after January 1, 2003. The impact of the change in accounting policy related to embedded derivatives was not material.

The Company had no “other comprehensive income or loss” transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

On January 1, 2007, an adjustment was made to classify deferred finance charges to long-term debt obligations for \$323,000 (Note 9(d)).

In December 2006, the CICA issued the following new recommendations which apply to fiscal years beginning on or after October 1, 2007:

Section 3862 Financial Instruments Disclosures and Section 3863 Financial Instruments Presentation which take effect on January 1, 2008. The sections require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks.

Section 1535 Capital Disclosures which takes effect on January 1, 2008. Section 1535 specifies the disclosure of an entity’s objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements, and the consequences of non-compliance. This section is expected to have a minimal impact of the Company’s Consolidated Financial Statements.

Section 3064 Goodwill and Intangible Assets replacing Section 3062 Goodwill and Other Intangible Assets. This new section will be effective on January 1, 2009. This new section applies to goodwill subsequent to initial recognition and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new standard is not expected to have a material impact on the Company’s Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

## 03. ACQUISITIONS

During the year ended December 31, 2007, the Company completed the following transactions and has included earnings of the acquiree in income for the current year since the date of acquisition:

- (a) **On May 3, 2007**, the Company closed a plan arrangement with BlueGrouse Seismic Solutions Ltd. (BlueGrouse) whereby BlueGrouse shareholders received 0.3125 shares of the Company for each BlueGrouse share held. BlueGrouse provides seismic data and seismic data brokerage and management services to the oil and natural gas industry.
- (b) **On May 24, 2007**, the Company acquired the Geomatics Business unit of Veritas Energy Services Partnership (Veritas). Veritas delivers survey audit and geospatial data management services to the seismic industry.
- (c) **On June 19, 2007**, the Company acquired all of the issued and outstanding shares of JMG Seismic Processing Ltd. and KRJ Seismic Processing Ltd., partners of Spectrum Seismic Processing Partnership (Spectrum). Spectrum provides a full range of onshore seismic data processing services in western Canada.
- (d) **On June 19, 2007**, the Company acquired all of the issued and outstanding shares of i Land Data Ltd. (iLand). iLand provides data management related software to the oil and gas industry.
- (e) **On November 28, 2007**, the Company acquired all of the issued and outstanding shares of Canadian Landmasters Resource Services Ltd. and Canadian Landmasters Resource Services (Med. Hat) Ltd. (Landmasters). Landmasters acquires surface and mineral rights on behalf of its clients.

The allocations of the purchase price for the acquisitions have not been finalized. The preliminary allocation of the purchase price, based on management's estimates, is as follows:

	BlueGrouse	Veritas	Spectrum	iLand	Landmasters	Total
<b>Allocation of Purchase Price:</b>						
Cash	\$602	\$-	\$(49)	\$94	\$291	\$938
Working Capital (Deficiency) <sup>(1)</sup>	(15,289)	444	291	74	364	(14,116)
Data Libraries	40,579	-	-	-	-	40,579
Participation Surveys in Progress	48	-	-	-	-	48
Property and Equipment	96	-	79	40	19	234
Non-Competition Agreements	-	250	750	100	200	1,300
Customer Related Intangibles	3,320	300	190	100	465	4,375
Proprietary Software and Code	-	1,152	550	696	-	2,398
Goodwill	-	1,023	549	-	-	1,572
Convertible Debentures	(8,142)	-	-	-	-	(8,142)
Future Income Tax Liability	(2,420)	-	(484)	(288)	(201)	(3,393)
	\$18,794	\$3,169	\$1,876	\$816	\$1,138	\$25,793
<b>Consideration:</b>						
Cash (Including Acquisition Costs)	\$1,143	\$2,625	\$368	\$380	\$370	\$4,886
Promissory Notes	-	544	900	75	200	1,719
Fair Market Value of Options Exchanged	711	-	-	-	-	711
4,569,004 Common Shares	16,940	-	-	-	-	16,940
168,068 Common Shares	-	-	608	-	-	608
99,716 Common Shares	-	-	-	361	-	361
322,581 Common Shares	-	-	-	-	568	568
	\$18,794	\$3,169	\$1,876	\$816	\$1,138	\$25,793

<sup>(1)</sup> BlueGrouse includes current portion of long-term debt of \$3,300,000.

During the year ended December 31, 2006, the Company completed the following transactions and included earnings of the acquiree in income for 2006 since the date of acquisition:

- (a) **On May 1, 2006**, the Company acquired the seismic data processing division of Geo-X Systems Ltd. (Geo-X Processing). The division provides onshore seismic data processing services.
- (b) **On July 18, 2006**, the Company acquired all of the issued and outstanding shares of Cavalier Land Ltd. (Cavalier) and Agadir Resources Inc. (Agadir). Cavalier's primary business is the acquisition of surface and mineral rights on behalf of its clients. Agadir acquires crown mineral rights on behalf of its clients.

	Geo-X Processing	Cavalier and Agadir	Total
<b>Allocation of Purchase Price:</b>			
Cash	\$-	\$638	\$638
Working Capital (Deficiency) (1)	679	(919)	(240)
Property and Equipment	2,461	281	2,742
Non-Competition Agreements	1,000	1,638	2,638
Customer Related Intangibles	1,325	3,910	5,235
Proprietary Software and Code	2,750	-	2,750
Under Market Lease	2,677	23	2,700
Goodwill	1,794	3,293	5,087
Future Income Tax Liability	-	(1,790)	(1,790)
	<b>\$12,686</b>	<b>\$7,074</b>	<b>\$19,760</b>
<b>Consideration:</b>			
Cash (Including Acquisition Costs)	\$11,487	\$4,152	\$15,639
Promissory Notes	-	1,250	1,250
368,370 Common Shares	1,199		1,199
213,220 Common Shares		1,672	1,672
	<b>\$12,686</b>	<b>\$7,074</b>	<b>\$19,760</b>

The acquisitions were accounted for using the purchase method of accounting whereby identifiable assets acquired and liabilities assumed were recorded at their fair market values as at the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill.

#### 04. INVESTMENT IN AFFILIATED COMPANY

The Company owns 36.11% of the common shares of SDLS Inc. (SDLS), a private company. The investment has been accounted for using the equity basis. The Company's pro-rata share of the net loss of SDLS for the year ended December 31, 2007 was \$2,000 (2006 – net loss of \$11,000). The fair value of the balances due from SDLS and the investment in SDLS approximate the carrying value as at December 31, 2007.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

## 05. DATA LIBRARIES

BALANCE AS AT DECEMBER 31	2007		2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Seismic Data Library	\$215,145	\$64,546	\$96,982	\$37,130
Datasets	632	401	632	339
Log and Drilling Library	12,122	1,929	12,018	1,346
Reference Library	445	297	445	260
Map Library	239	56	239	40
	\$228,583	\$67,229	\$110,316	\$39,115
Net Book Value		\$161,354		\$71,201

In 2007, the Company acquired \$21.7 million of seismic data libraries and sold \$16.3 million of seismic data licenses and related services in data exchanges. The net cash amount of \$5.3 million is reflected as an investing activity on the Consolidated Statements of Cash Flows. There were no data exchanges in 2006.

## 06. PROPERTY AND EQUIPMENT

BALANCE AS AT DECEMBER 31	2007		2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer Hardware and Software	\$7,757	\$4,199	\$6,707	\$2,825
Office Furniture and Equipment	1,260	629	1,517	475
Leasehold Improvements	1,179	454	706	290
Assets Under Capital Lease	2,383	1,346	1,746	1,047
Land	30	-	30	-
	\$12,609	\$6,628	\$10,706	\$4,637
Net Book Value		\$5,981		\$6,069

## 07. DEFERRED DEVELOPMENT COSTS

BALANCE AS AT DECEMBER 31	2007	2006
Balance, Beginning of Year	\$2,877	\$1,863
Salaries and Benefits (Net of Investment Tax Credits)	2,160	1,321
General and Administrative	437	296
Total Additions	2,597	1,617
Amortization <sup>(1)</sup>	(738)	(603)
Balance, End of Year	\$4,736	\$2,877

<sup>(1)</sup> Included in depreciation and amortization on the Consolidated Statements of Income.

## 08. INTANGIBLE ASSETS

BALANCE AS AT DECEMBER 31	2007		2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Non-Competition Agreements	\$ 3,938	\$943	\$ 2,638	\$264
Customer Related Intangibles	12,070	3,233	7,695	1,640
Proprietary Software and Code	8,263	2,206	5,865	1,418
Office Leases Below Market Value	2,700	675	2,700	225
Well Logs Licence Agreement	750	456	750	382
	\$27,721	\$7,513	\$19,648	\$3,929
Net Book Value		\$20,208		\$15,719

## 09. LONG-TERM DEBT OBLIGATIONS

BALANCE AS AT DECEMBER 31	2007	2006
Term Loan and Committed Revolver (a)	\$42,848	\$7,849
Promissory Notes (b)	1,800	1,423
Capital Lease Obligations (c)	700	659
	45,348	9,931
Current Portion	(5,889)	(3,295)
Less: Deferred Finance Charges (d)	(1,059)	-
Long-Term Portion	\$38,400	\$6,636

- (a) **Term Loan:** On April 24, 2007 the Company secured \$60 million in aggregate credit facilities. The credit facilities are available in three tranches: a \$20 million committed revolver and two \$20 million committed term loan facilities. On December 20, 2007, the facilities were amended to increase the committed revolver to \$25 million and reduce one of the committed term loan facilities to \$15 million. Each tranche is a five-year committed facility from the April 2007 closing date. The committed revolver draws are not required to be repaid until maturity, however if advances are paid down in advance they can be redrawn at a later date. Each draw on the term loan facilities is amortized over six years from the date of draw down and repaid on a monthly basis. The Company has two pricing options on all the credit facilities: floating Canadian Base Rate plus 2.00%, or Canadian LIBOR plus 3.25%. The facilities are subject to the Company meeting certain debt covenants. The Company must have a \$50 million EBITDA on a trailing 12 month basis) and a fixed charge coverage ratio of at least 1.50:1 (on a trailing 12 month basis). As at December 31, 2007, \$20.2 million was drawn on the committed revolver, \$18.2 million was drawn on the first committed term loan, and \$4.6 million was drawn on the second committed term loan. The bank facilities are secured by a first floating charge on all the Company's assets. (Term Loan continued page 52)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

Principal payments are as follows:

2008	\$4,245
2009	4,245
2010	4,245
2011	4,245
2012	4,245
2013	21,623
	\$42,848

**(b) Promissory Notes:**

BALANCE AS AT DECEMBER 31	2007	2006
Unsecured Promissory Notes issued on the acquisition of Focus Holdings and Investments Ltd., bearing interest of 6% per annum, repayable in quarterly instalments of \$39,000 plus interest.	\$-	\$117
Unsecured Promissory Notes issued on the acquisition of Cavalier Land, non-interest bearing, repayable in two instalments of \$625,000 on July 18, 2007 and July 18, 2008.	625	1,250
Unsecured Promissory Notes issued on the acquisition of iLand, bearing interest of 7%, repayable on June 19, 2008.	75	-
Unsecured Promissory Notes issued on the acquisition of Spectrum, bearing interest of 6%, repayable in two instalments of \$550,000 on June 19, 2008 and \$350,000 on June 19, 2009.	900	-
Unsecured Promissory Notes issued on the acquisition of Landmasters. Bearing interest at 2% above the Company's prime lending rate, repayable in three equal instalments of \$66,667 on each of December 31, 2008, 2009, and 2010.	200	-
Unsecured Promissory Notes issued on the acquisition of Petro Data Source, Inc. bearing interest of 7%, fully repaid in one instalment of U.S. \$50,000 on March 31, 2007.	-	56
Current Portion	1,800 (1,316)	1,423 (798)
Long-Term Portion	\$484	\$625

Principal payments are as follows:

2008	\$1,316
2009	417
2010	67
	\$1,800

- (c) **Capital Lease Obligations:** The Company has capital lease obligations, which have terms of one to three years and bear interest at 3.3% to 5.8% per annum. Minimum annual lease payments are as follows:

2008	\$328
2009	181
2010	110
2011	81
	\$700

- (d) **Deferred Finance Charges:**

BALANCE AS AT DECEMBER 31	2007	2006
Balance, Beginning of Year	\$323	\$409
Additions	1,340	-
Amortization <sup>(1)</sup>	(604)	(86)
Balance, End of Year	\$1,059	\$323

<sup>(1)</sup> Included in interest expense on the Consolidated Statements of Income.

Deferred finance costs are amortized over the term of the related debts

## 10. CONVERTIBLE DEBENTURES

BALANCE AS AT DECEMBER 31	2007	2006
Balance, Beginning of Year	\$-	\$-
Additions	8,142	-
Equity Component	(609)	-
Balance, End of Year	\$7,533	\$-

The Company assumed convertible debentures through the acquisition of BlueGrouse (Note 3(a)). Each debenture bears interest at a rate of 10% per annum and is convertible, in whole or in part, into common shares of the Company at a conversion price of \$4.48 per common share (Conversion Price) at any time on or before November 21, 2008 (Maturity Date). On or before the Maturity Date, the holders of the debentures shall have the option of either converting their debentures into common shares at the Conversion Price or receiving the cash value of the principal amount of the debentures, plus any accrued and unpaid interest. The debentures were classified as a current liability as the holders can require the Company to settle the instrument for cash or shares within the next 12 months.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

## 11. INCOME TAXES

(a) The Company has an effective tax rate, which differs from the expected Canadian income tax rate. The differences are as follows:

YEAR ENDED DECEMBER 31	2007	2006
Income Before Income Taxes	\$23,309	\$28,482
Statutory Rate	32.12%	32.50%
Computed Income Tax Provision	\$7,487	\$9,257
Effects of Differences:		
Non-Deductible Expenses	678	411
Non-Taxable Income	-	(501)
Adjustments for Enacted Changes in Income Tax Rates	(2,329)	(216)
Other	(68)	(84)
Actual Income Tax Expense	\$5,768	8,867
Current	8,723	312
Future	(2,955)	8,555
Actual Income Tax Expense	5,768	8,867

(b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

BALANCE AS AT DECEMBER 31	2007	2006
Database, Property and Equipment, and Intangibles	\$(8,406)	\$463
Non-Capital Loss Carry-Forwards	890	2,121
SR&ED Expenditures	(1,813)	(71)
Share Issues and Financing Costs	747	470
Deferred Partnership Income	(4,824)	(15,951)
Future Income Tax Liability	\$(13,406)	\$(12,968)

- (c) The Company files Scientific Research and Experimental Development (SR&ED) claims with the Canada Revenue Agency in respect of certain research and development expenditures. Although the claims were filed on the basis of the regulations, the recoverability of the amounts recorded in these financial statements is subject to confirmation by the Canada Revenue Agency. In 2007, the Company used about \$7.1 million SR&ED expenses to reduce its current income tax liability. As at December 31, 2007, the Company utilized all of its SR&ED pools to reduce taxable income in the year (December 31, 2006 - \$4.8 million). In addition, the Company utilized approximately \$1.4 million of investment tax credits available at December 31, 2007 to reduce income taxes payable.
  
- (d) As at December 31, 2007, the Company's Canadian subsidiaries had \$2.9 million in non-capital loss carry-forwards in Canada which were assumed through various acquisitions in 2007 which begin to expire in 2027. The Company had \$6.5 million in non-capital loss carry-forwards as at December 31, 2006 which were used to reduce taxable income in 2007. The Company's U.S. subsidiary had approximately \$80,000 in net operating losses in the U.S. which begin to expire in 2025.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

## 12. EQUITY INSTRUMENTS

(a) **Authorized:** An unlimited number of voting common shares.

(b) **Issued:**

BALANCE AS AT DECEMBER 31		2007		2006	
	Number of Shares	Amount	Number of Shares	Amount	
Common Shares					
Balance, Beginning of Year	35,399	\$47,752	29,874		\$25,631
Issued on Public Offering	-	-	2,300		12,075
Issued on Acquisitions	5,160	18,477	581		2,871
Issued as Retention Bonuses on Acquisitions for Loans Receivable	-	-	160		750
Cancellation of Shares Issued as Retention Bonuses	(27)	(125)	-		-
Reclassification to Common Shares on Share Purchase Loan Forgiveness	-	201	-		-
Exercise of Share Purchase Warrants – Cash Consideration	538	1,346	1,962		4,904
Exercise of Share Purchase Warrants – Reclassification from Fair Value	-	337	-		1,227
Exercise of Broker Compensation Options – Cash Consideration	220	441	129		258
Exercise of Broker Compensation Options – Reclassification from Contributed Surplus	-	173	-		101
Exercise of Stock Options – Cash Consideration	566	819	393		488
Exercise of Stock Options – Reclassification of Contributed Surplus	-	215	-		236
Repurchase for Cancellation	(277)	(456)	-		-
Share Issue Costs (Net of Future Taxes of \$Nil (2006 – \$366,000))	-	-	-		(789)
	41,579	69,180	35,399		47,752
Less Share Purchase Loans	-	(490)	-		(1,235)
Balance, End of Year	41,579	\$68,690	35,399		\$46,517
Share Purchase Warrants					
Balance, Beginning of Year	538	\$337	2,500		\$1,564
Exercised	(538)	(337)	(1,962)		(1,227)
Balance, End of Year	-	\$-	538		\$337
Total Equity Instruments		\$68,690			\$46,854

(c) **Share Purchase Loans:** In conjunction with the acquisition of Geo-X Processing in 2006, certain key employees were granted \$750,000 in retention bonuses in the form of an interest free, forgivable loan to purchase 159,914 shares from treasury of the Company at deemed price of \$4.69 (Geo-X share purchase loans). The shares are being held in escrow and are secured by the underlying securities and all proceeds therefrom. The shares are being released from escrow over a two-year period and the loans forgiven based on fulfilment of employment milestones. In 2007, 71,429 shares were released from escrow and 26,653 shares were forfeited. The share purchase loan receivable was presented as a deduction from shareholders' equity and as such has not been treated as outstanding for purposes of calculating basic earnings per share. The fair value of \$272,000 was calculated based on the same variables used for stock options and is being expensed over the period of the loan. The charge is included in stock compensation expense.

In conjunction with the acquisition of Cavalier Land in 2006, certain key employees were granted \$500,000 in retention bonuses in the form of an interest free loan to purchase 102,494 shares of the Company at deemed price of \$4.88. An arm's-length broker purchased the shares on the open market on behalf of the employees. The shares are being held in escrow and are secured by the underlying securities and all proceeds therefrom. The shares are being released from escrow over a two-year period and the loans forgiven based on fulfillment of employment milestones. In 2007, 43,053 shares were released from escrow and 15,374 shares were forfeited. The share purchase loan receivable was presented as a deduction from shareholders' equity. The fair value of \$181,000 was calculated based on the same variables used for stock options and is being expensed over the period of the loan. The charge is included in stock compensation expense.

As at December 31, 2007, outstanding share purchase loans were as follows:

BALANCE AS AT DECEMBER 31	2007	2006
Balance, Beginning of Year	\$1,235	\$-
Issued on Acquisitions	-	1,250
Forfeited	(200)	(15)
Forgiven	(545)	-
Balance, End of Year	\$490	\$1,235

(d) **Broker Compensation Options:** As at December 31, 2007, outstanding broker compensation options to purchase common shares were as follows:

BALANCE AS AT DECEMBER 31	2007		2006	
	Number of Shares	Amount	Number of Shares	Amount
Balance, Beginning of Year	220	\$173	349	\$273
Exercised	(220)	(173)	(129)	(100)
Balance, End of Year	-	\$-	220	\$173

(e) **Normal Course Issuer Bid:** On January 9, 2007 the Company received approval from the TSX to repurchase up to 1,770,000 of its common shares at prevailing market prices commencing on January 15, 2007 and terminating on the earlier of the January 14, 2008 and the date on which the maximum number of common shares are purchased pursuant to the Issuer Bid. 276,900 shares were repurchased for the year ended December 31, 2007 resulting in a \$153,000 reduction to retained earnings.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

**(f) Contributed Surplus:**

BALANCE AS AT DECEMBER 31	2007	2006
Balance, Beginning of Year	\$2,008	\$1,269
Stock Compensation Expense	1,531	1,076
Fair Value of Stock Options Exchanged on Acquisition of BlueGrouse	711	-
Reclassification to Common Shares on Exercise of Options	(215)	(236)
Reclassification to Common Shares on Exercise of Broker Compensation Options	(173)	(101)
Reclassification to Common Shares on Share Purchase Loan Forgiveness	(201)	-
Balance, End of Year	\$3,661	\$2,008

**(g) 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 following the first anniversary of the grant date, one-third following the second anniversary of the grant date, and the remaining one-third following the third anniversary of the grant date. 4,041,369 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:

STOCK OPTIONS OUTSTANDING			
	Number of Options	Option Price	Weighted Average Price
Options Outstanding, December 31, 2005	2,219	\$0.83 - 3.00	\$1.55
Options Granted	1,079	\$3.23 - 6.10	\$5.05
Exercised	(393)	\$0.83 - 3.00	\$1.24
Forfeited	(139)	\$1.25 - 6.10	\$3.39
Options Outstanding, December 31, 2006	2,766	\$0.83 - 6.10	\$2.87
Options Granted <sup>(1)</sup>	959	\$2.40 - 8.58	\$4.04
Exercised <sup>(2)</sup>	(566)	\$1.00 - 3.00	\$1.45
Forfeited <sup>(3)</sup>	(416)	\$1.00 - 8.58	\$5.39
Options Outstanding, December 31, 2007	2,743	\$1.00 - 6.10	\$3.19

<sup>(1)</sup> Includes 337,000 BlueGrouse options that were exchanged for Divestco options and 385,000 options granted to officers and directors.

<sup>(2)</sup> Includes 168,657 options held by officers and a director.

<sup>(3)</sup> Includes 50,105 options held by officers and a director.

Stock options which were outstanding and vested as at December 31, 2007, are summarized as follows:

STOCK OPTIONS OUTSTANDING AND VESTED					
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
966	\$1.00 - 2.39	\$1.30	1.63	966	\$1.30
1,017	\$2.40 - 4.29	\$3.29	3.79	246	\$3.05
760	\$4.30 - 6.10	\$5.45	3.46	260	\$5.44
2,743	\$1.00 - 6.10	\$3.19	2.94	1,472	\$2.32

The per share weighted average fair value of the stock options granted for the year ended December 31, 2007 was \$1.36 (2006 – \$2.83). This was estimated using the Black-Scholes option pricing model with the following assumptions: an average expected volatility of 69% (2006 – 60%), an average risk free interest rate of 4.2% (2006 – 5.0%), no dividend rate and an expected life of five years. The compensation expense is recognized evenly over the three-year vesting period of the stock options. The options exchanged on the acquisition of BlueGrouse fully vested on the date of acquisition, and therefore no compensation expense was recognized during 2007. The fair value has been included in the purchase price.

- (h) **Earnings Per Share:** Basic earnings per share is computed using the weighted-average number of common shares outstanding during the year, being 39,200,000 for 2007 (2006 – 32,665,000). Diluted earnings per share is computed using the “treasury stock” method whereby outstanding stock options, broker compensation options and share purchase warrants are only dilutive if, and to the extent, that they are “in the money”. In computing diluted earnings per share, 1,091,000 shares (2006 – 1,039,000) were added to the weighted average number of common shares outstanding for the dilution from the stock options, broker compensation options, share purchase warrants, the Geo-X share purchase loans, and convertible debentures. Options to purchase 1,730,000 (2006 – 1,354,000) common shares have been excluded from the calculations of diluted earnings per share due to their anti-dilutive effect.

For shares issued with respect to the Geo-X share purchase loans, the common shares of the Company securing these loans were not being treated as outstanding for purposes of calculating basic earnings per share. The common shares securing the Geo-X share purchase loans are considered to be contingently returnable for purposes of calculating diluted earnings per share. Since all necessary conditions were not satisfied as at December 31, 2007, the number of contingently issuable shares included in diluted earnings per share should be based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period (for example, the number of shares that would be issuable based on current period earnings or period-end market price) and if the result would be dilutive.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

## 13. STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2007	2006
Interest and Income Taxes Paid		
Income Taxes Paid (Net of Refunds)	\$383	\$-
Interest Paid (Net of Interest Revenue)	\$3,316	\$1,112
Changes in Non-Cash Working Capital Balances		
Funds Held in Trust	\$(422)	\$-
Accounts Receivable	53	9,042
Investment Tax Credits Recoverable	651	(651)
Prepaid Expenses, Supplies and Deposits	(714)	499
Accounts Payable and Accrued Liabilities	9,283	(8,219)
Income Taxes Payable	6,775	(13)
Deferred Revenue	(7,615)	1,248
	\$8,011	\$1,906
Changes in Non-Cash Working Capital Balances Related to Operating Activities	\$(13,870)	\$2,884
Changes in Non-Cash Working Capital Balances Related to Investing Activities	21,881	(978)
	\$8,011	\$1,906

At December 31, 2007, the Company held \$193,000 (2006 – \$131,000) of cash and cash equivalents which were denominated in a foreign currency.

## 14. COMMITMENTS

The Company rents its current premises from third parties under lease agreements. In addition, the Company maintains contractual agreements for certain office equipment. The minimum annual payments due under these long-term operating leases including estimated operating costs, net of sub-leases, are as follows:

2008	\$3,968
2009	3,759
2010	7,351
2011	8,909
2012+	95,514

## 15. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the Company had the following related party transactions:

- (a) In 2007, the Company paid \$217,000 (2006 - \$337,000) in consulting fees and brokerage commissions to a company controlled by a director. Included in accounts payable as at December 31, 2007 was \$17,000 (December 31, 2006 — \$Nil) related to these fees and commissions.
- (b) In 2007, the Company paid \$396,000 (2006 - \$467,000) in legal fees to the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable as at December 31, 2007 was \$66,000 (December 31, 2006 — \$31,000) related to these legal fees.

All related party transactions are in the normal course of operations and 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.

## 16. FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to industry credit, interest rate, and foreign currency risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The carrying amounts of the Company's monetary assets and liabilities approximate their fair values.

- (a) **Credit Risk Management:** A significant portion of the Company's trade accounts receivable are from companies in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry. During the year ended December 31, 2007, 24% of the Company's revenue was derived from three customers with a majority related to sales contracts for seismic data. As at December 31, 2007, these same customers accounted for 26% of the Company's total accounts receivable.
- (b) **Interest Rate Risk Management:** The Company's short-term borrowings are based on floating rates and subject to interest rate cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates. Interest on fixed rate debt ranges from 4.9% to 6.8%. If these transactions were entered into today, the interest expense would not be materially different.
- (c) **Foreign Currency Rate Risk Management:** A portion of the Company's sales are made to customers in the United States. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies.

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (Tabular Amounts in Thousands, Unless Otherwise Stated)

## 17. SEGMENTED INFORMATION

The Company is an oil and gas services company offering products and services to customers in the oil and gas exploration and production industry. The Company's products and services are offered through four segments: Software, Services, Data, and Consulting. In addition, the Company reports its overhead activities through its Corporate and Other segment. The Company operates in two geographic locations – Canada and the United States.

Software sells, maintains, and supports licensed software exploration products. Services provides seismic survey audit, processing and brokerage services as well as mapping, archiving and geophysical/geological services. Data provides a full suite of support data layers as well as developing and maintaining the Company's seismic data libraries. Consulting offers business solutions ranging from business consulting services, ERP systems implementations and CRM systems implementations, to custom software development, hardware devices, network infrastructure and land management services. Corporate and Other includes finance, accounting, marketing, human resources, investor relations, and information technology.

The accounting policies of the segments are the same as those described in significant accounting policies in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2007. Inter-segment sales and transfers, which are accounted for at market value, are eliminated on consolidation. Operating income (loss) is measured as revenue less operating expenses, interest and depreciation and amortization. Other income (loss) items and income taxes reported on the Company's Consolidated Statements of Income are not allocated to the reportable segments.

### AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2007

	Software	Services	Data	Consulting	Corporate & Other	Total
Revenue from External Customers	\$8,494	\$24,731	\$69,690	\$13,155	\$-	\$116,070
Inter-Segment Revenue	-	-	3,782	-	-	3,782
Operating Income (Loss) <sup>(1)</sup>	2,203	2,240	31,940	(201)	(12,613)	23,569
Interest Expense (Net of Interest Revenue)	3	-	605	(47)	3,123	3,684
Depreciation and Amortization	1,467	2,466	28,963	1,350	178	34,424
Total Assets	11,653	25,043	184,500	12,604	1,709	235,509
Goodwill	1,266	4,652	-	4,172	-	10,090
Capital Expenditures <sup>(2)</sup>	216	430	60,061	-	305	61,012
Deferred Development Costs	1,613	984	-	-	-	2,597

### AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2006

	Software	Services	Data	Consulting	Corporate & Other	Total
Revenue from External Customers	\$7,054	\$17,083	\$73,384	\$8,847	\$95	\$106,463
Inter-Segment Revenue	-	1,613	-	-	-	1,613
Operating Income (Loss) <sup>(1)</sup>	1,908	1,748	32,106	(1,140)	(8,245)	26,377
Interest Expense (Net of Interest Revenue)	-	-	317	(22)	940	1,235
Depreciation and Amortization	1,180	1,529	32,610	586	146	36,051
Total Assets	9,189	19,801	91,101	10,975	1,876	132,942
Goodwill	1,266	3,081	-	4,171	-	8,518
Capital Expenditures <sup>(2)</sup>	397	440	74,861	-	313	76,011
Deferred Development Costs	1,271	345	-	-	-	1,616

<sup>(1)</sup> Operating income is revenue less operating expenses, interest expense, and depreciation and amortization.

<sup>(2)</sup> Excludes acquisitions.

### AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2007

	Canada	U.S.	Total
Revenue	\$114,032	\$2,038	\$116,070
Data Libraries, Participation Surveys in Progress, Property and Equipment, Intangible Assets and Goodwill	193,764	4,916	198,680

### AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2006

	Canada	U.S.	Total
Revenue	\$103,786	\$2,677	\$106,463
Data Libraries, Participation Surveys in Progress, Property and Equipment, Intangible Assets and Goodwill	98,578	5,650	104,228

# CORPORATE INFORMATION

## CANADA

### Head Office

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Toll free: 1.888.294.0081  
Fax: 403.229.4853

**Website:** [www.divestco.com](http://www.divestco.com)

**Investor Relations:** [investor.relations@divestco.com](mailto:investor.relations@divestco.com)

**For More Information:** [info@divestco.com](mailto:info@divestco.com)

**Sales:** [sales@divestco.com](mailto:sales@divestco.com)

### Seismic Processing & iLand

500, 440 – 2nd Avenue SW  
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Fax: 403.264.1057

### Cavalier Land & Landmasters

300, 1324 – 11th Avenue SW  
Calgary, Alberta, Canada T3C 0M6  
Phone: 403.264.5188  
Fax: 403.264.5185

### Software Development, Consulting, Logs & Archive

1223 – 31st Avenue NE  
Calgary, Alberta, Canada T2E 7W1  
Phone: 403.248.7755  
Fax: 403.250.1853

## USA

### Denver Office

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Toll free: 1.800.900.5737  
Fax: 303.860.0066

### Houston Office

200, 3838 North Sam Houston Parkway E  
Houston, Texas, USA 77032  
Phone: 281.449.6533  
Fax: 281.449.6755

### Board of Directors

John A. Brussa <sup>1,3</sup>  
Stephen Popadynetz  
M. Scott Ratushny <sup>2,4</sup>  
Edward L. Molnar <sup>2,3</sup>  
Brent Gough <sup>2,3,4</sup>  
Wade Brillon

<sup>1</sup> Chairman of the Board

<sup>2</sup> Member of the Audit Committee

<sup>3</sup> Member of the Compensation Committee

<sup>4</sup> Member of the Corporate Governance Committee

### Officers

Stephen Popadynetz  
Chief Executive Officer

Roderick Chisholm  
Chief Financial Officer

Steve Sinclair-Smith  
Chief Operating Officer

Terry Barnhart  
President

Lonn Hornsby  
Senior VP Operations – Divestco Seismic LP

Danny Chiarastella  
VP Finance

Mathew Hepton  
VP Software Development

Oliver Kuhn  
VP Processing

Cary Sabraw  
VP Land

Peter Zyla  
VP Strategy, Logs, Archive & Consulting

Rob Oulton  
VP Sales & Marketing – Divestco Seismic LP

### Corporate Secretary

Faralee A. Chanin

### Stock Exchange Listing

TSX: DVT

### Lending Institutions

Wells Fargo Financial Corporation Canada

### Registrar & Transfer Agent

CIBC Mellon Trust Company

### Auditors

KPMG LLP

### Legal Counsel

Field LLP

## ANNUAL GENERAL MEETING

May 6, 2008, 2:30pm  
Calgary Telus Convention Centre  
South Building, Glen Rooms 208 & 209  
120 - 9th Avenue SE  
Calgary, Alberta, Canada T2G 0P3





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