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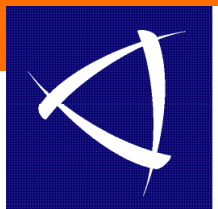
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Q1

Quarterly Report



Divestco Inc.

Exponential Growth





# C o n t e n t s

About Divestco <sup>1</sup>

Management's Discussion and Analysis <sup>2-9</sup>


Consolidated Balance Sheets <sup>10</sup>

Consolidated Statements of Income and Retained Earnings (Deficit) <sup>11</sup>

Consolidated Statements of Cash Flows <sup>12</sup>

Notes to Consolidated Financial Statements <sup>13-19</sup>

Corporate Information <sup>20</sup>



# about Divestco Inc.

Divestco is a public oil and gas software, data, seismic brokerage, and technical services company committed to offering superior products and services to the oil and gas industry - and beyond. The company is based in Calgary, Alberta.

Our leading software product lines include GeoVista, MapQ, WinPICS 2D/3D seismic interpretation system, Crosslog Suite, Synthetic Suite, GeoCarta Tools, Envision 3D, and Oil Expert mapping and enterprise data management system, together with a wide array of smaller utilities and support applications.

In addition, Divestco holds a U.S. patent on "The Rat" - a hardware device used widely for digitizing paper well logs and maps. The Rat is manufactured and marketed exclusively by Divestco.

Divestco also operates a significant database containing information relevant to oil and gas exploration. The oil and gas database includes general well information, production history, pressure data, reserves information, crown land leasing information, freehold land coverage, pipeline and facility information, grid, culture and transportation information and other oil and gas related information for selected areas of Canada and the United States. The comprehensive database is distributed primarily through its own software, however the company also directly licenses components of the database to customers that require raw data products. Divestco is the largest broker of seismic data in Canada with 16 independent brokers under contract. We hold an interest in a company that owns and operates a database pertaining to the location of historical seismic testing activity.

As well as seismic brokerage, Divestco is a leading provider of services to the oil and gas industry including seismic survey audits, records management, custom mapping services, and document scanning.

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Management's Discussion and Analysis section of the Company's 2003 Annual Report and the interim financial statements and notes contained in this report. The interim consolidated financial statements for the period ended March 31, 2004 have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada. This MD&A is dated May 20, 2004.

## Forward-Looking Statements

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

## Non - GAAP Measurement

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

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

# Overall Performance

## First Quarter Results

(000's, except per share amounts)

For the three months ended March 31	2004	2003 (restated)	% Change
Revenues	\$ 6,198	\$ 2,484	149%
Net income (loss)	803	(102)	885%
per share - basic and diluted	0.032	(0.007)	557%
Cash flow from operations	1,462	154	851%
per share - basic and diluted	0.057	0.010	470%
Total assets <sup>(1)</sup>	29,967	24,195	24%
Working Capital <sup>(1)</sup>	(4,233)	2,220	(291)%
Long-term debt <sup>(1)</sup>	274	313	(13)%

<sup>(1)</sup> 2003 is as at December 31, 2003

Divestco had a strong quarter in terms of revenue, net income, and cash flow. This came as a result of realizing a full quarter of operations from the 2003 acquisitions of The Excalibur-Gemini Group Ltd. ("TEGGL") and International Datashare Corporation ("IDC"). In the current quarter, the Company recorded its first sale of a copy of its newly acquired seismic data library. The Company also earned a portion of revenue from the sale of a copy of its Canadian Log library. This was made in conjunction with the disposal of the Company's US operations in 2003 and is being recognized on a percentage of completion basis.

With solid revenues and cost cutting measures taken in order to streamline operations of the acquired entities, Divestco increased net income by 885% and cash flow from operations by 851%, from the same period last year. This translated into an increase in basic and diluted earnings per share of 557% to 3.2 cents, from a loss of 0.7 cents in the first quarter of 2003. The Company continued to realize synergies in the current quarter from the 2003 acquisitions, and will continue to do so throughout the remainder of 2004.

Total assets increased by 24%, due mainly to the Company's seismic data library purchase in the current quarter. Divestco made payments on its long-term debt, which accounts for the 13% decrease from the end of 2003.

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

(000's, except per share amounts)

	2004		2003				2002	
	Q1	Q4 (restated)	Q3 (restated)	Q2 (restated)	Q1 (restated)	Q4 (restated)	Q3 (restated)	Q2 (restated)
Revenues	\$ 6,198	\$ 6,228	\$ 3,084	\$ 3,247	\$ 2,484	\$ 1,543	\$ 1,414	\$ 1,330
Net income (loss) from continuing operations	803	992	(294)	(123)	(102)	21	34	40
Per share - basic and diluted	0.032	0.061	(0.019)	(0.008)	(0.007)	0.001	0.003	0.004
Net income (loss)	803	1,238	(294)	(123)	(102)	21	34	40
Per share - basic and diluted	0.032	0.076	(0.019)	(0.008)	(0.007)	0.001	0.003	0.004
Cash flow from continuing operations	1,462	1,156	133	207	154	174	169	160
Per share - basic and diluted	0.057	0.066	0.013	0.010	0.013	0.014	0.014	0.013
Cash flow from operations	1,462	1,135	133	207	154	174	169	169
Per share - basic and diluted	0.057	0.064	0.013	0.010	0.013	0.014	0.014	0.013

As previously discussed, growth in revenues throughout 2003 and into 2004 came about through the following events: the acquisition of TEGGLand with it the addition of the services segment ("Services"), and the acquisition of IDC which formed part of the new data segment ("Data") and added new product lines to the software segment ("Software") in 2003. Data experienced the greatest amount of growth in the current quarter with the Company's seismic data library purchase. In the current quarter, Software announced the release of new versions of its key software products. The brokerage segment ("Brokerage") also realized sales stemming from the Company's seismic data library purchase.

The decrease in net income and income per share for the last three quarters in 2003 compared to the same quarters in 2002 was mainly due to four factors. Firstly, the Company changed its revenue recognition policy in 2003 and retroactively restated results for 2003 and 2002. The effect on 2003 results was a reduction in revenue and net income of \$61,011 per quarter compared to an increase in revenue and net income of \$24,366 per quarter in 2002. Secondly, the Company early adopted the expensing of the fair value of stock options in 2003 for options issued on or after January 1, 2003. The effect on operations was a decrease in net income of \$56,326 in the first quarter of 2003 and \$13,422 in the remaining three quarters of 2003. Thirdly, with the acquisitions of TEGGL and IDC, the Company incurred restructuring costs to reduce redundancies across segments and divisions. Finally, amortization increased by nearly 200% in the last 3 quarters in 2003 compared to the same quarters in 2002.

The increase in quarterly revenues and net income from continuing operations in the fourth quarter of 2003 was due to the IDC acquisition. The fourth quarter is generally the busiest of the year as the majority of oil and gas exploration occurs during the fourth and first quarters. Combined with this, the Company recognized a portion of the revenue it earned on the sale of a copy of its Canadian Log Library in connection with the sale of its US operations.

Included in net income for the fourth quarter of 2003 is income from discontinued operations of \$247,506. This is comprised of a loss from discontinued operations of \$249,150 and a gain on sale of discontinued operations of \$496,656, net of future income taxes of \$277,500.

The Company did not record a future income tax recovery in the first quarter, as it was not considered more likely than not, the Company's remaining future tax assets would be realized at this time.

## Results of Operations

### Services

Services, representing 38% of the total of the Company's revenue for the current quarter, generated strong sales as a result of traditional increases in seismic activity for this time of year. Revenues were \$2.3 million, an increase of 371% from the same quarter in 2003. This was due to the Services segment being added to the Company part way through the first quarter of 2003, as it was acquired through the TEGGL acquisition. In March 2004, \$1.0 million in revenue earned by the Survey Audit division represented a record quarter and the best month ever due to increased volumes from specific clients, international consulting, and derivative work from Divestco participation surveys. A new services division, Seismic Modelling, showed increased volumes and interest with revenues expected to strengthen the second quarter of 2004. The Archiving Division continues to package the newly acquired seismic data library for new customers with general activity in this area also increasing due to seasonal work levels.

Gross margin was \$0.4 million in 2004 compared to \$0.1 million in 2003, a 393% increase. Amortization was \$0.5 million in 2004, an increase of 297% from 2003. This created an increase in operating earnings of 445% to \$0.3 million for 2004 compared to \$0.1 million in 2003. All of these increases were attributed to the addition of the Services segment part way through the first quarter of 2003.

The Archiving, Scanning, and Geological/Geophysical Services groups are making significant strides in packaging the newly acquired seismic data library. Once complete, data can be supplied to customers in a ready-to-interpret package with expected project completion in the second quarter of 2004. Revenues from packaged sales will also be further realized in the second quarter. The Privacy Practice currently being built within the Information Management Group continues to build awareness with many proposal submissions and expected revenues are to be realized in the second quarter of 2004.

Future sales of the newly acquired seismic data library will have a significant positive impact on revenues in the Archiving Division, regardless of clients choosing not to archive a copy of the data with Divestco or move forward as an online customer. Current sales of this dataset have resulted from one customer taking a copy of the dataset with revenue recognized in the current quarter. Other online customer sales are to be earned throughout the remainder of 2004.

### Data

Despite one-time charges for severance costs, operating earnings continued to be strong due to software and data bundling sales for Data. With revenues of \$1.6 million, the segment contributed 26% of Divestco's total revenue for the current quarter. Investment in improving log data and log delivery infrastructure, and refinements to newer systems and processes, is expected to generate enhanced customer commitment and future sales. Gross margin was \$0.8 million, due primarily to sales resulting from the Company's seismic data library purchase. Amortization was \$0.2 million and operating earnings were \$0.6 million. This segment commenced operations with the IDC acquisition in the third quarter of 2003 and therefore no comparative figures are available.

Existing international log digitizing contracts are gaining momentum in volume and efficiency with client commitments for supplying increased project work when feasible. The General Data Group is actively making investments in people and processes to strengthen its ability to deliver top quality data through the Divestco software suite and standalone data sales.

Data sales of the seismic data library have been strong, with Divestco's ability to create custom software, services and data bundles, further complimenting the industry offering. Further seismic acquisitions and participation surveys are in the planning stages.

## Software

Software contributed 20% to Divestco's total revenue in the current quarter. The segment had revenue of \$1.2 million versus \$1.1 million in the previous year, an increase of 7%. However the segment had a slightly negative gross margin of \$16,813 compared to a positive gross margin of \$3,227 in 2003. The decrease can be attributed to restructuring costs incurred in the current quarter and continuation of efforts to streamline operations from the acquisitions made in 2003. Amortization for the current quarter was \$0.2 million as it was in the prior year. This created an operating loss of \$0.2 million in the current quarter and for the prior year.

## Brokerage

Brokerage contributed 17% to Divestco's total revenue in the current quarter, generating revenue of \$1.0 million, an increase of 12% from the previous year's revenue of \$0.9 million. The increase is related to sales earned from the Company's seismic data library purchased in February. Gross margin was \$95,520 versus \$4,370 in 2003. Amortization was \$28,283 compared to \$29,303, a 3% decrease, as there were no significant additions in the current quarter. This created an operating income of \$67,237 in 2004 versus an operating loss of \$24,933 in 2003, a 370% increase.

## Amortization

The Company had an increase of 145% in its amortization expense from the first quarter of 2004 compared to the same quarter in 2003. Amortization was \$0.5 million compared to \$0.3 million in 2003. The increase was due to the TEGGL acquisition in March 2003, with the addition of \$0.6 million in property and equipment, and the acquisition of IDC in September 2003, with the addition of \$14.3 million in databases, property, plant and equipment, and intangible assets. The Company divested itself of its US operations in December 2003, with the reduction of \$6.1 million in property, plant and equipment. Finally, the Company completed a seismic data library purchase in February 2004.

## Interest

Of the \$149,402 of interest incurred in the quarter, approximately \$126,000 related to a set-up fee and interest recorded on the issuance of \$4.25 million of debentures in February 2004.

## Income Taxes and Tax Pools

The Company recorded a future tax recovery of NIL in the current quarter compared to a recovery of \$23,000 for the same quarter in 2003. Management has not recognized any additional future benefit of the Company's tax pools since the year ended December 31, 2003. Management does not consider it, more likely than not, that the remaining future tax benefit, will be realized at this time.

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

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

During the three months ended March 31, 2004, the Company received approximately \$94,000 in SR&ED refunds from previous year's SR&ED claims.

## Major Transactions

On February 19, 2004, Divestco completed the acquisition of a seismic data library, which included 31,544 kilometers of 2D seismic data and 1433 square kilometers of 3D seismic data. The data was purchased from a major oil and gas exploration and production company.

## Liquidity and Capital Resources

Funds generated from operations for the current quarter were \$1.5 million compared to \$0.2 million in 2003, an increase of 851%. The Company had capital expenditures of \$8.0 million consisting mainly of the seismic data library purchase and funds advanced for the commencement of the Company's involvement in a participation seismic survey. The Company has also committed to spending \$2.5 million to participate in a seismic survey which is to be completed by the end of the second quarter of 2004. Funds to finance this project will come from the Company's internally generated cash flow and advances under its available credit facilities.

Working capital decreased by \$6.5 million from December 31, 2003, to a working capital deficiency of \$4.2 million as at March 31, 2004. The decrease was primarily due to the Company issuing \$4.25 million in debentures, bearing interest at 12%, to partially finance the seismic data library purchase in the current quarter. The debentures mature on December 30, 2004.

On May 6, 2004, Divestco secured new credit facilities with HSBC Bank of Canada ("HSBC"). Expectations are that the new credit facilities and cash flows from operations are sufficient, in the short-term and long-term, to maintain the Company's current capacity, to meet planned growth and to fund future development activities.

Under the HSBC credit facilities, the Company will have available to it, a \$3.0 million revolving demand loan, bearing interest at bank prime plus 0.75%. The aggregate borrowing under this facility cannot exceed 75% of the Company's accounts receivable balance. The facility is secured by a general security agreement covering all of Divestco's personal and real property. As at May 20, 2004 no amounts were drawn on this facility. Prior to this new facility, the Company had available to it, a \$1.1 million revolving credit facility through a Chartered Bank, bearing interest at bank prime plus 1.5%. As at March 31, 2004, \$420,000 was drawn on this facility.

In addition, the Company secured a non-revolving demand loan, bearing interest at bank prime plus 1.25%. Subject to appropriate security registrations, the Company will use these funds to repay the debentures issued in the current quarter. Payments the Company receives in connection with the disposal of its US operations, which were assigned to the debenture holders, are assigned to HSBC as additional security for the HSBC facilities.

As at March 31, 2004, the Company had a balance of \$3.4 million owing to the debenture holders. A payment was made on April 2, 2004, reducing the balance by \$0.9 million.

## Outstanding Share Data

Divestco is authorized to issue an unlimited number of voting and non-voting common shares. The common shares of the Company trade on the TSX Venture Exchange under the symbol "DVT". As at March 31, 2004 and May 20, 2004, there were 25,435,100 common shares outstanding. During the current quarter, 12,009 common shares were issued on the exercise of stock options. As at December 31, 2003, there were 25,423,091 common shares outstanding.

# Commitments and Contingencies

## Commitments

Except as discussed elsewhere in this MD&A, there were no material changes to the Company's commitments from December 31, 2003.

## Contingencies

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

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

# Related Party Transactions

In the current quarter, Divestco earned \$153,514 in revenue from a company with common directors. The revenue earned consisted of subleasing office space, data loading, workstation rentals and map creation. The Company did not earn revenue from this company for the period ending March 31, 2003.

Of the \$4.25 million in debentures issued in the current quarter, \$4.0 million were issued to certain directors of the Company. The proceeds were used to partially finance the Company's seismic data library purchase. Of the \$106,000 in set-up fees incurred to arrange the financing, \$100,000 of the set-up fee was paid to the directors.

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

# Accounting Policies and Estimates

## Change in the Company's revenue recognition policy

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

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

its peers, its revenue recognition policy had to change.

The consolidated financial statements of the previous year have been restated to reflect the change in accounting policy, described in detail in Note 12 to the consolidated financial statements.

## National Instrument 51-102 Notice

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2004.

# Divestco Inc.

Consolidated Balance Sheets (Unaudited - Prepared by Management)

Mar 31, 2004

Dec 31, 2003

Assets		
Current		
Cash	\$ 273,991	\$ 2,125,381
Cash - funds held in trust	800,580	787,500
Accounts Receivable	4,464,637	4,374,080
Prepaid expenses, supplies and deposits	477,494	322,263
	6,016,702	7,609,224
Investment tax credits recoverable	945,518	1,020,129
Future income taxes	906,752	906,752
Investment in affiliated company	53,440	54,293
Property and equipment (Note 2)	15,765,465	8,141,905
Intangible assets	4,329,821	4,513,309
Goodwill	1,949,387	1,949,387
	\$ 29,967,085	\$ 24,194,999
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 3)	\$ 420,000	\$ 140,000
Debentures (Note 4)	3,377,375	-
Accounts payable and accrued Liabilities	2,868,042	1,647,874
Accounts payable - brokerage	1,574,072	1,797,244
Deferred revenue	1,899,160	1,662,865
Current portion of long-term debt	70,182	70,182
Current portion of capital leases	41,218	71,246
	10,250,049	5,389,411
	162,763	171,534
Long-term debt	10,412,812	5,560,945
Equity instruments (Note 5)	18,482,375	18,475,890
Contributed surplus	207,516	96,592
Retained earnings	864,382	61,572
	19,554,273	18,634,054
	\$ 29,967,085	\$ 24,194,999

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

On behalf of the Board:



Stephen Popadynetz, Director



John Brussa, Director

# Divestco Inc.

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

For the three months ended March 31,

2004

2003

		(Restated - See Note 12)
Revenue	\$ 6,197,528	\$ 2,484,358
Operating Expenses		
Salaries and benefits	3,276,875	1,730,841
General and administrative	1,057,031	499,738
Research and development	277,000	100,000
Stock compensation expense (Note 8)	110,924	56,326
	<u>4,721,830</u>	<u>2,386,905</u>
Earnings before interest, taxes and amortization	1,475,698	97,453
Interest Expense	149,402	-
Amortization	547,185	222,893
Income from (loss) from operations	779,111	(125,440)
Other income (loss) from continuing operations		
Foreign exchange gain	24,552	-
Equity investment (loss)	(853)	191
	<u>23,699</u>	<u>191</u>
Income (loss) before income taxes	802,810	(125,249)
Future Income tax recovery	-	(23,000)
Net income (loss) for the period	<u>802,810</u>	<u>(102,249)</u>
Retained earnings (deficit), beginning of period	61,572	(347,776)
Adjustment for change in accounting policy (Note 12)	-	(309,784)
As restated	<u>61,572</u>	<u>(657,560)</u>
Retained earnings (deficit), end of period	<u>\$ 864,382</u>	<u>\$ (759,809)</u>
<hr/>		
Earnings (loss) per share - basic and diluted <sup>(1)</sup>	\$ 0.032	\$ (0.007)
Weighted average number of shares	25,423,091	12,324,456

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

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

## Divestco Inc.

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

For the three months ended March 31,

2004

2003

		(Restated - See Note 12)
Cash Flows from operating activities		
Net income from continuing operations	\$ 802,810	\$ (45,923)
Adjustment for:		
Equity pick-up on long-term investment	853	(191)
Amortization	547,185	222,893
Future income taxes	-	(23,000)
Stock compensation expense	110,924	-
	<u>1,461,772</u>	<u>153,779</u>
Changes in non-cash working capital balance (Note 6)	1,049,034	1,448,443
	<u>2,510,806</u>	<u>1,602,222</u>
Cash flows from financing activities		
Bank indebtedness	280,000	(37,006)
Repayment of long-term debt	(8,771)	(15,993)
Repayment of capital lease obligations	(30,028)	(22,001)
Proceeds received from issuance of debentures	3,377,375	-
Proceeds received from share subscriptions	6,485	591,387
	<u>3,625,061</u>	<u>516,387</u>
Cash flows from investing activities		
Purchase of property and equipment	(7,987,257)	(41,462)
Acquisition of Excalibur-Gemini Group Ltd.	-	(1,331,673)
	<u>(7,987,257)</u>	<u>(1,373,135)</u>
Increase (decrease) in cash	(1,851,390)	745,474
Cash, beginning of period	2,125,381	754,615
Cash, end of period	<u>\$ 273,991</u>	<u>\$ 1,500,089</u>

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

## Divestco Inc.

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

MARCH 31, 2004

### 1) Significant Accounting Policies

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

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

### 2) Property and Equipment

	As at Mar 31, 2004	As at Dec 31, 2003
Seismic data library	\$ 7,721,342	\$ -
Databases	5,678,089	5,787,567
Property and equipment	2,366,034	2,354,338
	<u>\$ 15,765,465</u>	<u>\$ 8,141,905</u>

### 3) Bank indebtedness

As at March 31, 2004, the Company had a revolving demand loan, bearing interest at bank prime plus 1.5% with a maximum available of \$1,100,000. As at March 31, 2004 \$420,000 (December 31, 2003 - \$140,000) was drawn on this facility. The facility is secured by a general security agreement covering all assets and an assignment of accounts receivable.

### 4) Debentures

On February 19, 2004, the Company issued \$4,250,000 in secured debentures bearing interest at 12% per annum and subject to a 2.5% set-up fee. Payments the Company receives from the sale of a copy of its Canadian log library, have been assigned to the debenture holders as principal repayments. The debentures mature on December 30, 2004.

The debentures are secured by the Company's present and after acquired personal property pursuant to the Personal Property Security Act (Alberta).

## 5) Equity Instruments

### A Authorized

An unlimited number of voting common shares

An unlimited number of non-voting common shares

### B Issued

	Balance as at the three months ended March 31, 2004		Balance as at the year ended December 31, 2003	
	# of Shares	Amount	# of Shares	Amount
Common Shares				
Balance, beginning of period <sup>(1)</sup>	25,423,091	\$ 18,366,421	12,596,112	\$ 4,487,303
Issued for cash	-	-	463,429	578,887
Issued for cash via private placement <sup>(2)</sup>			2,905,079	3,675,551
Excalibur	-	-	1,655,850	1,764,951
IDC	-	-	7,500,000	7,500,000
Issued in exchange for data sets, and equipment <sup>(3)</sup>	-	-	204,149	255,000
Exercise of options	12,009	6,485	38,428	29,729
Issued for settlement of loans payable to various shareholders	-	-	60,044	75,000
Balance, end of period <sup>(4)</sup>	25,435,100	\$ 18,372,906	25,423,091	\$ 18,366,421
Warrants				
Balance, beginning of period	1,597,794	\$ 347,619	-	\$ -
Issued on private placement <sup>(2)</sup>	-	-	1,452,540	316,017
Broker warrants <sup>(2)</sup>	-	-	145,254	31,602
Balance, end of period	1,597,794	\$ 347,619	1,597,794	\$ 347,619
Share issue costs, net of future taxes	-	\$ (238,150)	-	\$ (238,150)
Total equity instruments	-	\$ 18,482,375	-	\$ 18,475,890

<sup>(1)</sup> Effective September 23, 2003, the Company amalgamated with IDC. As part of the amalgamation agreement, the shares of the Company were exchanged for 1,200,876 shares in the newly amalgamated company. All share and per share information in these consolidated financial statements and notes have been retroactively adjusted to reflect this change.

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

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

<sup>(4)</sup> As at March 31, 2004, there were 8,112,064 shares held in escrow. 6,656,429 shares were held by officers, directors and companies controlled by a director. The shares are to be released from escrow on September 23, 2004.

## C Stock Options

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

	# of Shares	Options Price per Share	Weighted Average Exercise Price
Options outstanding, December 31, 2002	858,668	\$0.54 - \$1.25	\$ 0.92
Options granted	755,810	\$1.25 - \$3.19	\$ 1.25
Cancelled	(141,513)	\$0.54 - \$3.19	\$ 2.27
Exercised	(38,429)	\$0.54 - \$1.25	\$ 0.85
Options outstanding, December 31, 2003	1,434,536	\$0.54 - \$3.19	\$ 1.20
Options granted	571,172	\$ 1.20	\$ 1.20
Cancelled	(86,209)	\$ 3.19	\$ 3.19
Exercised	(12,009)	\$ 0.54	\$ 0.54
Options outstanding, March 31, 2004 <sup>(1)</sup>	1,907,490	\$0.54 - \$1.40	\$ 1.11

<sup>(1)</sup> Subsequent to the three months ended March 31, 2004, 1,802 options expired with an exercise price of \$1.04

The options that have vested at March 31, 2004 are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
171,130	\$ 0.54	\$ 0.54	1.05	171,130	\$ 0.54
69,056	\$ 0.83	\$ 0.83	1.90	66,054	\$ 0.83
465,960	\$ 1.04	\$ 1.04	3.19	310,640	\$ 1.04
522,409	\$ 1.25	\$ 1.25	3.90	348,273	\$ 1.25
107,763	\$ 1.40	\$ 1.40	2.38	107,763	\$ 1.40
571,172	\$ 1.20	\$ 1.20	4.82	190,391	\$ 1.20
1,907,490				1,194,251	\$ 1.20

## C Stock Options - Continued

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

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

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

The options that have vested at December 31, 2002 are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
207,158	\$ 0.54	\$ 0.54	2.30	183,139	\$ 0.54
78,063	\$ 0.83	\$ 0.83	3.15	46,037	\$ 0.83
490,581	\$ 1.04	\$ 1.04	4.44	155,320	\$ 1.04
82,866	\$ 1.25	\$ 1.25	5.15	29,223	\$ 1.25
858,668				413,719	\$ 0.81

## 6) Cash Flows

	2004	2003
<b>For the three months ended March 31</b>		
Changes in non-cash working capital balances		
Funds held in trust	\$ (13,080)	\$ -
Account receivable	(90,557)	(140,366)
Investment tax credits recoverable	74,611	(120,000)
Prepaid expenses, supplies and deposits	(155,231)	(177,910)
Accounts payable and accrued liabilities	1,220,168	113,358
Accounts payable and accrued - brokerage	(223,172)	1,684,249
Deferred revenue	236,295	89,112
	<b>\$ 1,049,034</b>	<b>\$ 1,448,443</b>

## 7) Related Party Transactions

- A** During the three months ended March 31, 2004, the Company earned \$153,514 in revenue from a company with common directors.
- B** \$4,000,000 of the debentures (Note 4) were issued to certain directors of the Company. \$100,000 of the set-up fee was also paid to these directors.
- C** During the three months ended March 31, 2003, the Company purchased capital assets of \$255,000 in exchange for 204,149 common shares from a company controlled by a director of the Company. The transaction was measured at the exchange amount as the fair values of the assets acquired were supported by independent evidence.
- D** In 2003, of the common shares issued for cash, 193,941 common shares were issued to officers and directors of the Company for gross proceeds of \$242,250.

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

## 8) Stock Compensation

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

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

For the three months ended March 31		2004	2003 (restated)
Net income (loss)	- as (re)stated	\$ 802,810	\$ (102,049)
	- pro-forma	\$ 772,915	\$ (132,144)
Earnings (loss) per share	- as (re)stated	\$ 0.032	\$ (0.007)
	- pro-forma	\$ 0.030	\$ (0.011)

## 9) Segmented Information

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

As at and for the three months ended Mar 31, 2004	Services	Data	Software	Brokerage	Total
Revenue	\$ 2,339,688	\$ 1,623,829	\$ 1,210,307	\$ 1,023,704	\$ 6,197,528
Operating income (loss) from continuing operations before income taxes	317,910	560,930	(166,965)	67,236	779,111
Amortization	125,140	243,600	150,162	28,283	547,185
Research and development	-	-	277,000	-	277,000
Total assets	5,252,598	16,341,161	6,102,352	1,364,222	29,060,333
Capital expenditures <sup>(1)</sup>	96,323	7,556,486	35,535	30,057	7,718,400

As at and for the year ended Dec 31, 2003	Services	Data	Software	Brokerage	Total
Revenue	\$ 4,693,692	\$ 1,925,183	\$ 5,102,285	\$ 3,321,404	\$ 15,042,564
Operating income (loss) from continuing operations before income taxes	(262,336)	639,751	(275,941)	51,822	153,296
Amortization	525,909	160,618	717,362	69,067	1,472,956
Research and development	-	-	721,434	-	721,434
Total assets	4,137,023	8,737,741	9,839,089	574,394	23,288,247
Capital expenditures <sup>(1)</sup>	29,325	755,282	143,161	255,000	1,182,768

(1) excludes business acquisitions

Reconciliation	As at Mar 31, 2004	As at Dec 31, 2003
Assets		
Total assets for reportable segments	\$ 29,060,333	\$ 23,288,247
Future income taxes not allocated to segments	906,752	906,752
Total assets for the Company	\$ 29,967,085	\$ 24,194,999

During the three months ended March 31, 2004, the Company had foreign sales of \$598,000 (2003 - \$180,700).

## 10) Contingencies

- A** As a result of the purchase of the TEGGL in 2003, the Company assumed a claim filed against the Company by a former employee. In management's opinion, the claim is not determinable at this time so no estimate of loss has been made. However, should any loss result from the resolution of this claim, such loss would be accounted for in the period in which such a resolution occurs.
- B** As a result of the amalgamation with IDC in 2003, the Company assumed a claimed filed by a vendor in the amount of \$126,000. In a separate action, the Company has claimed \$610,000 in damages from the vendor for services rendered by IDC. The Company has agreed to settle the assumed claim and has accrued for this amount in 2003. It is management's opinion, the Company will recover the full amount it has claimed from the vendor.

## 11) Subsequent event

On May 6, 2004, the Company obtained new credit facilities. The first one being a revolving demand loan, bearing interest at bank prime plus 0.75%, with a maximum available of \$3,000,000. The funds will be used to assist in financing the Company's day-to-day operating requirements. The second facility is a non-revolving demand loan (the "capital loan"), bearing interest at bank prime plus 1.25%. Subject to appropriate security registrations, the funds will be used to repay the debentures issued by the Company as described in Note 4. The payments previously assigned to the debenture holders, will stand as additional security for the capital loan. The capital loan will be repaid by December 31, 2004. The third facility is a corporate MasterCard facility with maximum funds available of \$150,000. All three facilities are secured by a general security agreement covering all assets.

## 12) Change in Accounting Policies

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

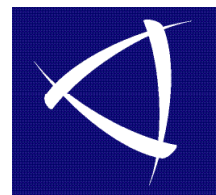
In addition in 2003, the Company early-adopted the fair value recognition for stock-based compensation as required by the CICA accounting standard Handbook section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This standard requires an option-pricing model be used to determine the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

The financial statements at and for the three months ended March 31, 2003 have been restated to reflect these changes in accounting policies as follows:

	As stated March 31 2003	Adjustments	Restated March 31 2003
Revenue	2,545,369	(61,011)	2,484,358
Net income (loss)	15,088	(117,337)	(102,249)
Retained earnings - beginning of period	(347,776)	(309,784)	(657,560)
Retained earnings - end of period	(332,688)	(427,121)	(759,809)

## 13) Comparative figures

Certain figures with respect to the three months ended March 31, 2003, have been reclassified to conform to the current period's presentation.



**Divestco** Inc.

# Corporate Information

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## Directors

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

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Chairman of the Board

## Officers

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

## Controller

Joanne Finnerty

## Corporate Secretary

Faralee A. Chanin

## Stock Exchange Listing

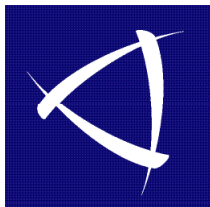
TSX Venture Exchange: DVT

## Bankers

HSBC Bank of Canada

## Registrar and Transfer Agent

CIBC Mellon Trust Company



**Divestco Inc.**

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