

2020

Q3

Quarterly report



Divestco Inc.

Exponential Growth



C o n t e n t s

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

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

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

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

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

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's 2004 unaudited first and second quarter interim consolidated financial statements and MD&A and the 2003 audited consolidated financial statements and MD&A.

The interim consolidated financial statements for the nine months ended September 30, 2004 have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies contained in the Company's 2003 annual consolidated financial statements, except for the new significant policies adopted by the Company for the nine months ended September 30, 2004, as described in the "Accounting Policies and Estimates" section of this MD&A and Note 2 to the interim consolidated financial statements. This MD&A is dated November 17, 2004.

Forward Looking Statements

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

Non-GAAP Measurement

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

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

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

Business Environment

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

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

Copies of the Company's 2003 annual report and other continuous disclosures documents can be viewed at www.sedar.com.

Overall Performance

Third Quarter Highlights

(000's except per share amounts)

FINANCIAL RESULTS	3 months ended September 30			9 months ended September 30			Year Ended
	2004 (Unaudited)	2003 (Unaudited & restated)	% Change	2004 (Unaudited)	2003 (Unaudited & restated)	% Change	2003 (Audited)
Revenue	\$ 5,407	\$ 3,056	77%	\$ 17,678	\$ 8,749	102%	\$ 15,043
EBITDA	1,211	124	877	3,577	419	754	1,697
Operating income (loss)	548	(300)	N/A	1,478	(587)	N/A	153
Net income (loss) Per Share - basic and diluted ⁽¹⁾	622 0.025	(294) (0.019)	N/A N/A	1,812 0.071	(519) (0.036)	N/A N/A	719 0.042
Cash flow from operations Per share - basic and diluted ⁽¹⁾	876 0.035	133 0.008	559 338	3,169 0.125	494 0.034	541 268	1,629 0.094
Number of shares outstanding	25,225,100	25,405,078		25,225,100	25,405,078		25,423,091
Weighted average number of shares outstanding	25,261,176	15,791,690		25,369,327	14,471,504		17,228,894

FINANCIAL POSITION

	September 30, 2004 (Unaudited)	December 31, 2003 (Audited)
Total assets	\$ 30,760	\$ 24,195
Working capital (deficiency) ⁽²⁾	(2,470)	4,903
Long-term debt (including short-term portion)	1,030	313

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

(2) Excludes deferred revenue

Three months ended September 30, 2004

Net income per share (basic and diluted) was 2.5 cents per share compared to a loss of 1.9 cents in 2003, an increase of 4.4 cents per share. Net income was \$0.62 million compared to a loss of \$0.29 million in 2003, an increase of \$0.91 million. The increase was attributable to the following: (i) strong sales of complete copies and individual lines of the Company's seismic data library, (ii) the first sale of seismic data acquired through a participation survey completed in the second quarter; (iii) the first sale of seismic data acquired from arranging and managing a survey completed in the first quarter, (iv) a large well data sale, and (v) a foreign exchange gain of \$0.07 million consisting of \$0.13 million gain on short-term U.S. borrowings, offset by loss of \$0.06 on U.S. funds held in trust.

On September 20, 2004, the Company completed the acquisition of Westcan Oilmaps (1993) Ltd. ("Westcan"). This acquisition adds a proprietary geological tops file to the Company's existing line of geological and geophysical data. Customers have been requesting an enhanced geological tops file and Divestco pleased it can now offer this to its clients. In addition the Company is currently digitizing these files making it even easier for the customer to access and search this valuable information.

The Company improved its working capital deficiency from the second quarter of 2004 by \$0.30 million. The improvement is primarily due to the following: reduction of brokerage payables by \$1.12 million and payment of \$0.85 million on the non-revolving demand loan, offset by reductions in accounts receivable of \$1.07 million and investment tax credits ("ITC's") recoverable of \$0.41 million. Additional operating cash flow in the quarter from seismic library sales was used to reduce brokerage payables, while the payment

on the loan was made from proceeds the Company received from licensing its log database. A decrease in activity levels led to the reduction in accounts receivable, and the receipt of a \$0.41 million ITC refund reduced ITC's recoverable. Also contributing to the improvement was additional operating cash flow received from three sale-leaseback transactions completed in the third quarter.

The Company will continue to improve its working capital position in the fourth quarter through an increase in operating cash flow triggered by a rise in activity levels. The fourth quarter is normally the Company's busiest quarter of the year. With the additional cash flow expected, the Company plans on further reducing its current liabilities.

Please note the Company made two changes in the third quarter of 2004 that affected its working capital calculation: first; it reclassified ITC's recoverable to current assets and second; it excluded deferred revenue from its working capital calculation.

Nine months ended September 30, 2004

Net income per share (basic and diluted) was 7.1 cents per share compared to a loss of 3.6 cents in 2003, an increase of 10.7 cents per share. Net income was \$1.81 million compared to a loss of \$0.52 million in 2003, an increase of \$2.33 million.

During the first three quarters of 2004, the Company had strong sales of its purchased seismic library, both of complete copies and individual line sales. The Company also recorded revenue of \$2.1 million from the licensing of its log library to a U.S. based company, which also purchased its U.S. operations in 2003.

Selected Quarterly Information (000's except per share amount - Unaudited)

	2004	2004	2004	2003	2003	2003	2003	2002
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
			(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
Revenue	\$ 5,407	\$ 6,073	\$ 6,198	\$ 6,293	\$ 3,056	\$ 3,209	\$ 2,484	\$ 1,543
EBITDA	1,211	891	1,476	1,278	124	197	97	174
Operating income (loss)	548	151	779	740	(300)	(162)	(125)	11
Net income (loss) from continuing operations	622	387	803	992	(294)	(123)	(102)	21
Per share - basic & diluted ⁽¹⁾	0.025	0.015	0.032	0.060	(0.019)	(0.007)	(0.007)	0.001
Net income (loss)	622	387	803	1,238	(294)	(123)	(102)	21
Per share - basic & diluted ⁽¹⁾	0.025	0.015	0.032	0.075	(0.019)	(0.007)	(0.007)	0.001
Cash flow from continuing operations	876	832	1,461	1,156	133	207	154	174
Per share - basic & diluted ⁽¹⁾	0.035	0.033	0.057	0.066	0.008	0.012	0.010	0.014
Cash flow from operations	876	832	1,462	1,135	133	207	154	174
Per share - basic & diluted ⁽¹⁾	0.035	0.033	0.057	0.065	0.008	0.012	0.010	0.014

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

Segment Review

Summary

For the three months ended September 30, 2004 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,654	\$ 1,967	\$ 1,104	\$ 682	\$ 5,407
EBITA	18	954	327	(88)	1,211
Interest	-	50	-	-	50
Amortization	106	303	153	51	613
Operating income (loss)	(88)	600	175	(139)	548

For the three months ended September 30, 2003 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,234	\$ 129	\$ 1,056	\$ 637	\$ 3,056
EBITA	47	(41)	193	(75)	124
Interest	-	5	-	-	5
Amortization	144	74	152	49	419
Operating income (loss)	(97)	(120)	42	(125)	(300)

For the nine months ended September 30, 2004 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 5,337	\$ 6,228	\$ 3,615	\$ 2,498	\$ 17,678
EBITA	(35)	2,993	757	(138)	3,577
Interest	-	324	-	-	324
Amortization	388	810	463	164	1,775
Operating income (loss)	(372)	1,859	294	(303)	1,478

For the nine months ended September 30, 2003 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 2,825	\$ 129	\$ 3,302	\$ 2,493	\$ 8,749
EBITA	458	(38)	(264)	263	419
Interest	-	8	-	-	8
Amortization	314	74	468	142	998
Operating income (loss)	144	(120)	(732)	121	(587)

Services

The Services business unit provides seismic survey audit, information management, custom mapping, archiving, imaging and geo-physical/geological services.

Third quarter

Services revenue increased by 34% or \$0.42 million in the third quarter to \$1.65 million from \$1.23 million in 2003, contributing 30% of the Company's revenue. The increase was realized through the Archiving Division, acquired through the IDC acquisition, which generated \$0.49 million in revenue. Survey Audit, Mapping, and Geological Services combined for a \$0.09 million increase while Document Scanning and Information Management Services ("IMS") combined for \$0.16 million decrease in revenue from the prior year due to a focus on restructuring.

EBITA for the third quarter was \$0.02 million down from \$0.05 million in 2003. The decrease can be attributed a decline in IMS and Document Scanning revenue, incurrence of restructuring costs and an increase in salaries and wages due to growth. The decision was also made to abandon privacy consulting services as contracts anticipated to be signed in the third quarter did not materialize. Amortization declined by \$0.03 million or 21% to \$0.11 million from \$0.14 million in 2003. The decline was attributable to a change in amortization of certain intangible assets from 3 to 6 years in the fourth quarter of 2003. Services had an operating loss of \$0.09 million compared to a loss of \$0.10 million in 2003.

Nine months

Revenue for nine months ended September 30, 2004 was \$5.34 million, up \$2.51 million or 89% from \$2.83 million for same period in 2003. The increase is attributable to Services commencing operations with the addition of Survey Audit and Mapping, Geological Services, Document Scanning and Information Management Services divisions through The Excalibur-Gemini Group Ltd. ("TEGGL") acquisition in March 2003 and the addition of the Archiving division with the IDC acquisition in September 2003.

Services had negative EBITA of \$0.03 million before amortization compared to EBITA of \$0.46 million for the same period in 2003, a \$0.49 million decrease. The hiring of additional staff and restructuring of the Archiving division in the second quarter offset revenue generated from a seismic data and archiving bundle sale in the first and third quarters. Amortization was \$0.34 million, an increase of \$0.03 million from 2003 as the segment was not in existence for the full nine months ended September 30, 2003. Services ended up with an operating loss of \$0.37 million compared to operating income of \$0.14 million in 2003.

Looking ahead

Services will see an improvement in revenue as well as earnings heading into the fourth quarter, which is generally the second busiest period of the year next to the first quarter. The period from April to August is typically the slowest for the oil and gas service industries as oil and gas producers are waiting for the ground to become hard enough to move drilling equipment onto the well sites.

Services and Data have been working together on delivering the Company's seismic data library to a third party for reprocessing. As previously discussed, this will create a new exploration product for the oil and gas industry, adding significant value to the existing asset. Demand is expected to be high, with sales slated to commence in 2005 upon completion of the project.

Data

The Data business unit provides log services and a full suite of support data layers. Data is also responsible for building and maintaining the Company's log and seismic data libraries.

Third quarter

Data continued to perform well with revenue of \$1.97 million, contributing 36% towards the Company's total revenue for third quarter of 2004. Revenue for the comparable period in 2003 was \$0.13 million. The comparable figures for 2003 include only eight days of activity, as Data was not added to the Company until the IDC acquisition it completed on September 23, 2003. The increase was attributable to additional sales of complete sets and individual lines of the Company's purchased seismic data library. In addition, the Company recorded its first sale of a seismic survey it participated in with a major oil and gas producer in the second quarter. Another first time sale was realized from a survey the Company arranged and acted as the project manager for in the first quarter. As consideration, the Company received the right to share in sales of the data and will eventually obtain half ownership rights to it.

EBITA was \$0.95 million compared to a loss of \$0.41 million in 2003. Interest was \$0.05 million related to a non-revolving demand loan used to repay debentures issued by the Company in February 2004. Amortization was \$0.30 million in 2004 compared to \$0.07 million in 2003 and relates mainly to the seismic data libraries. Operating earnings were \$0.60 million compared to a loss of \$0.12 million in 2003.

With the acquisition of Westcan in September, Data added a valuable regional sub-surface geological map database to its line of product offerings. Over the coming months, the maps will be converted to a digital format providing customers efficient access to this information. The Company also plans to bundle this data with existing software product lines, which is expected to generate additional software sales.

Nine months

Revenue for the three quarters of 2004 totaled \$6.23 million compared to \$0.13 million in 2003. As previously mentioned, the comparative figures for the previous year only include eight days of activity. In addition to the sales of the seismic data library, the Data recorded revenue of \$2.1 million from the licensing of its log database.

EBITA was \$2.99 million compared to a loss of \$0.04 million 2003. Interest was \$0.32 million related to the debentures used to finance the seismic acquisitions, which were repaid with the non-revolving demand loan proceeds. Amortization was \$0.81 million compared to \$0.07 million in 2003. Operating earnings were \$1.86 million compared to a loss of \$0.12 million in 2003.

Looking ahead

In second quarter, the Company completed a participation survey with an exclusivity provision, which prevents the Company from making sales of certain portions of the data for six months. This exclusivity provision will expire on December 1, and the Company is expecting strong sales late in 2004 of the survey. In addition, the Company will be involved in a number of participation seismic programs prior to the end of 2004. In addition, the reprocessing of the Company's purchased seismic data library is currently in progress and expected to be completed by the end of 2005. This reprocessed version is expected to improve the marketability of the data leading to an increase in revenue, operating earnings and cash flow.

Software

The Software business unit sells software licenses and is responsible for maintenance and support of its products.

Third quarter

Revenue for the third quarter was \$1.10 million compared to \$1.06 million in 2003, an increase of \$0.04 million or 4%, with Software contributing 20% of Divestco's total revenue. The acquisition of the GeoCarta product line from IDC added \$0.11 million of revenue in 2004. However, this was offset by a decline of \$0.06 million in revenue of the remaining product lines due to a continued focus on product enhancement and development.

EBITA was \$0.33 million compared to \$0.19 million in 2003, an increase of \$0.14 million. The increase is attributable to the deferral of \$0.45 million of development expenses offset by amortization of \$0.05 million and increases in salaries from hiring new sales people in 2004. Amortization of property and equipment was \$0.15 million in both 2004 and 2003. The Company changed its amortization of software code from 6 to 10 years in the fourth quarter of 2003, which was offset by computer hardware and software additions in the third quarter of 2004 and the GeoCarta product lines acquired from IDC in the third quarter of 2003. Operating earnings increased by \$0.13 million to \$0.17 million from \$0.04 million in 2003.

Nine months

Revenue for the nine months ended September 30, 2004 was \$3.61 million, a 9% increase from the previous year's revenue of \$3.30 million. The GeoCarta product lines contributed \$0.83 million to the increase, which was offset by a \$0.52 million in decrease in the other product lines, again due to a focus on product enhancement and development.

EBITA was \$0.76 million compared to a loss of \$0.26 million in 2003, an increase of \$1.02 million due mainly to the deferral of \$0.96 million of development expenses offset by amortization of \$0.05 million and the hiring of additional staff in 2004. Amortization of property and equipment was \$0.46 million compared to \$0.47 million in 2003, a 2% decline attributable to a change in amortization of software code, offset by equipment additions in the third quarter of 2004. Operating income in 2004 was \$0.29 million, a \$1.02 million increase from a loss of \$0.73 million for the same period in 2003.

Looking ahead

The Company looks forward to the scheduled release of version 5.1 of WinPICS that will allow clients to view geological data from GeoVista directly in WinPICS and will include the DGI Gridding and Contouring engine, in the fourth quarter of 2004. Version 1.0 of Envision VSX is also scheduled for release in the fourth quarter. The next version of GeoVista is scheduled for release in the first quarter of 2005 and will include improved layer management and a dynamic link between WinPics and GeoVista. GeoCarta Tools is also gaining momentum and should see new sales in the fourth quarter and early 2005 with the help of major enhancements currently underway. Major revisions to Synthetic Suite are in progress as is OeX rationalization and modernization. Finally, the Divestco DataStore project will enter a Beta phase towards the end of the fourth quarter and continue into the first quarter of 2005.

Brokerage

The Brokerage business unit offers full service seismic brokerage and markets the Company's seismic data library.

Third quarter

Revenue was \$0.68 million, an increase of 6% from previous year's revenue of \$0.64 million, contributing 14% of the Company's total revenue in the third quarter. The increase was attributable to the commission earned on individual line sales of the Company's purchased seismic library offset by a decrease in brokered data sales due to less than ideal weather conditions in August and September.

Brokerage had negative EBITA of \$0.09 million, down from negative EBITA of \$0.07 million in 2003. Amortization was \$0.05 million in 2004 and 2003. This created an operating loss of \$0.14 million in 2004 versus a loss of \$0.12 million in 2003, a \$0.02 million.

Nine Months

Revenue was \$2.50 million, slightly higher than 2003 when revenue was \$2.49 million for the same nine month period. Commission revenue from line sales of the Company's purchased seismic database was offset by decreases in sales of library cards and commissions earned on brokered seismic sales, again due to adverse weather conditions in the third quarter of 2004.

Brokerage had negative EBITA for the nine months ended September 30, 2004 of \$0.14 million, down from EBITA of \$0.26 million 2003, a decrease of \$0.40 million. The decrease was caused by a decrease in revenue mentioned above and an increase in general and administrative expenses due to the overall growth of the Company in 2004. Amortization was \$0.11 million in 2004 compared to \$0.09 million in 2003, an increase of 22% due to the seismic data library purchase and participation survey. This created an operating loss of \$0.16 million in 2004 versus operating income of \$0.24 million in 2003, a \$0.40 million decrease.

Looking ahead

The Company will be involved in a number of participation surveys during the remainder of 2004 and heading into 2005 in an effort to build on its library of seismic data. Further more, the reprocessing of the Company's purchased seismic data library is currently underway. As Brokerage is responsible for marketing and selling these databases, the segment expects to see a rise in operating earnings as a result. Additionally, as Oil and Gas commodity prices remain high and relatively stable, Exploration companies are expected to increase their purchases of trade seismic data. The open requests for Quality Inspections (a precursor process which leads to the sale of data) of trade seismic data began to surge in September and we are expecting a very strong fourth quarter.

Amortization

Amortization for the third quarter of 2004 was \$0.61 million compared to \$0.42 million in 2003, an increase of \$0.19 million or 46%. The Company had capital expenditures of \$0.43 million consisting mainly of computer equipment and software as part of the improvements made to the Archiving Centre commencing the second quarter.

Amortization for the nine months ended September 30, 2004 was \$1.76 million compared to \$1.00 million in 2003, an increase of \$0.76 million or 76%. The Company had capital expenditures of \$9.94 million consisting mainly of the seismic data library purchase in the first quarter of 2004, costs incurred to participate in a seismic survey and leasehold improvements made to the Imaging and Archiving Centre in the second quarter, and purchases of computer equipment and software throughout the first nine months of 2004. In addition, the Company completed the TEGGL and IDC acquisitions in 2003, and the Westcan acquisition in 2004.

Interest

Interest for the third quarter of 2004 was \$0.05 million relating primarily to the Company's operating line, non-revolving demand loan, and capital leases. Interest for the same period in 2003 was negligible.

In addition to the items mentioned above for the third quarter, interest for the nine months ended September 30, 2004 of \$0.32 million related to the debentures issued in February that were repaid in June 2004.

Income Taxes and Tax Pools

No future tax recovery was recorded in the third quarter of 2004.

The Company had non capital losses of approximately \$6,700,000 as at September 30, 2004 (December 31, 2003 - \$9,500,000), which are available to reduce taxable income in future periods. The losses were transferred to the Company as a result of the merger with IDC. If not utilized, these non-capital losses will begin to expire in 2006.

The Company files Scientific Research and Development ("SR&ED") claims on an annual basis and had approximately \$480,000 of SR&ED expenses as at September 30, 2004 (December 31, 2003 - \$480,000) available to reduce future taxable income.

In the current quarter the Company received an ITC refund of approximately \$410,000 related to a SR&ED claim filed for 2002. Subsequent to the end of the quarter, the Company received an ITC refund of approximately \$88,000 related to a SR&ED claim filed by a company acquired by Divestco in 2002.

Major Transactions

On September 12, 2004, the Company entered into a cost sharing agreement to reprocess the seismic data library it purchased in the first quarter of 2004. The reprocessing will be carried out by an independent seismic data processing company and will take approximately 16 months to complete. Management expects that this will increase the marketability of the data, leading to increased sales of the Company's seismic data library.

Liquidity and Capital Resources

Operating Activities

Cash flow from operations in the third quarter was \$0.88 million compared to \$0.13 million in 2003. The increase of \$0.74 million or 559% was due to continued strong sales of the Company's seismic data library and the services associated with this database. Additionally, complete copies and individual lines of the Company's purchased seismic data library, a sale of a copy of the participation survey, and a sale of a copy of seismic data from a survey arranged and managed by Company in the first quarter, also contributed towards the increase.

Cash flow from operations for the nine months ended September 30, 2004 was \$3.17 million compared to \$0.49 million for the same period in 2003. The increase of \$2.68 million or 541% was due to the factors discussed above.

The Company continued to rely mainly on its operating line and cash flow from operations to fulfill its day-to-day financial requirements and fund further capital expenditures.

Financing Activities

Two notable financing activities that occurred in the third quarter were a payment of \$0.85 million the Company made on its non-revolving demand loan and \$0.75 million of proceeds received from three sale-leaseback transactions.

In February 2004, the Company issued \$4.25 million debentures to partially finance its seismic data library purchase. The debentures were fully repaid in June with proceeds received from the non-revolving demand loan. As of September 30, 2004, the Company made payments totalling \$1.8 million on the loan and expects to have it fully repaid by September 2005. Cash payments the Company received in the current year from the licensing of its log database to a U.S. based company, which also purchased its U.S. operations last year, were used to make the loan payments.

Investing Activities

The Company had capital expenditures of \$0.43 million in the third quarter of 2004 consisting mainly of computer equipment and software. The Company also completed the \$0.37 million acquisition of Westcan. The purchase price consisted of a cash payment and acquisition costs of \$0.17 million, deferred consideration of \$0.10 million, and promissory notes of \$0.11 million. Cash acquired was \$0.80 million. The Company in return received a valuable regional sub-surface geological map database.

The Company had capital expenditures of \$9.94 million consisting mainly of the seismic data library purchase in the first quarter of 2004, the participation seismic survey in the second quarter, leasehold improvements made to the Imaging and Archiving Centre in the second quarter, and purchases of computer equipment and software throughout the first nine months of 2004. In addition, the Company completed the TEGGL and IDC acquisitions in 2003 and the Westcan acquisition in September 2004.

Working Capital

At the end of the third quarter of 2004, the Company had a working capital deficiency of \$2.47 million, an improvement of \$0.30 million or 11% from the \$2.77 million deficiency as at the end of the second quarter. As at December 31, 2003, the Company had positive working capital of \$4.90 million. The deficiency was caused by the use of short-term financing and the Company's operating line to fund two major capital expenditures: the seismic data library purchase and the participation seismic survey. In addition the Company upgraded its Archiving and Imaging Centre for a total cost of approximately \$0.80 million.

The improvement from the second quarter was achieved primarily through additional cash flow generated from several seismic sales and the completion of three sale-leaseback transactions, which was used to reduce brokerage payables by \$1.12 million. Additionally, the Company made a payment of \$0.85 million, and had a foreign exchange gain of \$0.13 million, on its non-revolving demand loan. These were offset by a decrease in accounts receivable of \$1.07 million due to a seasonal reduction in activity levels and the receipt of a \$0.41 million ITC refund.

The Company will continue to make it a priority to further reduce its working capital deficiency during the fourth quarter of 2004. As the Company is heading into its busiest quarter, cash flow from operations will continue to strengthen and be used to reduce the Company's operating line and vendor payables.

Expectations are the credit facilities and cash flow from operations are sufficient in the short-term and long-term to maintain the Company's current requirements, to meet planned growth, and to fund future capital expenditures.

Debt Instruments

The Company has two credit facilities in place. The first facility is 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. This facility is secured by a general security agreement covering all of the Company's personal and real property. As at September 30, 2004, \$1.65 million was drawn on this facility. The effective interest rate since the facilities were secured in June 2004 was 4.50%. The second facility is a \$0.15 million corporate credit card facility reserved for senior management and officers. As at September 30, 2004, \$0.02 million was drawn on this facility.

The Company also has a U.S. dollar non-revolving demand loan bearing interest at U.S. bank prime plus 1.25%. The proceeds were used to repay debentures the Company issued in February. The balance outstanding as at September 30, 2004, was \$1.14 million (U.S. \$0.9 million). The effective interest rate since the loan was obtained in June 2004 was 5.8%. The loan matures on September 30, 2005. Principal payments on the loan coincide with payments the Company is receiving from licensing of its log library and a final payment of US \$0.6 million to be received from escrow in December 2004 as a result of the sale of its U.S. operations in 2003. Principal payments of U.S. \$0.68 million each were made on June 30 and September 30, 2004.

The facilities are subject to the Company meeting certain debt covenants. As at September 30, 2004, the Company was in violation of its working capital ratio covenant. The Company's bank has provided it with a letter agreeing to waive its right to demand payment at September 30, 2004 due to the covenant violation. With the increase in operating cash flow expected from the Company entering into its busy season, it plans to reduce its current liabilities, leading to an improvement in its working capital position.

Outstanding Share Data

The Company is authorized to issue an unlimited number of voting and non-voting common shares. The common shares of the Divestco trade on the TSX Venture Exchange under the symbol "DVT". As at September 30, 2004, there were 25,225,100 common shares outstanding. During the nine months ended September 30, 2004, 12,009 common shares were issued on the exercise of stock options and 210,000 shares were repurchased under a normal course issuer bid. As at December 31, 2003, there were 25,423,091 common shares outstanding.

On June 2, 2004, the Company announced it had received approval to commence a normal course issuer bid from the TSX Venture Exchange, to repurchase up to 1,278,000 of its common shares at prevailing market prices during the twelve months ending June 9, 2005. During the third quarter, the Company repurchased 100,100 shares at a purchase cost of \$99,772 (\$1.00 average price per share) resulting in a \$27,035 reduction to retained earnings. This brought the total for the nine months ended September 30, 2004 to 210,000 shares for a total purchase cost of \$205,370 (\$0.98 average price per share) resulting in a total reduction to retained earnings of \$52,774. Subsequent to the end of the third quarter of 2004, an additional 56,000 shares were repurchased for a total cost of \$49,275 (\$0.88 average price per share).

On June 2, 2004, the Company announced a small shareholder selling program ("the Program") that enables registered and beneficial shareholders who own in the aggregate 499 or fewer Common Shares ("Shares") of the Company as of June 4, 2004 ("the Eligible Shareholders"), to sell their Shares without incurring any brokerage commission. The sale of Shares will be executed through the facilities of the TSX Venture Exchange. The voluntary Program expired on November 18, 2004. It was extended from its original expiry date of August 31, 2004. The Program is designed to assist Eligible Shareholders in selling their Shares in a convenient and inexpensive manner. The Program allows Eligible Shareholders the opportunity to sell all of their Shares. Participating shareholders will not incur any brokerage commissions if they elect to dispose of their Shares.

On September 23, 2004, 8,112,064 shares being held in escrow were released. Officers, directors and companies controlled by a director were holding 6,656,429 of these shares.

On September 23, 2004, the 1,452,540 common share purchase warrants and 145,254 broker warrants expired. The warrants were issued as part of private placement completed in September 2003.

On November 2, 2004, the Company granted 134,000 stock options of which 50,000 options were issued to a director of the Company and the remainder to employees of the Company. The options are for a five-year term and are exercisable at \$1.00 per share pursuant to a vesting schedule of one-third upon the date of grant (the "Grant Date"), one-third following the first anniversary of the Grant Date and the remaining one-third following the second anniversary of the Grant Date.

Commitments and Contingencies

Commitments

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

Under the terms of the cost sharing agreement covering the reprocessing of the Company's purchased seismic data library, Divestco is required to pay a royalty on future sales of the reprocessed seismic data library to its cost-sharing partner. The royalties will be recorded as incurred. The maximum royalty on sales of the entire database is limited to \$600,000. Royalties on individual line sales are limited to a period of five years.

During the third quarter of 2004, the Company sold and leased back \$747,776 in computer equipment and leasehold improvements under three separate arrangements. Each of the three leases have a term of 36 months and bear interest at 5.76%. Monthly payments total \$11,889. Management has determined the leases to be capital in nature in accordance with CICA accounting standard Handbook Section 3065.

Subsequent to the nine months ended September 30, 2004, the Company entered into another sale-lease back arrangement involving computer equipment for \$159,803. The lease bears interest at 5.76%, has a term of 36 months, and monthly payments of \$4,438.

Contingencies

As a result of the purchase of TEGGL in 2003, the Company assumed a claim filed against the Company by a former employee. An offer was made in the amount of \$175,000 subsequent to the period ended September 30, 2004. Management feels the offer to be a reasonable estimate of the final settlement. An accrual of \$135,000 has been recorded in the current period being the maximum amount the Company is liable for. Former shareholders of TEGGL are liable for the portion of the settlement exceeding \$135,000 as stated in the TEGGL acquisition agreement.

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 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. In the current quarter the Company agreed to accept payment of \$200,000 in damages from the vendor for the services rendered by IDC. As such, the Company will receive net proceeds of approximately \$74,000.

The Company has no other contingencies or commitments other than those disclosed in this third quarter interim report and in its annual audited financial statements for the year ended December 31, 2003.

Related Party Transactions

During the nine months ended September 30, 2004, the Company earned \$173,718 in revenue from a company with common directors. The revenue earned consisted of subleasing office space, data loading, workstation rentals and creating maps. The Company did not earn revenue from this company during six months ended June 30, 2004.

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

On October 14, 2004, the Company issued a \$300,000 promissory note to a director bearing interest at 12% and due on December 31, 2004. The proceeds were used to settle an outstanding balance owing to a vendor of the Company.

On November 2, 2004, 50,000 options to acquire the Company's common shares were granted to a director. The options were granted as compensation for being appointed to the Board of Directors in 2004.

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

Accounting Policies and Estimates

Adoption of new accounting policies

In September 2004, the Company entered into a cost sharing arrangement whereby a third party was engaged to reprocess the Company's seismic database purchased in February 2004. The Company's portion of the costs will be paid in the form non-cash consideration consisting of software licenses, including maintenance. The Company will also reimburse its cost-sharing partner for a majority of the cash consideration its partner is contributing towards the reprocessing cost. This will also be in the form of non-cash consideration consisting of software licenses, including maintenance, digital well curves, and a copy of the pre-reprocessed data. The cost-sharing partner will also receive a reprocessed copy of the data upon project completion. The transaction has been recorded in accordance with Canadian Institute of Chartered Accountants ("CICA") accounting standard Handbook section 3830, "Non-Monetary Transactions". Revenue with respect to the software licenses, and maintenance, will be recognized rateably over the service term. Revenue with respect to the pre-reprocessed data and digital well curves will be recognized at the date of delivery. Since the reprocessing cost has been considered a betterment in accordance with CICA accounting standard Handbook section 3061, "Property, Plant and Equipment", the costs will be capitalized to property and equipment.

In June 2004, the Company completed its first participation seismic survey with a major oil and gas producer. These financial statements reflect only the Company's proportionate costs of the survey as an asset, given the nature of the agreement. Future sales of the seismic data will be recorded when the seismic work, including data processing is complete and delivery to the customer has occurred. The survey is being amortized on a straight-line basis over a period of 15 years, consistent with the Company's purchased seismic library.

Change in the Company's revenue recognition policy

In 2003, the Company changed its accounting policy for recognizing revenue earned from licensing software products to a straight-line method, whereby the Company recognizes revenue earned from licensing software products rateably over the term of the license. Previously, the Company recognized the revenue at the date of sale with the exception of a portion related to support and maintenance, which was deferred. The deferred revenue was recognized rateably over the service term.

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

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

Stock Based Compensation

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

Outlook

Divestco has as a number of projects it is currently working on and plans to complete over the next several months:

- Reprocessing of the Company's seismic data library;
- New software releases and existing product enhancements; and
- Participation in a number of speculative seismic programs.

With commodity prices expected to remain strong through 2004 and 2005, exploration and development of oil and gas should follow, enabling the Company to capitalize on its integrated approach to doing business.

Divestco Inc. Consolidated Balance Sheets

Assets	Sept 30, 2004 (Unaudited)	Dec 31, 2003
Current Assets		
Cash	\$ -	\$ 2,125,381
Cash - Funds held in trust	758,880	787,500
Accounts receivable	3,504,078	4,374,080
Prepaid expenses, supplies and deposits	405,274	322,263
Investment tax credits recoverable	426,947	1,020,129
	5,095,179	8,629,353
Long-term accounts receivable	247,194	-
Advances on services (Note 2(b))	300,000	-
Future income taxes	986,308	906,752
Investment in affiliated company	67,584	54,293
Property and equipment (Note 4)	17,250,934	8,141,905
Deferred development costs (Note 5)	917,500	-
Intangible assets	3,945,803	4,513,309
Goodwill	1,949,387	1,949,387
	\$ 30,759,889	\$ 24,194,999
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness (Note 6)	\$ 2,475,981	\$ 140,000
Accounts payable and accrued Liabilities	2,369,259	1,647,874
Accounts payable - brokerage	1,201,678	1,797,244
Deferred revenue	2,051,973	1,662,865
Loan payable (Note 7)	1,138,320	-
Current portion of long-term debt	165,419	70,182
Current portion of capital lease obligations	214,992	71,246
	9,617,622	5,389,411
Deferred revenue	104,632	-
Long-term debt	148,440	171,534
Obligations under capital lease	501,713	-
	10,372,407	5,560,945
Shareholders' Equity		
Equity instruments (Note 8)	18,303,325	18,475,890
Contributed surplus	263,272	96,592
Retained earnings	1,820,885	61,572
	20,387,482	18,634,054
	\$ 30,759,889	\$ 24,194,999

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

Divestco Inc. Consolidated Statements of Income and Retained Earnings (Deficit)
(Unaudited)

	For the three months ended Sept 30		For the nine months ended Sept 30	
	2004	2003 (Restated - See Note 15)	2004	2003 (Restated - See Note 15)
Revenue	\$ 5,407,261	\$ 3,056,177	\$ 17,677,526	\$ 8,749,486
Operating Expenses				
Salaries and benefits	2,889,263	1,772,622	9,715,475	5,398,072
General and administrative	1,236,963	994,504	3,898,675	2,395,754
Research and development	42,500	151,329	319,500	453,988
Stock compensation expense (Note 11)	27,878	13,422	166,680	83,170
	4,196,604	2,931,877	14,100,330	8,330,984
Earnings before interest, taxes and amortization	1,210,657	124,300	3,577,196	418,502
Interest Expense	49,547	4,671	323,618	7,959
Amortization	612,743	419,304	1,775,201	997,734
Operating income (loss)	548,367	(299,675)	1,478,377	(587,191)
Other income (loss)				
Foreign exchange gain	71,310	-	133,347	-
Equity investment income	2,168	-	363	191
	73,478	-	133,710	191
Income (loss) before income taxes	621,845	(299,675)	1,612,087	(587,000)
Future Income tax recovery	-	6,000	200,000	68,000
Net income (loss) for the period	621,845	(293,675)	1,812,087	(519,000)
Retained earnings (deficit), beginning of period	1,226,075	(381,332)	61,572	(347,776)
Adjustment for change in accounting policy (Note 15)	-	(501,553)	-	(309,784)
As restated	1,226,075	(882,885)	61,572	(657,560)
Purchase price of common shares repurchased in excess of book value (Note 8(e))	(27,035)	-	(52,774)	-
Retained earnings (deficit), end of period	\$ 1,820,885	\$(1,176,560)	\$ 1,820,885	\$(1,176,560)
Earnings (loss) per share - basic and diluted ⁽¹⁾	\$ 0.025	\$ (0.019)	\$ 0.071	\$ (0.036)
Weighted average number of shares	25,261,176	15,791,690	25,369,237	14,471,504

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

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

Divestco Inc. Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended Sept 30		For the nine months ended Sept 30	
	2004	2003 (Restated - See Note 15)	2004	2003 (Restated - See Note 15)
Cash flows from operating activities				
Net income (loss) for the period	\$ 621,845	\$ (293,675)	\$ 1,812,087	\$ (519,000)
Adjustment for:				
Equity pick-up on long-term investment	(2,168)	-	(363)	(191)
Amortization	612,743	419,304	1,775,201	997,734
Amortization of deferred development costs	42,500	-	42,500	-
Future income tax recovery	-	(6,000)	(200,000)	(68,000)
Unrealized foreign exchange gain	(126,788)	-	(126,788)	-
Non-cash revenue (Note 2 (b))	(300,000)	-	(300,000)	-
Stock compensation expense	27,878	13,422	166,680	83,170
Cash flow from operations	876,010	133,051	3,169,317	493,713
Changes in non-cash working capital balance (Note 9(b))	285,076	1,075,665	1,866,393	3,137,597
Decrease (increase) in long-term accounts receivable	124,173	-	(247,194)	-
Increase (decrease) in non-current deferred revenue	(694)	-	104,632	-
	1,284,565	1,208,716	4,893,148	3,631,310
Cash flows from financing activities				
Bank indebtedness	(36,907)	(527,513)	2,335,981	(553,276)
Advance to affiliated company	(12,927)	-	(12,927)	-
Repayment of debentures	-	-	(4,250,000)	-
Repayment of loans payable	(853,740)	-	(1,789,492)	-
Repayment of notes payable	-	(3,013,896)	-	(4,465,422)
Repayment of long-term debt	(17,855)	-	(42,550)	(39,964)
Repayment of capital lease obligations	(48,969)	(17,634)	(102,317)	(142,986)
Proceeds received from sale-leaseback of property and equipment	747,776	-	747,776	-
Proceeds received from issuance of debentures	-	-	4,250,000	-
Proceeds received from loan payable	-	-	3,054,600	-
Proceeds received from long-term debt	-	95,555	-	126,298
Issue of common shares, net of related expenses	(1,018)	3,588,716	(19,968)	4,262,603
Repurchase of common shares (Note 8(e))	(99,772)	-	(205,370)	-
	(323,412)	125,228	3,965,733	(812,747)
Cash flows from investing activities				
Purchase of property and equipment	(427,602)	(26,685)	(9,940,711)	(155,125)
Deferred development costs	(450,000)	-	(960,000)	-
Acquisition of The Excalibur-Gemini Group Ltd.	-	-	-	(1,331,673)
Acquisition of International Datashare Corp.	-	(543,478)	-	(543,478)
Acquisition of Westcan Oilmaps (1993) Ltd.(Note 3)	(83,551)	-	(83,551)	-
	(961,153)	(570,163)	(10,984,262)	(2,030,276)
Increase (decrease) in cash	-	763,781	(2,125,381)	788,287
Cash, beginning of period	-	779,121	2,125,381	754,615
Cash, end of period	\$ -	\$ 1,542,902	\$ -	\$ 1,542,902

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

SEPTEMBER 30, 2004

1) Significant Accounting Policies

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

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

2) New Accounting Policies

A In June 2004, the Company completed its first participation seismic survey with a major oil and gas producer. These financial statements reflect only the Company's proportionate costs of the survey as an asset given the nature of the agreement. Future sales of the seismic data will be recorded when the seismic work, including data processing is complete and delivery to the customer has occurred. The survey is being amortized on a straight-line basis over a period of 15 years, consistent with the Company's purchased seismic library.

B In September 2004, the Company entered into a cost sharing arrangement whereby a third party was engaged to reprocess the Company's seismic database purchased in February 2004. The Company's portion of the costs will be paid in the form non-cash consideration consisting of software licenses and software maintenance. The Company will also reimburse its cost-sharing partner for a majority of the cash consideration its partner is contributing towards the reprocessing cost. This will also be in the form of non-cash consideration consisting of software licenses, software maintenance, digital well curves, and one copy of the pre-reprocessed data. The cost-sharing partner will also receive a reprocessed copy of the data upon project completion. The transaction has been recorded in accordance with Canadian Institute of Chartered Accountants ("CICA") accounting standard Handbook section 3830, "Non-Monetary Transactions". Revenue with respect to the software licenses, and maintenance, will be recognized rateably over the service term. Revenue with respect to the pre-reprocessed data and digital well curves will be recognized at the date of delivery. Since the reprocessing cost has been determined to be a betterment in accordance with CICA accounting standard Handbook section 3061, "Property, Plant and Equipment", the costs will be capitalized to property and equipment.

As at September 30, 2004, the pre-reprocessed copy of the data had been delivered to the Company's cost sharing partner and the revenue recorded. All of the remaining non-cash consideration was delivered to the third party reprocessing the data and to the Company's cost sharing partner, subsequent to the period ended September 30, 2004.

3) Business Combination

The Company entered into an agreement on September 20, 2004 whereby it agreed to purchase 100% of the shares of Westcan Oilmaps (1993) Ltd ("Westcan"). The acquisition of Westcan was accounted for by the purchase method, with the Company being the deemed acquirer, based on the fair values of the assets or liabilities acquired, as follows:

	Book Value	Fair Value
Cash	\$ 80,203	\$ 80,203
Other current assets	55,959	55,959
Current liabilities	(13,286)	(13,286)
Working Capital	\$ 122,876	\$ 122,876
Property and equipment	16,510	16,510
Map database	-	359,506
Future income taxes	-	(120,445)
Net assets acquired	\$ 139,386	\$ 378,447
Purchase price		
- cash		\$ 150,000
- deferred consideration ⁽¹⁾		100,000
- promissory notes		114,693
- acquisition costs		13,754
		378,447

⁽¹⁾The Company is committed to issue deferred consideration for the acquisition of Westcan of up to 100,000 common shares of the Company or \$100,000 in cash, at the option of the Company. The consideration has been accrued and is payable on a future date upon the seller's provision of additional documents contemplated by the acquisition agreement.

4) Property and Equipment

	As at Sept 30, 2004	As at Dec 31, 2003
Seismic data library	\$ 8,567,763	\$ -
Databases	5,809,656	5,787,567
Property and equipment	2,873,515	2,354,338
	\$ 17,250,934	\$ 8,141,905

5) Deferred Development Costs

During second and third quarters of 2004, the Company deferred \$510,000 and \$450,000 of development costs related to the development of new software product lines and significant enhancements to existing product lines, respectively (2003 - \$NIL since no project met the criteria for deferral). Amortization of \$42,500 was recorded in the third quarter of 2004. The Company expensed \$277,000 of development costs in the first quarter since no project met the criteria for deferral.

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

6) Bank indebtedness

The Company has two credit facilities in place. The first being a revolving demand loan bearing interest at bank prime plus 0.75%, with a maximum credit available of \$3,000,000. \$1,652,336 was drawn this facility as at September 30, 2004. The effective interest rate was 4.50% since the facility was secured in June 2004. The second being a corporate credit card facility reserved for senior management with a maximum available credit of \$150,000. \$18,876 was drawn on this facility as at September 30, 2004.

The facilities are secured by a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property. The facilities are subject to the Company meeting certain debt covenants. As at September 30, 2004, the Company was in violation of its working capital ratio covenant. The Company's bank has provided it with a letter agreeing to waive its right to demand payment at September 30, 2004 due to the covenant violation. Bank indebtedness includes cheques written in excess of amounts on deposit.

7) Loan Payable

In June 2004, the Company secured a U.S. \$2,250,000 non-revolving demand loan, bearing interest at bank prime plus 1.25%. As at September 30, 2004 the Company had \$1,138,320 (U.S. \$900,000) drawn on this facility. The Company used the funds to repay the debentures issued in February 2004. Principal payments on the loan coincide with payments the Company is receiving from licensing of its log library and a final payment of US \$0.6 million to be received from escrow in December 2004 from the sale of its U.S. operations in 2003. Principal payments of U.S. \$675,000 each were made on June 30 and September 30, 2004. The effective interest rate was 5.8% since the loan was secured. The loan matures on September 30, 2005.

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

Principal payments are as follows in \$U.S.:

2004	\$	675,000
2005		255,000
		900,000

8) Equity Instruments

A Authorized

An unlimited number of voting common shares

An unlimited number of non-voting common shares

B Issued

	As at September 30, 2004		As at December 31, 2003	
	# of Shares	Amount	# of Shares	Amount
Common Shares				
Balance, beginning of period	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 (Note 8(c))	-	-	2,905,079	3,675,551
Issued for acquisition of:				
The Excalibur-Gemini Group Ltd.	-	-	1,655,850	1,764,951
International Datashare Corporation	-	-	7,500,000	7,500,000
Issued in exchange for data sets, property and equipment	-	-	204,149	255,000
Exercise of options	12,009	6,485	38,428	29,729
Issued for settlement of loans payable to various shareholders	-	-	60,044	75,000
Repurchased under normal course issuer bid (Note 8(e))	(210,000)	(152,597)	-	-
Balance, end of period ⁽⁴⁾	25,225,100	18,220,309	25,423,091	\$18,366,421
Share Purchase Warrants				
	# of Warrants	Amount	# of Warrants	Amount
Balance, beginning of period	1,597,794	\$ 347,619	-	\$ -
Issued on private placement	-	-	1,452,540	316,017
Issued to brokers on private placement	-	-	145,254	31,602
Expired	(1,597,794)	-	-	-
Balance, end of period ⁽⁴⁾	-	\$ 347,619	1,597,794	\$ 347,619
Share issue costs, net of future income taxes		\$ (264,603)		\$ (238,150)
Total equity instruments		\$ 18,303,325		\$ 18,475,890

C Private Placement

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 consisted of one common share plus one-half of a common share purchase warrant exercisable at \$2.09. The common share purchase warrants expired on September 23, 2004. In addition, brokers were issued broker warrants totalling 5% of the units issued, exercisable at \$2.09. The broker warrants expired on September 23, 2004.

D Escrowed Shares

On September 23, 2004, the 8,112,064 shares being held in escrow were released. Officers, directors and companies controlled by a director held 6,656,429 of these shares. As at September 30, 2004, the Company has no shares subject to an escrow agreement.

E Normal Course Issuer Bid

On June 2, 2004, the Company received approval from the TSX Venture Exchange to repurchase up to 1,278,000 of its common shares at prevailing market prices during the twelve month period ending June 9, 2005. Since approval was received for the normal course issuer bid, the Company has repurchased 210,000 shares at a purchase cost of \$205,370 (\$0.98 average price per share) resulting in a \$52,774 reduction to retained earnings. Subsequent to the nine month period ended September 30, 2004, an additional 56,000 shares were repurchased for a total cost of \$49,245 (\$0.88 per share).

F Small Shareholder Selling Program

On June 2, 2004, the Company announced a small shareholder selling program ("the Program") that enables registered and beneficial shareholders who own in aggregate 499 or fewer Common Shares ("Shares") of the Company as of June 4, 2004 ("the Eligible Shareholders") to sell their Shares without incurring any brokerage commission. The sale of Shares will be executed through the facilities of the TSX Venture Exchange. The voluntary Program expired on November 18, 2004. It was extended from its original expiry date of August 31, 2004.

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

G Stock Options

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

	# of Options	Options Price	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
Forfeited	(124,870)	\$0.83 - \$1.40	\$1.20
Options outstanding, Sept 30, 2004 ⁽¹⁾	1,782,620	\$0.54 - \$1.40	\$1.11

⁽¹⁾ Subsequent to the nine months ended September 30, 2004, 20,000 options were forfeited with an exercise price of \$1.20 and 134,000 options were granted with an exercise price of \$1.00.

G Stock Options - Continued

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

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
171,130	\$ 0.54	\$ 0.54	0.55	171,130	\$ 0.54
63,051	\$ 0.83	\$ 0.83	1.41	60,048	\$ 0.83
424,527	\$ 1.04	\$ 1.04	2.69	424,527	\$ 1.04
517,605	\$ 1.25	\$ 1.25	3.41	345,070	\$ 1.25
541,148	\$ 1.20	\$ 1.20	4.32	180,383	\$ 1.20
65,159	\$ 1.40	\$ 1.40	1.87	65,159	\$ 1.40
1,782,620		\$ 1.11	3.35	1,246,317	\$ 1.06

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

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

⁽¹⁾ Rolled over as a result of the acquisition of IDC.

9) Cash Flows

	For the three months ended Sept 30		For the nine months ended Sept 30	
	2004	2003 (Restated - See Note 15)	2004	2003 (Restated - See Note 15)
A Interest and income taxes paid (recovered)				
Interest paid	\$ 48,948	\$ 4,671	\$ 323,021	\$ 7,956
Income taxes paid (recovered)	\$ (413,039)	-	\$ (593,182)	-
B Changes in non-cash working capital balances				
Funds held in trust	\$ 48,300	\$ -	\$ 28,620	\$ -
Account receivable	921,439	(253,553)	914,448	(594,292)
Investment tax credits recoverable	411,555	(120,000)	591,698	(360,000)
Prepaid expenses, supplies and deposits	77,585	269,158	(71,498)	135,359
Accounts payable and accrued liabilities	34,637	918,184	609,583	1,210,526
Accounts payable and accrued - brokerage	(1,117,772)	265,429	(595,566)	2,648,454
Deferred revenue	(90,668)	(3,553)	389,108	97,550
	\$ 285,076	\$ 1,075,665	\$ 1,866,393	\$ 3,137,597

Except as disclosed elsewhere, the Company had no other non-cash transactions.

10) Related Party Transactions

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

- A** During the nine months ended September 30, 2004, the Company earned \$173,718 in revenue from a company with common directors.
- B** In February 2004, \$4,000,000 of the total debentures, bearing interest at 12% and maturing on December 30, 2004, were issued to certain directors of the Company. \$100,000 of set-up fees incurred to arrange the financing and \$111,801 of the interest accrued was paid to the directors. In June 2004, the debentures were fully repaid with proceeds the Company received from the non-revolving demand loan (Note 6).

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.

11) Stock Compensation

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

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

		For the three months ended Sept 30		For the nine months ended Sept 30	
		2004	2003 (Restated - See Note 15)	2004	2003 (Restated - See Note 15)
Net income (loss)	- as (re)stated	\$ 621,845	\$ (293,675)	\$ 1,812,087	\$ (519,000)
	- pro forma	\$ 619,332	\$ (313,267)	\$ 1,780,590	\$ (598,386)
Earnings (loss) per share ⁽¹⁾	- as (re)stated	\$ 0.025	\$ (0.019)	\$ 0.071	\$ (0.036)
	- pro forma	\$ 0.025	\$ (0.020)	\$ 0.070	\$ (0.041)

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

12) Segmented Information

The Company operates in four segments within the oil and gas industry. The services division provides seismic survey audit, information management, mapping, archiving services, imaging and geophysical/geological services. The data division provides log services and a full suite of support data layers. This division also develops and maintains the Company's log library and seismic data libraries. The software division sells software licenses and provides 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 Sept 30, 2004	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,654,960	\$ 1,966,723	\$ 1,103,745	\$ 681,833	\$ 5,407,261
Operating income (loss)	(88,130)	600,751	174,697	(138,951)	548,367
Amortization	106,247	302,589	152,721	51,186	612,743
Research and development	-	-	42,500	-	42,500
Total assets ⁽¹⁾	4,523,552	18,007,507	6,192,509	1,050,013	29,773,581
Capital expenditures ⁽²⁾	6,728	413,614	4,487	2,773	427,602
Deferred development expenditures	-	-	450,000	-	450,000

As at and for the three months ended Sept 30, 2003	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,234,894	\$ 128,515	\$ 1,055,985	\$ 636,783	\$ 3,056,177
Operating income (loss)	(97,209)	(119,945)	42,090	(124,611)	(299,675)
Amortization	144,144	74,116	151,931	49,113	419,304
Research and development	-	7,755	143,574	-	151,329
Total assets	3,802,897	11,143,697	11,456,082	1,478,075	27,880,751
Capital expenditures ⁽²⁾	6,675	-	20,010	-	26,685
Deferred development expenditures	-	-	-	-	-

As at and for the nine months ended Sept 30, 2004	Services	Data	Software	Brokerage	Total
Revenue	\$ 5,337,357	\$ 6,228,123	\$ 3,614,294	\$ 2,497,752	\$ 17,677,526
Operating income (loss)	(372,320)	1,859,163	293,771	(302,237)	1,478,377
Amortization	337,702	809,889	463,504	164,106	1,775,201
Research and development	-	-	319,500	-	319,500
Total assets ⁽¹⁾	4,523,552	18,007,507	6,192,509	1,050,013	29,773,581
Capital expenditures ⁽²⁾	248,402	9,441,221	145,975	105,113	9,940,711
Deferred development expenditures	-	-	960,000	-	960,000

As at and for the nine months ended Sept 30, 2003	Services	Data	Software	Brokerage	Total
Revenue	\$ 2,825,634	\$ 128,515	\$ 3,301,939	\$ 2,493,398	\$ 8,749,486
Operating income (loss)	143,627	(119,945)	(731,758)	120,885	(587,191)
Amortization	314,397	74,116	468,227	140,994	997,734
Research and development	-	7,755	446,233	-	453,988
Total assets	3,802,897	11,143,697	11,456,082	1,478,075	27,880,751
Capital expenditures ⁽²⁾⁽³⁾	17,444	-	137,681	255,000	410,125
Deferred development expenditures	-	-	-	-	-

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

(2) Excludes business acquisitions

(3) Includes non-cash expenditures of \$255,000. Consideration was paid in common shares of the Company

During the three months ended September 30, 2004, the Company had foreign sales of \$188,670 (2003 \$221,458). During the nine months ended September 30, 2004, the Company had foreign sales of \$2,490,142 (2003 \$638,712).

13) Contingencies

- A** As a result of the purchase of TEGGL in 2003, the Company assumed a claim filed against the Company by a former employee. An offer was made in the amount of \$175,000 subsequent to the period ended September 30, 2004. Management feels the offer to be a reasonable estimate of the final settlement. An accrual of \$135,000 has been recorded in the third quarter for 2004, being the maximum amount the Company is liable for. Former shareholders of TEGGL are liable for the portion of the settlement exceeding \$135,000 as stated in the TEGGL acquisition agreement.
- 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. The Company agreed to settle the assumed claim in 2003 and accrued for this amount in 2003. In a separate action, the Company claimed \$610,000 in damages from the vendor for services rendered by IDC. Subsequent to the period ended September 30, 2004, the Company agreed to settle this claim for \$200,000. Payment will be satisfied with the Company receiving net proceeds of approximately \$74,000.
- C** Under the terms of the seismic program acquisition agreement (Note 2(a)), whereby the Company completed its first seismic participation survey, the Company is required to share a portion of the revenue earned from sales of the data for the three years following the date of delivery, which occurred in June 2004. The revenue is to be paid in the form of "Acquisition Credits" allowing the other party to purchase the Company's existing seismic data or to participate in future seismic programs operated by the Company. A liability will be accrued when sales are completed, based on the formula in the agreement, to a maximum of \$1,500,000.
- D** Under the terms of the cost sharing agreement (Note 2(b)), the Company is required to pay royalties on future sales of the reprocessed seismic data library to its cost-sharing partner. The royalties will be recorded as incurred, when the data is sold and delivered. The maximum royalty on sales of the entire database is limited to \$600,000. Royalties of individual lines sales are limited to a period of five years.
- E** During the third quarter of 2004, the Company sold and leased back \$747,776 in computer equipment and leasehold improvements under three separate arrangements. The leases have a term of 36 months and bear interest at 5.76%. Monthly payments total \$11,889. Management has determined the leases to be capital in nature in accordance with CICA accounting standard Handbook Section 3065, "Leases". Subsequent to the nine months ended September 30, 2004, the Company entered into another sale-lease back arrangement for proceeds of \$159,803 bearing interest at 5.76% with monthly payments of \$4,438 and a 36-month term.

14) Subsequent events

- A** Subsequent to the nine months ended September 30, 2004, the Company sold and leased back \$149,348 in property and equipment. The 36-month lease bears interest at 5.76% monthly payment of \$4,148. Management has determined the lease to be capital in nature in accordance with CICA accounting standard Handbook Section 3065.
- B** Subsequent to the nine months ended September 30, 2004, the Company received \$300,000 from a director and issued a promissory note in return. The note is due on demand, bears interest at 12% per annum and matures on December 31, 2004. Payment obligations are subordinate to the Company's senior secured credit facilities (Notes 6 and

15) 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 with the exception of a portion related to support and maintenance, which was deferred. The deferred revenue was recognized rateably over the service term.

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

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

	As stated for the three months ended Sept 30, 2003	Adjustments	As stated for the three months ended Sept 30, 2003
Revenue	\$ 3,117,188	\$ (61,011)	\$ 3,056,177
Net loss for the period	(219,241)	(74,434)	(293,675)
Deficit - beginning of period	(381,332)	(501,553)	(882,885)
Deficit - end of period	(600,573)	(575,987)	(1,176,560)
	As stated for the nine months ended Sept 30, 2003	Adjustments	As stated for the nine months ended Sept 30, 2003
Revenue	\$ 8,932,518	\$ (183,032)	\$ 8,749,486
Net loss for the period	(252,797)	(266,203)	(519,000)
Deficit - beginning of period	(347,776)	(309,784)	(657,560)
Deficit - end of period	(600,573)	(575,987)	(1,176,560)

16) Comparative figures

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

17) National Instrument 51-102 Notice

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

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(2) Chairman of the Board

Officers

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

Controller

Joanne Finnerty

Corporate Secretary

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