



Divestco

# Management's Discussion & Analysis

For the Three Months Ended

March 31, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This management discussion and analysis (MD&A) is dated June 23, 2011, and should be read in conjunction with the unaudited condensed interim consolidated financial Statements and notes of Divestco Inc. ("Divestco" or the "Company") as at and for the three months ending March 31, 2011 and March 31, 2010, and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2010 and 2009. All financial information in this section has been prepared in accordance with International Financial Reporting Standards ("IFRS") and is reported in Canadian dollars unless otherwise specified.

## **ACCOUNTING POLICY CHANGES**

On January 1, 2011, Divestco adopted IFRS for purposes of financial reporting, using a transition date of January 1, 2010. Accordingly, these interim consolidated financial statements for the three months ended March 31, 2011 and the comparative information for the three months ended March 31, 2010, have been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB").

Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The adoption of IFRS has not had an impact on the Company's operations or strategic decisions. Further information on the effect of adopting IFRS is outlined in the "New Accounting Pronouncement" section of this MD&A and in the "Explanation of transition to IFRS" note to the interim consolidated financial statements for the three months ended March 31, 2011 and March 31, 2010.

## **DIVESTCO'S BUSINESS**

Divestco operates under four business segments: Software and Data, Services, Seismic Data and Corporate and Other.

- Software and Data - provides and is responsible for development, maintenance and support of Divestco's proprietary geological, geophysical and land applications used by oil and gas professionals, including geologists, geophysicists, engineers, land agents and land administrators worldwide. The Company offers customized software and data bundles to clients depending on their needs. It also offers the market over 120 datasets including drilling data and a full suite of exploration and production data (well, land, drilling, log and mapping). In addition the segment provides ancillary document management services such as high-quality technical document digitizing and rasterizing and scanning services for customers' data management needs.
- Services - offers geomatics (geospatial data services, including data integrity validation, mapping, database hosting, and advisory support and consultation) and seismic processing to customers who require data quality assurance, processing and data management services for geophysical and geological information. The segment also offers land management services through Cavalier Land and Canadian Landmasters including surface acquisition, public consultation, telecom acquisition and consultation, regulatory guidance, freehold mineral acquisition, and crown land sale representation.
- Seismic Data - provides the oil and natural gas industry with quick, reliable access to cost-effective, high-resolution seismic data. Divestco commenced rebuilding its seismic data library in Q4 2010. The segment provides seismic brokerage through the largest division of its kind in Canada with 11 independent brokers as well as data management services.

- Corporate and Other - responsible for setting Divestco's overall strategic plan and providing finance and accounting, sales and marketing, human resources (HR) and information technology (IT) services to the Company's operating segments. The segment is discussed under the "Results of Operations by Segment" section of the MD&A.

## **BUSINESS STRATEGY**

Divestco's vision is to be the leading geo-services company in Canada, providing a focused offering of data, software and services through innovation and technical expertise, to the oil and gas industry worldwide.

Divestco is an exploration services company that provides a comprehensive and integrated portfolio of data, software and services to the oil and gas industry. Through continued commitment to align and bundle products and services to generate value for customers, Divestco is creating an unparalleled set of integrated solutions and unique benefits for the marketplace. Divestco's breadth of software, services, and data solutions offers customers the ability to access and analyze the information required to make business decisions and to optimize their success in the upstream oil and gas industry.

## **FUTURE OPERATIONS AND SUBSEQUENT EVENT**

The interim consolidated financial statements have been prepared on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in the consolidated financial statements.

At March 31, 2011 the Company had a working capital deficit of \$2.9 million including deferred revenue of \$3.8 million. The Company incurred losses of \$4.3 million for the three months ended March 31 2011. The net loss included occupancy costs related to the Company's existing office space leases and its new office space lease which commenced on May 1, 2010. The double rent obligations are expected to cease in Q3 2011 and the Company is actively searching for subtenants in its new office space to reduce its overall operating expenses. The Company is focused on re-establishing positive earnings from all of its operating segments and has secured additional sources of capital to continue its activities and discharge its commitments as they become due. On May 4, 2011, the Company announced that it had closed a \$5 million subordinate bridge loan.

These matters cast doubt on the ability of the Company to continue to achieve profitable operations and meet its obligations. Management believes that the going concern assumption is appropriate for the consolidated financial statements. Adjustments to the carrying amounts of the balance sheet classifications used, assets and liabilities, and revenues and expenses, may be necessary should the going concern assumption be inappropriate.

## **FORWARD-LOOKING INFORMATION**

Divestco's MD&A and consolidated financial statements contain forward-looking information related to the Company's capital expenditures, projected growth, view and outlook towards future oil and gas prices and market conditions, and demand for its products and services. Statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions and statements relating to matters that are not historical facts constitute "forward-looking information" within the meaning applicable by Canadian securities legislation. Although management of the Company believes that the expectations reflected in such forward-looking information are reasonable, there can be no assurance that such expectations will prove to have been correct because, should one or more of the risks materialize, or should the assumptions underlying forward-looking statements or forward-looking information prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Readers should not place undue reliance on forward-looking statements or forward-looking information. All of the forward-looking statements and

forward-looking information of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements pertaining to the following\*:

- Company's ability to keep debt and liquidity at acceptable levels, improve, maintain its working capital position and maintain profitability in the current economy
- Availability of external and internal funding for future operations
- Relative future competitive position of the Company
- Nature and timing of growth
- Oil and natural gas production levels
- Planned capital expenditure programs
- Supply and demand for oil and natural gas
- Future demand for products/services
- Commodity prices
- Impact of Canadian federal and provincial governmental regulation on the Company
- Expected levels of operating costs, general administrative costs, costs of services and other costs and expenses
- Future ability to execute acquisitions and dispositions of assets or businesses
- Expectations regarding the Company's ability to raise capital and to add to seismic data through new seismic shoots and acquisition of existing seismic data
- Treatment under tax laws
- New accounting pronouncements

*\*These statements are included under the headings of this MD&A: "Overall Performance", "Outlook", and "Results of Operations by Segment", "Liquidity and Capital Resources", and "New Accounting Pronouncements".*

These forward-looking statements are based upon assumptions including: future prices for crude oil and natural gas; future interest rates and future availability of debt and equity financing will be at levels and costs that allow the Company to manage, operate and finance its business and develop its software products and various oil and gas datasets including its seismic data library, and meet its future obligations; the regulatory framework in respect of royalties, taxes and environmental matters applicable to the Company and its customers will not become so onerous on both the Company and its customers as to preclude the Company and its customers from viably managing, operating and financing its business and the development of its software and data; and that the Company will continue to be able to identify, attract and employ qualified staff and obtain the outside expertise as well as specialized and other equipment it requires to manage, operate and finance its business and develop its properties.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including:

- General economic, market and business conditions
- Volatility in market prices for crude oil and natural gas
- Ability of Divestco's clients to explore for, develop and produce oil and gas
- Availability of financing and capital
- Fluctuations in interest rates
- Demand for the Company's product and services
- Weather and climate conditions
- Competitive actions by other companies
- Availability of skilled labour
- Failure to obtain regulatory approvals in a timely manner
- Adverse conditions in the debt and equity markets
- Government actions including changes in environment and other regulations

These risks and uncertainties are discussed in greater detail in the Business Risks and Environment section of this MD&A and in the Company's Annual Information Form for the year ended December 31, 2010, incorporated here by reference.

### **NON-GAAP MEASURES**

The Company's interim consolidated financial statements have been prepared in accordance with IFRS. Certain measures in this document do not have any standardized meaning as prescribed by IFRS and are considered non-GAAP measures.

This MD&A 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 IFRS 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 MD&A 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 AND OPERATING INCOME**

Divestco uses EBITDA and operating income as key measures to evaluate the performance of its segments and divisions as well as the Company overall, with the closest IFRS measure being net income. EBITDA and operating income are measures commonly reported and widely used by investors as indicators of the Company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA and operating income assist investors in comparing the 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 and operating income are not calculations based on IFRS and should not be considered alternatives to net income in measuring the Company's performance. As well, EBITDA and operating income should not be used as exclusive measures of cash flow, because they do 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. While EBITDA and operating income have 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 and operating income as reported by Divestco may not be comparable in all instances to EBITDA and operating income as reported by other companies. Investors should also carefully consider the specific items included in Divestco's computation of EBITDA and operating income.

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

<b>For the three months ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>(Thousands)</b>		
<b>Net Loss</b>	<b>\$ (4,332)</b>	<b>\$ (4,211)</b>
Income Tax Expense (Reduction)	49	(1,909)
Other Income (Loss) <sup>(1)</sup>	-	80
<b>Operating Loss</b>	<b>\$ (4,283)</b>	<b>\$ (6,200)</b>
Interest	16	569
Depreciation and Amortization	3,410	9,236
<b>EBITDA (LOSS)</b>	<b>\$ (857)</b>	<b>\$ 3,605</b>

(1) Other income (loss) includes net foreign exchange gains/losses, gains/losses on sales of property, plant and equipment/data libraries, and equity investment income/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 and investing activities. 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. It is not a calculation based on IFRS 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 IFRS 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:

For the three months ended March 31	2011	2010
(Thousands)		
<b>Cash Flows from (used in) Operating Activities</b>	\$ (444)	\$ 3,048
Changes in Non-Cash Working Capital Balances related to operating activities	(489)	(1,491)
Decrease in Non-Current Deferred Revenue	-	-
Decrease in Long-Term Prepaid Expenses	-	(79)
<b>Funds from Operations (Deficiency)</b>	\$ (933)	\$ 1,478

## BUSINESS RISKS AND ENVIRONMENT

### DEMAND FOR PRODUCTS AND SERVICES AND DEPENDENCE ON MAJOR CUSTOMERS

Divestco's business is tied primarily to the oil and gas exploration and production 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, access to credit and capital markets, and to a lesser extent, government regulation (including regulation of environmental matters and material changes in taxation policies).

The Company has a wide customer base in the energy sector ranging from large multinational public entities to small private companies. Notwithstanding the Company's wide customer base, five customers account for 30% of the Company's accounts receivable as at March 31, 2011, and three customers accounted for 30% of the Company's revenue for the three months ended March 31, 2011. The Company has historically had a stable relationship with these customers and has no reason to believe there will be any change to this relationship in the future. The Company continuously makes efforts to expand its customer base.

The Company spends a considerable 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. In order to minimize capital risk, the Company routinely pre-sells data licenses in advance of committing to a capital outlay. For larger seismic programs, the Company may rely on third parties to share in the cost and 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 these costs, 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. Unfavourable weather conditions may cause potential cost overruns and delays in the field data acquisition portion of the seismic data survey, delaying revenue recognition.

Divestco 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.

Other segments of the Company, such as Services, normally exhibit 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 performing specific types of contract work appropriate for lower-activity months. The Software and Data segment typically experiences a slowdown 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 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 bundled solutions customized to the customer's needs.

**SKILLED LABOUR**

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

**GOVERNMENT REGULATIONS AND SAFETY**

Divestco'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, the Company 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 could lead oil and gas companies to curtail exploration and development, reducing the demand for seismic surveys, which could also adversely affect the Company's seismic operations.

**In addition to the "Business Risks and Environment" section in this MD&A, see the "Risk Factors" section in the Company's Annual Information Form (AIF) for the year ended December 31, 2010. A copy of the Company's AIF and other continuous disclosure documents can be viewed at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.divestco.com](http://www.divestco.com).**

**OVERALL PERFORMANCE**

<b>Financial Results (Thousands, Except Per Share Amounts)</b>				
	<b>Three Months Ended March 31</b>			
	<b>2011</b>	<b>2010</b>	<b>\$ Change</b>	<b>% Change</b>
Revenue	\$ 8,815	\$ 12,078	\$ (3,263)	-27%
Operating Expenses	9,672	8,473	1,199	14%
EBITDA <sup>(1)</sup>	(857)	3,605	(4,462)	-124%
Interest	16	569	(553)	-97%
Depreciation and Amortization	3,410	9,236	(5,826)	-63%
Operating Loss <sup>(1)</sup>	(4,283)	(6,200)	1,917	-31%
Other Income (Loss)	-	80	(80)	-100%
Income Tax Expense (Reduction)	49	(1,909)	1,958	-103%
Net Loss	\$ (4,332)	\$ (4,211)	\$ (121)	3%
Per Share - Basic	(0.07)	(0.10)	0.03	-30%
Per Share - Diluted	(0.07)	(0.10)	0.03	-30%
Funds from Operations <sup>(1)</sup>	\$ (933)	\$ 1,478	\$ (2,411)	-163%
Per Share - Basic <sup>(1)</sup>	(0.02)	0.04	(0.06)	-150%
Per Share - Diluted <sup>(1)</sup>	(0.02)	0.04	(0.06)	-150%
Shares Outstanding	59,393	41,958	N/A	42%
Weighted Average Shares Outstanding				
Basic	59,344	41,958	N/A	41%
Diluted	59,344	41,958	N/A	41%

<b>Financial Position (Thousands)</b>	<b>Balance as at</b>		
	<b>Mar 31, 2011</b>	<b>Dec 31, 2010</b>	<b>Jan 01, 2010</b>
Total Assets	\$ 34,060	\$ 34,984	\$ 175,923
Working Capital <sup>(2)</sup>	922	3,599	(6,250)
Long-Term Debt Obligations	674	556	30,504

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

<sup>(2)</sup> Excluding the current portion of deferred revenue of \$3.8 million, the Company's working capital was \$922,000 at March 31, 2011, compared to working capital of \$ 3.6 million at December 31, 2010 (excluding deferred revenue of \$2.7 million) and a \$6.3 million deficit at January 1, 2010 (excluding deferred revenue of \$3.9 million).

## EARNINGS VARIANCE ANALYSIS

### Q1 2011 VERSUS Q1 2010

Divestco realized a net loss for the first quarter of 2011 of \$4.3 million (\$0.07 per share – basic and diluted) compared to net loss of \$4.2 million (\$0.10 cents per share – basic and diluted) for the same period in 2010. The net loss in Q1 2011 was primarily due to a decrease in revenue from the sale of the Company's seismic assets in Q3 2010, double rent commitments and expenses related to the Company's office space. This was offset by a decrease in depreciation and amortization by \$5.8 million (63%) mainly due to sale of the Company's seismic data assets in Q3 2010.

Operating highlights included:

- Completion of the Company's first seismic participation survey since it sold its seismic data library in Q3 2010 covering an area of 71 km<sup>2</sup>
- Positive working capital of \$922,000 as at March 31, 2011 (excluding deferred revenue of \$3.8 million)
- In Q1, 2011, the Company finalized an agreement whereby the lease of two floors of space in its current office premises were assumed by another company. The realization of this economic benefit begins in Q4 2011 and will amount to an annual savings of \$2 million.

### OUTLOOK AND FUTURE OPERATIONS

Divestco has adopted a new strategy for the rebuild of its seismic data library. The focus will be on oil-rich zones as opposed to natural gas-rich zones due to current commodity prices. In addition, the Company's pre-funding level targets have been set higher on new surveys than it has been in the past.

Industry activity year to date has shown signs of positive recovery with certain areas of the business at capacity. Work in progress coupled with summer and fall activity commitments from clients point to continued but slow recovery to pre-recession levels. The Company will continue to focus on reducing operating expenses and adjusting to industry activity levels. The Company is looking to sublease excess space in current office premises and with the rapid rise in the market for commercial space over the past six months, it is expected the space will be sublet on a full recovery basis. In addition, the Company anticipates a reduction of salaries and benefits in Q3 and Q4 2011 due to continuation of its summer work program to reduce labour costs in these seasonal slow periods.

### SELECTED QUARTERLY INFORMATION

(Thousands, Except Per Share Amounts)	2011		2010			2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue <sup>(2)</sup>	\$ 8,815	\$ 8,235	\$ 8,516	\$ 10,648	\$ 12,078	\$ 10,268	\$ 13,411	\$ 19,532
EBITDA <sup>(1)(2)</sup>	(857)	(4,931)	(9,009)	2,389	3,605	122	5,903	10,683
Operating Income (Loss) <sup>(1)(2)</sup>	(4,283)	(7,491)	(17,995)	(5,991)	(6,200)	(8,714)	(2,740)	1,818
Net Income (Loss) <sup>(2)</sup>	(4,332)	(7,500)	(49,883)	(4,577)	(4,211)	(7,291)	(1,245)	1,558
Per Share - Basic	(0.07)	(0.17)	(1.19)	(0.11)	(0.10)	(0.17)	(0.03)	0.04
Per Share - Diluted	(0.07)	(0.17)	(1.19)	(0.11)	(0.10)	(0.17)	(0.03)	0.04
Funds from Operations <sup>(1)(2)</sup>	(933)	(4,801)	(6,970)	1,970	1,478	(47)	9,984	6,719
Per Share - Basic	(0.02)	(0.11)	(0.17)	0.05	0.04	0.00	0.24	0.16
Per Share - Diluted	(0.02)	(0.11)	(0.17)	0.05	0.04	0.00	0.24	0.16

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

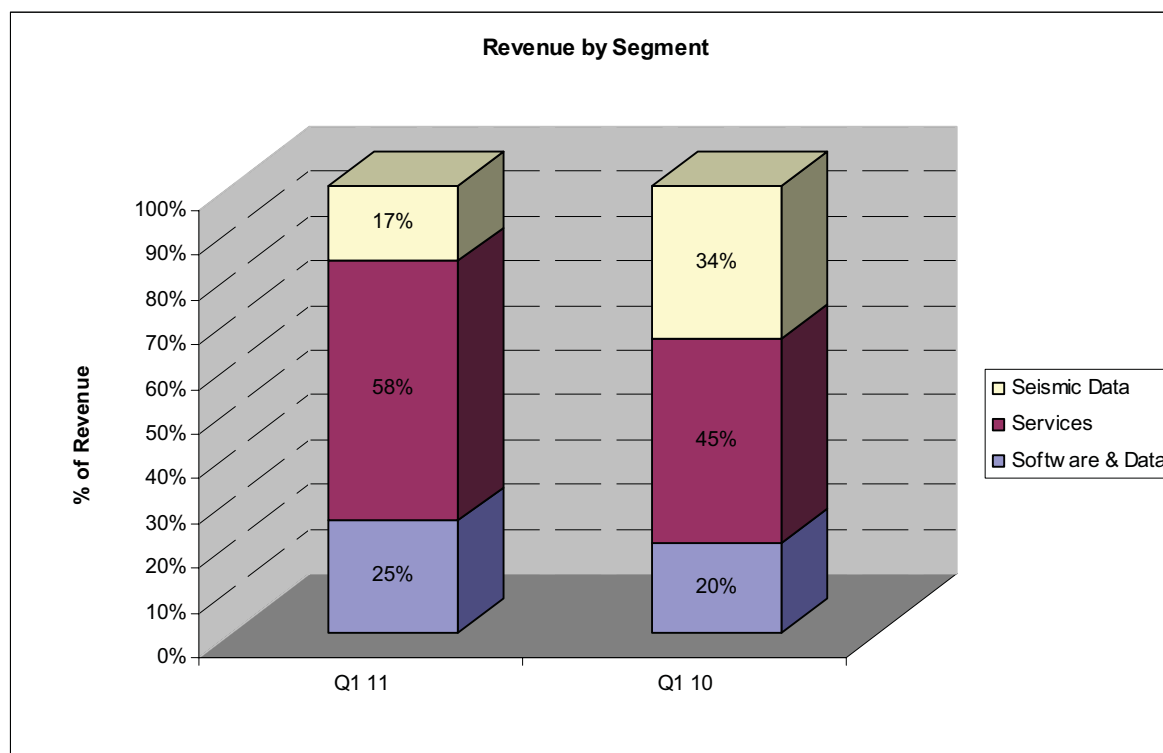
<sup>(2)</sup> Q1 2010 is restated in accordance with IFRS. Q4, Q3, Q2 2010 and Q4, Q3, Q2 2009 are stated in accordance Canadian GAAP.

The trend illustrated in the table above is a result of divestments made by Divestco, unanticipated negative regional and global market conditions including a worldwide economic recession in 2009 and for most of 2010, depressed equity and credit markets and low natural gas prices.

## RESULTS OF OPERATIONS BY SEGMENT

### FINANCIAL SUMMARY BY SEGMENT

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



For the three months ended March 31, 2011 (Thousands)					
	Software & Data	Services	Seismic Data	Corporate & Other	Total
Revenue	\$ 2,177	\$ 5,126	\$ 1,512	\$ -	\$ 8,815
EBITDA <sup>(1)</sup>	770	1,401	567	(3,595)	(857)
Interest (Net of Interest Revenue)	-	(1)	(3)	20	16
Depreciation and Amortization	1,131	291	938	1,050	3,410
Operating Income (Loss) <sup>(1)</sup>	(361)	1,111	(368)	(4,665)	(4,283)

For the three months ended March 31, 2010 (Thousands)					
	Software & Data	Services	Seismic Data	Corporate & Other	Total
Revenue <sup>(2)</sup>	\$ 2,420	\$ 5,492	\$ 4,166	\$ -	\$ 12,078
EBITDA <sup>(1)</sup>	927	1,371	3,038	(1,731)	3,605
Interest (Net of Interest Revenue)	-	-	-	569	569
Depreciation and Amortization	735	529	7,679	293	9,236
Operating Income (Loss) <sup>(1), (s)</sup>	192	842	(4,641)	(2,593)	(6,200)

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

<sup>(2)</sup> Q1 2010 is restated in accordance with IFRS.

**SOFTWARE AND DATA**

(Thousands)	Three months ended Mar 31			
	2011	2010	\$ Change	% Change
Revenue <sup>(2)</sup>	\$ 2,177	\$ 2,420	\$ (243)	-10%
EBITDA <sup>(1)(2)</sup>	770	927	(157)	-17%
Interest (Net of Interest Revenue)	-	-	-	N/A
Depreciation and Amortization	1,131	735	396	54%
Impairment of Goodwill and Intangibles	-	-	-	N/A
Operating Income (Loss) <sup>(1)(2)</sup>	(361)	192	(553)	-288%

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

<sup>(2)</sup> Q1 2010 is restated in accordance with IFRS.

**Q1 2011 VERSUS Q1 2010**

In the first quarter of 2011, Software and Data recorded an operating loss of \$361,000, compared with operating income of \$192,000 in the first quarter of 2010.

The decrease in revenue of \$243,000 (10%) was due to lower software and support data revenues which were offset by an increase in the log data revenues.

The \$157,000 (17%) decrease in EBITDA was mainly attributable to a decrease in revenue, an increase in G&A expenses by \$40,000 (15%) and an increase in sales and marketing expense of \$12,000 (9%). These were offset by a decrease in salaries and benefits of \$138,000 (13%) compared to Q1 2010. Amortization of deferred development costs increased by \$496,000 (118%) due to the completion of projects for which amortization commenced in 2010 while amortization and depreciation of other assets decreased by \$100,000 (32%).

**OUTLOOK**

Core areas of development effort surround WinPICS, GeoCarta and Landrite. In terms of activity in 2011, Landrite has made exceptional strides in both software and consulting sales and the Company is confident that it should be able to sustain these activity levels for the foreseeable future. Both WinPICS and GeoCarta (among other products) will see releases in Q2 2011 and will provide functional improvements and additions to the client base.

Divestco is also pleased with the activity levels seen in the Log Data division; both in subscription take up and service offerings. The Company hopes that this is a leading indicator for future activity that is starting to germinate.

**SERVICES**

(Thousands)	Three months ended Mar 31			
	2011	2010	\$ Change	% Change
Revenue <sup>(2)</sup>	\$ 5,126	\$ 5,492	\$ (366)	-7%
EBITDA <sup>(1)(2)</sup>	1,401	1,371	30	2%
Interest (Net of Interest Revenue)	(1)	-	(1)	N/A
Depreciation and Amortization	291	529	(238)	-45%
Operating Income (Loss) <sup>(1)(2)</sup>	1,111	842	269	32%

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

<sup>(2)</sup> Q1 2010 is restated in accordance with IFRS.

**Q1 2011 VERSUS Q1 2010**

In the first quarter of 2011, Services recorded operating income of \$1.1 million, compared to operating income of \$842,000 in the first quarter of 2010.

Geomatics revenue in Q1 2011 decreased by \$63,000 (4%) compared to Q1 2010 mainly due to decreases in DLS and consulting of \$61,000 (97%) as a consulting project commencement for a major client was delayed to Q2 2011. Processing division revenue decreased by \$179,000 (8%) due to lower industry activity levels and similar large one-time projects completed in Q1 2010 not being duplicated in Q1 2011. Land management services division revenue was up \$284,000 (22%) due to an increase in land acquisition activity over the comparative quarter. Due to the sale of the business consulting division in March 2010, revenue in Services decreased by \$360,000.

Salaries and benefits increased marginally by \$45,000 (2%) due to severance costs in Q1 2011. These were offset by lower G&A expenses which decreased by 492,000 (36%) mainly due to a decrease in occupancy costs and the sale of the business consulting division in Q1 2010. Amortization and depreciation decreased by \$253,000 due to a reduction in capital expenditures.

## OUTLOOK

Seismic processing activity levels for the first quarter have been positive and the earlier trend of previously dormant customers is reversing with these customers becoming active and continuing to bring in new projects. Overall processing work for the remainder of 2011 is forecast to steadily return to higher activity levels with many new projects now being available for bid. Operational improvement efforts in this division over the past several months are protecting top-line revenues while improving efficiencies, agility and lowering costs.

Geomatics expects to launch its international campaign as well as its new offering of Geomatics Advisory Services. The division also got under way with the second phase of a large NAD consulting project for a major oil and gas client in the middle of Q2 2011 (delayed from late Q1 2011) with a second client expected to begin in Q3 2011.

For Divestco's Land Management Services division (Cavalier Land), sales volumes are expected to rise due to a few key factors. First, the continued rise and stability of oil and gas prices is expected to lead to increased exploration and production among many clients. Second, the hiring of a professional account representative in January 2010 led to the addition of 12 new clients in Q1 2011 and this trend is expected to continue. Third, Cavalier Land has expanded into other markets, including telecommunications and environmental assessments. The telecommunications market added a new revenue stream in Q1 2011 and is expected to provide the greatest growth for Cavalier Land in 2011 as there has been an emergence of new providers in the market. Finally, a significant contract with a major utility supplier signed in 2009 will continue throughout 2011 which will lead to increased field agent work across Alberta. On the expense side, the division continues to monitor labour and G&A costs very closely. This will continue throughout the year.

## SEISMIC DATA

(Thousands)	Three months ended Mar 31			
	2011	2010	\$ Change	% Change
Revenue <sup>(2)</sup>	\$ 1,512	\$ 4,166	\$ (2,654)	-64%
EBITDA <sup>(1)(2)</sup>	567	3,038	(2,471)	-81%
Interest (Net of Interest Revenue)	(3)	-	(3)	N/A
Depreciation and Amortization	938	7,679	(6,741)	-88%
Operating Income (Loss) <sup>(1)(2)</sup>	(368)	(4,641)	4,273	-92%

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

<sup>(2)</sup> Q1 2010 is restated in accordance with IFRS.

Seismic Data Library	Balance as at		
	Mar 31, 2011	Dec 31, 2010	Jan 01, 2010
2D in Gross KM	49	49	103,848
2D in Net KM	49	49	82,802
3D in Gross KM <sup>2</sup>	138	-	16,319
3D in Net KM <sup>2</sup>	138	-	15,122

### Q1 2011 VERSUS Q1 2010

In the first quarter of 2011, Seismic Data recorded an operating loss of \$368,000 compared with an operating loss of \$4.6 million in the first quarter of 2010. Total seismic data revenue in Q1 2011 was \$0.9 million compared to \$3.5 million in Q1 2010, a \$2.6 million decrease (74%). The significant drop in revenues was a result of the sale of the Company's seismic data library in Q3 2010. Seismic data revenue includes seismic data library sales and participation survey revenue. Brokerage revenue was \$614,000 in Q1 2011 compared to \$703,000 in Q1 2010. The decrease of \$89,000 (13%) was due to some large data sales in Q1 2010 that were not repeated in Q1 2011.

Seismic data library sales were \$0.1 million in Q1 2011 compared to \$3.2 million in Q1 2010. Due to the seismic database divestiture, these results were expected by management. Participation survey revenue was \$781,000 in Q1 2011 compared to \$307,000 in Q1 2010. Divestco completed a 71 km<sup>2</sup> survey in Q1 2011.

Salaries and benefits increased marginally by \$25,000 (7%) while G&A expenses decreased by \$198,000 (27%) mainly due to a decrease in seismic data storage costs due to the sale the seismic database in Q3 2010 of \$82,000 and a decrease in bad debt expense of \$77,000. Amortization of data libraries decreased by \$6.7 million as compared to Q1 2010 due to the sale of the Seismic Assets in Q3 2010 which resulted in insignificant amortization in Q1 2011.

### OUTLOOK

Divestco commenced the rebuild of its seismic data library in Q4 2010, completing its first survey in Q1 2011 since it disposed of seismic assets in Q3 2010. The Company also commenced a survey of approximately 200km<sup>2</sup> in central Alberta which is expected to be completed in Q3 2011. Plans are to commence at least one additional survey in Q4 2011 depending on the level of pre-funding that is secured.

### CORPORATE AND OTHER

(Thousands)	Three months ended Mar 31			
	2011	2010	\$ Change	% Change
Revenue <sup>(2)</sup>	\$ -	\$ -	\$ -	N/A
EBITDA <sup>(1)(2)</sup>	(3,595)	(1,731)	(1,864)	108%
Interest (Net of Interest Revenue)	20	569	(549)	-96%
Depreciation and Amortization	1,050	293	757	258%
Impairment of Goodwill and Intangibles	-	-	-	N/A
Operating Income (Loss) <sup>(1)(2)</sup>	(4,665)	(2,593)	(2,072)	80%

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

<sup>(2)</sup> Q1 2010 is restated in accordance with IFRS.

### Q1 2011 VERSUS Q1 2010

Salaries and benefits increased by \$79,000 (8%) due to severance payouts and certain salary austerity measures ending on January 1, 2011. G&A expenses increased by \$1.8 million (179%) mainly due to a

increase in occupancy costs due to the Company paying rent on multiple leased office premises due to a delay in the Company moving into its new office space, the lease for which commenced on May 1, 2010. The double rent payments are expected to cease in Q3 2011. Interest expense decreased by \$549,000 (97%) mainly due to convertible debentures being repaid Q3 2010. Amortization increased by \$0.8 million (257%) due to a net impairment recorded on leasehold improvements related to the floors the Company intends to sublease to a third party.

## OUTLOOK

Divestco continues to reduce its corporate overhead costs. In Q1, 2011, the Company finalized an agreement whereby the lease of two floors of space in its current office premises were assumed by another company. The economic benefit of this transaction will start to be realized in Q4 2011 and will amount to an annual savings of \$2 million. Management has negotiated lower fees with a number of vendors and continues to ensure non-revenue generating business units are the right size for the company including middle and senior management.

In Q1 2011 the Company has recorded an amount with respect to the sub-leasing of additional floors at its new office premises. Based on current market conditions the Company expects to recover 100% of its leasing and related operating costs for the floors. The recovery does not include costs incurred by the Company on leasehold improvements (net of tenant inducements). In anticipation of leasing out these additional floors, the Company recorded a net impairment of \$0.8 million on leasehold improvements for the relevant floors.

## DEPRECIATION AND AMORTIZATION

(Thousands)	Three months ended Mar 31			
	2011	2010	\$ Change	% Change
Depreciation and Amortization	\$ 3,410	\$ 9,236	\$ (5,826)	-63%

In the first quarter of 2011, depreciation and amortization was \$3.4 million, compared with \$9.2 million of depreciation and amortization in the first quarter of 2010, a decrease of \$5.8 million (63%). Amortization of deferred development costs increased by \$499,000 (87%) due to certain projects being completed and the amortization commencing on these in 2010. Amortization of data libraries decreased by \$6.8 million (87%) due to sale of the Company's seismic assets in Q3 2010. Amortization of property and equipment (PP&E) and intangibles increased by \$0.4 million (50%) after recording a net impairment on leasehold improvements related to the floors the Company intends to lease to a third party. With the exception of software code, the Company's remaining intangibles were fully amortized by the end of 2009.

## INCOME TAXES

(Thousands)	Three months ended Mar 31			
	2011	2010	\$ Change	% Change
Current	49	(31)	80	-258%
Future (Reduction)	-	(1,878)	1,878	-100%
Income Taxes (Reduction)	\$ 49	\$ (1,909)	\$ 1,958	-103%

In the first quarter of 2011, Divestco recorded a current tax provision of \$49,000. No deferred tax provision was recorded as the Company has not recognized any benefit associated with its tax pools as there is no certainty when they will be realized.

As at March 31, 2011 there were \$41.5 million in Federal and \$27 million in Alberta non-capital loss carry-forwards (\$2.7 million was assumed through various acquisitions in 2007) which begin to expire in 2027.

In addition the Company has \$1.3 million in federal scientific research and experimental development investment tax credits to reduce taxes payable in the future which expire in 2029.

## **MAJOR TRANSACTIONS**

### **SEISMIC RELATED**

In Q4 2010, Divestco commenced a 71 km<sup>2</sup> 3D seismic survey which was completed in Q1 2011 at a cost of \$2.3 million. The Company also signed an agreement during in Q4 2010 whereby in exchange for a license to the survey it completed in Q1 2011, it obtained the ownership rights to an existing 3D survey in Q1 2011 covering an area of 66 km<sup>2</sup>.

## **LIQUIDITY AND CAPITAL RESOURCES**

<b>Summary of Financial Position</b> <b>(Thousands, except as otherwise indicated)</b>	<b>Balance as at</b>		
	<b>Mar 31, 2011</b>	<b>Dec 31, 2010</b>	<b>Jan 01, 2010</b>
Current Assets	\$ 13,754	\$ 15,994	\$ 21,151
Current Liabilities <sup>(1)</sup>	12,832	12,395	27,401
Working Capital (Deficiency)	922	3,599	(6,250)
Funded Debt <sup>(2)</sup>	674	556	30,504
Shareholders' Equity	13,837	18,070	107,547
Funded Debt to Equity <sup>(3)</sup> - %	5%	3%	28%

<sup>(1)</sup> Excludes deferred revenue

<sup>(2)</sup> Current and long-term portion of debt obligations and convertible debentures

<sup>(3)</sup> Funded debt divided by shareholders' equity

### **WORKING CAPITAL**

Divestco's working capital as at March 31, 2011, excluding deferred revenue of \$3.8 million was \$922,000, compared to working capital of \$3.6 million as at December 31, 2010 excluding deferred revenues of \$2.7 million.

The decrease in working capital was mainly due to a decrease in cash due to the funds required for the build-out of the Company's new office premises (net of tenant inducements) and to cover double-rent costs. Accounts receivable were lower due to a decrease in revenue and an increase in operating expenses. This was partially offset by a decrease in accounts payable due to some of the funds received from a private placement being used to pay vendor accounts.

While the Company has focused on collection of its receivables, especially those that are greater than 90 days old, the Company records an allowance for doubtful accounts of 20% of balances over 120 days old. Where there are indications that legal action may be required, settlement could be further delayed. As outlined in the Seismic Data Purchase Agreement incorporated by reference in the August 26, 2010 Information Circular and filed on SEDAR, Divestco retained the right to litigate and retain in whole or in part the proceeds of past breaches with respect to certain of the disposed seismic assets. Divestco relies on a combination of patent, copyright, trademark and trade secret laws, confidentiality agreements, contractual provisions and other measures to protect its own proprietary information. Despite Divestco's efforts to protect its proprietary rights, unauthorized parties may or have attempted to copy aspects of its technology or to obtain and use information that Divestco regards as proprietary such as its current and past seismic data library. In an effort to protect the Company's seismic data asset both past and present, Divestco has commenced (or is contemplating) legal action(s) against companies for breaches of its license agreement(s), copyright and duty of confidentiality for unauthorized sharing of its proprietary seismic data with third parties and will continue to enforce its proprietary rights using all methods at its disposal. These actions commenced or contemplated could have a material financial impact to the

Company. Given the nuances it is difficult to quantify the timing or potential financial impact of any legal action commenced or contemplated.

To mitigate further economic pressure the Company remains committed to limiting capital expenditures unless they are well funded (mainly seismic participation surveys) and implemented further cost-cutting measures to reduce aggregate corporate overhead and labour costs.

Divestco's debt summary at March 31, 2011:

	Balance as at January 1, 2011	Payments (net of advances)	Balance as at March 31, 2011	Expected payments	Forecasted balance as at December 31, 2011
Operating Line <sup>(1)</sup>	2,050	950	3,000	-	3,000
Finance Leases	556	118	674	(353)	321
	2,606	1,068	3,674	(353)	3,321

<sup>(1)</sup> Included in bank indebtedness on the consolidated balance sheets

## CONTINGENCIES

The Company is party to various legal actions arising in the normal course of business. Matters that are probable of an unfavorable outcome to the Company and that can be reasonably estimated are accrued. Such accruals are based on information known about the matters, the Company's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters. None of the actions against the Company are believed by management to involve future amounts that would be material to the Company's financial position or results of operations after consideration of recorded accruals. However, actual amounts could differ significantly from management's estimate.

On February 25, 2011, the plaintiff in a lawsuit against the Company was awarded judgement in the amount of \$500,000. In addition to the principal amount, the Company was liable for costs and interests in the estimated total amount of \$42,000. The judgment has been fully satisfied which included the transfer of securities and cash held in trust for resolution of this matter. An accrual was recorded in 2010 for the amount of the settlement plus costs and interest less the approximate value of the securities. The lawsuit related to \$500,000 in convertible debentures issued by BlueGrouse Seismic Solutions Ltd. ("BlueGrouse") to the plaintiff on November 21, 2005 at a conversion price of \$4.48 (post acquisition of BlueGrouse). BlueGrouse was acquired by the Company in 2007.

## SELECTED CASH FLOW ITEMS

For the three months ended	2011	2010
<b>(Thousands)</b>		
<b>Operating Activities</b>		
Funds from operations <sup>(1)</sup>	\$ (933)	\$ 1,478
Non-Cash Working Capital Change (Current and Long-Term Portions)	489	1,570
<b>Cash Flows From (Used in) Operating Activities</b>	<b>(444)</b>	<b>3,048</b>
<b>Financing Activities</b>		
Bank Indebtedness	950	-
Long-Term Debt Obligations	(117)	(857)
Issue of Common Shares, Net of Repurchases	99	-
<b>Cash Flows From (Used in) Financing Activities</b>	<b>932</b>	<b>(857)</b>
<b>Investing Activities</b>		
Acquisition of Data Libraries	(2,325)	(2,624)
Surveys in Progress	1,176	2,033
Additions to Property, Plant and Equipment	(3,624)	(388)
Additions to intangible assets	(128)	-
Additions to tenant inducements	3,035	-
Acquisitions	(29)	-
Proceeds on sale of property and equipment	-	93
Deferred development costs	(689)	(533)
<b>Cash Flows From (Used in) Investing Activities</b>	<b>(2,584)</b>	<b>(1,419)</b>
Foreign Exchange Gain on Cash Held in a Foreign Currency	(1)	3
<b>Change in Cash</b>	<b>\$ (2,097)</b>	<b>\$ 775</b>

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

## OPERATING ACTIVITIES

In Q1 2011, funds from operations were a negative \$933,000 ((\$0.02) /share (basic and diluted)), compared with a positive \$1.5 million (\$0.04 /share (basic and diluted)) in Q1 2010. The decrease was mainly due to a \$3.3 million (27%) decrease in revenue caused primarily by the sale of the Company's seismic assets.

## FINANCING ACTIVITIES

In Q1 2011, the Company drew an additional \$950,000 on its revolving credit facility. The facility is subject to the Company meeting certain debt covenants as follows: (a) current ratio cannot fall below 0.90:1 for Q1 2011 to Q3 2011, 1.00:1 for Q4 2011 and 1:25:1 thereafter; and (b) debt service coverage ratio cannot fall below 2.25:1 (applies to Q2 2011 onwards). As at March 31, 2011, the Company was not in violation of its debt covenants.

On January 10, 2011, the Company closed a private placement whereby it sold 454,546 Units at a price of \$0.22 per Unit for gross proceeds of \$100,000. Each Unit was comprised of one Class A share of Divestco (the "Share") and one non-transferable share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one Share on or before December 31, 2012 at an exercise price of \$0.32 per Share. The shares and the warrants, and any shares issued on exercise of the warrants are subject to a hold period under applicable Canadian securities laws and policies of the TSX Venture Exchange.

## INVESTING ACTIVITIES

During Q1 2011, the Company acquired \$3.9 million of property, plant and equipment (including \$235,000 in equipment acquired under finance leases) mainly related to the build-out costs for the Company's new office space. The Company completed a new 71 km<sup>2</sup> 3D seismic survey in Q1 2011 and incurred costs of \$1.1 million during the quarter and total costs of \$2.3M. The survey was fully funded with pre-sale commitments. The Company also signed an agreement in Q4 2010 whereby in exchange for a license to the seismic survey it commenced in Q4 2010, it obtained the ownership rights to an existing 3D survey in Q1 2011 covering an area of 66 km<sup>2</sup>. No revenue or costs were recognized as the net cash paid/received was zero.

### **OUTSTANDING SHARE DATA**

Divestco's Class A common shares are listed on the TSX Venture Exchange (TSXV) and trade under the symbol DVT. The Company is authorized to issue an unlimited number of voting Class A common shares.

The following table summarizes the Company's outstanding equity instruments:

	Balance as at (thousands)		
	Jun 23, 2011	Mar 31, 2011	Dec 31, 2010
<b>Class A shares</b>			
Outstanding	59,585	59,393	58,938
Weighted Average Outstanding			
Basic		59,344	42,601
Diluted <sup>(1)</sup>		59,344	42,601
<b>Stock Options</b>			
Outstanding	641	835	907
Exercise Price Range	\$0.68 to \$4.70	\$0.68 to \$6.10	\$0.68 to \$6.10
<b>Share Purchase Warrants</b>			
Outstanding	16,280	16,280	15,825
Exercise Price	\$0.32	\$0.32	\$0.32

<sup>(1)</sup> In calculating diluted weighted average outstanding shares, conversion or exercise of equity instruments is assumed only if the effect is dilutive. For the three months ended March 31, 2011, options to purchase 835,000 and warrants to purchase 16,280,000 Class A common shares have been excluded from the calculation of diluted weighted average outstanding shares as they were anti-dilutive.

### **PRIVATE PLACEMENT**

On January 10, 2011, the Company closed a private placement whereby it sold 454,546 Units at a price of \$0.22 per Unit for gross proceeds of \$100,000. Each Unit was comprised of one Class A share of Divestco (the "Share") and one non-transferable share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one Share on or before December 31, 2012 at an exercise price of \$0.32 per Share. The shares and the warrants, and any shares issued on exercise of the warrants are subject to a hold period under applicable Canadian securities laws and policies of the TSX Venture Exchange.

### **STOCK OPTIONS**

As at March 31, 2011, there were 5,939,232 Class A common shares reserved for grants of stock options combined with all other forms of stock-based compensation.

During the three months ended March 31, 2011:

- 72,333 options were forfeited with exercise prices ranging from \$1.30 to \$6.00

From April 1, 2011 to June 23, 2011:

- 193,730 options were forfeited with exercise prices ranging from \$1.30 to \$6.10

### **RELATED PARTY TRANSACTIONS**

Divestco had the following related party transactions for the twelve months ended December 31, 2010:

- During the three months ended March 31, 2011 the Company incurred \$46,000 (March 31, 2010 - \$79,000) in seismic consulting fees and brokerage commissions from a company controlled by a director. Included in accounts payable as at March 31, 2011 was \$193,000 (December 31, 2010 - \$147,000) related to these commissions.
- During the three months ended March 31, 2011, the Company incurred \$144,000 (March 31, 2010 - \$43,000) in legal fees from the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable as at March 31, 2011 was \$136,000 (December 31, 2010 - \$74,000) related to these legal fees.

All related party transactions are in the normal course of operations and have been measured at the 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**

#### **SEISMIC DATA LIBRARIES**

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.

### **ACCOUNTING POLICIES**

#### **ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Company has prepared the interim consolidated financial statements for the three months ended March 31, 2011 and the comparative information for the three months ended March 31, 2010, in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP, or previous GAAP. The adoption of IFRS has not had an impact on the Company's operations and strategic decisions.

The Company's IFRS accounting policies are provided in Note 4 to the interim consolidated financial Statements. In addition, Note 20 to the interim consolidated financial statements presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include consolidated balance sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and consolidated statements of comprehensive loss for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

### **Accounting Policy Changes**

The following discussion explains the significant differences between the Company's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been consistently and retrospectively applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The most significant changes to the Company's accounting policies are as follows:

**Intangible assets:** In accordance with IFRS, the Company accounts for its data libraries and deferred development costs as intangible assets, using the historical cost model, which is consistent with the method used under Canadian GAAP. The Company's amortization policy is unchanged from the amortization policy followed under Canadian GAAP.

**Revenue recognition:** In accordance with IFRSs, the Company accounts for revenue earned for seismic participation surveys under the percentage of completion method. Revenue for a seismic participation survey was recognized upon delivery of the seismic data to the client following the completed contract method under Canadian GAAP. Under IFRS, revenue is being recognized following the percentage of completion method, resulting in earlier recognition of a significant portion of revenue prior to January 1, 2010. This has resulted in a positive change to the opening retained earnings of \$1.7 million and an equivalent reduction in deferred revenue as at January 1, 2010. This also resulted in an equivalent reduction of revenue in Q1 2010 by \$1.7 million with an equivalent increase in deferred revenue as at March 31, 2010. In Q4 2010, under IFRS the Company recognized revenue of \$712,000 under the percentage of completion method resulting in an equivalent decrease in deferred revenue as at December 31, 2010.

**Share-based payments:** Under Canadian GAAP, the Company recognized compensation expense associated with share-based compensation plans on a straight-line basis and did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is recognizing the expense over the individual vesting periods for the graded vesting awards using an estimated forfeiture rate at the grant date and updated it throughout the vesting period. This amounted to an additional share based payment expense of \$89,000 at January 1, 2010 which resulted in a reduction of \$89,000 in retained earnings and an equivalent increase in contributed surplus at the transition date.

Under IFRS, the Company reduced share-based compensation by \$29,000 in Q1 2010 resulting in an increase in retained earnings and an equivalent decrease in contributed surplus as at March 31, 2010. Under IFRS, the Company reduced share-based compensation by \$16,000 in Q2 2010 and \$198,000 in Q3 2010 resulting in an equivalent increase in retained earnings and an equivalent decrease in contributed surplus. No share based payment expense was recognized in Q4 2010 since all of the Company's stock options had vested in Q3 2010 and no additional options were granted.

**Sublease loss:** Under Canadian GAAP the Company used a credit-adjusted risk-free rate to discount the sublease loss under EIC 135. Under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Company is required to use a risk free interest rate at the end of each reporting period to calculate the amount of sublease loss and accretion for this onerous contract. This resulted in a net increase of \$317,000 in the sublease loss and an equivalent decrease in retained earnings as at December 31, 2010. The additional expense is recorded in G&A expenses.

**Deferred income taxes:** Due to the earlier recognition of revenue under IFRS, the reported deferred income tax liability at the transition date decreased by \$466,000 with an equivalent decrease to the opening retained earnings. The reduction in revenue in Q1 2010 resulted in a decrease in deferred tax expense for the period by \$466,000 with an equivalent increase in the deferred tax liability as at March 31, 2010

### **Internal Controls over Financial Reporting and Disclosure Controls and Procedures**

In Q1 2011, the Company completed updating its internal controls documentation related to the preparation of the IFRS opening balance sheet, including controls related to the completeness of the adjustments.

### **Information Technology (IT)**

In Q4 2010, the Company completed the review of its IT systems to ensure they were able to adequately support conversion to IFRS and ongoing financial reporting. The impact on the IT systems were negligible given there were only a small number of adjustments required to the financial records of the Company for the comparable periods in 2010. The Company posted its IFRS adjustments in all of the relevant periods in 2010 and prepared reconciliations to ensure all of the adjustments were correctly recorded.

### **Business Policy Assessment**

The Company's funded debt to equity ratio covenant was affected by the adoption of IFRS due to proprietary software code, data libraries and deferred development costs being classified as intangible assets. As a result, the Company lenders removed this covenant effective Q1 2011.

The impact of the transition to IFRS on the Company's remaining debt covenants was negligible, as these calculations exclude non-cash items such as share-based compensation expenses.

## **NEW IFRS PRONOUNCEMENTS**

A number of new standards, amendments to standards and interpretations are not yet effective for the quarter ended March 31, 2011, and have not been applied in preparing these consolidated financial statements

### **Revenue Recognition**

The International Accounting Standards Board (IASB) has issued an exposure draft for a new standard on revenue from customers that would replace IAS 11 "Construction Contracts" and IAS 18 "Revenue and Related Interpretations". A second exposure draft is expected in Q3 2011 for a comment period of 120 days and a final standard is expected in 2012.

The new guidance may represent a substantial change from the application of existing IFRS guidance. The initial exposure draft proposed a single revenue recognition model in which revenue would be recognized when an entity satisfies a performance obligation by transferring a promised good or service to a customer. The proposals also included the withdrawal of the percentage-of-completion method which the Company commenced using as at its transition date to IFRS.

### **IFRS 9 Financial Instruments**

In November 2009 the IASB issued IFRS 9 Financial Instruments (IFRS 9 (2009)), and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

IFRS 9 (2009) replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not

expected to change under IFRS 9 (2010) because of the nature of its operations and the types of financial assets that it holds.

## **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). These controls and procedures ensure that material information relating to the Company is communicated to them by others in the organization as it becomes known, and that the information 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, 2010, 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' National 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 three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, Divestco's internal control over financial reporting.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The design of the Company's internal control over financial reporting has been updated as of March 31, 2011.

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. The Company used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework to evaluate the effectiveness of its internal control over financial reporting. Divestco evaluated the effectiveness of its controls and procedures over financial reporting (as defined under National Instrument 52-109) for the year ended December 31, 2010. This evaluation was performed under the supervision of the CEO and the CFO, with the assistance of other Divestco employees. Based on this evaluation, the CEO and the CFO concluded that the effectiveness of these internal controls and procedures provided reasonable assurance regarding the reliability of financial reporting and that there are no material weaknesses in Divestco's internal control over financial reporting that have been identified by management for the year ended December 31, 2010.

There were no changes in Divestco's internal control over financial reporting that occurred during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, Divestco's internal control over financial reporting.

**CORPORATE INFORMATION**

**HEAD OFFICE**

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**CORPORATE INFORMATION - CONTINUED****BOARD OF DIRECTORS**Edward L. Molnar<sup>1,2,3</sup>

Stephen Popadynetz

Brent Gough<sup>2,3,4</sup>

Wade Brillon

Bill Tobman<sup>2,4</sup><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 and President

Steve Sinclair-Smith – Chief Operating Officer

Lonn Hornsby – Senior VP Operations – Divestco Seismic

Danny Chiarastella – VP Finance

Mathew Hepton – VP Software Development

**CORPORATE SECRETARY**

Faralee A. Chanin

**STOCK EXCHANGE LISTING**

TSXV: DVT

**REGISTRAR AND TRANSFER AGENT**

CIBC Mellon Company

**AUDITORS**

KPMG LLP

**LEGAL COUNSEL**

Field LLP

**Divestco Inc.**  
**Condensed Interim Consolidated Financial**  
**Statements**  
For the three months ended March 31, 2011 (Unaudited)

**Contents**

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**Divestco Inc.**  
**Condensed Consolidated Statement of Financial Position**

As at	March 31, 2011	December 31, 2010	January 1, 2010
<b>(Thousands - Unaudited)</b>			
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,599	\$ 3,696	\$ 768
Funds held in trust	16	15	17
Accounts receivable	11,667	11,759	19,267
Prepaid expenses, supplies and deposits	316	237	708
Income taxes receivable	156	287	391
	<b>13,754</b>	<b>15,994</b>	<b>21,151</b>
<b>Long-term prepaid expense</b>	-	-	846
<b>Investment in affiliated company (Note 8)</b>	133	100	88
<b>Participation surveys in progress</b>	77	1,253	2,186
<b>Property and equipment (Note 9)</b>	4,589	3,026	2,747
<b>Intangible assets (Note 10)</b>	15,507	14,611	148,905
	<b>\$ 34,060</b>	<b>\$ 34,984</b>	<b>\$ 175,923</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Bank indebtedness (Note 11)	\$ 3,000	\$ 2,050	\$ -
Accounts payable and accrued liabilities	7,531	8,248	21,184
Current portion of deferred revenue	3,773	2,710	3,880
Current loss on sublease loss provision (Note 15)	1,814	1,729	-
Current portion of long-term debt obligations	353	368	6,217
Current portion of tenant inducement	134	-	-
	<b>16,605</b>	<b>15,105</b>	<b>31,281</b>
<b>Long-term debt obligations</b>	321	188	20,685
<b>Sublease loss provision (Note 15)</b>	1,556	1,621	-
<b>Tenant Inducements</b>	1,741	-	-
<b>Convertible debentures</b>	-	-	3,602
<b>Deferred income taxes</b>	-	-	12,808
	<b>20,223</b>	<b>16,914</b>	<b>68,376</b>
<b>Shareholders' Equity</b>			
Equity instruments (Note 13(d))	75,352	75,253	70,518
Contributed surplus	5,590	5,590	5,562
Equity portion of convertible debentures	-	-	56
Retained earnings (deficit)	(67,105)	(62,773)	31,411
	<b>13,837</b>	<b>18,070</b>	<b>107,547</b>
<b>Future operations (Note 2)</b>			
<b>Contingencies (Note 18)</b>			
<b>Subsequent Event (Note 20)</b>			
	<b>\$ 34,060</b>	<b>\$ 34,984</b>	<b>\$ 175,923</b>

See notes to condensed consolidated financial statements.

**Divestco Inc.**

**Condensed Consolidated Statements of Loss and Comprehensive Loss**

For the three months ended March 31	2011	2010
(Thousands, Except Per Share Amounts - Unaudited)		
<b>Revenue</b>	<b>\$ 8,815</b>	<b>\$ 12,078</b>
<b>Operating expenses</b>		
Salaries and benefits	5,159	5,105
General and administrative	4,513	3,322
Share based payments	-	46
	<b>9,672</b>	<b>8,473</b>
<b>Interest expense</b>	<b>16</b>	<b>569</b>
<b>Depreciation, amortization and accretion</b>	<b>3,410</b>	<b>9,236</b>
<b>Other income</b>	<b>-</b>	<b>80</b>
<b>Loss before income taxes</b>	<b>(4,283)</b>	<b>(6,120)</b>
<b>Income taxes</b>		
Current (recovery)	49	(31)
Deferred (reduction)	-	(1,878)
	<b>49</b>	<b>(1,909)</b>
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (4,332)</b>	<b>\$ (4,211)</b>
<b>Net loss per share (Note 12((f))</b>		
Basic and Diluted	<b>\$ (0.07)</b>	<b>\$ (0.10)</b>
<b>Weighted average number of shares</b>		
Basic and Diluted	<b>59,344</b>	<b>41,958</b>

See notes to condensed consolidated financial statements.

**Divestco Inc.**  
**Condensed Consolidated Statements of Changes in Equity**

(Thousands - Unaudited)	Share Capital	Warrants	Equity Instruments	Contributed Surplus	Equity portion of convertible debentures	Retained Earnings (Deficit)	Total Equity
Balance at January 1, 2010	\$ 70,518	\$ -	\$ 70,518	\$ 5,562	\$ 56	\$ 31,411	\$ 107,547
Total Comprehensive Loss for the period						(4,211)	(4,211)
Transactions with owners, recorded in equity contributions by and distributions to owners: Share-based payment transactions			-	46			46
<b>Balance at March 31, 2010</b>	<b>\$ 70,518</b>	<b>\$ -</b>	<b>\$ 70,518</b>	<b>\$ 5,608</b>	<b>\$ 56</b>	<b>\$ 27,200</b>	<b>\$ 103,382</b>
Balance at January 1, 2011	\$ 73,445	\$ 1,808	\$ 75,253	\$ 5,590	\$ -	\$ (62,773)	\$ 18,070
Total Comprehensive Loss for the period						(4,332)	(4,332)
Transactions with owners, recorded in equity contributions by and distributions to owners: Issue on private placement	48	52	100				100
Share issue costs	(1)		(1)				(1)
<b>Balance at March 31, 2011</b>	<b>\$ 73,492</b>	<b>\$ 1,860</b>	<b>\$ 75,352</b>	<b>\$ 5,590</b>	<b>\$ -</b>	<b>\$ (67,105)</b>	<b>\$ 13,837</b>

See notes to condensed consolidated financial statements.

**Divestco Inc.**  
**Consolidated Statements of Cash Flows**

For the three months ended March 31 (Thousands - Unaudited)	2011	2010
<b>Cash flows from (used in) operating activities</b>		
Net loss for the period	\$ (4,332)	\$ (4,211)
Items not affecting cash:		
Equity investment gain	(4)	(4)
Depreciation and amortization of data libraries, property and equipment and intangible assets	2,316	8,662
Impairment of intangible assets	-	574
Amortization of deferred development costs	1,073	61
Amortization of deferred finance costs	-	12
Amortization of deferred finance costs and accretion of liability portion of convertible debentures	-	7
Accretion of sublease loss (Note 15)	21	-
Amortization of tenant inducements	(7)	-
Deferred income taxes (reduction)	-	(1,878)
Data exchanges	-	(1,700)
Gain on sale of property and equipment	-	(90)
Share based payments	-	45
	<b>(933)</b>	<b>1,478</b>
Changes in non-cash working capital balances (Note 14)	489	1,491
Decrease in long-term prepaid expense	-	79
	<b>(444)</b>	<b>3,048</b>
<b>Cash flows from (used in) financing activities</b>		
Bank indebtedness	950	-
Issue of common shares, net of related expenses	99	-
Repayment of long-term debt obligations	(117)	(1,568)
Proceeds received from long-term debt obligations (net of committed revolver repayments)	-	711
	<b>932</b>	<b>(857)</b>
<b>Cash flows from (used in) investing activities</b>		
Purchase of data libraries	(2,325)	(2,624)
Decrease in participation surveys in progress	1,176	2,033
Purchase of property and equipment	(3,624)	(388)
Additions to intangible assets	(128)	-
Additions to tenant inducements	3,035	-
Investments in affiliates (Note 8)	(29)	-
Proceeds on sale of property and equipment	-	93
Deferred development costs	(689)	(533)
	<b>(2,584)</b>	<b>(1,419)</b>
<b>Foreign exchange gain (loss) on cash held in a foreign currency</b>	<b>(1)</b>	<b>3</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,097)</b>	<b>775</b>
Cash and cash equivalents, beginning of period	3,696	768
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,599</b>	<b>\$ 1,543</b>

For the three months ended March 31 (Thousands - Unaudited)	2011	2010
Interest and income taxes paid		
Income taxes paid	\$ 303	\$ 69
Income taxes refunded	\$ 396	\$ -
Interest paid (net of interest revenue)	\$ 16	\$ 569

See notes to condensed consolidated financial statements.

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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**1. Reporting Entity**

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Divestco Inc. ("Divestco" or the "Company") is incorporated under the Business Corporations Act of Alberta and is a publicly traded company on the TSX Venture Exchange (TSX-V) under the symbol DVT. The Company offers its customers the ability to access and analyze information and make business decisions to optimize their success in the upstream oil and gas industry through three operating segments which include Software, Services and Data. The Corporate and Other segment provides support services to the operating segments.

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**2. Future Operations**

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These condensed consolidated interim financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

In Q1 2011, the Company incurred a net loss of \$4.3 million. The net loss included occupancy costs related to the Company's existing office space leases and its new office space lease which commenced on May 1, 2010. The double rent obligations are expected to cease in Q3 2011 and the Company is actively searching for subtenants in its new office space to reduce its overall operating expenses. The Company had working capital of \$922,000 including deferred revenue of \$3.8 million at March 31, 2011.

In Q2 2011, Management secured a new \$5 million subordinated demand bridge loan maturing on April 30, 2013 as detailed in Note 20.

There is material uncertainty as to the ability of the Company to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the continued support of the Company's lenders as well as the Company's ability to obtain other financing to fund its operations until the Company is in a position where it is generating positive net future cash flows and profitability. The Company believes that it will be able to meet its cash flow requirements in the near term, however, the outcome of the actions and events described above cannot be predicted at this time.

These condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

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**3. Basis of Presentation**

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(a) Statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standards ("IAS 34") Interim Financial Reporting. These are the Company's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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Standards has been applied. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The Company's significant accounting policies under IFRS are presented in Note 4. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. An explanation of how the transition to IFRS has affected the reported financial position of the Company is provided in Note 19.

These condensed consolidated interim financial statements were authorised for issuance by the Board of Directors on June 23, 2011.

(a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand except for share and per share amounts.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 4.

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**4. Significant Accounting Policies**

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The accounting policies set out below have been used in preparing these condensed interim consolidated statements for the purposes of the transition to IFRS, unless otherwise indicated. The accounting policies have been applied consistently by the Company and its Subsidiaries.

(a) Basis 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.

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control is presumed when the Company

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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acquires more than half of the voting rights of the entity. Intragroup balances, transactions, income, and expenses are eliminated in the consolidation process. Minority interests, if any, are presented in the consolidated balance sheet within equity, but separate from the parent's shareholders' equity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

(ii) Investments in associates and jointly controlled entities (equity accounted investees):

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation:

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) 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. Foreign currency gains and losses are reported on a net basis.

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through net loss and comprehensive loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's financial assets include cash and cash equivalents, funds held in trust and accounts receivable.

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at fair value through net loss and comprehensive loss

A financial asset is classified at fair value through net loss and comprehensive loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through net loss and comprehensive loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in net loss and comprehensive loss as incurred. Financial assets at fair value through net loss and comprehensive loss are measured at fair value, and changes therein are recognized in net loss and comprehensive loss.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(c) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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securities as held-to-maturity for the current and the following two financial years.

(d) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

(e) Available-for-sale financial assets

The Company did not have any available-for-sale assets during the three-month period ended March 31, 2011 and the year ended December 31, 2010.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through net loss and comprehensive loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's non-derivative financial liabilities include accounts payables and accrued liabilities, bank indebtedness (operating loan) and long term debt.

The measurement of financial liabilities depends on their classification as follows:

(a) Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of comprehensive loss when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance costs in the consolidated statements of comprehensive loss.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

**Divestco Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

(d) Property and equipment:

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The Company has elected to apply IAS 16 retrospectively at original cost less depreciation in accordance with IFRS.

Cost includes expenditure that is directly attributable to the acquisition of the asset or any other costs directly attributable to bringing the assets to a working condition for their intended use.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in net loss and comprehensive loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in net loss and comprehensive loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in net loss and comprehensive loss either on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

	Amortization Method	Rate
Computer hardware and software	Straight-line	3 years
Office furniture and equipment	Straight-line	5 years
Leasehold improvements	Straight-line	Term of lease
Assets under finance lease	Straight-line	Term of lease

(e) Intangible assets

Intangible assets are recognized only when it is probable that the expected future economic benefits attributable to the assets will accrue to the Company and the cost can be reliably measured. Intangible assets are recorded at cost less accumulated amortization. Intangible assets acquired in a business combination are recorded at fair value, less accumulated amortization and impairment losses, when applicable. Intangible assets with indefinite life are reviewed for impairment annually or if events or changes in circumstances indicate that the

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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carrying amount may not be recoverable. All of the Company's intangible assets held have finite lives.

(i) Proprietary software and code

This refers to geological, geophysical and land applications used in the oil and gas industry. Expenditures relating to developing and upgrading these assets are capitalized when it is probable that the expected future economic benefits attributable to the assets will accrue to the Company and the cost can be reliably measured.

(ii) Deferred development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in net loss and comprehensive loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in net loss and comprehensive loss as incurred. Amortization of development costs deferred to future periods commences with the commercial production of the product and is charged to income based on anticipated sales or use of the product over a period not exceeding three years.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. The Company periodically reviews these costs for possible impairment and recognizes changes in estimates in the period of the change.

In accordance with IFRS, the Company accounts for its deferred development costs as intangible assets, using the historical cost model, which is consistent with the method used under Canadian GAAP. The Company's amortization policy is unchanged from the amortization policy followed under Canadian GAAP.

(iii) 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 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 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

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

amortization.

In accordance with IFRS, the Company will account for its data libraries as intangible assets, using the historical cost model, which is consistent with the method used under Canadian GAAP. The Company's amortization policy is unchanged from the amortization policy followed under Canadian GAAP.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in net loss and comprehensive loss as incurred.

(v) Amortization

Amortization is provided for as follows:

	Amortization Method	Rate
Proprietary software and code	Straight-line	10 years
Seismic data library	Straight-line	7 to 10 years
Datasets	Straight-line	10 years
Log and drilling library	Straight-line	20 years
Reference library	Straight-line	5 years
Map library	Straight-line	15 years

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortization is recognized in net loss and comprehensive loss on a straight-line basis (except for proprietary software) over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are shown as a part of Property and Equipment in the financial statements.

Other leases are operating leases and the leased assets are not recognized in the Company's consolidated statement of financial position.

(g) Impairment

(i) Financial assets (including accounts receivables)

A financial asset not carried at fair value through net loss and comprehensive loss is assessed at each reporting date to determine whether there is objective evidence that it is

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impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company reviews its receivables regularly and amounts are written down to their expected realizable value when outstanding amounts are determined not to be fully collectable. This generally occurs when the customer has indicated an inability to pay, the Company is unable to communicate with the customer over an extended period of time, and other methods to obtain payment have been considered and have not been successful. Bad debt expenses are recognized in net loss and comprehensive loss in the period that the account is determined to be doubtful and reflected in an allowance for doubtful accounts account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net loss and comprehensive loss.

Estimates of the allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each reporting date taking into consideration the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience. In addition, the Company records an allowance for doubtful accounts equal to 20% of balances that are older than 120 days. The carrying amount of accounts receivable represents the maximum credit exposure.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets referred to as a cash-generating unit ("CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net loss and comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the

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carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Share based payment transactions

The grant date fair value of share based payment awards granted to officers, employees, contractors and directors ("Service Providers") is recognized as an expense, with a corresponding increase in equity, over the period that the Service Providers unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(j) Revenue recognition and deferred revenue

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The Company generates revenue from the following sources:

- (i) Software and software licences (including maintenance and support), and software development consulting
- (ii) Support and Log Data licenses
- (iii) Seismic brokerage (recorded on a net basis)
- (iv) Seismic data licence sales
- (v) Other services including: geomatics, land management and seismic processing services

The Company recognizes revenue when it has transferred significant risks and rewards of ownership, legal title has passed, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is recognized when the Company has demonstrated delivery and compliance with the product specifications or has had a history of customer acceptance that provides no uncertainty of acceptance upon delivery of the product that would defer revenue recognition.

- (i) Software and software licences (including maintenance and support), and software development consulting

Software is sold through a perpetual license or on a term-basis with a customer (monthly, quarterly, semi-annual and annual terms). Maintenance and support includes installation, training and integration, maintenance, software support, updates and the right to receive product upgrades on a when and if available basis.

Revenue earned from the sale of perpetual software licences is recognized upon delivery. Maintenance and support for the first year is included with the product and recognized as revenue 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 which includes maintenance and support is recognized rateably over the term of the licence.

Revenue for software development consulting is recognized as effort is incurred. If there is a significant uncertainty about the project completion or receipt of payment, revenue is deferred until the uncertainty is sufficiently resolved. The Company estimates the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. When total cost estimates exceed revenues, the Company will accrue for the estimated losses as an expense immediately using cost estimates that are based upon an average fully burdened rate applicable to the individuals performing the feature development.

- (ii) Support and Log Data Licenses

Licenses for support and log data are recognized as revenue when the customer receives the file containing the images.

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(iii) Seismic brokerage (recorded on a net basis)

Revenue with respect to the seismic brokerage division represents brokerage commissions earned from selling seismic data on behalf of others and is recognized on a net basis upon the closing of the transaction. As a matter of practice, the Company settles brokerage payables after the related receivables are collected.

(iv) Seismic data licence sales

(a) Data library sales

Revenue is recognized when the customer executes a valid license agreement, transfer of seismic data to the customer occurs and collection is reasonably assured. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

(b) Participation survey revenue

The Company participates with customers on participation surveys from which the Company retains the proprietary rights over the data and participating customers are provided a licensed copy

Participation survey revenue is recognized in the financial statements in proportion to the stage of completion of the project. Participation survey revenue is recognized when the total contract revenue, total contract costs, contract costs to completion and the stage of completion at the balance sheet date can be measured reliably. The stage of completion is assessed using the proportion of contract cost incurred for work performed to balance sheet date compared to total contract cost.

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 flows from investing activities and operating activities reflect only the net cash portion.

(v) Other services

Revenue with respect to providing all other products and services is recognized in the financial statements in proportion to the stage of completion of the project. Revenue is recognized when the total contract revenue, total contract costs, contract costs to completion and the stage of completion at the balance sheet date can be measured reliably. The stage of completion is assessed using the proportion of contract cost incurred for work performed to balance sheet date compared to total contract cost.

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 consolidated statement of financial position.

(k) Lease payments

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Payments made under operating leases are recognized in net loss and comprehensive loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

(l) Interest expense

Interest expense comprises interest on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets through net loss and comprehensive loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net loss and comprehensive loss using the effective interest method.

Interest income comprises interest income on funds invested and dividend income. Interest income is recognized as it accrues in net loss and comprehensive loss, using the effective interest method. Interest income is netted against interest expense.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net loss and comprehensive loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable net loss and comprehensive loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates

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that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Net loss per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net loss and comprehensive loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares. Diluted EPS is determined by adjusting the net loss and comprehensive loss attributable to ordinary shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise stock options, performance share units and share purchase warrants.

(o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO"), who is the chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

(p) Investment tax credits

The Company records investment tax credits related to current expenditures on the cost reduction basis whereby investment tax credits are deducted from the expenditures 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.

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(q) New standards and interpretations not yet adopted

IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

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**5. Determination of fair values**

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A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(b) Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Trade and other receivables, cash and cash equivalents, accounts payable and accrued liabilities and bank indebtedness

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at March 31, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term maturity. In the case of bank indebtedness, the fair value approximates its carrying value as it bears interest at floating rates and the premium charged was indicative of the Company's current credit premium.

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(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(e) Share based payment transactions

The fair value of the stock options, performance share units and share purchase warrants is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the option, the expected volatility (based on weighted average historic volatility, the weighted average expected life of the instruments, the expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

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**6. Seasonality of Operations**

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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. Unfavourable weather conditions may cause potential cost overruns and delays in the field data acquisition portion of the seismic data survey which could delay revenue recognition. Revenue is recognized on a percentage of completion basis.

Other segments of the Company, such as Services, normally exhibit 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 performing specific types of contract work appropriate for lower-activity months. The Software and Data segment typically experiences a slowdown during July and August, which is generally a slower period for the oil and gas industry in western Canada. As a result, the operating results of the Company will vary on a quarterly basis.

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**7. Operating segments**

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Divestco is an oil and gas services company offering products and services to customers in the oil and gas exploration and production industry. The Company operates in three segments: Software and Data, Services and Seismic Data. In addition, the Company reports its overhead activities through its Corporate and Other segment. The Company operates in Canada and has its headquarters in Calgary, Alberta.

Software and Data sells, maintains, and supports licensed software exploration products as well as provides a full suite of support data layers. Services provides geomatics, processing and land management services. Seismic Data provides seismic brokerage services in addition to developing and maintaining the Company's seismic data assets. Corporate and Other includes costs for

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executive management, finance, accounting, marketing, human resources, investor relations, and information technology.

The accounting policies of the segments are the same as those described in Note 4. 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, depreciation and amortization and impairment of goodwill and intangibles. Other income (loss) items and income taxes reported on the Company's consolidated statements of loss and comprehensive loss are not allocated to the reportable segments.

Performance is evaluated and resources are allocated based on specific segment requirements and measurable factors. Segment assets are those assets that are specifically identified with the operations in each operational segment. Corporate assets primarily include property and equipment. Corporate expense includes salaries and benefits and general and administrative expenses for the Company's support divisions in addition to interest expense (net of interest income) and amortization and depreciation.

Performance is measured based on operating income, as included in the internal management reports that are reviewed by the Company's CEO. Operating income is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

As at and for the three months ended March 31, 2011					
	Software & Data	Services	Seismic Data	Corporate & Other	Total
Revenue from external customers	\$ 2,177	\$ 5,126	\$ 1,512	\$ -	\$ 8,815
Inter-segment revenue	-	81	1	(1)	81
Operating income (loss) <sup>(1)</sup>	(361)	1,111	(368)	(4,665)	(4,283)
Interest expense (net of interest revenue)	-	(1)	(3)	20	16
Depreciation and amortization	1,131	291	938	1,050	3,410
Total assets	10,572	10,489	10,114	2,885	34,060
Capital expenditures <sup>(2)</sup>	569	1,263	2,272	797	4,901
Deferred development costs	689	-	-	-	689

As at and for the three months ended March 31, 2010					
	Software & Data	Services	Seismic Data	Corporate & Other	Total
Revenue from external customers	\$ 2,420	\$ 5,492	\$ 4,166	\$ -	\$ 12,078
Inter-segment revenue	-	168	-	-	168
Operating income (loss) <sup>(1)</sup>	192	842	(4,641)	(2,593)	(6,200)
Interest expense (net of interest revenue)	-	-	-	569	569
Depreciation and amortization	735	529	7,679	293	9,236
Total assets	16,536	9,413	140,956	748	167,653
Capital expenditures <sup>(2)</sup>	61	122	711	85	979
Deferred development costs	386	105	42	-	533

<sup>(1)</sup> Operating income (loss) is revenue less operating expenses, interest, depreciation and amortization and impairment of goodwill and intangibles

<sup>(2)</sup> Capital expenditures includes the purchase of data libraries (net of changes in participation surveys in progress), property and equipment, and intangible assets

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**8. Investment in Affiliated Company**

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During Q1 2011, the Company acquired additional shares of SDLS Inc. ("SDLS"), a private company, and increased its investment from 36.11% to 50%. The investment is accounted for under the equity method. The purchase price of the shares was \$4,000 plus the assumption of a shareholder loan in the amount of \$25,000 for a total of \$29,000. The Company's pro-rata share of the net income of SDLS for the three months ended March 31, 2011 was \$4,000 (March 31, 2010 – net income of \$3,000) as has been recorded in other income (loss) in the consolidated statements of loss and comprehensive loss.

Summarized financial information of SDLS Inc. as at		
	<b>March 31, 2011</b>	December 31, 2010
<b>Total Assets</b>	<b>\$ 41,759</b>	\$ 27,362
Liabilities	<b>\$ 318,159</b>	\$ 315,109
Shareholders equity	<b>(276,400)</b>	(287,747)
<b>Total liabilities and shareholders' equity</b>	<b>\$ 41,759</b>	\$ 27,362

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**9. Property and Equipment**

	Computer Hardware and Software	Office Furniture and Equipment	Leasehold Improvements	Assets under Finance Leases	Land	Total
<b>Cost:</b>						
At January 1, 2010	\$ 6,919	\$ 1,739	\$ 1,492	\$ 3,521	\$ 30	\$ 13,701
Additions	14	-	374	209	-	597
Disposals	(22)	(4)	-	-	-	(26)
Reclassification	449	(449)	-	-	-	-
At March 31, 2010	7,360	1,286	1,866	3,730	30	14,272
Additions	43	-	1,327	163	-	1,533
Write-off fully amortized asset	(19)	-	-	-	-	(19)
At December 31, 2010	7,384	1,286	3,193	3,893	30	15,786
Additions	244	7	3,374	235	-	3,860
<b>At March 31, 2011</b>	<b>\$ 7,628</b>	<b>\$ 1,293</b>	<b>\$ 6,567</b>	<b>\$ 4,128</b>	<b>\$ 30</b>	<b>\$ 19,646</b>
<b>Accumulated depreciation:</b>						
At January 1, 2010	\$ 5,555	\$ 1,456	\$ 1,032	\$ 2,912	-	\$ 10,955
Depreciation	343	54	73	251	-	721
Disposals	(12)	(7)	(1)	(3)	-	(23)
Reclassification	449	(449)	-	-	-	-
At March 31, 2010	6,335	1,054	1,104	3,160	-	11,653
Depreciation	470	131	123	401	-	1,125
Write-off fully amortized asset	(18)	-	-	-	-	(18)
At December 31, 2010	6,787	1,185	1,227	3,561	-	12,760
Depreciation	126	31	2,092	48	-	2,297
<b>At March 31, 2011</b>	<b>\$ 6,913</b>	<b>\$ 1,216</b>	<b>\$ 3,319</b>	<b>\$ 3,609</b>	<b>\$ -</b>	<b>\$ 15,057</b>
<b>Carrying amounts:</b>						
At January 1, 2010	\$ 1,365	\$ 283	\$ 460	\$ 609	\$ 30	\$ 2,747
At March 31, 2010	1,025	232	762	570	30	2,619
At December 31, 2010	597	101	1,966	332	30	3,026
<b>At March 31, 2011</b>	<b>715</b>	<b>77</b>	<b>3,248</b>	<b>519</b>	<b>30</b>	<b>4,589</b>

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**10. Intangible Assets**

	Seismic Data	Datasets	Log and Drilling Library	Reference Library	Map Library	Proprietary Data Libraries	Software and Code	Deferred Development Costs	Total
<b>Cost</b>									
At January 1, 2010	\$ 253,040	\$ 632	\$ 7,209	\$ 445	\$ 239	\$ 261,565	\$ 8,256	\$ 8,179	\$ 278,000
Additions	4,322	-	-	-	-	4,322	-	533	4,855
At March 31, 2010	257,362	632	7,209	445	239	265,887	8,256	8,712	282,855
Additions	(12)	-	-	-	-	(12)	-	2,369	2,357
Disposals	(257,288)	-	-	-	-	(257,288)	-	-	(257,288)
At December 31, 2010	62	632	7,209	445	239	8,587	8,256	11,081	27,924
Additions	2,325	-	-	-	-	2,325	128	689	3,142
<b>At March 31, 2011</b>	<b>\$ 2,387</b>	<b>\$ 632</b>	<b>\$ 7,209</b>	<b>\$ 445</b>	<b>\$ 239</b>	<b>\$ 10,912</b>	<b>\$ 8,384</b>	<b>\$ 11,770</b>	<b>\$ 31,066</b>
<b>Accumulated depreciation</b>									
At January 1, 2010	\$ 119,765	\$ 486	\$ 2,098	\$ 416	\$ 88	\$ 122,853	\$ 4,762	\$ 1,480	\$ 129,095
Amortization	7,648	8	90	19	4	7,769	170	574	8,513
At March 31, 2010	127,413	494	2,188	435	92	130,622	4,932	2,054	137,608
Amortization	3	26	270	10	12	321	508	2,290	3,119
Disposals	(127,414)	-	-	-	-	(127,414)	-	-	(127,414)
At December 31, 2010	2	520	2,458	445	104	3,529	5,440	4,344	13,313
Amortization	900	9	90	-	4	1,003	170	1,073	2,246
<b>At March 31, 2011</b>	<b>\$ 902</b>	<b>\$ 529</b>	<b>\$ 2,548</b>	<b>\$ 445</b>	<b>\$ 108</b>	<b>\$ 4,532</b>	<b>\$ 5,610</b>	<b>\$ 5,417</b>	<b>\$ 15,559</b>
<b>Carrying amount</b>									
At Jan 1, 2010	\$ 133,275	\$ 146	\$ 5,111	\$ 29	\$ 151	\$ 138,712	\$ 3,494	\$ 6,699	\$ 148,905
At March 31, 2010	129,949	138	5,021	10	147	135,265	3,324	6,658	145,247
At December 31, 2010	60	112	4,751	-	135	5,058	2,816	6,737	14,611
<b>At March 31, 2011</b>	<b>1,485</b>	<b>103</b>	<b>4,661</b>	<b>-</b>	<b>131</b>	<b>6,380</b>	<b>2,774</b>	<b>6,353</b>	<b>15,507</b>

**11. Bank Indebtedness**

As at March 31, 2011 the Company had an operating loan facility of \$5 million with advances being limited to the lesser of the maximum principal of the facility and the aggregate of 75% of accounts receivable of the Company excluding certain accounts that are outstanding for more than 90 days. The lender has a general security agreement over all present and after acquired personal property and a floating charge on all lands of the Company. The interest rate on this facility is Prime + 2.00% per annum with a non-refundable facility fee of 0.75% per annum being charged on the unused portion of the facility. As at March 31, 2010, \$3 million was drawn on the facility.

The facilities are subject to the Company meeting certain debt covenants. In April 2011, the lender approved amendments to the covenants and increased the borrowing rate from Prime + 2.00% to Prime + 2.50%. The amended covenants are as follows: current ratio cannot fall below 0.90:1 for Q1, Q2 and Q3 2011, 1.00:1 for Q4 2011 and 1.25:1 thereafter; funded debt to equity ratio cannot exceed 2.00:1; and debt service coverage ratio cannot fall below 2.25:1. In June 2011, the lender removed

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the funded debt to equity ratio covenant from its requirement. As at March 31, 2011, the Company was not in violation of any of its debt covenants.

**12. Equity Instruments and Reserves**

(a) Authorized

An unlimited number of voting Class A common shares.

(b) Par value

The shares do not have a par value.

(c) Rights, preference and restrictions

There are no restrictions on the distributions of dividends except for the Business Corporations Act (Alberta) solvency test. There are no restrictions with respect to the repayment of capital, subject to the process set out in the Business Corporations Act being followed and a solvency test is met.

(d) Issued

	Balance as at			
	March 31, 2011		December 31, 2010	
<b>Class A shares</b>	<b>Number of Shares</b>	<b>Amount</b>	Number of Shares	Amount
<b>Balance, beginning of period</b>	<b>58,938</b>	<b>\$ 73,445</b>	41,958	\$ 70,518
Shares issued on Private Placement <sup>(e)</sup>	455	48	15,825	1,673
Cash consideration received on exercise of stock options	-	-	1,155	728
Reclassification to common shares on exercise of options	-	-	-	555
Share issue costs	-	(1)	-	(29)
<b>Balance, end of period</b>	<b>59,393</b>	<b>\$ 73,492</b>	58,938	\$ 73,445
<b>Share Purchase Warrants</b>	<b>Number of Warrants</b>	<b>Amount</b>	Number of Warrants	Amount
<b>Balance, beginning of period</b>	<b>15,825</b>	<b>1,808</b>	-	-
Issued on Private Placement <sup>(e)</sup>	455	52	15,825	1,808
<b>Balance, end of period</b>	<b>16,280</b>	<b>1,860</b>	15,825	1808
<b>Total Equity Instruments</b>		<b>\$ 75,352</b>		\$ 75,253

(e) Private Placement

On December 23, 2010, the Company closed a private placement whereby it sold 15,825,217 units ("Units") at a price of \$0.22 per Unit for total gross proceeds of \$3,481,548. Each Unit was comprised of one Class A share of Divestco (the "Share") and one non-transferable share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one Share on or before December 31, 2012 at an exercise price of \$0.32 per Share. The Shares and the

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Warrants, and any Shares issued on exercise of the Warrants are subject to a hold period under applicable Canadian securities laws and policies of the TSX Venture Exchange. Directors and officers subscribed for 9,865,214 Units for gross proceeds of \$2,170,347. On January 10, 2011, an additional 454,546 Units were sold at a price of \$0.22 per Unit for total gross proceeds of \$100,000.

(f) Net Loss

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the year, being 59,344,000 for Q1 2011 (Q1 2010 – 41,958,000). In computing diluted net loss per share, no shares were added in Q1 2011 and Q1 2010 to the weighted average number of common shares outstanding for the dilution from the stock options and convertible debentures as they were anti-dilutive.

**13. Share based Payments**

As at March 31, 2011, the Company had the following share based payment arrangements:

(a) Stock options

The Company has established a stock option plan (the “Option Plan”) whereby the Company may grant options to purchase common shares to directors, officers, employees and consultants. The Option Plan allows for the granting of options to purchase common shares to a maximum number equal to 10% of the then issued and outstanding Class A common shares of the Company combined with the Company’s other share based compensation arrangements. The price of each stock option granted is based on market value of the Company’s stock on the last trading day prior to the date of grant. The options have a five-year term and vest equally over a three-year period commencing on the first anniversary of the date of grant.

There were no options granted during the three months ended March 31, 2011.

A summary of the status of the Company’s stock option plan as at March 31, 2011 and December 31, 2010 and changes during the periods then ended is presented below:

	<b>Number of Options</b>	<b>Option Price</b>	<b>Weighted Average Price</b>
Options outstanding, January 1, 2010	2,137	\$0.60-\$6.10	\$1.99
Granted	615	\$0.68-\$0.78	\$0.69
Exercised <sup>(1)</sup>	(1,155)	\$0.60-\$0.78	\$0.63
Forfeited <sup>(2)</sup>	(690)	\$0.60-\$6.10	\$1.91
Options outstanding, December 31, 2010	907	\$0.68-\$6.10	\$2.89
Forfeited	<b>(72)</b>	<b>\$1.30-\$6.00</b>	<b>\$3.41</b>
Options outstanding, March 31, 2011	<b>835</b>	<b>\$0.68-\$6.10</b>	<b>\$2.85</b>

<sup>(1)</sup> 850,000 options were exercised by directors, officers and former officers

<sup>(2)</sup> 187,500 options were forfeited by former Directors, an officer and former officers

Stocks options which were outstanding and vested as at March 31, 2011, are summarized as follows:

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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
456	\$0.68-\$1.99	\$1.09	2.98	456	\$1.09
30	\$2.00-\$3.49	\$2.48	1.81	30	\$2.48
158	\$3.50-\$4.99	\$4.17	0.69	158	\$4.17
191	\$5.00-\$6.10	\$6.02	0.08	191	\$6.02
<b>835</b>	<b>\$0.68-\$6.10</b>	<b>\$2.85</b>	<b>1.84</b>	<b>835</b>	<b>\$2.85</b>

(b) Employee stock ownership plan

The Company's employee stock ownership plan ("ESOP") allows each employee to contribute up to 25% of their regular salary towards the savings plan. The Company matches the employee's contribution through a combination of cash and shares issued from treasury up to 4.5% of their monthly regular salary to a maximum of \$450 per month. All cash contributions are used to purchase Class A common shares through the facilities of the TSXV and the value of the Company's contribution is included in salaries and benefits in the consolidated statements of loss and comprehensive loss. Due to the impact of the global recession, the Company matched portion was suspended effective April 1, 2009. The Company intends to reinstate matching on July 1, 2011.

(c) Warrants

In connection with the private placements the Company closed in December 2010 and January 2011, the Company issued 16,280 warrants. These warrants are recorded at \$1,860 as at March 31, 2011 (\$1,808 as at December 31, 2010). The warrants were valued upon grant using the Black-Scholes method with the following assumptions: risk free interest rate of 1.7%, expected life of 2 years, expected dividends of nil and expected volatility of 116%. These warrants entitle the holder to purchase common shares of the Company at an exercise price of \$0.32 per share and expire in December 2012. The warrants were subject to a four-month hold period which expired in April 2011 and are non-transferable.

(d) Performance share units (share settled)

On May 19, 2011, the Company's shareholders approved the establishment of a Performance Share Unit ("PSU") Plan (the "PSU Plan"). Each PSU awarded conditionally entitles the eligible unit holder to the delivery of one Class A common share of the Company upon attainment of the PSU vesting conditions at the Board's sole discretion. As the Company intends to settle these with shares it will therefore classify these awards as equity in the consolidated statement of financial position. These PSUs plus dividend equivalents in the form of additional PSUs equal to the dividends declared and issued, if any, on the underlying units will vest where performance conditions for the 2011 fiscal year are met.

The aggregate number of units reserved for issuance upon the vesting of all PSUs granted under the PSU plan will not exceed 1,188,000 Class A Shares, being 2% of the issued and outstanding Class A shares of the Corporation as of April 13, 2011, the date of Board approval of the Plan, and a maximum of 594,000 Class A Shares, being 1% of the issued and outstanding Class A shares of the Corporation as of April 13, 2011, the date of Board approval of the Plan, for any one insider. Compensation expense related to the PSUs will be accrued over the term of the

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performance period based on the expected total compensation to be paid out at the end of the performance period.

(e) Inputs for measurement of grant date fair values

The grant date fair value of the share based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share based payment plans during the first quarter of 2011 are the following:

Three Months Ended March 31	2011	2010
Stock Option Plan		
Fair Value of stock options and assumptions:		
Fair value at grant date	\$-	\$0.56
Share price at grant date	\$-	\$0.68
Exercise Price	\$-	\$0.68
Expected volatility (weighted average)	0.0%	91.5%
Option life (expected weighted average life)	Nil years	5.0 years
Expected dividends (weighted average)	0.0%	0.0%
Risk-free interest rate (weighted average)	0.0%	2.2%
Forfeiture rate	0.0%	17.1%

**14. Statement of Cash Flows**

For the three months ended March 31	2011	2010
Changes in non-cash working capital balances		
Funds held in trust	\$ (1)	\$ (4)
Accounts receivable	92	3,553
Income taxes receivable	131	(326)
Prepaid expenses, supplies and deposits	(79)	(73)
Accounts payable and accrued liabilities	(717)	(969)
Deferred revenue	1,063	(690)
	<b>\$ 489</b>	<b>\$ 1,491</b>

During the three months ended March 31, 2011, the Company recorded finance lease additions of \$235,000 (March 31, 2010 - \$209,000). As at March 31, 2011, the Company held \$(88,000) (March 31, 2010 - \$120,000) of cash and cash equivalents which were denominated in a foreign currency.

**15. Operating Leases and sublease loss provision**

On May 1, 2010, the Company's lease for its new premises commenced. The lease term is 15 years. The monthly commitment was approximately \$574,000 including operating costs for 2011. The annual square foot rate increases in years 3, 6, 9, 11 and 14. All other leases expire in 2011 except

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for approximately 9,500 square feet of space that is occupied by the Company's IT infrastructure.

In 2010, management anticipated that the Company would not occupy all of the space in its new premises and began negotiating with potential subtenants. In Q1 2011 the Company finalized an agreement whereby a new tenant would take over the lease on two floors for 10 years after which time the Company would no longer be responsible for the lease obligations for that space. The lease commenced on April 1, 2011 and included an initial eight month rent-free period and additional tenant inducements matching current inducement rates. The total savings to the Company will be approximately \$2 million per year after 2011.

A liability of \$3.5 million was accrued towards the estimated sub-lease loss, which was calculated as the present value of the difference between estimated current day sublease rental rates that could be reasonably obtained for the property and those which the Company is committed to pay to the landlord. The Company recorded accretion of \$21,000 in Q1 2011.

In Q1 2011 the Company has recorded an amount with respect to the sub-leasing of additional floors at its new office premises. Based on current market conditions the Company expects to recover 100% of its leasing and related operating costs for the floors. The recovery does not include costs incurred by the Company on leasehold improvements (net of tenant inducements). In anticipation of leasing out these additional floors, the Company recorded a net impairment of \$0.8 million on leasehold improvements for the relevant floors.

Below is a summary of the new building lease commitment net of (estimated) sub-leases combined with the Company's commitment on its current premises until the leases expire:

2011	6,538
2012	6,348
2013	6,668
2014	6,820
2015 +	87,109
Total	\$113,483

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**16. Related Party Transactions**

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(a) Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Executive officers also participate in the Company's share option program (see note 20).

Certain executive officers have management contracts. Upon resignation at the Company's request, they are entitled to termination benefits up to 18 months' gross salary, depending on the number of years completed as an executive officer.

(b) Key management personnel and director transactions

Directors and officers of the Company control 35% percent of the voting shares of the Company. The Company had the following transactions with a director and an officer:

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- (i) During the three months ended March 31, 2011 the Company incurred \$46,000 (March 31, 2010 - \$79,000) in seismic consulting fees and brokerage commissions from a company controlled by a director. Included in accounts payable as at March 31, 2011 was \$193,000 (December 31, 2010 - \$147,000) related to these commissions.
- (ii) During the three months ended March 31, 2011, the Company incurred \$144,000 (March 31, 2010 - \$43,000) in legal fees from the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable as at March 31, 2011 was \$136,000 (December 31, 2010 - \$74,000) 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.

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## **17. Financial Instruments and Risk Management Overview**

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The Company has exposure to the following risks from its use of financial instruments:

- (a) credit risk
- (b) liquidity risk
- (c) interest rate risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

### **Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

#### **(a) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

#### **Trade and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. During the three months ended March 31, 2011, approximately 30 percent (March 31, 2010: 22 percent) of the Company's revenue was attributable to sales transactions with three customers. A significant portion of the Company's trade accounts receivable are from companies in the oil and gas industry in western Canada and

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are exposed to normal industry credit risks. The concentration risk is mitigated primarily by portion of the customers being large investment grade organizations.

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Customers that fail to meet the Company's benchmark creditworthiness generally are restricted to services on a prepayment basis only.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are considered as "high risk" are closely monitored, and future sales maybe made on a prepayment basis.

In an effort to protect the Company's seismic data asset both past and present, Divestco has commenced (or is contemplating) legal action(s) against companies for breaches of its license agreement(s), copyright and duty of confidentiality for unauthorized sharing of its proprietary seismic data with third parties and will continue to enforce its proprietary rights using all methods at its disposal. These actions commenced or contemplated could have a material financial impact to the firm. Given the nuances it is difficult to quantify the timing or potential financial impact of any legal action commenced or contemplated.

The Company does not require collateral in respect of trade and other receivables.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	<b>Balance as at</b>		
	<b>March 31, 2011</b>	December 31, 2010	January 1, 2010
Accounts receivables	\$ 11,667	\$ 11,759	\$ 19,267
Cash and cash equivalents	1,599	3,696	768
	<b>\$ 13,266</b>	<b>\$ 15,455</b>	<b>\$ 20,035</b>

The Company's most significant customers account for 30% of the trade carrying amount at March 31, 2011 (December 31, 2010: 34%; January 1, 2010: 28%).

**Impairment losses**

The aging of accounts receivables at the reporting date was:

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	Balance as at					
	March 31, 2011		December 31, 2010		January 31, 2010	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	\$ 3,685	\$ -	\$ 4,356	\$ -	\$ 6,982	\$ -
Past due 0-30 days	2,373	-	1,579	-	4,057	-
Past due 31-120 days	2,120	-	1,163	-	1,189	-
More than 120 days	942	188	1,128	225	8,716	2,030
	<b>9,120</b>	<b>188</b>	<b>8,226</b>	<b>225</b>	<b>20,944</b>	<b>2,030</b>
Non-trade receivables and accrued revenue	2,735	-	3,758	-	353	-
	<b>\$ 11,855</b>	<b>\$ 188</b>	<b>\$ 11,984</b>	<b>\$ 225</b>	<b>\$ 21,297</b>	<b>\$ 2,030</b>
Accounts receivable and accrued revenue net of impairment	<b>\$ 11,667</b>		<b>\$ 11,759</b>		<b>\$ 19,267</b>	

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	Balance as at	
	March 31, 2011	December 31, 2010
Balance, beginning of period	\$ 225	\$ 2,030
Impairment loss recognized	(30)	(1,083)
Allowance used	(7)	(722)
Balance, end of period	<b>\$ 188</b>	<b>\$ 225</b>

The Company reviews its accounts receivable amounts regularly and amounts are written down to their expected realizable value when outstanding amounts are determined not to be fully collectable. This generally occurs when the customer has indicated an inability to pay, the Company is unable to communicate with the customer over an extended period of time, and other methods to obtain payment have been considered and have not been successful. The decrease in trade receivables more than 120 days past due as compared to December 31, 2009 was due to a \$4.5 million (2009 - \$1.2 million) bad debt write-off recorded in 2010 on two large receivables related to seismic data transactions totalling \$5.9 million (excluding the allowance). While the Company continues with its in-house collections efforts, there are indications that legal action may be required which could further delay the collections process.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. In addition, the Company records an allowance for doubtful accounts equal to 20% of balances that are older than 120 days. Bad debt expense is charged to net loss in the period that the account is determined to be doubtful. The carrying amount of accounts receivable represents the maximum credit exposure.

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Based on historic default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

**Impairment losses**

The allowance accounts in respect of accounts receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains lines of credit.

As at March 31, 2011 the Company had a cash and cash equivalents balance of \$1.6 million, \$11.7 million in accounts receivable and \$2 million in unused committed bank credit facilities totalling \$15.3 million to settle current liabilities of \$12.8 million (excluding deferred revenue of \$3.8 million). To manage liquidity risk, the Company utilizes long and short-term cash forecasts to ensure it has necessary funds to fulfill its obligations. In May 2011, management secured a new subordinated demand bridge loan to assist it with the build-out of its office space and for working capital purposes. The Company will continue to review additional sources of capital to continue its activities and discharge its commitments as they become due.

Management believes that the liquidity risk is acceptable given its focus on reducing operating costs, the value of the underlying assets as well as the existing and future pipeline of business opportunities. The Company's liquidity position significantly improved in 2010 with the sale of its seismic assets and the Company remains committed to not undertaking any significant capital expenditure unless the project is fully funded with sales contracts.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at March 31, 2011:

	Carrying Amount	Contractual cash flows	6 months or less	6-12 months	1-2 Years	2-5 Years	More than 5 years	Total
Bank indebtedness	\$ 3,000	\$ 3,000	\$ 3,000	\$ -	\$ -	\$ -	\$ -	\$ 3,000
Accounts payable	7,531	7,531	7,531	-	-	-	-	7,531
Long-term debt obligations	674	674	177	177	260	60	-	674
Loss on sub-lease	3,370	3,510	1,096	755	356	1,067	236	3,510
Tenant Inducements	1,875	1,875	67	67	134	402	1,205	1,875
<b>Total</b>	<b>\$ 16,450</b>	<b>\$ 16,450</b>	<b>\$ 11,871</b>	<b>\$ 999</b>	<b>\$ 750</b>	<b>\$ 1,529</b>	<b>\$ 1,441</b>	<b>\$ 16,590</b>

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It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) Interest rate risk

The Company's operating line is based on a floating rate and is 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. The Company's finance lease obligations are based on fixed interest rates ranging from 1.4% to 12.4%. If these transactions were entered into today, the interest expense would not be materially different. Carrying amounts are as follows:

	<b>Balance as at</b>	
	<b>March 31, 2011</b>	December 31, 2010
Fixed rate instruments		
Finance lease obligations	\$ 674	\$ 556
Variable rate instruments		
Bank indebtedness	3,000	2,050
	<b>\$ 3,674</b>	<b>\$ 2,606</b>

The Company's sensitivity analysis includes items bearing interest at variable rates. The analysis indicates that a 100 basis points increase in interest rates at the reporting date would have increased the net loss for the three months ended March 31, 2011 by \$6,000 and 100 basis points decrease would have decreased the net loss for the three months ended March 31, 2011 by \$6,000 (December 31, 2010 – \$141,000). The Company does not use derivative financial instruments to reduce its interest risk exposure. The carrying amounts of the Company's term debt approximate their fair values.

**Capital Management**

The Board's policy is to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk levels and manage capital in a manner which balances the interests of equity and debt holders. Management and the Board of Directors monitor capital using a funded debt to equity ratio. Funded debt to equity is a non-GAAP measure and therefore is unlikely to be comparable to similar measures of other companies. The ratio is calculated by taking the sum of interest-bearing long-term debt obligations (current and long-term portions) divided by shareholders' equity as presented on the Company's consolidated statement of financial position.

In managing the capital structure, Management and the Board make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue equity, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company's strategy is to maintain a funded debt to equity ratio of less than 2:00:1. In reaction to the poor economic conditions in 2009 and 2010, Management and the Board intend to operate the Company with minimum debt going forward to ensure adequate financial flexibility to meet the financial obligations, both current and long term and as part of their effort to maintain a healthy statement of financial position.

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	Balance as at		
	Mar 31, 2011	Dec 31, 2010	Jan 01, 2010
Components of funded debt to equity ratio:			
Bank indebtedness	\$ 3,000	\$ 2,050	\$ -
Current portion of long-term funded debt obligations	353	368	6,217
Long-term funded debt obligations	321	188	20,685
Convertible Debentures	-	-	3,602
Total funded debt	3,674	2,606	30,504
Shareholders' equity	\$ 13,837	\$ 18,070	\$ 107,547
Total funded debt to equity	0.27	0.14	0.28

**18. Contingencies**

The Company is party to various legal actions arising in the normal course of business. Matters that are probable of an unfavorable outcome to the Company and that can be reasonably estimated are accrued. Such accruals are based on information known about the matters, the Company's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters. None of the actions are believed by management to involve future amounts that would be material to the Company's financial position or results of operations after consideration of recorded accruals. However, actual amounts could differ materially from management's estimate.

On February 25, 2011, the plaintiff in a lawsuit against the Company was awarded judgement in the amount of \$500,000. In addition to the principal amount, the Company was liable for costs and interests in the estimated total amount of \$42,000. The judgment has been fully satisfied which included the transfer of securities and cash held in trust for resolution of this matter. An accrual was recorded in 2010 for the amount of the settlement plus costs and interest less the approximate value of the securities. The lawsuit related to \$500,000 in convertible debentures issued by BlueGrouse Seismic Solutions Ltd. ("BlueGrouse") to the plaintiff on November 21, 2005 at a conversion price of \$4.48 (post acquisition of BlueGrouse). BlueGrouse was acquired by the Company in 2007.

As at September 30, 2010, the Company disposed of its seismic data library, however it continues to build another proprietary seismic data library. As outlined in the Seismic Data Purchase Agreement incorporated by reference in the August 26, 2010 Information Circular, the Company retained the right to litigate and retain in whole or in part the proceeds of past breaches with respect to certain disposed seismic assets. The Company relies on a combination of patent, copyright, trademark and trade secret laws, confidentiality agreements, contractual provisions and other measures to protect its own proprietary information. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may or have attempted to copy aspects of its technology or to obtain and use information that the Company regards as proprietary such as its current and past seismic data library. In an effort to protect the Company's seismic data asset both past and present, the Company has commenced (or is contemplating) legal action(s) against companies for breaches of its license agreement(s), copyright and duty of confidentiality for unauthorized sharing of its proprietary seismic data with third parties and will continue to enforce its proprietary rights using all methods at its disposal. These actions commenced or contemplated could have a material financial impact to the firm. Given the nuances, it is difficult to quantify the timing or potential financial impact of any legal action commenced or contemplated.

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**Divestco Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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**19. Explanation of transition to IFRS**

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The accounting policies under IFRS have been applied to the three months ended March 31, 2011, the opening statement of financial position at January 1, 2010, the comparative information for the three months ended March 31, 2011 and the comparative information for the year ended December 31, 2010.

The adjustments resulting from the application of IFRS at the transition date were recorded to the Company's opening deficit on the statement of financial position when appropriate.

Upon transition to IFRS, the Company used certain exemptions allowed under IFRS 1 "First Time Adoption of International Reporting Standards". The following exemptions were used:

(a) Business combinations

IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than restating all business combinations. In respect of acquisitions prior to January 1, 2010, Goodwill represents the amount recognized under the Company's previous GAAP.

(b) Share based payments

IFRS 1 allow entities an exemption on IFRS 2, "Share Based Payments" to equity instruments which vested prior to the transition date.

As stated in Note 3, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 4 have been applied in preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition). All other optional exemptions in IFRS 1 were either not applicable because there were no significant differences in management's application of Canadian GAAP in these areas or were not taken. Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

**IFRS reconciliations of Equity and Total Comprehensive Loss from Canadian GAAP ("CGAAP") to IFRS**

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**Divestco Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

(Tabular amounts in thousands, unless otherwise stated)

**As at January 1, 2010**  
**Consolidated Statement of Financial Position**

(Thousands)	CGAAP Dec 31, 2009	Effect of transition to IFRS	IFRS Jan 1, 2010
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 768	\$ -	\$ 768
Funds held in trust	17	-	17
Accounts receivable	19,267	-	19,267
Prepaid expenses, supplies and deposits	708	-	708
Income taxes receivable	391	-	391
	21,151	-	21,151
<b>Long-term prepaid expense</b>	846	-	846
<b>Investment in affiliated company</b>	88	-	88
<b>Data libraries (Note a)</b>	138,712	(138,712)	-
<b>Participation surveys in progress</b>	2,186	-	2,186
<b>Property and equipment</b>	2,747	-	2,747
<b>Deferred development costs (Note a)</b>	6,699	(6,699)	-
<b>Intangible assets (Note a)</b>	3,494	145,411	148,905
	\$ 175,923	\$ -	\$ 175,923
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 21,184	\$ -	\$ 21,184
Current portion of deferred revenue	5,543	(1,663)	3,880
Current portion of long-term debt obligations	6,217	-	6,217
	32,944	(1,663)	31,281
<b>Deferred revenue</b>	-	-	-
<b>Long-term debt obligations</b>	20,685	-	20,685
<b>Convertible debentures</b>	3,602	-	3,602
<b>Deferred income taxes (Note c)</b>	12,342	466	12,808
	69,573	(1,197)	68,376
<b>Shareholders' Equity</b>			
Equity instruments	70,518	-	70,518
Contributed surplus (Note d)	5,473	89	5,562
Equity portion of convertible debentures	56	-	56
Retained earnings (Notes b,c,d,e)	30,303	1,108	31,411
	106,350	1,197	107,547
	\$ 175,923	\$ -	\$ 175,923

**Divestco Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

(Tabular amounts in thousands, unless otherwise stated)

**As at March 31, 2010**  
**Consolidated Statement of Financial Position**

(Thousands)	CGAAP Mar 31, 2010	Effect of transition to IFRS Jan 1, 2010	Effect of transition to IFRS	IFRS Mar 31, 2010
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,543	\$ -		1,543
Funds held in trust	21			21
Short-term investments	-	\$ -		-
Accounts receivable	15,714			15,714
Prepaid expenses, supplies and deposits	781			781
Income taxes receivable	717			717
	18,776			18,776
<b>Long-term prepaid expense</b>	767			767
<b>Investment in affiliated company</b>	91			91
<b>Data libraries (Note a)</b>	135,265	(138,712)	3,447	-
<b>Participation surveys in progress</b>	153			153
<b>Property and equipment</b>	2,619			2,619
<b>Deferred development costs (Note a)</b>	6,658	(6,699)	41	-
<b>Intangible assets (Note a)</b>	3,324	145,411	(3,488)	145,247
	\$ 167,653	\$ -	\$ -	\$ 167,653
<b>Liabilities and Shareholders' Equity</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	\$ 20,215	\$ -		\$ 20,215
Current portion of deferred revenue	3,190	(1,663)	1,663	3,190
Current portion of long-term debt obligations	6,246			6,246
	29,651	(1,663)	1,663	29,651
<b>Long-term debt obligations</b>	20,069			20,069
<b>Convertible debentures</b>	3,621			3,621
<b>Deferred income taxes (Note c)</b>	10,930	466	(466)	10,930
	64,271	(1,197)	1,197	64,271
<b>Shareholders' Equity</b>				
Equity instruments	70,518			70,518
Contributed surplus (Note d)	5,548	89	(29)	5,608
Equity portion of convertible debentures	56			56
Retained earnings (deficit) (Notes b,c,d,e)	27,260	1,108	(1,168)	27,200
	103,382	1,197	(1,197)	103,382
	\$ 167,653	\$ -	\$ -	\$ 167,653

**Divestco Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

(Tabular amounts in thousands, unless otherwise stated)

**As at December 31, 2010**  
**Consolidated Statement of Financial Position**

(Thousands)	CGAAP Dec 31, 2010	Effect of transition to IFRS Jan 1, 2010	Effect of transition to IFRS	IFRS Dec 31, 2010
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,696	\$ -		3,696
Funds held in trust	15	-		15
Accounts receivable	11,759	-		11,759
Prepaid expenses, supplies and deposits	237	-		237
Income taxes receivable	287	-		287
	15,994	-		15,994
<b>Long-term prepaid expense</b>	-	-		-
<b>Investment in affiliated company</b>	100	-		100
<b>Data libraries (Note a)</b>	5,058	(138,712)	133,654	-
<b>Participation surveys in progress</b>	1,253	-		1,253
<b>Property and equipment</b>	3,026	-		3,026
<b>Deferred development costs (Note a)</b>	6,737	(6,699)	(38)	-
<b>Intangible assets (Note a)</b>	2,816	145,411	(133,616)	14,611
	\$ 34,984	\$ -	\$ -	\$ 34,984
<b>Liabilities and Shareholders' Equity</b>				
<b>Current Liabilities</b>				
Bank indebtedness	\$ 2,050	\$ -		\$ 2,050
Accounts payable and accrued liabilities	8,248	-		8,248
Current portion of deferred revenue	3,422	(1,663)	951	2,710
Current loss on sublease (Note e)	1,655	-	74	1,729
Current portion of long-term debt obligations	368	-		368
	15,743	(1,663)	1,025	15,105
<b>Long-term debt obligations</b>	188	-		188
<b>Sublease loss (Note e)</b>	1,378	-	243	1,621
<b>Deferred income taxes (Note c)</b>	-	466	(466)	-
	17,309	(1,197)	802	16,914
<b>Shareholders' Equity</b>				
Equity instruments	75,253	-		75,253
Contributed surplus (Note d)	5,744	89	(243)	5,590
Retained earnings (deficit) (Notes b,c,d,e)	(63,322)	1,108	(559)	(62,773)
	17,675	1,197	(802)	18,070
	\$ 34,984	\$ -	\$ -	\$ 34,984

**Divestco Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**

**March 31, 2011**

(Tabular amounts in thousands, unless otherwise stated)

**Condensed Interim Consolidated Statement of Loss and Comprehensive Loss under IFRS For the three months ended March 31, 2010**

(Thousands)	CGAAP 2010	Effect of transition to IFRS	IFRS 2010
<b>Revenue</b>	\$ 13,741	(1,663)	\$ 12,078
<b>Expenses</b>			
Salaries and benefits	5,105	-	5,105
General and administrative	3,322	-	3,322
Stock compensation expense	75	(29)	46
	8,502	(29)	8,473
<b>Interest expense</b>	569	-	569
<b>Depreciation, amortization and accretion</b>	9,236	-	9,236
<b>Other income</b>	80	-	80
<b>Loss before income taxes</b>	(4,486)	(1,634)	(6,120)
<b>Income taxes (recovery)</b>			
Current	(31)	-	(31)
Deferred	(1,412)	(466)	(1,878)
	(1,443)	(466)	(1,909)
<b>Net loss and comprehensive loss for the period</b>	\$ (3,043)	\$ (1,168)	\$ (4,211)
<b>Net loss per share</b>			
Basic and diluted	\$ (0.07)		\$ (0.10)

## Notes to Consolidated Financial Statements

March 31, 2011

(Tabular amounts in thousands, unless otherwise stated)

## Condensed Interim Consolidated Statement Loss and Comprehensive Loss under IFRS For the year ended December 31, 2010

(Thousands)	CGAAP 2010	Effect of transition to IFRS	IFRS 2010
<b>Revenue</b>	\$ 41,140	(951)	\$ 40,189
<b>Expenses</b>			
Salaries and benefits	21,344	-	21,344
General and administrative	22,366	-	22,366
Sublease loss	2,968	361	3,329
Stock compensation expense	770	(243)	527
	47,448	118	47,566
<b>Interest expense</b>	3,028	-	3,028
<b>Depreciation, amortization and accretion</b>	26,706	(44)	26,662
<b>Other loss</b>	(41,416)	-	(41,416)
<b>Loss before income taxes</b>	(77,458)	(1,025)	(78,483)
<b>Income taxes (recovery)</b>			
Current	(113)	-	(113)
Deferred	(12,342)	(466)	(12,808)
	(12,455)	(466)	(12,921)
<b>Net loss and comprehensive loss for the year</b>	\$ (65,003)	\$ (559)	\$ (65,562)
<b>Net loss per share</b>			
Basic and diluted	\$ (1.53)		\$ (1.54)

## Notes to the IFRS reconciliations of Equity and Total Comprehensive Loss from Canadian GAAP ("CGAAP") to IFRS

(a) Intangible assets

In accordance with IFRS, the Company accounts for its data libraries and deferred development costs as intangible assets, using the historical cost model, which is consistent with the method used under Canadian GAAP. The Company's amortization policy is unchanged from the amortization policy followed under Canadian GAAP.

(b) Revenue recognition

In accordance with IFRS, the Company accounts for revenue earned for seismic participation surveys under the percentage of completion method. Revenue for a seismic participation survey was recognized upon delivery of the seismic data to the client following the completed contract method under Canadian GAAP. Under IFRS, revenue is being recognized following the percentage of completion method, resulting in earlier recognition of a significant portion of revenue prior to January 1, 2010. This has resulted in a positive change to the opening retained earnings of \$1.7 million and an equivalent reduction in deferred revenue as at January 1, 2010. This also resulted in an equivalent reduction of revenue in Q1 2010 by \$1.7 million. In Q4 2010,

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**Divestco Inc.**  
**Notes to Consolidated Financial Statements**

**March 31, 2011**

**(Tabular amounts in thousands, unless otherwise stated)**

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under IFRS the Company recognized revenue of \$712,000 under the percentage of completion method resulting in an equivalent decrease in deferred revenue as at December 31, 2010.

(c) Share based payments

Under Canadian GAAP, the Company recognized compensation expense associated with share based compensation plans on a straight-line basis and did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is recognizing the expense over the individual vesting periods for the graded vesting awards using an estimated forfeiture rate at the grant date and updated it throughout the vesting period. This amounted to an additional share based payment expense of \$89,000 at January 1, 2010 which resulted in a reduction of \$89,000 in retained earnings and an equivalent increase in contributed surplus at the transition date.

Under IFRS, the Company reduced share based compensation by \$29,000 in Q1 2010 resulting in an increase in retained earnings and an equivalent decrease in contributed surplus as at March 31, 2010. Under IFRS, the Company reduced share based compensation by \$16,000 in Q2 2010 and \$198,000 in Q3 2010 resulting in an equivalent increase in retained earnings and an equivalent decrease in contributed surplus. No share based payment expense was recognized in Q4 2010 since all of the Company's stock options had vested in Q3 2010 and no additional options were granted.

(d) Sublease loss

Under Canadian GAAP the Company used a credit-adjusted risk-free rate to discount the sublease loss under EIC 135. Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Company is required to use a risk free interest rate at the end of each reporting period to calculate the amount of sublease loss and accretion for this onerous contract. This resulted in a net increase of \$317,000 in the sublease loss and an equivalent decrease in retained earnings as at December 31, 2010. The additional expense is recorded in G&A expenses.

(e) Deferred income taxes

Due to the earlier recognition of revenue under IFRS, the reported deferred income tax liability at the transition date decreased by \$466,000 with an equivalent decrease to the opening retained earnings. The reduction in revenue in Q1 2010 resulted in a decrease in deferred tax expense for the period by \$466,000 with an equivalent increase in the deferred tax liability as at March 31, 2010.

**Divestco Inc.**  
**Notes to Consolidated Financial Statements**

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**(Tabular amounts in thousands, unless otherwise stated)**

The following is a summary of the total impact on retained earnings (deficit) of the changes described above:

<b>Reconciliation of retained earnings as at</b>	<b>Jan 1, 2010</b>
Retained earnings at December 31, 2009 per CGAAP	\$ 30,303
Increase in retained earnings due to change in revenue recognition policy	1,663
Decrease in retained earnings due to increased share based payments	(89)
Related tax effect	(466)
<b>Retained earnings at January 1, 2010 per IFRS</b>	<b>\$ 31,411</b>

<b>Reconciliation of retained earnings as at</b>	<b>Mar 31, 2010</b>
Retained earnings at March 31, 2010 per CGAAP	\$ 27,260
Increase in retained earnings due to change in revenue recognition policy at transition date	1,663
Decrease in retained earnings due to change in revenue recognition policy during 2010	(1,663)
Decrease in retained earnings due to increased share based payments at transition date	(89)
Increase in retained earnings due to decreased share based payments during 2010	29
Related tax effect at transition date	(466)
Related tax effect	466
<b>Retained earnings as at March 31, 2010 per IFRS</b>	<b>\$ 27,200</b>

<b>Reconciliation of retained earnings (deficit) as at</b>	<b>Dec 31, 2010</b>
Retained earnings at December 31, 2010 per CGAAP	\$ (63,322)
Increase in retained earnings due to change in revenue recognition policy at transition date	1,663
Decrease in retained earnings due to change in revenue recognition policy during 2010	(951)
Decrease in retained earnings due to increased share based payments at transition date	(89)
Increase in retained earnings due to decreased share based payments during 2010	243
Decrease in retained earnings due to change in sublease loss amount and related accretion	(317)
Related tax effect at transition date	(466)
Related tax effect	466
<b>Retained earnings (deficit) as at December 31, 2010 per IFRS</b>	<b>\$ (62,773)</b>

**20. Subsequent event**

On May 4, 2011, the Company announced that it had closed a \$5 million subordinate bridge loan. \$2 million was subscribed to by insiders in accordance with a condition of the financing. The facility will assist the Company in bridging its 2011 capital expenditures and working capital requirements. The facility requires payment of interest only with no principal repayment until January 2012, at which time \$150,000 monthly principal payments commence. The security for the loan is a \$6.25 million demand debenture providing a second floating charge security over all personal and real property assets of the Company and a negative pledge and undertaking to provide fixed charges on the Company's corporate assets at the request of the lender. The facility is subject to the Company meeting certain debt covenants and bears an interest rate of 12% with all amounts not fully drawn by May 31, 2011 being cancelled. The facility has a maturity date of April 30, 2013 with a balloon payment of \$2.6 million due upon maturity.